UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MAINE

In re: MONTREAL, MAINE & ATLANTIC RAILWAY, LTD., Debtor.	Bk. No. 13-10670 Chapter 11
ROBERT J. KEACH, solely in his capacity as the chapter 11 trustee for MONTREAL, MAINE & ATLANTIC RAILWAY, LTD., Plaintiff v. WORLD FUEL SERVICES CORPORATION, WORLD FUEL SERVICES, INC., WESTERN PETROLEUM COMPANY, WORLD FUEL SERVICES, CANADA, INC., PETROLEUM TRANSPORT SOLUTIONS, LLC, CANADIAN PACIFIC RAILWAY COMPANY, IRVING OIL LIMITED, and SMBC RAIL SERVICES, LLC, Defendants.	Adversary Proceeding No. 14-1001

OBJECTION TO CANADIAN PACIFIC RAILWAY COMPANY'S MOTION TO DISMISS AND MEMORANDUM OF LAW IN SUPPORT OF MOTION

Plaintiff Robert J. Keach (the "Trustee"), solely in his capacity as the chapter 11 trustee of Montreal Maine & Atlantic Railway, Ltd. (the "Debtor"), by and through his undersigned counsel, submits this objection (the "Objection")[1] to *Canadian Pacific Railway Company's*

[1] To the extent that D. Me. LBR 9013-1(f) applies to this Objection, the Trustee seeks a waiver of the requirements of this rule in light of the fact that the Motion to Dismiss is supported primarily by legal arguments contained in the memorandum of law. To the extent that the Motion to Dismiss asserts countervailing factual allegations, such allegations are denied by the Trustee.

Motion to Dismiss and Memorandum of Law in Support of Motion [Adv. D.E. 140] (the "Motion to Dismiss").[2]

INTRODUCTION

The Motion to Dismiss raises two general arguments in support of dismissal of the Second Amended Complaint [Adv. D.E. 134] and the above-captioned adversary proceeding (the "Adversary Proceeding") as against Canadian Pacific Railway Company ("CP"). First, despite CP's admitted and indisputable role in the Derailment and its active participation in the underlying bankruptcy case (the "Bankruptcy Case"), including the filing of a proof of claim for Derailment-related claims, CP argues that it is not subject to the personal jurisdiction of this Court. Second, despite findings by the United States District Court for the District of Maine (the "Maine District Court") and the Quebec Superior Court in Canada (the "Canadian Court") supporting the legal and factual bases for the allegations in the Second Amended Complaint, and (in the case of the Maine District Court) finding plausibility, CP argues that the Second Amended Complaint fails to meet the pleading standards established by the United States Supreme Court in Bell Atl. Corp. v. Twombly, 550 U.S. 544 (2007) and Ashcroft v. Iqbal, 556 U.S. 662 (2009).[3]

As detailed below, CP has unequivocally forfeited any right to contest personal jurisdiction by filing a proof of claim and otherwise participating in the Bankruptcy Case. Even absent such forfeiture, the Court has personal jurisdiction over CP because of (a) its admitted and established involvement in the Derailment through conduct within the United States, and (b) its admitted extensive connections to the United States (to the point that CP describes itself as a

[2] Unless otherwise indicated, all capitalized terms used but not defined herein have the same meaning as ascribed to such terms in the Second Amended Complaint [Adv. D.E. 134].

[3] Notably, CP has completely abandoned its argument that the Second Amended Complaint should be dismissed on preemption grounds, despite threatening that argument before the Maine District Court and in its securities filings.

U.S. railroad). Moreover, CP fails to carry its burden to demonstrate why the Court's exercise of such jurisdiction would not be reasonable, especially given its active involvement in the Bankruptcy Case. In short, there is no question that the Court may exercise personal jurisdiction over CP in this Adversary Proceeding.

Despite initially limiting the Motion to Dismiss to the alleged "lack of personal jurisdiction," Motion to Dismiss, p.2, CP also argues that the Second Amended Complaint should be dismissed pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure. *See* Motion to Dismiss, p. 19. In so arguing, CP ignores the fact that the Maine District Court has already found that the Second Amended Complaint complies with the applicable "plausibility" standard. CP also misapplies basic pleading standards, misreads the Second Amended Complaint, and misconstrues the procedural and factual background of this Adversary Proceeding. As set forth below and as is apparent from the face of the Second Amended Complaint, the Second Amended Complaint contains detailed factual allegations describing the events leading up to the Derailment, including CP's operation and control over the Train and the through bills of lading. The count against CP for negligence carefully lists out the elements of the cause of action, indicates CP's duties to the Debtor, describes how CP breached those duties within and without the United States, and lists the damages the Debtor suffered as a result of CP's negligence.

Throughout the Motion to Dismiss, CP refers to what it calls the Trustee's "narrowed" and "only" claim against CP. *See* Motion to Dismiss, pp. 3, 4, 6, 8, 18, 19, 21-24. CP describes the "narrowed" claim as relying entirely "on Canadian law applicable to the transport of lading in Canada," which "only apply in Canada" and "cannot reach across the border and govern U.S. activities." Motion to Dismiss, pp. 4, 6. This argument is wrong as a matter of law and fact.

While the Second Amended Complaint alleges negligence based on breaching the Canadian Transportation of Dangerous Goods Regulations, as allowed under applicable law, CP is being sued for failing to stop the Train from leaving North Dakota (as well as from entering Canada). In short, for a breach of duty occurring in the United States. The allegations do not constitute a suit to enforce Canadian regulations; rather CP's breach of duties imposed by such regulations (which apply to conduct in and out of Canada) form the basis of the Trustee's allegations of negligence, through CP's acts and omissions within and without the United States.

CP's argument is a clear misunderstanding (or misrepresentation) of the Maine District Court's *Order on Defendant Canadian Pacific's Motion to Withdraw the Reference* [Adv. D.E. 138] (the "Order on the Motion to Withdraw"). The Order on the Motion to Withdraw provides, in relevant part, as follows:

> The complaint also narrows in on a more specific legal theory of why Canadian Pacific should bear liability for the Lac-Megantic disaster despite its limited role in the events preceding it. It asserts that Canadian Pacific "had reasonable grounds to suspect that the classification of the crude oil shipment was incorrect" and therefore "had an affirmative duty to not carry the shipment or to stop the shipment until the classification was correct." Tr.'s Am. Compl. ¶ 108. The Trustee clarified at oral argument that this is the only claim he intends to bring against Canadian Pacific.

Order on the Motion to Withdraw, p. 5. The Trustee's "narrowed" claim against CP, therefore, is that it "had reasonable grounds to suspect the classification of the crude oil was incorrect" and "had an affirmative duty" not to ship the crude oil until the classification was correct. The application of Canadian law, which CP previously argued did not apply in this Adversary Proceeding, does not alter the factual allegations against CP and does not protect CP from prosecution in the United States. As the Second Amended Complaint clearly alleges, and as the Maine District Court clearly understood, CP, despite its knowledge of improper classification, failed to stop the Train in the United States, *i.e.* before it left North Dakota; that was its breach of duty, and that was its negligent act.

In summary, the Motion to Dismiss should be denied as it fails to set forth any basis on which to dismiss the Second Amended Complaint. The Trustee should be permitted to prosecute the Second Amended Complaint against CP with respect to all applicable counts set forth therein.

ARGUMENT

I. The Court has Personal Jurisdiction Over CP

On a motion to dismiss under Federal Rule 12(b)(2), "a plaintiff bears the burden of making 'a *prima facie* showing through its own affidavits and supporting materials that personal jurisdiction exists.'" In re Hellas Telecommunications, 524 B.R. 488, 503-04 (Bankr. S.D.N.Y. 2015) (*quoting* Picard v. Cohmad Sec. Corp. (In re Bernard L. Madoff Inv. Sec. LLC), 418 B.R. 75, 79 (Bankr. S.D.N.Y. 2009)); *see also* Picard v. Chais (In re Madoff Inv. Sec. LLC), 440 B.R. 274, 278 (Barnk. S.D.N.Y. 2010) (*quoting* Marine Midland Bank, N.A. v. Miller, 664 F.2d 899, 904 (2d Cit.1981)) ("To survive a motion to dismiss for lack of personal jurisdiction under Rule 12(b)(2), a plaintiff need only make a *prima facie* showing 'through its own affidavits and supporting materials' that personal jurisdiction exists.'").[4]

"To satisfy this burden, a plaintiff must make 'legally sufficient allegations of jurisdiction, including an averment of facts that, if credited, would suffice to establish jurisdiction over the defendant.'" Id. at 504 (*quoting* Penguin Group (USA) Inc. v. Am. Buddha, 609 F.3d 30, 35 (2d Cir.2010)).

---

[4] The Trustee's supporting materials are attached hereto, and filed herewith, as Exhibits A though K and consist of sworn statements of CP and other matters of public record. The Trustee also relies on the affidavits filed by CP in alleged support of the Motion to Dismiss.

A. CP Forfeited the Right to Contest Personal Jurisdiction by Filing its Proof of Claim and Application for Payment of Administrative Expenses

A party may "manifest consent to a court's in personam jurisdiction where he or she takes steps or seeks such relief as is consistent only with the hypothesis that the court has jurisdiction over his or her person. Schwinn Plan Committee v. TI Reynolds 531 Limited (In re Schwinn Bicycle Co.), 182 B.R. 526, 530 (Bankr. N.D. Ill. 1995) (*citing* Insurance Corp. of Ireland, Ltd. v. Compagnie des Bauxites de Guinee, 456 U.S. 694, 702-05 (1982)). "Because the defense [of personal jurisdiction] is a personal right, it may be obviated by consent, either express or implied, or otherwise waived." Id. (*citing* Insurance Corp. of Ireland, Ltd. v. Compagnie des Bauxites de Guinee, 456 U.S. 694, 702-05, 102 S.Ct.2099, 2104-06 (1992)).

The First Circuit, in binding precedent, recognizes that "the filing of a proof of claim waives an individual's due process right to insist on minimum contacts within the forum state before being subject to the court's jurisdiction." Arecibo Cmty. Health Care, Inc. v. Commonwealth of Puerto Rico, 270 F.3d 17, 26 (1st Cir. 2001) (internal citation omitted). Other courts hold consistently with the First Circuit. *See* Tucker Plastics, Inc. v. Pay 'N Pak Stores, Inc. (In re PNP Holdings Corporation), 99 F.3d 910, 911 (9th Cir. 1996) ("The bankruptcy court and the Bankruptcy Appellate Panel correctly held that [a defendant] consented to the bankruptcy court's exercise of personal jurisdiction by filing a proof of claim."); Preston Trucking Co., Inc. v. Liqudity Solutions, Inc. (In re Preston Trucking Co., Inc.), 333 B.R. 315, 327 (Bankr. D.Md. 2005) (By filing proofs of claim the Union Group also consented to the court's personal jurisdiction."); Anheuser-Busch, Inc. v. Paques, Inc. (In re Paques, Inc.), 277 B.R. 615, 625 (Bankr. E.D.Pa. 2000) ("In bankruptcy cases it has been held, for example, that a creditor who files a proof of claim in a case thereby consents to the exercise of personal jurisdiction in bankruptcy litigation involving that creditor."); Kline v. Ed. Zueblin, AG (In re Am. Exp. Grp Int'l Servs, Inc.), 167 B.R. 311, 314 (Bankr. D.D.C. 1994) ("[I]n a bankruptcy proceeding, a party who files a proof of claim subjects himself to the personal jurisdiction of the bankruptcy court with respect to all possible counterclaims by the estate."); Schwinn, 182 B.R. at 531 ("[B]y filing a proof of claim in a pending bankruptcy case, a creditor consents to personal jurisdiction in all possible counterclaims brought by the estate."); 1 Bankruptcy Litigation § 3:4 ("[I]t is well established that when a creditor submits to a bankruptcy court's jurisdiction by filing a proof of claim in order to collect all or a portion of a debt, it forfeits any right to claim that the bankruptcy court lacks jurisdiction in an adversary proceeding filed against it."). Even "[t]he United States Supreme Court has recognized that 'by filing a claim against a bankruptcy estate, the creditor triggers the process of allowance and disallowance of claims, thereby subjecting himself to the court's equitable power.'" In re Cont'l Fin. Res., Inc., 154 B.R. 385, 387 (D. Mass. 1993) (*quoting* Langenkamp v. Culp, 498 U.S. 42, 44, 111 S.Ct. 330, 331 (1990)).

The basis for this rule is that the filing of a proof of claim is viewed as being "tantamount to a complaint filed in federal court." Schwinn, 182 B.R. at 530 (*citing* Kline, 167 B.R. at 313). It is well established that a "party who files a complaint is viewed as having submitted to personal jurisdiction in that forum." Kline, 167 B.R. at 313 (*citing* Adam v. Saenger, 303 U.S. 59, 67-68, 58 S.Ct. 454, 458-59 (1938)). Moreover, and relevant to this matter, a "party filing a complaint will necessarily be viewed as having submitted to personal jurisdiction in that forum for ***all possible grounds of counterclaim***." Schwinn, 182 B.R. at 531 (*citing* Saenger, 303 U.S. 67-68) (emphasis added). As noted in Kline:

> Finding that a party who chooses to file a proof of claim has submitted to personal jurisdiction in the bankruptcy court seems a small price to exact for allowing the claimant to purposefully avail itself of the benefits of the bankruptcy forum and to share in the estate's distribution. As the court noted in Neese, "Having filed their

> proofs of claims in the underlying bankruptcy case, the defendants cannot now deny this Court's personal jurisdiction over them in a proceeding directly related to that case."

Kline, 167 B.R. at 314 (*quoting* In re Neese, 12 B.R. 968, 971 (Bankr.W.D.Va.1981)); *see also* Schwinn, 182 B.R. at 531-32 ("Establishing jurisdiction over a party already voluntarily before a court is markedly different from doing so over a party not before it because he or she must first be hailed into court.") (*citing* Leman v. Krentler-Arnold Hinge Last Co., 284 U.S. 448, 52 S.Ct. 238 (1932)).

Here, CP, on June 6, 2014, filed a proof of claim pursuant to 11 U.S.C. § 502(a). Thereafter, on June 13, 2014, CP filed an amendment to its proof of claim [Claim No. 92-2] (the "CP POC"). A copy of the CP POC, with its supporting supplement, is attached hereto as **Exhibit A**. Additionally, on December 1, 2014, CP filed its *Application of Canadian Pacific Railway Company for Allowance and Payment of Administrative Expense Claim* [D.E. 1295] (the "CP Application") in the Bankruptcy Case. As such, CP has subjected itself to the personal jurisdiction of this Court in the Adversary Proceeding.

In the face of controlling First Circuit authority to the contrary, CP argues that the CP POC does not subject it to the Court's personal jurisdiction. CP first argues that the Second Amended Complaint "has nothing to do with the bankruptcy allowance/disallowance claim process." Id. This argument ignores reality. The third cause of action in the Second Amended Complaint, titled "Disallowance of Claims," provides, in part, that "[l]iability for the claims set forth in the [CP POC]…is denied based on the Defendants' actions or inactions," and, as such, the "claims described in the [CP POC]…are unenforceable and should be disallowed pursuant to 11 U.S.C. § 502(a)(1)." Second Amended Complaint, ¶¶ 133, 134. Indeed, by CP's own admission, the Second Amended Complaint is a direct counterclaim to the CP POC. *See* Motion to Dismiss, p. 5 ("Count Two [sic] seeks a declaration that CP's negligence disallows the bankruptcy proof of claim.").

CP then strangely argues that it is not subject to personal jurisdiction in the Adversary Proceeding because the Trustee has not brought a claim under 11 U.S.C. § 547, as if that were a relevant limitation (although precedent supplies no such limit). *See* Motion to Dismiss, p. 15, n. 3. As noted above, "by filing a proof of claim in a pending bankruptcy case, a creditor consents to personal jurisdiction in *all possible counterclaims* brought by the estate." Schwinn, 182 B.R. at 531 (emphasis added). This rule is not dependent, as CP argues, on whether the Trustee is "attempt[ing] to augment the estate as opposed to recovering property that once belonged to the estate." Motion to Dismiss, p. 15, n. 3. Rather, by filing the CP POC, CP subjected itself to this Court's personal jurisdiction with respect to *any* adversary proceeding the Trustee may have filed against it, and any counterclaim to the CP POC, however based.

Relying on Stern v. Marshall, -- U.S. --, 131 S. Ct. 2594 (2011), which is simply and wholly inapposite to this issue, CP also argues that it "'did not truly consent' to personal jurisdiction by filing a creditor claim because CP 'had nowhere else to go if [it] wished to recover from [the] estate.'" Motion to Dismiss, p. 14. Such reliance, however, is entirely misplaced. Stern has nothing to do with jurisdiction, personal, subject matter or otherwise. As this Court is aware, Stern addresses the issue of whether a bankruptcy court has constitutional authority to enter final orders in certain matters. *See* Stern, 131 S. Ct. at 2608. Whether the Court has constitutional authority to decide a claim, however, "is distinct from and irrelevant to a determination of personal jurisdiction." Kline, 167 B.R. at 314. "The personal jurisdiction issue would be decided the same had the district court withdrawn the reference under 28 U.S.C. § 157 thereby eliminating any issue of whether this is a core or non-core proceeding." Id.

CP may also argue that it has not subjected itself to the Court's personal jurisdiction because the CP POC provides that "[n]either this claim nor any subsequent appearance, pleading, claim or suit is intended to waive…any other rights, claims, actions, defense, setoffs or recoupments to which [CP] is or may be entitled, all of which rights, claims, actions, defenses, setoffs and recoupments are expressly reserved." Canadian Pacific Railway Company's Supplement to its Amendment to Proof of Claim 92-1, ¶ 44 (the "POC Supplement").

Courts have consistently held that such general reservations of rights are wholly ineffective in a number of contexts. For example, in In re Adelphia Commc'ns Corp., 307 B.R. 404 (Bankr. S.D.N.Y. 2004), parties filed proof of claims with broad, general reservations of rights, including a jurisdictional reservation and a reservation of the right to a jury trial. Nevertheless, the court noted that "[i]t may be…that the Copyright Owners did not 'intend,' by filing the Proof of Claim, to consent to the jurisdiction of the bankruptcy court or to waive the right to a jury trial, but under the holdings of many courts, including the United States Supreme Court, that was the effect." Id., at 412 n. 17; *see also* In re S. Canaan Cellular Invs., LLC, 427 B.R. 85, 92-94 (Bankr. E.D.Pa. 2010). The disregard of such reservations, and a waiver of certain rights attendant to filing a proof of claim, intended or otherwise, does not offend a party's right to due process. *See, e.g.*, In re Hooker Investments, Inc., 937 F.2d 833, 838 (2d Cir. 1991) ("By seeking to preserve both its ability to file a proof of claim and its right to a jury trial, the Bank wants to invoke the bankruptcy court's equitable jurisdiction so that it may share in the distribution of Debtors' bankruptcy estate, but avoid the bankruptcy court's equitable jurisdiction so that the Bank can obtain a jury trial in the adversary proceeding. The Bank offers no basis, however, for disregarding the general rule of Langenkamp and Granfinanciera that a creditor who invokes the bankruptcy court's equitable jurisdiction to establish a claim against a debtor's estate is also subject to the procedures of equity in the determination of preference actions brought on behalf of the estate."); *see also* In re Greenwich Sentry, L.P., 471 B.R. 800, 806-07 (Bankr. S.D.N.Y. 2012) aff'd, 484 B.R. 567 (S.D.N.Y. 2012) aff'd, 534 F. App'x 77 (2d Cir. 2013) ("[D]ue process is not offended" when a creditor is denied distribution for failure to file a timely proof of claim). In short, CP had a choice: forego filing a proof of claim and preserve possible jurisdictional arguments or file a proof of claim and forfeit such arguments. It chose to file the CP POC.

Such a general reservation in a proof of claim (even if it was enforceable) also does not alter the "participatory factors" indicating CP's waiver of any objection to personal jurisdiction in this Adversary Proceeding. *See* Picard v. Cohmad, 418 B.R. at 81. In holding that a defendant had forfeited the claim that the court did not have jurisdiction over it because of that party's participation in the case, the court in Picard v. Cohmad noted:

> [I]n [Deak], this Court found that the defendants effectively consented to personal jurisdiction by purposefully availing themselves of the protections afforded by United States bankruptcy law. In Deak, as here, defendants participated in the bankruptcy case by filing a notice of appearance and attending court hearings through their New York counsel. 63 B.R. at 431. Thus, the Defendants' voluntary participation in the instant adversary proceeding and request for two extensions of time could, in itself, establish jurisdiction.

Picard v. Cohmad, 418 B.R. at 81 (*citing* Deak & Co., Inc., 63 B.R. 422, 431 (Bankr. S.D.N.Y. 1986)).

Over the course of the Bankruptcy Case, CP has, *inter alia*, (a) filed an objection to the Trustee's proposed assumption and assignment of certain lease agreements [D.E. 573], (b) filed an objection to the Trustee's request to file certain settlement agreements under seal [D.E. 1461], (c) filed an objection to the Trustee's proposed disclosure statement [D.E. 1463], and (d) through counsel, appeared and participated in status conferences in the Bankruptcy Case [D.E. 1313, 1419], all without reserving any rights with respect to personal jurisdiction. Indeed, counsel for CP appeared at a status conference on April 28, 2015, and, when the Court asked if any party had "anything to add in the main case," noted that he intended to oppose the Trustee's proposed disclosure statement.[5] [D.E. 1418]. Such active participation throughout the Bankruptcy Case precludes CP from arguing that it is not subject to this Court's personal jurisdiction.

In light of the foregoing, CP has subjected itself to the personal jurisdiction of this Court by filing the CP POC and the CP Application, as well as its active participation in the Bankruptcy Case, and, therefore, has forfeited any argument arising under Fed. R. Civ. P. 12(b)(2). The Court, therefore, should find that it may exercise personal jurisdiction over CP.

B. The Court has Personal Jurisdiction over CP

Even if CP had not unequivocally subjected itself to the personal jurisdiction of the Court by filing a proof of claim and by participating in the Bankruptcy Case, the Court still has personal jurisdiction over CP.

CP was properly served with process. *See* Acceptance of Service [Adv. D.E. 106]. Accordingly, CP is "subject to personal jurisdiction so long as constitutional due process requirements are met." Hellas Telecommunications, 524 B.R. at 504 (*citing* Bickerton v. Bozel S.A. (In re Bozel S.A.), 434 B.R. 86, 97 (Bankr. S.D.N.Y. 2010)). "To establish personal jurisdiction over a defendant, due process requires a plaintiff to allege (1) that a defendant has certain minimum contacts with the relevant forum, and (2) that the exercise of jurisdiction is reasonable in the circumstances." Hellas Telecommunications, 524 B.R. at 504 (*quoting* In re Terrorist Attacks on Sept. 11, 2001, 714 F.3d 659, 673 (2d Cir. 2013)).

---

[5] CP's participation in the April 28, 2015 status conference stands in sharp contrast to the appearance by counsel for Irving Oil Limited, who stated, among other things, that his appearance was subject to his client's position that it was not subject to this Court's personal jurisdiction.

i. CP has the requisite minimum contacts with the United States

In a bankruptcy adversary proceeding, Rule 7004(f) of the Federal Rules of Bankruptcy Procedure provides a basis for the Court to exercise personal jurisdiction over a party. Rule 7004(f) provides, in part:

> [i]f the exercise of jurisdiction is consistent with the Constitution and laws of the United States, serving a summons or filing a waiver of service in accordance with this rule…is effective to establish personal jurisdiction over the person of any defendant with respect to a case under the Code or a civil proceeding arising under the Code, or arising in or related to a case under the Code.

Fed. R. Bankr. P. 7004(f). "Rule 7004(f) thus permits 'worldwide service of process, limited only by the due process clause of the Fifth Amendment.'" In re Federalpha Steel LLC, 341 B.R. 872, 887 (Bankr. N.D. Ill. 2006) (*quoting* North v. Winterthur Assurances (In re North), 279 B.R. 845, 853 (Bankr. D. Ariz. 2002)). Accordingly, in the context of this Adversary Proceeding, "the minimum contacts analysis should evaluate the defendant's contacts with the United States as a whole, not merely contacts with the forum state." Bozel, 434 B.R. at 99 (*citing* Asahi Metal Indus. Co. v. Superior Court, 480 U.S. 102, 108–09, 113, 107 S.Ct. 1026 (1987)).

"In assessing the sufficiency of a defendant's 'minimum' contacts, courts distinguish between 'general' and 'specific' jurisdiction." Hellas Telecommunications, 524 B.R. at 504 (*quoting* Terrorist Attacks, 714 F.3d at 673); *see also* Federalpha, 341 B.R. at 887; Glinka v. Abraham & Rose Co., 199 B.R. 484, 497 (D. Vt. 1996) aff'd sub nom. In re Housecraft Indus. USA, Inc., 310 F.3d 64 (2d Cir. 2002) (*quoting* Metropolitan Life Ins. Co. v. Robertson–Ceco Corp., 84 F.3d 560, 567 (2d Cir. 1996)).

a. Specific Jurisdiction

"Specific jurisdiction over a foreign defendant allows a court to hear claims that 'aris[e] out of or relate[] to the defendant's contacts with the forum….'" Hellas Telecommunications, 524 B.R. at 505-6 (*quoting* Helicopteros Nacionales de Colom., S.A. v. Hall, 466 U.S. 408, 414 n. 8, 104 S.Ct. 1868 (1984)). Specific jurisdiction exists "where a foreign defendant 'purposefully direct[s] his activities at residents of the forum,' and the underlying cause of action 'arise[s] out of or relate[s] to those activities.'" Picard v. Chais, 440 B.R.at 279 (*citing* Burger King Corp. v. Rudzewicz, 471 U.S. 462, 472, 105 S.Ct. 2174 (1985)); *see also* Glinka, 199 B.R. at 497 (*citing* Metropolitan Life, 84 F.3d at 567-68) ("Specific jurisdiction exists when a 'a State exercises personal jurisdiction over a defendant in a suit arising out of or related to the defendant's contacts with the forum[.]'"); Cooper v. Puri, 2007 WL 2733684, at *2 (W.D.N.C. Sept. 17, 2007) (*citing* ALS Scan, Inc. v. Digital Serv. Consultants, Inc., 293 F.3d 707, 712 (4th Cir. 2002)) ("In order to determine whether specific jurisdiction exists, the court must examine (1) the extent to which the defendant purposefully availed itself of the privilege of conducting activities in the forum; (2) whether the plaintiffs' claims arise out of those activities directed at the forum; and (3) whether the exercise of personal jurisdiction would be constitutionally reasonable."). "The defendants need not have physically entered the forum, but it is essential…that there be some act by which the defendant purposefully avails itself of the privilege of conducting activities within the forum…thus invoking the benefits and protections of its laws." Picard v. Chais, 440 B.R.at 279.

In Glinka, for example, the trustee commenced an adversary proceeding against a defendant for "fraudulent transactions between it and [the debtor], involving the shipment of plastic from Canada to Vermont and the plastic containers from Vermont to Canada." Glinka, 199 B.R. at 497. The court noted that the "adversary proceeding arose directly from these transactions, which had a 'substantial connection' with the forum." Id. (*citing* Burger King, 471 U.S. at 479-80). The court then found that, "[i]n contracting with [the debtor] to sell plastic and buy plastic containers, [the defendant] should have reasonably foreseen that it might be required to defend a suit in the United States arising out of its commercial relationship with [the debtor]." Id..

Similarly, in In re Tandycrafts, Inc., 317 B.R. 287 (Bankr. D. Del. 2004), the defendant was a "Mexican corporation which provide[d] trucking services from Mexico to cities in the United States," and maintained a post office box in Texas for the purpose of receiving payments for its services. Id., at 288. The debtors in that case "used the Defendant's commercial trucking services to transport goods between the Debtors' Mexican facility and the Debtors' distribution center in Texas." Id. Finding that the defendants' activities with the United States created sufficient contacts to allow it to exercise jurisdiction, the court notes that "[w]here a defendant has 'purposefully directed his activities at the residents of the forum and the litigation results from alleged injuries that arise out of or are related to those activities,' minimum contacts will be found." Id. at 289.

Here, CP argues that it "does minimal business in the U.S. and did nothing in the U.S. regarding the train that derailed." Motion to Dismiss, p. 9. As such, it is CP's position that "a Maine court could never acquire specific jurisdiction over CP." Motion to Dismiss, p. 8. These arguments, however, both ignore reality and miss the mark.

There is no question that CP (a) originally operated the Train, (b) was contracted to bring the Train into the United States, and (c) brought the Train into the United States. Indeed, CP (as opposed to its alleged subsidiaries) admits to operating trains within the United States, including the Train. *See* Motion to Dismiss, pp. 14, 18; *see also* Affidavit of James Clements, ¶ 4. Additionally, the Canadian Court recently entered an order authorizing the bringing of a class action against, among others, CP for claims arising out of the Derailment (the "Class Certification Order"). A copy of an unofficial English translation of the Class Certification Order is attached hereto as **Exhibit B**. As set forth in the Class Certification Order, the Canadian Court has found that "based on the elements alleged by the applicants against CP, the applicants have demonstrated the existence of an arguable case against it and consequently, authorization to bring a class action against CP should be granted." Class Certification Order, ¶ 73.[6] In other words, the Canadian Court has found that CP was involved in the events giving rise to the Derailment and, as a result, may be liable for the Derailment. CP's involvement was bringing the Train from North Dakota to Montreal. Given that the underlying cause of the Adversary Proceeding is the Derailment, and CP has been found to have played a role in the Derailment, there is no question that the Court has specific jurisdiction over CP. Indeed, but for CP's actions within and without the United States, the Derailment could not have occurred. Based on the Class Certification Order, this issue is, in fact, *res judicata*.

Moreover, CP has admitted in numerous pleadings that it – not its alleged U.S. subsidiaries – is potentially liable for negligence arising from the Derailment. *See* POC Supplement, p. 1 ("Canadian Pacific Railway Company…hereby submits this Supplement…."); *see also* CP Application, p. 1 ("Canadian Pacific Railway Company…hereby submits this application…."); Motion for Leave to Appeal from an Interlocutory Judgment of the Superior Court Partially Granting the *De Bene Esse* Motion of the Canadian Pacific Railway Company to Order the Communication of Documents, p. 1 (a copy of the unofficial English translation is

[6] Notably, the "CP" referred to in the Class Certification Order is Canadian Pacific Railway Company, not any subsidiary of CP. *See* Class Certification Order, p. 9.

attached hereto as **Exhibit C**) ("The Appellant, Canadian Pacific Railway Company...requests permission…."). CP has also admitted that its actions in the United States, including its failure to stop the Train until classification was clarified, gives rise to potential liability. *See* 2014 Form 40-F (as defined herein), p. 19. CP, therefore, is now estopped from claiming that it was not involved in the Derailment.[7]

Whether CP's actions in connection with the Derailment occurred within the borders of the United States – although they did – is irrelevant. *See* Motion to Dismiss, pp. 8-9. As noted above, a defendant is not required to have "physically entered the forum" for a court to have personal jurisdiction. Picard v. Chais, 440 B.R.at 279. Rather, "it is essential…that there be some act by which the defendant purposefully avails itself of the privilege of conducting activities within the forum…thus invoking the benefits and protections of its laws." Id. Here, even assuming *arguendo* that CP does not operate within the United States, CP purposefully availed itself to the privilege of conducting business in the United States when it entered into a contract with the World Fuel Defendants with respect to the Train. CP is designated as the carrier on the through bill of lading for the Train. Moreover, CP purposefully directed its activities, *i.e.* the transport of the Train, into the United States. *See* Tandycrafts, 317 B.R. at 288. In light of these activities, CP should have reasonably foreseen that it might be required to defend a suit in the United States arising out of operation of the Train. *See* Glinka, 199 B.R. at 497.

[7] In the POC Supplement, CP claims to have "several unliquidated claims against the Debtor arising from…the Derailment[.]" POC Supplement, p. 2. Such claims are based on CP's asserted "indemnification, contribution, and subrogation rights against the Debtor." Id. at ¶¶ 10, 16, 22, 27, 29. CP could only have such claims if it was liable for its actions in shipping the crude oil and operating the Train within the United States. CP cannot, for example, assert against a claim against the Debtor for contribution related to the Derailment unless CP is also potentially liable for the Derailment. Nevertheless, CP is now claiming that it is not subject to the Court's personal jurisdiction because it did not play a role in the Derailment. As such, CP either filed a fraudulent proof of claim, which is subject to criminal charges under 18 U.S.C. § 152(4), or is estopped from asserting that it is not potentially liable for the Derailment.

In light of the foregoing, CP unquestionably has the requisite minimum contacts with the United States for the purpose of satisfying specific jurisdiction.

b. General Jurisdiction

"General, or 'all-purpose,' jurisdiction over a foreign defendant allows a court to hear any and all claims against such defendant." Hellas Telecommunications, 524 B.R. at 504 (*citing* Daimler AG v. Bauman, —– U.S. ——, 134 S.Ct. 746, 754 (2014)). General jurisdiction "exists when the contacts with the forum are unrelated to the action." Federalpha, 341 B.R. at 887 (*citing* Helicopteros, 466 U.S. at 414 n. 9). "Only a narrow set of affiliations with a forum will subject a defendant to general jurisdiction in that forum." Hellas Telecommunications, 524 B.R. at 505 (*citing* Daimler, 134 S.Ct. at 760). With respect to a business entity, for example, "'the place of incorporation and principal place of business are paradig[m]…bases for general jurisdiction,'" yet such paradigms are not exclusive. Id. (*quoting* Daimler, at 760). Nevertheless, "'engag[ing] in a substantial, continuous, and systematic course of business' in a forum is not alone sufficient to render a defendant subject to general jurisdiction in such forum." Id. (*quoting* Daimler, at 761). "Rather, beyond the paradigm bases for general jurisdiction over a corporation, general jurisdiction exists where such corporation's 'affiliations with the State are so continuous and systematic as to render [it] essentially at home in the forum State.'" Id. (*quoting* Daimler, at 761).

Here, CP primarily relies on Daimler to argue that it cannot be subject to general jurisdiction. CP argues that it is not "at-home" in the United States because it does not conduct business in the United States. Motion to Dismiss, p. 13. CP further asserts that its "collective bargaining agreements do not govern employee relations in the U.S.," "[w]ith limited exceptions [its] employees do not operate trains south of the border," it "owns no real property in the U.S.," and its "rail operations are not subject to U.S. rail transportation regulation." Motion to Dismiss, p. 13.[8] Such assertions, however, are contradicted by CP's own marketing, investor, and financial documents.

CP's 2014 Investor Fact Book, titled "Welcome to the New CP" (the "Investor Fact Book"), for example, notes, among other things, the following:

- "Headquartered in Calgary, Alberta, CP is a transcontinental railroad in Canada ***and the United States*** providing logistics and supply chain expertise. Over 15,000 employees provide rail and intermodal transportation services across a network of approximately 13,700 miles, serving the principal business centres of Canada, the U.S. Midwest and U.S. Northeast." Investor Fact Book, p.6 (emphasis added).

- "CP's 13,700-mile network extends from Port Metro Vancouver in Canada's west to the Port of Montreal in Canada's east; and ***includes the U.S. industrial centres of Chicago, Detroit, Buffalo, Kansas City and Minneapolis***." Investor Fact Book, p.20 (emphasis added).

- "Our Central Corridor connects with the Wester Corridor at Moose Jaw. By running south to Chicago and Kansas City through the Twin Cities of Minneapolis and St. Paul, and Milwaukee, ***we provide a direct, single-carrier route between Western Canada and the U.S. Midwest***, with access to Great Lakes and Mississippi River ports." Investor Fact Book, p. 24 (emphasis added).

- "The Eastern Corridor extends from Thunder Bay through to our eastern terminus at Montreal, and from Toronto to Chicago via Detroit/Windsor. Our Eastern Corridor provides shippers direct rail service from Toronto and Montreal to Calgary and Vancouver via our Western Corridor and ***to the U.S. via our Central Corridor***." Investor Fact Book, p. 26 (emphasis added).

- "The Northeast U.S. Corridor provides an important link between the major population centres of Eastern Canada, the U.S. Midwest and the U.S. Northeast. The corridor extends from Montreal to Harrisburg, Pennsylvania via Plattsburgh, New York and Albany in New York's Capital District Region." Investor Fact Book, p. 26.

---

[8] This assertion stands in stark contrast to CP's prior and empathetic assertions before this Court and the Maine District Court that only U.S. law and regulations applied to CP's conduct with respect to the Train. *See* Canadian Pacific Railway Company's Opposition to Motion to Amend [Adv. D.E. 70], pp. 9-26; *see also* Canadian Pacific Railway Company's Memorandum of Law in Support of 28 U.S.C. § 157(d) and Fed.R.Bankr.P. 5011(a) Motion to Withdraw the Reference [Adv. D.E. 103], pp. 13-27. CP cannot have it both ways, particularly when its alleged witnesses are making statements under oath.

- "We have a strong origination franchise for crude oil throughout Alberta, Saskatchewan and ***North Dakota***. Crude-by-rail has evolved from smaller truck-to-rail manifest facilities into the development of larger scale unit train terminals." Investor Fact Book, p. 60 (emphasis added).

- "We move crude oil to refining markets in Eastern Canada, ***the Northeast U.S., the Midwest, the Gulf Coast and the West Coast***." Investor Fact Book, p. 60 (emphasis added).

- "We are well established in the North Dakota Bakken with two manifest facilities and three large, recently expanded unit train terminals." Investor Fact Book, p. 62.

A copy of the Investor Fact Book is attached hereto as **Exhibit D**. In addition to the maps set out in the Investor Fact Book, CP's website also boasts a map detailing the extent of CP's operations in the United States. A copy of the map is attached hereto as **Exhibit E**.

CP is also registered with the United States Securities and Exchange Commission (the "SEC") under Commission File No. 1-15272. CP's Form 40-F for the fiscal year ending on December 31, 2012 is attached hereto as **Exhibit F**. CP's Form 40-F for the fiscal year ending on December 31, 2013 is attached hereto as **Exhibit G**. CP's Form 40-F for the fiscal year ending on December 31, 2014 is attached hereto as **Exhibit H** (the "2014 Form 40-F"). The 2014 Form 40-F details the Derailment and notes that "CP denies liability for [the Debtor's] derailment and will vigorously defend itself in the proceedings described above and in any proceeding that may be commenced in the future." 2014 Form 40-F, p.19.

These documents clearly demonstrate that CP is engaged in a substantial, continuous and systematic course of business in the United States, and holds itself out as a North American, not just Canadian, railroad. CP operates in American cities, files financial disclosure documents with American agencies, and exposes thousands of Americans to the dangers of its railcars every day. CP categorizes various of its business segments as based in the United States exclusively, such as its U.S. Coal shipping operations. CP, in every sense, is at-home in the United States.

CP argues that "business in the U.S. is not conducted by the entity the trustee sued, Canadian Pacific Railway Company. Rather distinct CP subsidiaries operate railroads in the U.S." Motion to Dismiss, p. 13. CP, however, has failed to provide the names of the alleged subsidiaries. Rather, CP tellingly admits that "[t]hose subsidiaries just do business as 'Canadian Pacific' or 'Canadian Pacific Railway'." Motion to Dismiss, p. 13. Nevertheless, even the marketing and investor materials referenced above do not distinguish between business entities when they boast to having extensive operations throughout the United States. To the extent CP, through subsidiaries or otherwise, benefits from operating in the United States under the name "Canadian Pacific" of "Canadian Pacific Railway," it cannot now argue, for the purpose of jurisdiction, that it does not operate in the United States. Moreover, as noted above, CP has admitted – and the Canadian Court has held – that CP, not its subsidiaries, has potential liability for the Derailment. *See, e.g.*, POC Supplement, p. 1; CP Application, p.1; Class Certification Order, p. 9. CP is now estopped to claim that some other entities are at issue.[9]

CP's reliance on Daimler is further misplaced because the Trustee is not attempting to impose jurisdiction over CP through the operations of its subsidiaries. Rather, given CP's extensive operations in the United States, the Trustee is asserting general jurisdiction over CP directly. *See* Hellas Telecommunications, 524 B.R. at 508 ("The Plaintiffs allegations establish that DB maintains a substantial, long-term presence in the U.S. and in New York; DB's contacts with the U.S. are not limited to the in-state operations of its affiliate as in Daimler.").

[9] As noted above, CP admits that it, not its subsidiaries, engages in "bringing trains 10 miles or less ***into the U.S.*** to safely turn over to U.S. crews." Motion to Dismiss, p. 14 (emphasis added). This act alone, with respect to the Train, is sufficient to establish specific jurisdiction, but also evidences both CP's larger presence in the United States and its role in operating the Train.

In light of CP's vast network of operations in the United States, which it advertises as a singular and integrated North American network, there can be no question that it is "at-home" in the United States for purposes of general jurisdiction. Indeed, CP has previously attempted to hide behind the allegedly preemptive effect of U.S. laws and regulations. As such, the Trustee requests that the Court also find it has general jurisdiction over CP for the purpose of the Adversary Proceeding.

ii. The Court's Exercise of Personal Jurisdiction Over CP is More Than Reasonable

In addition to finding that "minimum contacts" exist between CP and the United States (and again assuming – despite overwhelming evidence to the contrary – that CP has not forfeited the argument), "the Court must satisfy itself that the exercise of jurisdiction would be 'reasonable' under the circumstances." Glinka, 199 B.R. at 484. "In determining the reasonableness of exercising jurisdiction over a defendant, 'the defendant's contacts with the forum State must be such that maintenance of the suit does not offend traditional notions of fair play and substantial justice.'" Hellas Telecommunications, 524 B.R. at 513 (*quoting* World–Wide Volkswagen Corp. v. Woodson, 444 U.S. 286, 292, 100 S.Ct. 559, 580 (1980)). "The relevant reasonable factors include (1) the burden that the exercise of jurisdiction will impose on the defendant; (2) the interests of the forum state in adjudicating the case; (3) the plaintiff's interest in obtaining convenient and effective relief; (4) the interstate judicial system's interest in obtaining the most efficient resolution of the controversy; and (5) the shared interest of the states in furthering social substantive policies." Picard v. Chais, 440 B.R. at 280-81.

"Where constitutional minimum contacts have been established, 'often the interests of the plaintiff and the forum in the exercise of jurisdiction will justify even the serious burdens placed on the alien defendant.'" Hellas Telecommunications, 524 B.R. at 513-14 (*quoting* Bozel, 434

B.R. at 100). "In such instance the burden shifts to the defendant 'to present a compelling case that establishing personal jurisdiction would be unreasonable.'" Id. (*quoting* Bozel, 434 B.R. at 100); *see also* Picard v. Cohmad, 418 B.R. at 81; Federalpha, 341 B.R. at 889.

In Federalpha, the court found that the burden on a Canadian defendant of litigating in the United States "will be minimal." Federalpha, 341 B.R. at 889. The court noted that "[t]ravel from Canada to the U.S. is quick and inexpensive," and that the defendant's home "is just over the border." Id. The court also noted that "Canadian defendants as a rule bear 'a substantially lighter burden' litigating in the U.S. 'than…most other foreign defendants.'" Id. (*quoting* Aristech Chem. Int'l Ltd. v. Acrylic Fabricators Ltd., 138 F.3d 624, 628 (6th Cir. 1998)). The court continued:

> Nor would [the defendant] experience any particular culture shock litigating here. Canada is, of course, a western, English-speaking county. Based on common law, the Canadian legal system is similar to its American counterpart. *See* Aristech, 138 F.3d at 629; Ensign-Bickford Co. v. ICI Explosives USA Inc., 817 F.Supp. 1018, 1031 (D.Conn.1993). Even Canadian and American bankruptcy law have many features in common. *See* Nathalie Martin, Common-Law Bankruptcy Systems: Similarities and Differences, 11 Am. Bankr. Inst. L.Rev. 367, 398-405 (2003); Jacob S. Ziegel, Canada's Phased-in Bankruptcy Law Reform, 70 Am. Bankr.L.J. 383, 387 (1996).

Id. at 889.

Here, CP complains that the "inconvenience of defending a negligence action in Maine cannot be gainsaid." Motion to Dismiss, p. 18. CP makes this statement, without apparent irony, despite the fact that it has appeared in the Bankruptcy Case on many occasions and will continue to do so regardless of the fate of the Adversary Proceeding. Indeed, CP's counsel are already regular attendees in the Bankruptcy Case. Such inconvenience, CP asserts, is because "[w]itnesses and data are located (i) in North Dakota, where the train originated, (ii) at CP's Calgary headquarters, or (iii) near Montreal, Quebec, where CP turned over custody and control of the train to [the Debtor]." Motion to Dismiss, p. 18. CP then argues that "the 'situs of the discovery' factor clearly counsels against litigating any negligence action involving CP in Maine." Id. Such arguments fall far short of CP's burden of making a 'compelling case.'[10]

As demonstrated above, CP has substantial connections with the United States. Additionally, CP, similar to the defendant in Federalpha, would not experience any hardship in litigating the Adversary Proceeding in this Court. CP's principal place of business is just over the border in Montreal, Motion to Dismiss, p. 13, and it is represented by U.S. counsel who has actively participated in this Adversary Proceeding and the Bankruptcy Case. (CP's publically available investor materials state that it has held investor conferences in New York; such conferences were apparently not an inconvenience.)

Even assuming some burden imposed on CP by their location in Canada, "'often the interests of the plaintiff and the forum in the exercise of jurisdiction will justify even the serious burdens placed on the alien defendant.'" Picard v. Cohmad, 418 B.R. at 81 (*quoting* Asahi, 480 U.S. at 114). In this case, the Trustee has a strong interest in litigating in the United States as the Debtor was a Maine corporation with its files in the United States. Moreover, the most efficient resolution of the Adversary Proceeding would be in the United States, where the "inextricably-related" Bankruptcy Case is ongoing before this Court. Id. at 82 (*quoting* First Capital Asset Mgmt., Inc. v. Brickellbush, Inc., 218 F.Supp.2d 369, 403 (S.D.N.Y. 2002)). In sum, CP has failed to provide any grounds on which to demonstrate that the Court's exercise of personal jurisdiction would be unreasonable.

---

[10] CP also argues that it would be unreasonable for the Court to exercise personal jurisdiction over it because it "has zero contacts with Maine and almost no contact with the U.S." Motion to Dismiss, p. 17. Whether CP has contacts with Maine or the United States, however, is not a factor for determining whether the Court's exercise of personal jurisdiction over CP is reasonable. *See* Picard v. Chais, 440 B.R. at 280-81. Moreover, as demonstrated above, CP has substantial contacts with the United States so as to support the Court's finding of both specific and general jurisdiction.

Furthermore, as noted, CP has appeared extensively in the Bankruptcy Case and will continue to do so. It will not be measurably more inconvenient for CP to also appear in the Adversary Proceeding.

In light of the above, the Trustee requests that the Court find that it has personal jurisdiction over CP and that the exercise of such jurisdiction is reasonable.

II. The Complaint More Than Satisfies the Pleading Requirements

On a motion to dismiss, the Court must accept as true the factual allegations of the complaint and draw all reasonable inferences in favor of the plaintiff. *See* Trans-Spec Truck Serv., Inc. v. Caterpillar, Inc., 524 F.3d 315, 320 (1st Cir. 2008). A complaint should survive dismissal where it alleges a plausible entitlement to relief. Gargano v. Liberty Intern. Underwriters, Inc., 572 F.3d 45, 49 (1st Cir. 2009). "[E]valuating the plausibility of a legal claim 'requires the reviewing court to draw on its judicial experience and common sense.'" Ocasio-Hernandez v. Fortuno-Burset, 640 F.3d 1, 12 (1st Cir. 2011) (*quoting* Iqbal, 556 U.S. at 679). Indeed, "the court may not disregard properly pled factual allegations, 'even if it strikes a savvy judge that actual proof of those facts is improbable.'" Id. (*quoting* Twombly, 550 U.S. at 556). "The relevant inquiry focuses on the reasonableness of the inference of liability that the plaintiff is asking the court to draw from the facts alleged in the complaint." Id. at 13. The complaint is sufficient if it sets forth either direct or inferential factual allegations respecting each material element of a cause of action. Lumb v. Cimenian (In re Lumb), 401 B.R. 1, 6 (BAP 1st Cir. 2009) (*citing* Gagliardi v. Sullivan, 513 F.3d 301, 305 (1st Cir. 2008)).

In this case, CP asserts that the Trustee failed to pled facts to "support 'extensive dealings' between CP and the World Fuel defendants or suggest how CP could have come to suspect Packing errors or fraud." Motion to Dismiss, p. 24. This is untrue. The Second

Amended Complaint clearly satisfies pleading requirements, even in light of the standards articulated in Twombly and Iqbal.

Indeed, the Maine District Court has already ruled that the Trustee's claims are "not self-evidently implausible," thereby supporting the Trustee's position that the Second Amended Complaint satisfies the Twomly/Iqbal standard. Order on the Motion to Withdraw, p. 11. Specifically, the Maine District Court found:

> But from my vantage point, without the benefit of any briefing on how Canadian courts interpret these regulations, the Trustee's argument is not self-evidently implausible. Canadian Pacific has neither crafted a cogent argument nor provided a single case or authority explaining why its interpretation of the highly technical, comprehensive Canadian regulatory scheme is correct.

Id. There is no question that the Second Amended Complaint sets forth a clear and plausible cause of action against CP.

The Order on the Motion to Withdraw also supports the Trustee's position that the Second Amended Complaint carefully details the events leading up to the Derailment, including CP's control over the Train, access to the MSDSs, and knowledge of the dangerous nature of the crude oil from the Bakken Formation. *See* Second Amended Complaint, ¶¶ 3, 4, 74, 75, 77-80, 83, 109. The Second Amended Complaint specifically states how the entire shipment of crude oil was subject to a through bill of lading issued by CP. Id. at ¶ 3. The Second Amended Complaint also specifically states how CP was the original operator of the Train, which it handed off to the Debtor although the shipment remained subject to CP's original bill of lading. Id. at ¶ 4. The Second Amended Complaint also specifically states that "[u]pon information and belief, [CP], given its extensive dealings with the World Fuel Defendants and its access to all MSDS forms and other relevant documentation, had reasonable grounds to suspect that the classification of the crude oil shipment was incorrect[.]" Id. at ¶ 109.

As the Maine District Court properly understood, the Second Amended Complaint is properly premised upon CP's negligence as a matter of Canadian law, including because its conduct violated the Canadian Transportation of Dangerous Goods Act, 1992 (S.C. 1992, c. 32) ("TDGA") and its implementing Transportation of Dangerous Goods Regulations S.O.R./2001-286 ("TDGR"). A true and correct copy of the TDGR parts 1-10 is attached hereto as **Exhibit I**. As a matter of Canadian law, even in the absence of a private right of action under a statute or regulation, "[l]egislative standards are a relevant factor in determining the common law standard of care, and a breach of a statute is evidence of negligence." Enviro West Inc. v. Copper Mountain Mining Corp., 2010 BCSC 1443 [1], [80], 2010 CarswellBC 2773 1, 80 (BCSC 2010), *rev'd on other grounds*, 2012 BCCA 23, 2012 CarswellBC 77 (BCCA 2012) (but reaffirming that violation of federal statutes or regulations forms a basis for a negligence finding). True and correct copies of the Enviro West decision and appellate decision are attached hereto as **Exhibit J** and **Exhibit K** respectively.

Indeed, in Enviro West, a violation of the TDGR, among other laws on the transport of hazardous waste, established negligence, and the appeals court found that a subsequent carrier could also be negligent for failing to determine, despite red flags, the dangerous quality of the waste being shipped notwithstanding the law placing the primary burden of classifying such goods on the owner/generator: "finding that the waste generator breached its obligation to provide information does not inoculate the waste collector from the requirement that it, too, act with reasonable care." Id. at [80]-[100]; Enviro West, 2012 BCCA 23 at [48], 2012 CarswellBC 77 at 48.

Using this standard for common law negligence supplied by Canadian law, the Second Amended Complaint alleges that, under the TDGR, CP, as the carrier of the oil, had a statutory duty not to ship the oil into Canada because CP had reasonable grounds to suspect that the oil was improperly classified as Packing Group III (when it should have been classified as the more dangerous and more volatile Packing Group I). Under section 2.2(6) of the TDGR, "[a] carrier who . . . has reasonable grounds to suspect an error in classification while the dangerous goods are in transport must advise the consignor *and must stop transporting the dangerous goods until the consignor verifies or corrects the classification.*" (emphasis added). The Second Amended Complaint alleges that CP, despite having reasonable grounds to suspect misclassification, did not stop transporting the goods, and that the breach of this duty caused, or contributed to the causing of the Derailment and/or the extent of the loss of life and other damages arising therefrom.[11]

Moreover, the factual allegations of the Second Amended Complaint are further supported by the Class Certification Order. For example, the Canadian Court has found:

> It is possible, depending on the evidence that will be presented regarding the discussions, negotiations and steps that took place between respondents World Fuel and CP for the completion of transport agreements, that a Court comes to the conclusion that CP should have, ***both in terms of its relation[ship] with the respondents World Fuel and with MMA***, informed the respondents World Fuel of the heightened risk in choosing MMA.
>
> It is possible that a court arrives at the conclusion that CP, a specialist in the field of rail transport, heavily involved in the regular transport of petroleum products including shale liquids and a frequent user and carrier of tank cars (DOT-111), has been negligent or has committed a fault by not properly informing its Western counterpart of the risks and dangers of using the route operated by MMA rather

[11] The Trustee has also alleged that the TDGR apply – and not U.S. law – because CP was forbidden from bringing doubtfully classified dangerous goods into Canada. CP – despite now arguing that U.S. law does not apply to CP at all – argues that the TDGR do not apply (leaving no law applying to CP with respect to the Train?) because the TDGR define "forbidden" goods and do not include crude oil in that definition. This allegation is simply and wholly incorrect. The TDGR do not define "forbidden" goods, but only provide some examples of goods that are <u>per</u> <u>se</u> forbidden, or <u>per</u> <u>se</u> forbidden in certain modes of transport. In any event, by abandoning its preemption argument, CP must now agree that the TDGR apply to CP's activities with respect to the Train.

> than a longer, more expensive route of another carrier that is solvent and larger, Canadian National. This is possible despite the strong and very specific rules in the field of rail transport.

Class Certification Order, ¶¶ 57, 58 (emphasis added). The Canadian Court further found that:

> In this case, the Court considers that in many ways it is not so much the liability for the acts committed by MMA that the applicants blame or can blame CP for, but it is more so the fact that CP should never have advised, suggested or even accepted for MMA to transport shale liquids on its tracks.
>
> CP argues that, as a result of the provisions of the *Canada Transportation Act*, it had no choice but to accept to transfer the tank cars to MMA, which it had carried on its own tracks, if that was the route determined by the shipper.
>
> While this is true, the fact remains that, according to the evidence which could be presented in an elaborate and developed matter at an eventual trial, it is possible that a Court concludes that ***as a principal transport partner of respondents World Fuel***, CP would have had to adequately inform them and more particularly Western and WFS Inc. of the risks, dangers and deficiencies of MMA and nevertheless, after having adequately informed them, allow them to make an informed decision as to the routes and transporters available to carry the shale liquids to its ultimate destination in New-Brunswick.

Class Certification Order, ¶¶ 69-71 (emphasis added).

In light of the foregoing, and particularly in light of the Maine District Court's existing finding of plausibility, the Second Amended Complaint sets forth sufficient allegations against CP to support the Trustee's claim for negligence. Accordingly, the Court should deny the Motion to Dismiss.

CONCLUSION

For the reasons set forth in this Objection, the Trustee requests that the Court deny the Motion to Dismiss in full and grant such other and further relief as may be just.

Dated: July 21, 2015

ROBERT J. KEACH
CHAPTER 11 TRUSTEE OF MONTREAL
MAINE & ATLANTIC RAILWAY, LTD.

By his attorneys:

/s/ Timothy J. McKeon
Paul McDonald
Timothy J. McKeon
BERNSTEIN, SHUR, SAWYER & NELSON, P.A.
100 Middle Street, P.O. Box 9729
Portland, ME 04104-5029
Tel: (207) 774-1200
Fax: (207) 774-1127
Email: pmcdonald@bernsteinshur.com
tmckeon@bernsteinshur.com

EXHIBIT
A

B10 (Official Form 10) (04/13)

UNITED STATES BANKRUPTCY COURT Maine

PROOF OF CLAIM

Name of Debtor:
Montreal Maine & Atlantic Railway Ltd.

Case Number:
13−10670

NOTE: *Do not use this form to make a claim for an administrative expense that arises after the bankruptcy filing. You may file a request for payment of an administrative expense according to 11 U.S.C. § 503.*

FILED
U.S. Bankruptcy Court
Maine
6/13/2014
Alec Leddy, Clerk
COURT USE ONLY

Name of Creditor (the person or other entity to whom the debtor owes money or property):
Canadian Pacific Railway

Name and address where notices should be sent:

Canadian Pacific Railway
1100 Avenue
Des Canadiens−De−Montreal
Suite G3
Montreal, Quebec, Canada
H3B 2S2

John R. McDonald
Briggs and Morgan, P.A.
2200 IDS Center
80 S 8th Street
Minneapolis, MN 55402

Telephone number: email:

☑ Check this box if this claim amends a previously filed claim.

Court Claim Number: 92
(*If known*)

Filed on: 06/06/2014

☐ Check this box if you are aware that anyone else has filed a proof of claim relating to this claim. Attach copy of statement giving particulars.

Name and address where payment should be sent (if different from above):

Telephone number: email:

1. Amount of Claim as of Date Case Filed: $ 924583.29
If all or part of the claim is secured, complete item 4. If all or part of the claim is entitled to priority, complete item 5.
☐ Check this box if the claim includes interest or other charges in addition to the principal amount of the claim. Attach a statement that itemizes interest or charges.

2. Basis for Claim: See attached supplement (See instruction #2)

3. Last four digits of any number by which creditor identifies debtor:	**3a. Debtor may have scheduled account as:**	**3b. Uniform Claim Identifier (optional):**
___	___ (See instruction #3a)	___ (See instruction #3b)

4. Secured Claim (See instruction #4)
Check the appropriate box if the claim is secured by a lien on property or a right of setoff, attach required redacted documents, and provide the requested information.

Nature of property or right of setoff: ☐ Real Estate ☐ Motor Vehicle ☑ Other
Describe: See attached supplement
Value of Property: $___
Annual Interest Rate (when case was filed) __% ☐ Fixed or ☐ Variable

Amount of arrearage and other charges, as of the time case was filed, included in secured claim, if any:
$ ___

Basis for perfection: ___

Amount of Secured Claim: $___

Amount Unsecured: $ 924583.29

5. Amount of Claim Entitled to Priority under 11 U.S.C. §507(a). If any part of the claim falls into one of the following categories, check the box specifying the priority and state the amount.

☐ Domestic support obligations under 11 U.S.C. §507(a)(1)(A) or (a)(1)(B).

☐ Wages, salaries, or commissions (up to $12,475*) earned within 180 days before the case was filed or the debtor's business ceased, whichever is earlier − 11 U.S.C. §507(a)(4).

☐ Contributions to an employee benefit plan − 11 U.S.C. §507(a)(5).

☐ Up to $2,775* of deposits toward purchase, lease, or rental of property or services for personal, family, or household use − 11 U.S.C. §507(a)(7).

☐ Taxes or penalties owed to governmental units − 11 U.S.C. §507(a)(8).

☐ Other − Specify applicable paragraph of 11 U.S.C. §507(a)(_).

Amount entitled to priority:
$___

**Amounts are subject to adjustment on 4/01/16 and every 3 years thereafter with respect to cases commenced on or after the date of adjustment.*

6. Credits. The amount of all payments on this claim has been credited for the purpose of making this proof of claim. (See instruction #6)

7. Documents: Attached are **redacted** copies of any documents that support the claim, such as promissory notes, purchase orders, invoices, itemized statements of running accounts, contracts, judgments, mortgages, security agreements, or, in the case of a claim based on an open−end or revolving consumer credit agreement, a statement providing the information required by FRBP 3001(c)(3)(A). If the claim is secured, box 4 has been completed, and **redacted** copies of documents providing evidence of perfection of a security interest are attached. If the claim is secured by the debtor's principal residence, the Mortgage Proof of Claim Attachment is being filed with this claim. (*See instruction #7, and the definition of "**redacted**".*)

DO NOT SEND ORIGINAL DOCUMENTS. ATTACHED DOCUMENTS MAY BE DESTROYED AFTER SCANNING.

If the documents are not available, please explain:

8. Signature: (See instruction #8) Check the appropriate box.

☐ I am the creditor.

☑ I am the creditor's authorized agent.

☐ I am the trustee, or the debtor, or their authorized agent. (See Bankruptcy Rule 3004.)

☐ I am a guarantor, surety, indorser, or other codebtor. (See Bankruptcy Rule 3005.)

I declare under penalty of perjury that the information provided in this claim is true and correct to the best of my knowledge, information, and reasonable belief.

Print Name: John R. McDonald
Title: Attorney for Canadian Pacific Railway Company
Company:
Address and telephone number (if different from notice address above):

s/ John R. McDonald
(Signature)

6/13/2014
(Date)

Telephone number: email:

Penalty for presenting fraudulent claim: Fine of up to $500,000 or imprisonment for up to 5 years, or both. 18 U.S.C. §§ 152 and 3571.

UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MAINE

In re:

Montreal Maine & Atlantic
Railway Ltd.,

Debtor.

Bk. No. 13-10670

Chapter 11

CANADIAN PACIFIC RAILWAY COMPANY'S SUPPLEMENT TO ITS AMENDMENT TO PROOF OF CLAIM 92-1

Canadian Pacific Railway Company ("CPR") hereby submits this Supplement to its Amendment to Proof of Claim 92-1 ("Claim") in an UNLIQUIDATED dollar amount in the above-captioned case as follows:

BASIS AND AMOUNT OF CLAIM

1. Montreal Maine & Atlantic Railway Ltd. (the "Debtor") commenced this case in the United States Bankruptcy Court for the District of Maine (the "Bankruptcy Court") by filing a petition under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") on August 7, 2013 (the "Petition Date"). The Bankruptcy Court authorized the Debtor to continue to operate its business pending the appointment of a chapter 11 trustee.

2. Also on the Petition Date, Montreal Maine & Atlantic Canada Co. ("MMA Canada") a wholly-owned subsidiary of the Debtor, commenced a proceeding in the Superior Court (Commercial Division) of the Province of Quebec, District of Montreal (the "Quebec Court"), pursuant to the Canadian Companies' Creditor Arrangement Act (the "CCAA"). *See In the Matter of the Plan of Compromise or Arrangement Relating of: Montreal Maine & Atlantic Canada Co.* (Debtor/Respondent), Case No. 500-11-045094-139 (Superior Court, Quebec, Dist.

6294169v4

of Montreal) (the "CCAA Case"). Richter Advisory Group was named Monitor in the CCAA Case.

3. On August 8, 2013, the Quebec Court entered an Initial Order commencing a Canadian proceeding involving MMA Canada and staying all litigation against the Debtor and MMA Canada.

4. On August 21, 2013, Robert Keach was appointed as chapter 11 trustee for the Debtor (the "Trustee"). The Trustee is authorized to operate the Debtor's business.

5. Both the Chapter 11 Case and the CCAA Case were filed as the direct result of litigation arising out of the derailment of Train 282 on July 6, 2013, in Lac-Mégantic, Quebec (the "Derailment"). Litigation asserting claims arising from the Derailment have thus far been filed in (i) Quebec, Canada in the form of a proposed class action (Superior Court of Quebec file no. 480-06-000001-132) (the "Quebec Class Action Litigation"), (ii) Quebec, Canada in the form of a contestation by CPR before the *Tribunal Administratif du Québec* of an environmental clean-up order (628-A) issued by the Quebec Minister of the Environment (the "Clean-up Order Litigation") (iii) Cook County, Illinois, which litigation was transferred to the United States District Court for the District of Maine (the "US Wrongful Death Cases") (the "Quebec Class Action Litigation", the Clean-up Order Litigation and the U.S. Wrongful Death Cases" are collectively referred to herein as the "Derailment Litigation"). CPR has several unliquidated claims against the Debtor arising from both the Derailment ("Derailment Claims") and the rejection of certain executory contracts and/or unexpired leases between the Debtor and CPR ("Non-Derailment Claims").

6294169v4

DERAILMENT CLAIMS

The U.S. Wrongful Death Cases

6. The plaintiffs in the Wrongful Death Cases allege, among other things, that the Derailment resulted in a fire that killed 47 people. *See, e.g.,* Complaint (U.S. Wrongful Death Cases) at ¶¶ 44-51. The plaintiffs further allege that Train 606-282 ("Train 282") was being hauled by the Debtor and/or MMA Canada when it derailed and that Train 282 was initially carried by CPR from New Town, North Dakota to Cote Saint-Luc, Quebec, where it was interchanged to the Debtor to complete the journey. *Id.* ¶¶27, 29. At about 11:25 p.m., on July 5, Train 282 stopped for the evening in Nantes, Quebec, and was parked on the main line. *Id.* ¶ 32. The engineer set the brakes and shut down all of Train 282's locomotives except the lead engine, which was left running to power Train 282's air-brake system. *Id.* ¶¶ 33(e), 41. Shortly before midnight, a fire was noticed in one of the locomotives and the Nantes Fire Department was called to the scene. *Id.* ¶ 37. The lead engine was powered down per the Debtor's protocols to allow the fire department to extinguish the fire. *Id.* ¶ 38. The fire was extinguished by 12:15 a.m., and the firefighters left the scene in the custody of one of Debtor's track maintenance employees who assured the fire department that further assistance was not needed. *Id.* ¶ 39. The Debtor's employee then left the scene without restarting the lead engine. *Id.* ¶¶ 40-41. Without power from a running locomotive, Train 282's air-brake system lost power, and the unattended train began rolling downhill toward Lac-Mégantic. *Id.* ¶¶ 41, 44. At approximately 1:15 a.m., the unattended runaway train entered downtown Lac-Mégantic at a "high rate of speed" and over twenty of the tank cars carrying crude oil derailed. *Id.* ¶¶ 47-49. Some of the tank cars ruptured and released their contents, which were ignited. *Id.* ¶¶ 50-52.

7. The plaintiffs in the Wrongful Death Cases seek an unspecified amount of damages.

8. Some of the claims in the pending litigation may be entitled to priority pursuant to 11 U.S.C. § 1171.

9. No CPR entity was operating Train 282 and CPR disputes that any it has any liability to any of the plaintiffs in the Wrongful Death Cases.

10. Based upon the foregoing, CPR has indemnification, contribution, and subrogation rights against the Debtor. Such indemnification, contribution, and subrogation claims are entitled to the same priority as the plaintiffs' claims in the Wrongful Death Cases.

11. To the extent that the CPR asserts a claim in connection with the Wrongful Death Cases, CPR does not assert a claim in their own right against the Debtor, but asserts a claim a subrogee of one or more plaintiffs in the Wrongful Death Cases. If such claim for subrogation is denied for any reason, then CPR will and hereby does assert a claim for indemnification, reimbursement, and contribution.

The Quebec Class Action Litigation

12. On July 15, 2013, Yannick Gagné and Guy Ouellet (the "Petitioners"), served on CPR and other respondents (the "Respondents") a *Motion to Authorize the Bringing of a Class Action & to Ascribe the Status of Representative in the Superior Court of Quebec* (No. 450-06-000001-135) (the "Motion"). The Motion has since been amended on four occasions, most recently on February 12, 2014. In the Motion, the Petitioners request that they be attributed the status of representative of the proposed class and that the Court authorize the bringing of a class action. The Motion seeks damages on behalf of all members of the proposed class (the "Class").

13. While the amount of damages is not specifically detailed in the Motion, the damages claimed therein are described as follows:

> *"Each member of the class is justified in claiming at least one or more of the following as damages:*
>
> *a. For physical injury or death, the individuals or their estates may claim at least one or more of the following non-exhaustive list, namely:*
>
> *i. pain and suffering, including physical injury, nervous shock or mental distress;*
>
> *ii. loss of enjoyment of life;*
>
> *iii. past and future lost income;*
>
> *iv. past and future health expenses which are not covered by Medicare;*
>
> *v. property damages; and/or*
>
> *vi. any other pecuniary losses;*
>
> *b. Those individuals who did not suffer physical injury may claim one or more of the following non-exhaustive list, namely:*
>
> *i. mental distress;*
>
> *ii. incurred expenses;*
>
> *iii. lost income;*
>
> *iv. expenses incurred for preventative health care measures which are covered by Medicare;*
>
> *v. inconvenience;*
>
> *vi. loss of real or personal property;*
>
> *vii. property damages causing replacement and/or repairs;*
>
> *viii. diminished value of real property; and/or*
>
> *ix. any other pecuniary losses;*
>
> *c. Family members of those that died or were physically injured may claim one or more of the following non-exhaustive list, namely:*

6294169v4

i. expenses reasonably incurred for the benefit of the person who was injured or who has died;

ii. funeral expenses incurred ;

iii. travel expenses incurred in visiting the injured person during his or her treatment or recovery;

iv. loss of income or for the value of services where, as a result of the injury, the family member provides nursing, housekeeping or other services for the injured person; and

v. an amount to compensate for the loss of guidance, care and companionship that the family member might reasonably have expected to receive from the person if the injury or death had not occurred; and/or

vi. any other pecuniary loss;

d. Businesses Owning or Leasing Property and/or Operating in Lac-Mégantic may claim one or more of the following non-exhaustive list, namely:

i. loss of real or personal property ;

ii. property damages causing replacement or and repairs;

iii. loss of income, earnings, or profits;

iv. diminished value of real property; and/or

v. any other pecuniary loss."

14. In addition, the Motion also claims from the Respondents an unspecified amount of punitive damages for each of the members of the Class, plus interest and additional indemnity on the sums to be awarded as well as the costs of the class action, including expert and notice fees.

15. CPR disputes that it has any liability in the Quebec Class Action Litigation.

16. Based upon the foregoing, CPR has indemnification, contribution, and subrogation rights against the Debtor. Such indemnification, contribution, and subrogation

claims are entitled to the same priority as the plaintiffs' claims in the Quebec Class Action Litigation.

17. To the extent that CPR asserts a claim in connection with the Quebec Class Action Litigation, CPR does not assert a claim in their own right against the Debtor, but asserts a claim as a subrogee of one or more plaintiffs in the Quebec Class Action Litigation. If such claim for subrogation is denied for any reason, then CPR will and hereby does assert a claim for indemnification, reimbursement, and contribution

The Clean-up Order Litigation

18. On July 29, 2013, the Quebec Minister of Sustainable Development, Environment, Wildlife and Parks issued Order No. 628 under the authority of section 114.1 of the Quebec Environmental Quality Act. The Order required the Debtor, along with World Fuel Services Corporation ("WFSC") and Western Petroleum Company ("WPC"), to remediate and clean up the Lac-Mégantic Derailment site. On August 14, 2013, the Minister issued Order No. 628-A, which added World Fuel Services, Inc. ("WFSI") and CPR to the of parties targeted by Order No. 628.

19. Pursuant to Order No. 628-A, the Debtor, WFSC, WPC, WFSI, and CPR were ordered to immediately:

(a) Recuperate the crude oil that spilled into Lac-Mégantic;

(b) Prevent the dispersal of the contaminant;

(c) Carry out a characterization study in Lac-Mégantic;

(d) Supply a remediation plan to the Ministry of Sustainable Development, Environment, Wildlife and Parks; and

(e) Perform remediation work and clean up of the Lac-Mégantic site.

20. CPR has contested the validity of Order No. 628-A before the Tribunal Administratif du Québec, notably on the grounds that it did not have custody or control of Train 282 (including the petroleum crude oil cargo) when it derailed and that such custody or control was entirely with the Debtor.

21. The amount of clean-up expenses related to the Derailment (the "Clean-up Costs") has not yet been determined.

22. CPR asserts a claim against the Debtor for any amount of Clean-up Costs that CPR may be required to pay.

The Lading Claims

23. On November 5, 2013, World Fuel Services Corporation ("WFSC"), Western Petroleum Company ("WPC"), and World Fuel Services, Inc. ("WFSI") (collectively, the "Lading Claimants") submitted a Notice of Loss, Damage or Delay to CPR and to the Debtor for all losses sustained as a consequence of the Derailment.

24. The Lading Claimants purport to hold CPR and the Debtor responsible for all losses related to the Derailment, including but not limited to:

(a) The value of lost freight: $4,968,334.82 (U.S. Dollars);

(b) All prospective losses with respect to the damage or destroyed railcars of Train 282; and

(c) Other potential liabilities related to the Derailment. These include, but are not limited to, the Clean-up Costs and multiple lawsuits filed by victims of the Derailment and their relatives.

25. On April 4, 2014, CPR received a second Notice of Loss from the Ladings Claimants in relation to the July 6 derailment. This notice of loss is purportedly the U.S.

equivalent of the November 5 notice (see above) and is a condition precedent to an eventual Carmack claim. Essentially, the heads of damages claimed are a mirror of the November 5 notice, albeit the amounts have been updated to reflect a claim of $6,670,593.

26. Except for the value of lost freight, the asserted amount of the Lading Claimants' claim has not yet been communicated to CPR.

27. CPR asserts a claim against the Debtor for any amount that CPR may be held to pay to the Lading Claimants.

Potential Property Damage Claims

28. It is foreseeable that persons who have suffered property damages as a consequence of the Derailment, and who are not at present plaintiffs or members of the class in the Class Action Litigation, will institute actions in damages against CPR and other potential defendants, whether in their personal capacity or through property insurers.

29. CPR asserts a claim against the Debtor for any amount that CPR may be required to pay in relation to any prospective property damages claims, including subrogated property damage claims, as a consequence of the Derailment.

30. The amount of the Derailment Claims which CPR may assert against the Debtor cannot be determined with greater specificity at this time. Many of the losses suffered are not yet fully known because they are continuing to accrue and/or CPR's liability has not yet been determined.

NON-DERAILMENT CLAIMS

31. Prior to the Petition Date, on or about June 21, 2012, CPR and the Debtor entered into a certain Lease of Railroad Equipment (the "Locomotive Lease"), pursuant to which the Debtor leased from CPR certain diesel electric locomotives described therein. Amounts owed

under the Locomotive Lease total $837,979.75 USD converted. The Locomotive Lease is not being assigned or assumed by the Debtor.

32. Prior to the Petition Date, on or about October 16, 2003, CPR and the Debtor entered into a certain Railcar Lease Agreement (the "2003 Lease"), pursuant to which the Debtor leased certain bulkhead flat cars from CPR.

33. Prior to the Petition Date, on or about March 1, 2010, CPR and the Debtor entered into a certain track evaluation Test Car agreement (the "Test Car Agreement"), pursuant to which the Debtor had access to and use of a CPR Test Car for track evaluation purposes.

34. CPR and the Debtor, along with MMA Canada, are also parties to that certain Master Agreement, dated December 23, 2002, as amended, which expressly incorporates certain schedules, including, but not limited to, Schedule "I" (TTX Interchange Agreement), Schedule "K" (Lease Agreement), and Schedule "F" (Interchange Trackage Rights Agreement) (collectively, the "Master Agreement" and schedules and together with the 2003 Lease, the "CPR Agreements").

35. The Debtor originally moved to assume and assign the CPR Agreements. After certain objections were made to the assumption and assignment, however, the Debtor filed a Supplemental Notice Pursuant to Assumption and Assignment Procedures of Removal of Contracts from the Contract and Cure Schedule on January 22, 2014 [ECF No. 585] which provided notice that the CPR Agreements had been removed from the Contract and Cure Schedule and Schedules 2.1(a)(v), 2.1(a)(vi), 2.1(b)(v) and 2.1(b)(vi) of the Asset Purchase Agreement. The Debtor stated that the removal was subject to the reservation of rights set forth in the accompanying January 22, 2014 letter from counsel for the purchaser of certain assets of the Debtor and MMA Canada and in the Asset Purchase Agreement. Therein, the Purchaser

reserved the right to add the CPR Agreements back onto the schedules until five days before the Closing in accordance with Section 5.5 of the Asset Purchase Agreement, the Bid Procedures Orders, and the Assumption, Assignment and Cure Protocol.

36. Thus, the Debtor first attempted to assume, but presently has rejected, the CPR Agreements. The rejection of the CPR Agreements constitutes a breach of those agreements under section 365, for which CPR is entitled to damages. Because the Debtor and the Purchaser have reserved the right to assume and assign the CPR Agreements until five days before Closing, which date may not occur prior to the Bar Date in this case, CPR's claim for rejection damages is contingent on the continued rejection of the CPR Agreements.

37. In the event the Debtor does not add any of the CPR Agreements back onto the schedules before the Closing in accordance with Section 5.5 of the Asset Purchase Agreement, the Bid Procedures Orders, and the Assumption, Assignment and Cure Protocol, the amount of rejection damages that CPR will claim is reflected on Exhibit A attached to this Supplement.

ADMINISTRATIVE EXPENSE CLAIMS

38. The Debtor continued to receive the benefits of certain of the CPR Agreements after the Petition Date. Therefore, CPR has an administrative expense claim for the value of those benefits received by the estate. CPR reserves its right to separately file an administrative expense claim for all such amounts.

39. In addition, 11 U.S.C. § 1171(b) provides that claims against the Debtor that would have been entitled to priority if a receive in equity had been appointed on the Petition Date are entitled to the same priority under chapter 11. The First Circuit has held that a claim for services or supplies rendered to a debtor railroad in the six-month period immediately preceding commencement of a receivership would have been entitled to priority if a receiver in equity had

6294169v4

Case 13-10670 Doc 1 Filed 08/07/13 Entered 08/07/13 17:27:17 Page 12 of 15

been appointed. *See In re Boston and Maine Corp.,* 634 F.2d 1359 (1st Cir. 1980), *cert. denied*, 450 U.S. 982 (1981). Therefore, CPR is also entitled to amounts owed as pre-reorganization operating expenses for applicable services and supplies to the Debtor during this time period as an administrative expense priority claim. CPR further reserves its right to separately file an administrative expense claim for all such amounts.

MISCELLANEOUS

40. This Claim amends and supplements the proof of claim filed by CPR as claim number 92-1 on June 6, 2014.

41. CPR reserves the right to further amend or supplement this Claim in any respect at any time during the pendency of this case, including without limitation by (a) specifying the dollar amount of any parts of the claim that are not stated in specific amounts or are stated in approximate amounts, (b) specifying the amount of fees, costs and charges not stated in specific amounts, or (c) specifying additional interest, fees, costs or charges arising until confirmation of a plan of reorganization.

42. Pursuant to section 506(a) of the Bankruptcy Code, CPR holds a secured claim in an unliquidated amount to the extent of any amounts that are subject to setoff under Section 553 of the Bankruptcy Code. CPR hereby reserves its right to claim setoff and amend this claim to reflect any secured amounts.

43. CPR further reserves the right to file a separate claim or demand for payment of any administrative or priority expense to which CPR may be entitled in this bankruptcy case, including, without limitation, any administrative or priority expense to which CPR may become entitled under Sections 365, 503, 507, or 1171 of the Bankruptcy Code.

44. Neither this claim nor any subsequent appearance, pleading, claim or suit is intended to waive (i) CPR's right to have final orders in non-core matters entered only after de novo review by a district court judge; (ii) CPR's right to trial by jury; (iii) CPR's right to have the reference withdrawn by the district court in any matter subject to mandatory or discretionary withdrawal; or (iv) any other rights, claims, actions, defense, setoffs or recoupments to which CPR is or may be entitled, all of which rights, claims, actions, defenses, setoffs and recoupments are expressly reserved.

45. Copies of all notices and communications concerning this Proof of Claim should be sent to:

John R. McDonald
Briggs and Morgan, P.A.
2200 IDS Center
80 S 8th Street
Minneapolis, MN 55402

46. The Trustee and/or the Debtor should have copies of all contracts and agreements referenced herein. Due to the voluminous and confidential and/or commercially sensitive nature of the referenced agreements and documents, such documents are not attached hereto. All documents referenced in this Supplement To CPR's Proof of Claim are available for review upon reasonable request.

[Remainder of page intentionally blank; signature page follows]

Signature page to Supplement to Proof of Claim
dated as of June 13, 2014

By /s/ John R. McDonald
John R. McDonald
Briggs and Morgan, P.A.
2200 IDS Center
80 S 8th Street
Minneapolis, MN 55402

Attorneys for Canadian Pacific Railway Company

6294169v4

EXHIBIT A

<u>See Attached Invoices</u>

1. Lease Payments Under 2003 Lease Through Petition Date — $12,464.49 USD

2. Prepetition Car Repair (AAR Non Rule 23) -- $12,759.53 USD

3. Real Estate – Property Taxes (Sherbrooke Yard) — $21,463.30 USD [converted]

Payable by virtue of Section 6.1.1. *Taxes* of Schedule "K" to the Master Agreement (*Lease Agreement*).

4. Engineering Signals & Communications — $1,751.07 USD [converted]

Payable by virtue of Section 5.3 of Schedule "F" to the Master Agreement (*Interchange Trackage Rights Agreement*).

5. Amounts Owed Under The Locomotive Lease -- $837,979.75 USD [converted]

6. Track Evaluation Car -- $ 38,165.15 USD [converted]

UNOFFICIAL ENGLISH TRANSLATION

EXHIBIT
B

SUPERIOR COURT

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MÉGANTIC

N°: 480-06-000001-132

DATE: May 8, 2015

PRESIDING: JUSTICE MARTIN BUREAU, J.S.C.

GUY OUELLET
and
SERGE JACQUES
and
LOUIS-SERGES PARENT

Plaintiffs

v.
RAIL WORLD, INC.
and
RAIL WORLD HOLDINGS, LLC
and
MONTREAL MAINE & ATLANTIC RAILWAY LTD
and
EARLSTON ASSOCIATES L.P.
and
PEA VINE CORPORATION
and
MONTREAL, MAINE & ATLANTIC CORPORATION
and
MONTREAL, MAINE & ATLANTIC CANADA COMPANY
and
EDWARD BURKHARDT
and
ROBERT GRINDROD

and
GAINOR RYAN
and
DONALD GARDNER, JR.
and
JOE MCGONIGLE
and
CATHY ALDANA
and
THOMAS HARDING
and
IRVING OIL LIMITED
and
IRVING OIL COMMERCIAL G.P.
and
WORLD FUEL SERVICES CORP.
and
WORLD FUEL SERVICES, INC.
and
WORLD FUEL SERVICES CANADA, INC.
and
DPTS MARKANDING LLC
and
DAKOTA PANDROLEUM TRANSPORT SOLUTIONS, LLC
and
WESTERN PANDROLEUM COMPANY
and
PANDROLEUM TRANSPORT SOLUTIONS, LLC
and
STROBEL STAROSTKA TRANSFER, LLC
and
MARATHON OIL COMPANY
and
SLAWSON EXPLORATION COMPANY INC.
and
OASIS PANDROLEUM INC.
and
OASIS PANDROLEUM LLC
and
QEP RESOURCES INC.
and
ARROW MIDSTREAM HOLDINGS LLC

and
DEVLAR ENERGY MARKANDING LLC
and
THE CIT GROUP/EQUIPMENT FINANCING INC.

UNION TANK CAR COMPANY
and
TRINITY RAIL LEASING 2012 LLC
and
GENERAL ELECTRIC RAILCAR SERVICES CORPORATION
and
CANADIAN PACIFIC RAILWAY COMPANY
and
ATTORNEY GENERAL OF CANADA
Defendants
and
XL INSURANCE COMPANY LIMITED
and
XL GROUP PLC
Mises en cause

JUDGMENT FOR THE AUTHORIZATION OF THE BRINGING OF A CLASS ACTION
(Section 1003 of the Code of Civil Procedure (*Quebec*))

---

[1] The applicants, the three of whom are among the victims of the tragedy of July 6, 2013 in Lac-Megantic where a train transporting crude oil or shale liquids derailed, request the authorization of this court to bring a class action against those parties they consider responsible, in various capacities, for the damages caused.

[2] The applicants, whose status as victims and as representatives of the victims is not questioned by any respondent, wish to obtain authorization to act for the all of the victims. In their name, they wish to initially institute a class action against nearly 50 separate legal entities. At the heart of the action, the applicants consider, for various reasons, that these legal entities are, in one way or another, responsible for the train derailment and more specifically, for any nature of losses that have resulted from this tragedy.

General nature of the action and the alleged faults

[3] Essentially, the applicants consider that many parties involved in the extraction process, identification, transport, purchase and sale of petroleum products that leaked and caught fire on July 6, 2013 in Lac-Megantic are responsible for the damages that ensued. Accordingly, they require the authorization to institute a class action against these various parties claiming damages founded on Section 1457 of the Civil code of Quebec (“**CCQ**”), that is to say that they invoke the extra-contractual liability of the respondents.

[4] Generally, the applicants allege that the respondents have the duty to follow rules of conduct and usage and legislation in ensuring the secure transport of shale liquids. They consider that the respondents must also ensure the proper functioning of the train carrying these products. The applicants further claim that the respondents had the duty to exercise reasonable care in the determination of the method of transportation, the choice of carrier and the type of tank cars used to transport shale liquids originating from Newport, North Dakota and transported to their destination in St. Johns, New Brunswick.

[5] More specifically, the applicants argue that the derailment of July 6, 2013 and the deaths, injuries and damages resulting therefrom were caused by the faults of the respondents or their agents or their employees. The applicants accuse each category or group of respondents of various faults which contributed in some way to the derailment, the explosions, the fire and the contamination which ensued and the various types of damages sustained by a large number of victims.

Role of the Court at the authorization stage

[6] The purpose of the present judgment, in light of the Quebec legislative criteria, is to determine if it is appropriate to allow the applicants to exercise a class action against one, the other or even all of the respondents included in the application for authorization in the name of the victims of the horrible tragedy of July 6, 2013.

[7] It is therefore for the Court to decide, in conformity with the provisions of Section 1003 of the Code of Civil Procedure (*Quebec*) (“**CPC**”), whether the action that the applicants wish to exercise raises questions of law or fact which are identical, similar or related. If this is the case, the Court must question whether the facts alleged, which are to be held as true, seem to justify the conclusions sought.

[8] In the context of its analysis, the Court must also conclude prior to authorizing the bringing of the action that the composition of the class renders it difficult or impractical to have an application for an action based upon a power of attorney (s. 59 CPC) or the exercise of individual recourses which are joined (s. 67 CPC).

[9] Finally, in order for the Court to authorize the class action, it must be satisfied that the representatives of the class are in a position to ensure adequate representation of the members in the exercise of this class action.

[10] These essential conditions and prerequisites to the authorization of a class action set out at Section 1003 CPC have, in recent years, been the subject of many analyses made by Quebec and Canadian courts. Some recent judgments of the superior courts have clearly established the role and responsibilities of the Court at the authorization stage to institute a class action[1].

[11] For a better understanding of this judgment, it seems appropriate to summarize some of jurisprudential teachings that guide the Court in analyzing the request made by the applicants and the study of the objections submitted by the respondents.

<u>The fundamental principles in the analysis of the authorization of a class action</u>

1° The conditions or criteria applicable to the authorization of a class action are set out at s. 1003 CPC.

2° These conditions are cumulative and must all be satisfied in order for a class action to be authorized.

3° The Court exercises a filtering function. It must rule out frivolous or untenable demands and ensure that no party is unnecessarily involved in such a dispute which would obviously be unfounded.

4° The burden of the applicants at the authorization stage is a demonstration.

5° The authorization to exercise a class action will be granted if the facts alleged “appear to justify” the conclusions sought.

6° At the authorization stage, the Court must verify if the application and the elements of proof alleged show a case that is arguable, defendable and justifiable.

7° The Court cannot satisfy itself with allegations of facts which are vague, general or imprecise. The allegations of fact must be palpable to constitute sufficient evidence of the right claimed.

8° Allegations which, based on the evidence presented at the authorization stage, are too vague, imprecise, general, contradictory or unlikely, cannot be accepted as submitted.

---

[1] *Infineon Technologies AG* c. *Option consommateurs* 2013 CSC 59; *Vivendi Canada Inc.* c. *Dell’Aniello* 2014 CSC 1; *Fortier c. Meubles Léon Ltée* 2014 QCCA 195.

9° The Court, without deciding the merits of the case, particularly if the action is based on extra-contractual liability, must verify, prior to authorizing the action, whether there is sufficient evidence to consider that there is a defendable case, a serious appearance of a fault, damage and causality.

10° When there are several respondents, the requirements for obtaining authorization to exercise a class action must be followed, against each of them, for the authorization to be granted against them.

11° The representative must respect certain criteria to be suitable for this role. It must have a personal interest in the matter, be sufficiently competent to act and must not be in a conflict of interest with those who make up the class.

12° When assessing the criteria for authorization, the fundamental rules of proportionality must be kept in mind.

<u>The parties involved as respondents</u>

[12] The applicants have amended their motion for authorization on five accounts since July 2013. In their latest version, the sixth, dated July 7, 2014, they request authorization to pursue 37 different respondent parties and wish to call the rail carrier's two insurers into warranty.

[13] Over the course of the proceedings prior to the hearing of arguments on the application for authorization, the applicants desisted from their application, with the permission of the Court, against many of the respondents who were previously implicated. There remain a large number of respondents which the applicants classify in different categories in their application. It is appropriate to specify these categories in that, even if the applicants allege general elements of liability against all of the respondents, they specify on many occasions what they consider, for each category of respondent, the faults or the facts more specific to each of them.

[14] Below are the categories of the respondents identified by the applicants in their application:

14.1. Corporate respondents of Rail World;

14.2. Natural person respondents of Rail World;

14.3. Respondents Irving Oil;

14.4. Respondents World Fuel;

14.5. Oil producer respondents;

14.6. Tank car lessor respondents;

14.7. Respondent Canadian Pacific;

14.8. Respondent Attorney General of Canada.

<u>The initial suspension of the recourse under the CCAA against certain respondents</u>

[15] In the weeks that followed the tragedy of July 6, 2013, certain entities facing claims from the victims obtained protection under the *Companies' Creditors Arrangement Act* ("**CCAA**")[2].

[16] They had submitted an application for a stay[3] which had and still has, at the time of writing the present judgment, the effect of staying all proceedings against certain respondents.

[17] As a result of the stay, some of the respondent companies and some individuals have not participated in the debates and hearings regarding the motion for authorization to bring a class action. Those respondent companies and individuals are the following:

- Montreal Maine and Atlantic Railway Limited; (MMAR)
- Earlston Associates LP;
- Montreal Maine and Atlantic Corporation; (MMAC)
- Montreal Maine and Atlantic Canada Company; (MMACC)
- Edward Berkhardt;
- Robert Grindrod;
- Gainor Ryan;
- Donald Gardner Jr.;
- Joe McGonigle;
- Thomas Harding;

As well as the *mises en cause*:

- XL Insurance Company Limited;
- XL Group PLC;

[18] Therefore, the present judgment does not apply to these respondents although obviously some of them are clearly liable for the tragedy and the ensuing damages.

[2] SCR (1985) ch. C-36.
[3] Court file S.C. 450-11-000167-134. Initial Order of August 8, 2013 and subsequent orders, the last of which was issued on April 15, 2015 and suspends proceedings until December 15, 2015.

Moreover, some of these respondents and *mises en cause* who are their insurers have, in some respects, recognized their liability from the beginning.

Subsequent stay based on a possible plan of arrangement

[19] Ever since this Court took this matter under advisement in order to determine if the class action should be authorized against certain respondents, there have been new developments in the plan of arrangement file implicating many of the respondents related to the rail carrier MMA in some way or who may be involved in the July 6, 2013 tragedy.

[20] In the context of the insolvency file, many parties implicated in the motion for authorization to bring a class action seem to be on the brink of an agreement with the creditors or victims related to the tragedy of July 6, 2013. It is in the wake of these initiatives and discussions and based on a possible plan that the Superior Court sitting in virtue of the provisions of the CCAA and presided over by our colleague the honourable Gaétan Dumas has, as a first step, stayed all proceedings against all of the respondents in this matter for an initial period[4]. This stay has been held against a large number of respondents, but raised against certain others by the filing of a plan of arrangement[5].

[21] This stay has ceased having its effect against certain respondents. It now seems appropriate that the Court render judgment, at this stage, on the request for authorization solely in respect of the following respondents:

1. World Fuel Services Corporation (WFS Corp.);
2. World Fuel Services Inc. (WFS Inc.);
3. World Fuel Services Canada Inc. (WFS Can) ;
4. Petroleum Transport Solutions, LLC (Petroleum);
5. Western Petroleum Company (Western);
6. Strobel Strarostka Transfer LLC (SST);
7. DPTS Marketing LLC (DPTS);
8. Dakota Petroleum Transport Solution LLC (Dakota Petroleum);

---

4 Order of February 24, 2015 Court file n^o 450-11-000167-134.
5 Plan of arrangement Court file no. 450-11-000167-134, March 31, 2015.

As well as respondent:

- Canadian Pacific Railway Company (CP).

[22] With the exception of CP, each of these respondents are described by the applicants in their application for authorization as respondents World Fuel. They have not participated in the plan of arrangement filed in the MMA insolvency file.

[23] As for all other respondents whose names still appear in the heading of the present judgment, the proceedings remain stayed due to the order under the CCAA and the filing of a plan of arrangement to which these respondents participate and which is to be submitted to the creditors on June 9, 2015 at a meeting of creditors. The Court does not have to rule, at least at this stage, on the request for authorization against them and perhaps will never have to if the plan is eventually accepted by the majority of creditors and is approved by the Court.

[24] Although much effort and a considerable amount of time was spent by the parties and the Court for the preparation and the hearing of the proof and arguments for the application for authorization of the class action, there is no reason, at this stage, for the Court to consider the application for authorization other than towards the respondents World Fuel and respondent CP.

Respondents World Fuel

[25] By using the term “respondents World Fuel”, the applicants include many of those entities related to one another. They are all listed at paragraph 21 of the present judgment.

[26] The applicants allege that these respondents all acted on behalf of one another and exercised control over their collective subsidiaries, directly or indirectly, for the transportation of shale liquids.

[27] They allege that each World Fuel respondent is individually and solidarily liable towards the applicants and the members of the class.

[28] More specifically, the applicants accuse respondents World Fuel, whether a parent company or a subsidiary, of the following:

a) They were the vendor of shale liquids which were shipped by CP and MMA trains from North Dakota towards the Irving refineries in St. Johns, New-Brunswick.

b) They operated trucks which received loads of shale liquids from exploration sites and transported these petroleum products to the transhipment site in Newtown, North Dakota.

c) They were the vendors, owners and exporters of the shale liquids and rented tank cars (DOT-111) from many different entities which served to transport the shale liquids by train.

d) They were all closely related to each other in the business of the purchase and sale of shale liquids and the transhipment operations and transport of these petroleum products to the purchasers.

e) They contracted with the respondent CP for the transportation of these petroleum products to respondent Irving's refineries in St. Johns, New-Brunswick.

f) They knew that the shale liquids, acquired from different producers and shipped by train to the purchaser Irving's refineries, were very volatile, explosive and extremely dangerous. Despite this, they did not furnish adequate information with regards to the classification and labelling of these products so that they could be transported safely.

g) Due to the nature of the products being transported, they knew that additional precautions must be in place for the safe transportation by train, which they did not do. Instead, they misidentified the products, rented tank cars unsafe for the transportation of such dangerous products and chose an inadequate carrier (MMA) which possessed unsafe equipment, was underinsured and had a poor safety record.

[29] More directly, in addition to the accusations addressed in a general manner to the all of the World Fuel entities, the applicants more specifically identified the participation of each of the entities of the group as follows:

1. WFS Corp. They allege that this entity, which is the parent company, has itself or one of its subsidiaries, sold the shale liquids or was the owner of the shale liquids which were spilled on July 6, 2013 in Lac-Megantic and caused damage suffered by the victims.

2. WFS Inc. They allege that, directly or indirectly through the subsidiaries or a joint venture, it effected the transportation by truck of the shale liquids from the transhipment station to their storage in the tank cars used for rail transport.

3. WFS Can. They allege that this entity or its subsidiaries directly or indirectly sold or were the owners of the shale liquids which caused the damage in the tragedy of July 6, 2013.

4. PETROLEUM. They allege that this entity is a subsidiary of one of the WFS entities and that it holds 50% of the DPTS entity.

5. WESTERN. They allege that this company, a subsidiary of WFS Corp. or WFS Inc. or WFS Can. is the entity that rented the tank cars which served to transport the shale liquids and it is this entity that entrusted such tank cars to the carrier, CP.

6. SST. They allege that it is this entity that effected the transfer of shale liquids into the tank cars at the transhipment site in Newtown.

7. DPTS. They allege that this respondent would be the result of a joint-venture between Dakota Plain Marketing and Petroleum Transport and that it would have acted as purchaser, seller and warehouser of petroleum products.

8. DAKOTA PETROLEUM. They also allege that the respondent, which would be the result of a joint-venture between Dakota Plain Transloading and Petroleum Transport Solution, also acted as a purchaser and vendor of petroleum products which have caused damage to the victims.

[30] During the days of the hearing reserved for the arguments of all parties involved, it was admitted and recognized that WFS Inc. is the entity that sold the crude oil or shale liquids to one of the Irving entities and that Western is the entity which rented the tank cars from different suppliers which contained the shale liquids in the spill and explosions which occurred in Lac-Megantic on July 6, 2013.

[31] It appears from the evidence submitted in support of the application for authorization or the contestation by any of the respondents that it was the Western entity that contracted with the rail carrier CP[6] and that the costs of this transport were billed to respondent WFS Inc. [7]

[32] It also appears from the evidence presented and the allegations in the application for authorization that it is WFS Inc., a wholly-owned subsidiary of WFS Corp., which sold the shale liquids to Irving which were to be transported to St. Johns, New-Brunswick to be refined.

---

[6] Exhibit CP-7.
[7] Exhibit CP-8.

[33] As part of all proceedings and hearings for the presentation of the application for authorization and its contestation, many respondents of the World Fuel group opted not to submit any evidence and did not make any request in this regard.

[34] Certain evidentiary elements presented by other respondents, including certain from the World Fuel group, established that WFS Inc., Western and all other entities grouped by the applicants under the title respondent World Fuel have direct and obvious links between them[8].

[35] Overall, the applicants take issue with the fact that the World Fuel entities, as owners, shippers, transporters, vendors or exporters of shale liquids, wrongly identified the product they transported, sold, or put into the market, that they made the wrong choice regarding the class of tank car (DOT-111) used to transport this dangerous product and lastly, that they opted for a poor route and poor carrier to transport the product, which was sold to Irving, to its destination.

<u>Analysis and discussion about respondents World Fuel</u>

[36] There is sufficient evidence, although in certain respects such evidence is more or less accurate, which is raised against certain of the World Fuel entities so that at first, we can consider that they had a very important role to play in the identification and qualification of shale liquids prior to their transfer, labelling, as well as their transport (carrier and course) and as owners and vendors of shale liquids, they may be liable for damages resulting from the derailment of July 6, 2013.

[37] Certainly, the evidence remains to be seen as to the poor identification or characterization of the shale liquids having a direct and immediate effect as well as an important role with respect to the damages suffered by the victims and the consequences of the tragedy of July 6, 2013. However, this aspect of the file, which remains to be analyzed in a more specific and extensive manner at an eventual hearing on the merits, must not, at this stage, be discarded or set aside by the Court considering the criteria which are to be applied in considering an application to authorize a class action.

[38] The Court is also justified in seriously asking whether there a fault exists by the mere fact of transporting these types of shale liquids in tank cars (DOT-111). These tank cars (DOT-111) are still authorized or accepted by American and Canadian regulatory authorities despite certain findings and recommendations that suggest the contrary, seeing their potential fragility.

[39] It remains for the applicants to demonstrate that the use of tank cars that are different than those used would have prevented or limited the damages which ensued

[8] Exhibits DPH-1A and DPH-1B.

from the derailment of July 6, 2013. It will be the role of the trial judge, following the presentation of evidence that is more detailed and probably strongly contradictory, to arrive at a definitive conclusion in this regard.

[40] The arguments made by the applicants against respondents World Fuel for having chosen a rail carrier or route upon which control was exercised by an inadequate company with a poor reputation and who was inadequately insured, are, at first glance, serious and can be the object of evidence which, if conclusive, would possibly allow for the establishment of the existence of causality between the fault and certain of the damages.

[41] The applicants' allegation that it is respondent Western that specifically chose between two different routes – one which is the property of MMA and one under the control of another carrier, Canadian National – and that it opted for the route owned by MMA and consequently, it chose this carrier, does not in itself automatically create liability. However, such allegations are serious and evidence of their veracity and their influence on liability, although such evidence remains to be made, analyzed and evaluated, allows us, at the authorization stage, to consider that this is sufficient for the authorization of the action.

[42] The recourse sought by the applicants and for which they seek authorization to exercise in a collective manner is essentially founded upon notions of extra-contractual liability. In light of the allegations of the applicants, given all of the circumstances and the significance of the consequences of the events of July 6, 2013, the Court considers that it appears justified at this stage to grant the applicants the authorization to pursue certain respondents of the World Fuel group but to refuse such authorization against others of the same group.

[43] We must accept and give the applicants the opportunity to demonstrate that certain World Fuel respondents, as purchasers, shippers and vendors of shale liquids were negligent in the way they identified the products, chose the transport vehicles and routes to transport their products and their choice of carrier which proved negligent.

[44] Obviously, nothing guarantees that the recourse, even if authorized against certain World Fuel respondents, would eventually be granted. It all depends on the evidence presented, particularly with respect to causation and the consequences of several elements such as the alleged misidentification or labelling of the shale liquids, the misuse of tank cars (DOT-111) which, although regulatory, could still be unsafe or inadequate. It would remain to demonstrate that the use of such tank cars resulted in the damages or that such damages were exacerbated therefrom compared to the use of other types of tank cars which could or should be used as they are safer.

[45] Although it is far from certain that the applicants will be able to make such a demonstration, the Court is of the opinion that the serious allegations made by the applicants with regards to the errors or faults that were committed in the classification and labelling of products, those alleged regarding the use of tank cars (DOT-111) and the choice of route and consequently the carrier, are serious and if demonstrated can bring upon a finding of extra-contractual liability.

[46] Depending on the usual criteria, that is the simultaneous existence of a fault, causality and damage resulting therefrom, and in considering the principles and criteria allowing for the authorization of a collective recourse, it may be held that these criteria are respected and that authorization to exercise a collective recourse against WFS Corp., WFS Inc., WFS Can. and Western should be granted.

[47] However, regarding the other subsidiaries or entities of World Fuel, namely Petroleum, SST, DPTS and Dakota Petroleum, the allegations and faults alleged against them are too general and are not specific enough. The involvement of these entities in the process and the faults alleged do not appear to be sufficiently clear for the Court to be able to consider that as purchasers, vendors or transporters of shale gas, they had an interest in a way that would allow them to be to be reproached for a direct fault. Accordingly, authorization will not be granted against such World Fuel entities.

<u>Respondent Canadian Pacific</u>

[48] At paragraphs 53.8.30 and following until paragraph 53.8.56 of the fifth amended motion for authorization to bring a class action, applicants state what they consider to be the elements and reasons justifying the liability of CP in the Lac-Megantic tragedy and the damages resulting therefrom.

[49] These allegations, which are specific to respondent CP, follow a series of more general allegations whereby the applicants take issue with all of the respondents, including CP, regarding general negligence and an absence of prudence in all circumstances preceding the tragedy which are related to the nature and identification of the shale liquids which were transported, the imprudent behaviour of all the entities involved at each stage of the production, labeling, transhipment and transport of the shale liquids, including, the choice of carrier and the choice of route.

[50] The applicants mention respondent CP more specifically at the above mentioned paragraphs and classify the reproaches against it according to the following five categories:

50.1. The corporate reorganization of CP and the significant dismissal of employees including employees responsible for rail safety and the maintenance of trains;

50.2. Business ties between CP and various World Fuel respondents in the development of rail transport facilities for the rail transport of large quantities of shale gas;

50.3. Business ties between CP and respondent MMA;

50.4. CP's knowledge of the high level of volatility and the explosive nature of transported shale gas;

50.5. Respondent CP's decision to ignore the problems with the locomotive used by MMA to transport the rail cars.

[51] Other than the allegations of the applicants regarding certain facts which, according to them, would be related and would justify the liability of respondent CP in the July 6, 2013 tragedy and the damages resulting from the derailment, they accuse respondent CP of the following faults at paragraph 55 of the application and more specifically sub-paragraphs D) a) to sub-paragraph D) l):

a) Although CP, as its former owner, was familiar with the tracks where the derailment occurred and knowing that this was an excepted track, it, despite all, sub-contracted with MMA knowing its poor safety record and the fact that it had inadequate insurance coverage.

b) CP failed to retain the services of a rail carrier who was qualified, safe, solvent and adequately insured in case of substantial damages.

c) CP failed or neglected to take reasonable precautions to ensure that the shale liquids would be transported adequately and in a safe manner.

d) CP failed or neglected to ensure that the shale liquids were adequately identified and transported as hazardous material.

e) CP failed or neglected to take reasonable and appropriate measures to ensure that the shale liquids were not transported in type DOT-111 tanker cars or at least type DOT-111 tank cars that were adequately reinforced in case of a collision.

f) CP failed to retain the services of a qualified rail carrier having a good safety record in transporting shale liquids.

g) CP failed to retain the services of a safe and qualified rail carrier who manned its trains with sufficient personnel so that it would not be left without surveillance when transporting hazardous and explosive material.

h) CP failed or neglected to retain the services of a safe and qualified rail carrier who used only locomotives in good condition rather than contracting with MMA which had a poor safety record and whose tracks were considered to be excepted.

i) CP had an obligation to retain a safe and qualified rail carrier, compliant with the regulatory standards known in the industry and who was well regarded in terms of safety.

j) CP failed or neglected to adequately inspect the train and the track before contracting with MMA for the transport of shale liquids on MMA's track.

k) CP failed or neglected to identify the risks of a derailment of a train when, considering the circumstances, it was reasonable to consider and prevent such an incident.

l) CP allowed for a dangerous situation to exist when it would have been possible, if it had made the reasonable efforts, to prevent the derailment or limit the extent of the resulting damages.

<u>Analysis and discussion about the respondent CP</u>

[52] Of all of the applicants' allegations to justify the elements it considers to be at the foundation of CP's liability as well as the faults against it, CP argues and considers that the applicants base their application for authorization against it on two legal theorems. In other words, in the eyes of CP, the theory of the applicants' case rests on two foundations.

52.1. First, respondent CP has itself committed faults triggering its liability pursuant to Section 1457 CCQ.

52.2. Secondly, CP is liable for the faults committed by the rail carrier it does business with, MMA.

[53] Most of the allegations made by the applicants against CP regarding its own actions are essentially summarized as follows:

53.1. CP made errors which trigerred its liability because it, as a business partner of respondents World Fuel, accepted to transport shale liquids which were, to its knowledge, very volatile and explosive in nature, without such liquids being adequately identified.

53.2. As a business partner of respondents World Fuel group, CP also accepted to transport the shale liquids in inadequate tank cars, despite meeting regulatory standards.

53.3. Moreover, CP, as a partner of Western, proposed a route for transporting shale liquids to the Irving refineries in New-Brunswick knowing well that the user of the track and its owner as well as the equipment which runs thereupon was poorly insured, insolvent, used equipment in a poor state and these tracks were not in good condition.

53.4. Finally, CP knew that this company, MMA, used this equipment with a single mechanic conductor.

[54] Several of the allegations against CP are vague, imprecise, too general in nature to be considered seriously and do not allow for the arrival at the conclusion that they are facts giving way to authorization.

[55] The fact remains, however, in view of the matters alleged, if the applicants are able to demonstrate that CP and the respondents World Fuel collaborate regularly for the shipping of petroleum products and that CP, because of its knowledge of railway networks and MMA that operated in the Lac-Megantic area and its knowledge of how the latter was conducting its operations, was unable to ignore the considerable risks stemming therefrom, it is far from impossible that this could form the basis of the extra-contractual liability of CP.

[56] Obviously, these elements must be joined to the allegations that respondents World Fuel, and particularly Western, contracted with CP so that it could do business with regards to the transportation of shale liquids and that the route was determined upon the recommendations of CP.

[57] It is possible, depending on the evidence that will be presented regarding the discussions, negotiations and steps that took place between respondents World Fuel and CP for the completion of transport agreements, that a Court comes to the conclusion that CP should have, both in terms of its relation with the respondents World Fuel and with MMA, informed the respondents World Fuel of the heightened risk in choosing MMA.

[58] It is possible that a court arrives at the conclusion that CP, a specialist in the field of rail transport, heavily involved in the regular transport of petroleum products including shale liquids and a frequent user and carrier of tank cars (DOT-111), has been negligent or has committed a fault by not properly informing its Western counterpart of the risks and dangers of using the route operated by MMA rather than a longer, more

expensive route of another carrier that is solvent and larger, Canadian National. This is possible despite the strong and very specific rules in the field of rail transport.

[59] Moreover, if the applicants are able to demonstrate, based on and in relation to the evolution of standards, rules and practices in the transportation of petroleum products, that the tank cars (DOT-111), although regulatory, were not sufficiently safe to be used reasonably and adequately, particularly in an urban setting, it would then be possible that a Court, faced with such evidence, could also arrive at the conclusion that there was a fault committed by the main carrier, an important partner of the shipper, as much in the choice or advice given for the route as in the equipment used.

[60] There is obviously nothing certain with regards to the fate of an eventual action especially since, in addition to having to prove the faults of CP, the applicants must also demonstrate that these faults have a direct link of causality to the damages. However, at this stage of the file, the applicants definitely have an arguable case.

[61] In this regard we find, although they are in some ways quite tenuous, various links which can justify the alleged faults of CP, particularly with regards to the use of DOT-111 tank cars which aggravated the damages that occurred compared to the use of other tank cars of the same type which are reinforced.

[62] The applicants do not clearly or directly specify that the use of reinforced tank cars would have resulted in a lesser extent of damages that occurred from the derailment. However, it is possible in reading certain of the allegations made towards all of the respondents, or specifically those towards CP, to consider the existence of certain elements of proof to this effect. We find such elements of proof at paragraphs 55 A. a. 1 b) and paragraphs 53.7, 53.8, 55 A. i), 55 C. h), 55 D. e) of the 5th amended application.

[63] It is important to underline the fact that the applicants do not invoke any contractual link with CP and that their recourse against this respondent is founded exclusively on the extra-contractual liability CP would have towards them.

[64] Without even being able to produce or establish the existence of a subcontract between CP and MMA other than by mentioning it, the applicants nonetheless allege such a legal relationship between these rail carriers.

[65] Depending on the evidence the Court allows and in view of the affidavit filed by a representative of CP, James Clement, the evidence is such that a legal relationship between the initial carrier, CP, and the subsequent carrier, MMA, is governed by the

provisions of the *Canada Transportation Act*[9] and the bill of lading which was permitted as evidence (Exhibit CP-7).

[66] The applicants' allegations regarding the existence of a subcontract between CP and MMA are contradicted by the testimony of James Clement as well as by the bill of lading itself (Exhibit CP-7). Moreover, the legislative scheme that determines the majority of obligations and rules which apply to rail transport specifies the existence and nature of the relations between the different railway companies.

[67] It therefore appears, at first glance, that it is difficult to attribute the faults commited by MMA directly to CP since, in matters of extra-contractual liability in Quebec, liability for the fault of another is limited to the cases provided for in Sections 1459, 1460, 1461 and 1463 CCQ.

[68] In Quebec law, extra-contractual civil liability towards a third person for a fault committed by a subcontractor does not exist. However, even if this type of liability does not exist at first sight, the Court believes that it remains possible in certain cases to pursue extra-contractually, not the fault of the subcontractor, but the negligence and recklessness of the primary contractor as to who it entrusted part of its contract to for execution. This is possible especially if the main contractor knew or should reasonably have known that this party chosen is particularly negligent, is adorned with a bad reputation or is ill equipped to execute the whole or part of the contract.

[69] In this case, the Court considers that in many ways it is not so much the liability for the acts committed by MMA that the applicants blame or can blame CP for, but it is more so the fact that CP should never have advised, suggested or even accepted for MMA to transport shale liquids on its tracks.

[70] CP argues that, as a result of the provisions of the *Canada Transportation Act*, it had no choice but to accept to transfer the tank cars to MMA, which it had carried on its own tracks, if that was the route determined by the shipper.

[71] While this is true, the fact remains that, according to the evidence which could be presented in an elaborate and developed matter at an eventual trial, it is possible that a Court concludes that as a principal transport partner of respondents World Fuel, CP would have had to adequately inform them and more particularly Western and WFS Inc. of the risks, dangers and deficiencies of MMA and nevertheless, after having adequately informed them, allow them to make an informed decision as to the routes and transporters available to carry the shale liquids to its ultimate destination in New-Brunswick.

[9] S.C. 1996 ch. 10.

[72] It is not a question of liability for the fault of another but potential liability for an extra-contractual fault in choosing a subcontractor.

[73] The Court is of the opinion that, based on the elements alleged by the applicants against CP, the applicants have demonstrated the existence of an arguable case against it and consequently, authorization to bring a class action against CP should be granted.

<u>The questions the Court must ask on liability and damages in the class action</u>

[74] The Court has established that authorization must be granted to the applicants to bring a class action against respondents WFS Corp., WFS Inc., WFS Can., Western and CP. It is now necessary to indicate what the trial judge must address, that is to say what are the main questions that will be addressed collectively and which conclusions sought are related thereto.

[75] Based on the above, the Court is of the opinion that, with regards to the facts alleged, the evidence authorized in the context of an application for authorization and in considering the stay of proceedings for many of the respondents, the main points upon which the debate will be focused as to liability and damages are as follows:

75.1. Did the respondents World Fuel act reasonably so that the shale liquids it conveyed for rail transport to St. Johns, New-Brunswick were classified and labelled adequately in conformity with the legislation and regulations applicable to the transport of hazardous materials?

75.2. Were the shale liquids sent by rail transit at the request of respondents World Fuel properly classified and labelled?

75.3. If the shale liquids transported at the request of respondents World Fuel were not classified and identified in conformity with the applicable legislation and regulations, are these errors of classification and identification the cause or did they foster the fire, the explosions and the contamination that resulted from the July 6, 2013 derailment in Lac-Megantic?

75.4. Did respondents World Fuel act reasonably in order to ensure that the shale liquids that were transported from Newtown, North Dakota to St. Johns, New-Brunswick, were transported appropriately and safely?

75.5. Did respondents World Fuel and respondent CP know or ought to have known that the shale liquids transported from Newtown, North Dakota to St. Johns, New-Brunswick in DOT-111 tanker cars were not properly classified or identified?

75.6. Did respondents World Fuel and respondent CP know or ought to have known that the shale liquids transported by rail from Newport, North Dakota to St. Johns, New-Brunswick were more volatile, explosive and flammable than normal crude oil?

75.7. Were respondents World Fuel and respondent CP negligent in allowing the shale liquids to be transported from Newport, North Dakota to St. Johns, New-Brunswick in DOT-111 tank cars?

75.8. Were the DOT-111 tank cars which were used to transport the shale liquids appropriate and did the decision to use such tank cars cause or foster the fire, the explosions and the contamination resulting from the July 6, 2013 derailment in Lac-Megantic?

75.9. Was the respondent CP negligent in its discussions and negotiations with respondents World Fuel in choosing the route used to transport the shale liquids from Newport, North Dakota to St. Johns, New-Brunswick and did it have a leading role in the final determination of the route and, consequently, the carrier used?

75.10. Were the respondents World Fuel and respondent CP negligent in choosing, suggesting, recommending or allowing the shale liquids to be transported from Newport, North Dakota to St. Johns, New-Brunswick on the tracks which were owned by the rail carrier MMA?

[76] As to the appearance of damages, according to the allegations in the application for authorization, the representations made by the applicants and the respondents and given the circumstances of this file, it seems appropriate that the Court collectively examine the following:

76.1. What is the nature and extent of the damages and other remedies that the class action members can claim?

76.2. Do the class action members have the right to claim bodily, moral and material damages and interest? If yes, what is the amount of the damages?

[77] Considering the allegations, the circumstances of the file and the nature of the recourse, the Court does not consider that the applicants have demonstrated a real possibility that exemplary or punitive damages should be granted.

[78] In Quebec civil law and according to the provisions of Section 1621 CCQ, punitive damages cannot be granted unless a specific provision of law allows. The only

legislative provision in Quebec law which gives way to such punitive damages is Section 49 of the *Charter of Human Rights and Freedoms* (Quebec) [10].

[79] This Section provides:

> "Any unlawful interference with any right or freedom recognized by this Charter entitles the victim to obtain the cessation of such interference and compensation for the moral or material prejudice resulting therefrom.
>
> In case of unlawful and intentional interference, the tribunal may, in addition, condemn the person guilty of it to punitive damages."

[80] For punitive damages to be granted, it must be alleged and subsequently proven that there was unlawful interference to a right or freedom and that this interference is intentional.

[81] There are no allegations or facts mentioned in the fifth amended application for authorization which show such an unlawful and intentional interference by either of the respondents.

[82] In these circumstances, the applicants have not demonstrated the elements allowing the Court to analyze and grant punitive damages to the victims, regardless of the significance and gravity of the July 6, 2013 tragedy.

[83] They can collectively attempt to obtain compensatory damages from certain World Fuel respondents and CP, but are not justified in requesting punitive damages.

<u>The group whose members will be bound by the judgment</u>

[84] At various stages over the course of the proceedings and during the hearings pertaining to the application for authorization, the parties made various submissions to the Court with regards to the ideal description of the group whose members would be bound by any judgment related to the class action.

[85] The majority of the respondents had no submissions as to the creation of the group but certain of them made submissions regarding the suggestions and recommendations made by the applicants and as to the description found in the conclusions of their application for authorization.

[86] The Court is of the opinion that, although this aspect was not really the subject of any debate, the applicants are, as representatives of the group, in a position to adequately represent the members.

---

[10] CQLR c. C-12.

[87] The significance of the application, the large number of potential victims, the nature and differences that can exist between different categories of victims, although they all have an interest in pursuing the parties responsible for their damages, are so that in accordance with Section 1003 c) CPC, the composition of the group renders it difficult and makes the application of Sections 59 and 67 CPC even less practical. In the Court's view, although respondent CP argued the contrary, this is a clear case in applying the provisions relating to class actions. It is a situation which the legislator intended when it introduced the rules applicable to class actions.

[88] Certain World Fuel respondents and respondent CP oppose the description proposed by the applicants. These respondents raised certain weaknesses with regards to this description. Particularly, they underline that the proposed description does not have a territorial limitation unless the entire town of Lac-Megantic makes up the relevant area, which they consider to be excessive.

[89] They also emphasized that the relation with the town of Lac-Megantic members of the proposed group is too uncertain. They also submit that the description of the group casts too wide a net particularly when it extends to people who were present in Lac-Megantic at the time of the incident, which they consider to be excessive.

[90] The respondents also believe that the terms "who have suffered a loss" in the description causes the group to be dependent on the outcome of the case, which is not acceptable.

[91] Finally, they submit that the use of the terms "indirectly" is too vague and causes the description to be too uncertain.

[92] Over the course of the proceedings, the applicants modified the description of the group and in their fifth and final amended application of July 7, 2014, they describe the proposed group:

> " All persons and entities (natural persons, legal persons established for a private interest, partnerships or associations which had no more than 50 employees during the 12-month period preceding the Motion for Authorization) residing in, owning or leasing property in, operating a business in or being employed by a person resident in or a business located in Lac-Mégantic , and/or were physically present in Lac-Mégantic (…) on July 6, 2013, the date of the train derailment (The train Derailment ») [including their estate, successor, spouse or partner, child, grandchild, parent, grandparent and sibling], or any other group to be determined by the Court;"

[93] Following the hearings on the application for authorization and the submissions of certain respondents and probably following discussions between certain of them, the applicants reformulated the description of the suggested group.

[94] The Court considers that the last recommendation suggested by the applicants is reasonable. Essentially, it adequately describes the victims they seek to represent on the basis of the elements known at this stage.

[95] It should be noted that, as part of a class action, the Court can revisit the authorizing judgment and modify or split the group at any time and even *ex officio* if the circumstances require (1022 CCQ).

[96] Although the designation suggested by the applicants is in English, since their application for authorization is drafted in this language despite the victims being francophone, the Court considers that it is more appropriate, seeing the members of the group, that given the circumstances, the group is to be defined and future public notices are to be given in the French language.

[97] Accordingly, the group is described as follows:

97.1. "All persons and entities (physical persons, legal persons of private law, company or association which do not have more 50 employees in the 12 months preceding the application for authorization), residing, possessing or renting a property, exploiting an enterprise or who was employed by a resident person or company located in Lac-Megantic or who was physically present in Lac-Megantic on the date of the train derailment, July 6, 2013 [including their succession, heirs, spouse, partner, children, grandchildren, parents, grandparents, brothers or sisters], or any other group determined by the Court."

[98] This description has the advantage of not being dependent on the existence or the description of the group which is the subject of the dispute. It excludes terms which are too vague, it specifies the members of the group in time and territorially without being too restrictive, but also avoids a wide territorial net all the while considering the dramatic consequences that the tragedy has had on the entire community of Lac-Megantic.

<u>FOR THESE REASONS, THE COURT:</u>

[99] **GRANTS** part of the fifth amended application for authorization to bring a class action.

[100] **ACKNOWLEDGES** the stay of proceedings against a number of respondents as a result of the orders granted by the honourable Gaétan Dumas in court file no 450-11-000167-134 of the Superior Court, District of St-François, and **RESERVES** its jurisdiction on this matter should it become necessary.

[101] **AUTHORIZES** the bringing of a class action by way of a motion introductive of suit in damages against respondents World Fuel Services Corporation (WFS Corp.), World Fuel Services Inc. (WFS Inc.), World Fuel Services Canada Inc. (WFS Can.), Western Petroleum Company (Western) and Canadian Pacific Railway Company (CP).

[102] **DECLINES** authorization to bring a class action against respondents Petroleum Transport Solution, LLL (Petroleum), Strobel Straroska Transfer LLL (SST), DPTS Marketing LLL (DPTS) and Dakota Petroleum Transport Solution LLL (Dakota Petroleum). **WITHOUT costs.**

[103] **ASSIGNS** the petitioners Guy Ouellet, Serge Jacques and Louis-Serge Parent the status of representatives of the persons included in the following group:

103.1. "All persons and entities (physical persons, legal persons of private law, company or association which do not have more 50 employees in the 12 months preceding the application for authorization), residing, possessing or renting a property, exploiting an enterprise or who was employed by a resident person or company located in Lac-Megantic or who was physically present in Lac-Megantic on the date of the train derailment, July 6, 2013 [including their succession, heirs, spouse, partner, children, grandchildren, parents, grandparents, brothers or sisters], or any other group determined by the Court."

[104] **IDENTIFIES** the main questions of fact and law which will be collectively addressed in the following manner:

104.1. Did the respondents World Fuel act reasonably so that the shale liquids it conveyed for rail transport to St. Johns, New-Brunswick were classified and labelled adequately in conformity with the legislation and regulations applicable to the transport of hazardous materials?

104.2. Were the shale liquids sent by rail transit at the request of respondents World Fuel properly classified and labelled?

104.3. If the shale liquids which were transported at the request of respondents World Fuel were not classified and identified in conformity with the applicable legislation and regulations, are these errors of classification and identification the cause or did they they foster the fire, the explosions and the contamination that followed the July 6, 2013 derailment in Lac-Megantic?

104.4. Did respondents World Fuel act reasonably in order to ensure that the shale liquids that were transported from Newtown, North Dakota to St. Johns, New-Brunswick, were transported appropriately and safely?

104.5. Did respondents World Fuel and respondent CP know or ought to have known that the shale liquids transported from Newtown, North Dakota to St. Johns, New-Brunswick in DOT-111 tanker cars were not properly classified or identified?

104.6. Did respondents World Fuel and respondent CP know or ought to have known that the shale liquids transported by rail from Newport, North Dakota to St. Johns, New-Brunswick were more volatile, explosive and flammable than normal crude oil?

104.7. Were respondents World Fuel and respondent CP negligent in allowing the shale liquids to be transported from Newport, North Dakota to St. Johns, New-Brunswick in DOT-111 tank cars?

104.8. Were the DOT-111 tank cars which were used to transport the shale liquids appropriate and did the decision to use such tank cars cause or foster the fire, the explosions and the contamination resulting from the July 6, 2013 derailment in Lac-Megantic?

104.9. Was the respondent CP negligent in its discussions and negotiations with respondents World Fuel in choosing the route used to transport the shale liquids from Newport, North Dakota to St. Johns, New-Brunswick and did it have a leading role in the final determination of the route and, consequently, the carrier used?

104.10. Were the respondents World Fuel and respondent CP negligent in choosing, suggesting, recommending or allowing the shale liquids to be transported from Newport, North Dakota to St. Johns, New-Brunswick on the tracks which were owned by the rail carrier MMA?

104.11. What is the nature and extent of the damages and other remedies that the class action members can claim?

104.12. Do the class action members have the right to claim bodily, moral and material damages and interest? If yes, what is the amount of the damages?

[105] **IDENTIFIES** the conclusions sought as follows:

"**GRANT** the class action of the applicants and the class members;

> **DECLARE** the respondents solidarily liable for the damages sustained by the class members;
>
> **CONDEMN** the respondents to pay each class member the specified amounts as compensation for the damages sustained and **ORDERS** the collective recovery of such sums.
>
> **CONDEMN** the respondents to pay interest at the legal rate and the additional indemnity provided at Section 1619 CCQ on the sums mentioned above from date of service of the application to authorize a class action.
>
> **ORDER** the respondents to file with the clerk of this Court all of the amounts making up the collective recovery in capital, interest and costs.
>
> **ORDERS** that the individual claims of each group member be the object of a collective liquidation if the evidence allows or, alternatively, an individual liquidation.
>
> **CONDEMN** the respondents to support the costs of the present recourse including expert fees and publication and notice fees.
>
> **RENDER** any other order that the Court may decide and that would be in the interest of the class members."

[106] **DECLARES** that all class members who did not ask to be excluded will be bound by any judgment rendered regarding the class action in accordance with the conditions established by law.

[107] **ESTABLISHES** an exclusion period of 60 days from the date of publication of the notice to class members, upon which date the class members who have not exercised their right to be excluded will be bound by any judgment to be rendered.

[108] **ORDERS** the publication of a notice to class members pursuant to Section 1006 CPC within 60 days of the judgment in the following newspapers: La Presse (national edition), Le Devoir, La Tribune, l'Écho de Frontenac and le Journal de Québec.

[109] **REFERS** the matter to the Chief Justice so that it may fix the district wherein the recourse will be exercised.

[110] **THE WHOLE with costs** against respondents WFS Corp., WFS Inc., WFS Can. Western and CP including the costs to publish the notice.

MARTIN BUREAU, J.S.C.

Dates of the hearing: June 9, 10, 11, 12, 13, 16, 17, 18, 19, 20, 2014 and August 25, 2014

Me Daniel Larochelle
Me Jeff Orenstein
CLG

Me Joël Rochon
Rochon Genova

Attorneys for applicants
GUY OUELLET
SERGE JACQUES
LOUIS-SERGES PARENT

Me Laurent Nahmiash
Me Mélanie Jacques
Dentons Canada
Attorneys for respondents
RAIL WORLD INC.
RAIL WORLD HOLDINGS, LLC
EARLSTON ASSOCIATES LLP
PEA VINE CORPORATION
EDWARD BURKHARDT
ROBERT GRINDROD
GAINOR RYAN
DONALD GARDNER JR.
JOE MCGONICLE
CATHY ALDANA

Mes Yves Martineau
Me Frédéric Paré
Me Caroline Plante
Stikeman Elliot
Attorneys for respondents
WESTERN PETROLEUM COMPANY
WORLD FUEL SERVICES CANADA, INC.
WORLD FUEL SERVICES CORP.
WORLD FUEL SERVICES, INC.
PETROLEUM TRANSPORT SOLUTIONS LLC

Me Jean-Philippe Lincourt
Me Martin Pichette
Lavery
Attorneys for respondents
MMA LTD.
MMA CORP.
MMA CANADA CO.
MMA RAILWAY LTD.
THOMAS HARDING

Me Sylvain Lussier
Me Elizabeth Meloche
Osler
Attorneys for respondents
IRVING OIL LTD.
IRVING OIL COMMERCIAL G.P.

Me André Durocher
Me Enrico Forlini
Fasken Martineau
Attorneys for respondent
CP RAILWAY COMPANY

Me Stéphane Pitre
Borden Ladner Gervais LLP
Attorneys for respondent
TRINITY RAIL LEASING 2012 LLC

Me André Ryan
Me Caroline Beaudoin
BCF
Attorneys for respondent
MARATHON OIL COMPANY

Me Pascale Caron
Me Marie-Julie Croteau
Donati Maisonneuve
Attorneys for respondents
OASIS PETROLEUM INC.
OASIS PETROLEUM LLC

Me Panagiota Kalantzis
Me Yves Tourangeau
GILBERT SIMARD TREMBLAY
Attorneys for respondent
QEP RESOURCES INC.

Me Richard R. Provost
FRATICELLI PROVOST
Attorneys for respondent
ARROW MIDSTREAM HOLDINGS LLC

Me Serge Amar
Me Fadi Amine
MILLER THOMSON
Attorneys for respondent
THE CIT GROUP/EQUIPMENT FINANCING INC.

Me Peter Kalichman
IRVING MITCHELL KALICHMAN
Attorneys for respondent
DEVLAR ENERGY MARKETING LLC

Me Jacques Rossignol
Me Mélissa Rivest
Me Philippe Dumaine
Lapointe, Rosenstein, Marchand, Mélançon
Attorneys for respondent
SLAWSON EXPLORATION COMPANY, INC.

Me Francis Rouleau
Me Robert J. Torralbo
Blakes
Attorneys for respondents
UNION TANK CAR COMPANY
PROCOR LIMITED/PROCOR LIMITÉE

Me André Migneault
Me Marc Lemaire
Me Pierre-Alexandre Fortin
Tremblay Bois Mignault Lemay
Attorneys for respondent
STROBEL STAROSTKA TRANSFER, LLC

Me Geneviève Bertrand
Me Sylvie Rodrigue
Me Marie-Ève Gingras
Torys Law Firm LLP
Attorneys for respondents
DPTS MARKETING LLC ET DAKOTA TRANSPORT SOLUTIONS LLC
DAKOTA PETROLEUM TRANSPORT SOLUTIONS, LLC

Me Patrick Ferland
Me Bernard Amyot
Me Dominique Ménard
Me Nicolas Daudelin
LCM Avocats inc.
Attorneys for respondent
GE RAILCAR SERVICES CORP.

Me Dominique Naud
Me Prachi Shah
Me Dominique Naud
Clyde & Co.
Attorneys for respondents
XL INSURANCE COMPANY LIMITED
XL GROUP PLC

Me Linda Mercier, Me Nathalie Drouin
Me Michelle Kellam et Me Caroline Laverdière
Attorneys for the
ATTORNEY GENERAL OF CANADA

UNOFFICIAL ENGLISH TRANSLATION

EXHIBIT C

C A N A D A

PROVINCE OF QUEBEC
DISTRICT OF ST-FRANÇOIS
No.: 450-11-000167-134

C O U R T O F A P P E A L

IN THE MATTER OF THE COMPROMISE OR PLAN OF ARRANGEMENT OF:

MONTREAL, MAINE & ATLANTIC CANADA CIE.,

Debtor **– RESPONDENT**

and

RICHTER ADVISORY GROUP INC.

Trustee **– RESPONDENT**

and

CANADIAN PACIFIC RAILWAY COMPANY

Respondent **– APPELLANT**

MOTION FOR LEAVE TO APPEAL FROM AN INTERLOCUTORY JUDGMENT OF THE SUPERIOR COURT PARTIALLY GRANTING THE *DE BENE ESSE* MOTION OF THE CANADIAN PACIFIC RAILWAY COMPANY TO ORDER THE COMMUNICATION OF DOCUMENTS

Articles 29 and 511 of the Code of Civil Procedure

TO ONE OF THE HONORABLE JUDGES OF THE COURT OF APPEAL, THE APPELANT SUBMITS AS FOLLOWS:

1. The Appelant, Canadian Pacific Railway Company (“**CP**”) requests permission to appeal from a judgment rendered on June 15, 2015 by the Honourable Gaétan Dumas, J.C.S. in the Superior Court of the District of St-François, copy of which is produced herewith as **Exhibit R-1** (the “**Judgment**”).

2. In the Judgment, Justice Dumas grants in part CP's *De Bene Esse* Motion to order the communication of documents (the "**Motion for Communication**") in which CP requested an order forcing Montreal, Maine & Atlantic Canada Co. ("**MMAC**") to produce and to communicate to CP the Settlement Agreements and Annex "B" of the Plan of Compromise and Arrangement of MMAC of March 31, 2015 (hereinafter, the "**Plan**"), copy of which is produced herewith as **Exhibit R-2**.

I. SUMMARY

3. On July 6, 2013, MMAC's train carrying tank cars containing crude oil derailed in Lac-Mégantic, resulting in the death of 47 people and significant material damage.

4. The train that derailed in Lac-Mégantic was a unit train of 72 tank cars transporting crude oil belonging to Western Petroleum Company, a subsidiary of World Fuel Services Corporation.

5. There were no employees on board the train at the time of the derailment. The conductor of the train, Thomas Harding, an employee of MMAC, left the unit train on an incline without surveillance in Nantes, which is around 12 kilometres from the town of Lac-Mégantic, the eve of the derailment, July 5, 2013.

6. The locomotive pulling the train belonged to MMAC. The track where the derailment occurred between Saint-Jean-sur-Richelieu and Lac-Mégantic was also owned by MMAC.

7. Around July 15, 2013, a Motion for Authorization to Bring a Class Action was presented in Superior Court, court file number 480-06-000001-132 (the "**Class Action**"), a copy of which is produced herewith as **Exhbit R-3**. CP was not one of the original respondents named therein.

8. On August 6, 2013, MMAC filed a Motion to Obtain an Initial Order pursuant to the *Companies' Creditors Arrangement Act* ("**CCAA**") with the Superior Court.

9. On August 8, 2013, the Court granted MMAC's amended application and issued the Initial Order.

10. On August 16, 2013, CP was added as a Respondent to the Class Action.

11. On September 9, 2013, the Superior Court approved a Cross-Border Insolvency Protocol as appears from a copy of such decision produced herewith as **Exhibit R-4**.

12. On March 31, 2015, MMAC served and filed with the Court a Plan of Arrangement including Schedules A, D, E, F, G and H (hereinafter, the "**Plan**") as appears from a service email and a copy of the Plan produced herewith as **Exhibit R-5**.

13. The Settlement Agreement included at Schedule "B" of the Plan was not served on the parties on March 31, 2015, but in their email providing service of the Plan (Exhibit R-5), MMAC's attorneys mentioned their intention to produce the Settlement Agreements under seal.

14. However, section 1.6 of the Plan specifically provides that MMAC will request permission to produce the Settlement Agreements under seal.

15. On April 21, 2015, the U.S. Chapter 11 Trustee, Robert J. Keach, filed a Motion for Entry of an Order Authorizing Filing of Settlement Agreements Under Seal (the "**Motion to Seal**"), court file number 13-10670 of the United States Bankruptcy Court, District of Maine (the "**U.S. Bankruptcy Court**"), **Exhibit R-6** produced in support of the present Motion.

16. On May 6, 2015, CP served a Motion for Declinatory Exception and Review of the Initial Order rendered pursuant to the CCAA raising the absence of the Superior Court's jurisdiction concerning the Plan.

17. That same day, CP served a Motion for the Communication of the Settlement Agreements (Exhibit R-2).

18. On May 21, 2015, CP's attorneys obtained a copy of the Draft Canadian Approval Order (the "**Draft Order**") regarding the Plan, produced herewith as **Exhibit R-7**.

19. As appears from the Settlement Agreement, the Draft Order specifically provides the approval of the Settlement Agreements in the context of the Plan in addition to providing for the sealing thereof:

> [16] **ORDERS** that each of the Settlement Agreements be and is hereby approved;
>
> [17] **ORDERS** <u>that the Settlement Agreements shall be sealed and not form part of the public record, subject to further Order of this Court;</u>

20. On June 1, 2015, CP served its Plan of Argument in support of its Motion for Communication, a copy of which is produced herwith as **Exhibit R-8**.

21. On June 8, MMAC served its Amended Plan of Compromise and Arrangement (the "**Amended Plan**"), **Exhibit R-9**.

22. On June 9, 2015, MMAC's creditors approved the Amended Plan.

23. On June 10, 2015, MMAC served its Plan of Argument in support of its Objection to CP's Motion for Communication, the whole as appears from a copy produced herewith as **Exhibit R-10**.

24. On June 11, 2015, MMAC served its Motion for the Approval of the Amended Plan of Compromise and Arrangement wherein it asks the Court to approve the Amended Plan and to grant a sealing and confidentiality order regarding the Settlement Agreements, the whole as appears from a copy of the Motion produced herewith as **Exhibit R-11**.

25. On June 11, 2015, the Monitor served its 20th report with regards to the approval of the Plan, **Exhibit R-12**.

26. On June 12, General Electric Railcar Services Corporation, Trinity and the Attorney General of Canada communicated their Plans of Argument in support of their objection to CP's Motion, the whole as appears from a copy of these Plans produced herewith as **Exhibit R-13**, **R-14** and **R-15**.

27. On June 14, Irving Oil Limited ("**Irving Oil**") served its Plan of Argument in support of the just and reasonable nature of the Plan of Arrangement, which Plan included its position regarding CP's Motion for Communication, the whole as appears from a copy of the Plan attached hereto as **Exhibit R-16**.

28. The hearing for the approval of the Plan was held on June 17, 2015.

II. THE SETTLEMENT AGREEMENTS

29. CP's rights are directly affected by the Plan and the Settlement Agreements.

30. The objective sought by MMAC in the Plan is to grant complete and final releases to the parties identified at Schedule "A" of the Plan who are potentially liable for the legal and financial consequences stemming from the derailment which occurred in Lac-Mégantic ("**Third-Party Defendants**") and to create an indemnity fund ("**Indemnity Fund**") to benefit the MMAC creditors, which is funded by the released parties.

31. CP is not among the parties who contributed to the Indemnity Fund and is therefore not a Released Party under the Plan.

32. Since CP's solidary liability is sought in the context of the Class Action and since it does not participate in the Indemnity Fund created by the Plan and the Settlement Agreements, its rights are susceptible of being directly affected by these documents.

33. Rather than presenting a motion in respect of the intention at section 1.6 of the Plan, MMAC forced CP to present the Motion to Communicate before these documents were permanently sealed by the approval of the Plan.

34. CP's concern that its rights will be affected by the Settlement Agreements was accentuated when it took cognizance of the Motion to Seal. Effectively, as appears from paragraph 14 of the Motion to Seal, the Settlement Agreements provide that the released parties reserve their rights against CP:

> 14. Moreover, other than specific settlement amounts and certain minor provisions unique to particular Settlement Agreements (<u>such as certain claims preserved by released parties against non-settling parties or insurers</u>): (a) the names of all released parties have been disclosed; (b) the total aggregate settlement consideration has been disclosed; and (c) a template settlement agreement-the agreement with XL Insurance Company and affiliates-has been publically filed. Accordingly, the Court and all affected parties have all of the necessary information with which to judge the Plan and the incorporated settlements. To the best of the Trustee's knowledge, no plaintiff party or counsel objects to filing the Settlement Agreements under seal.

35. Thereafter, CP's fear was confirmed when it received a notice of claim dated April 16, 2015, sent by CP's U.S. attorneys, **Exhibit R-17** produced herewith.

36. The notice of claim indicates that Irving Oil reserves its right to claim the sum of CAD$75,000,000.00 from CP which was funded into the Indemnity Fund. Moreover, the notice stipulates that pursuant to the Settlement Agreement Irving Oil concluded with the Trustee of MMAC, it assigns to the Trustee of MMAC all rights that it could have against third parties including CP:

> As you know, Irving Oil and CP were named as defendants in an adversary proceeding filed on behalf of the Trustee (the "Trustee") for Montreal, Maine & Atlantic Railway, Ltd. ("MMAR") in the *U.S. Bankruptcy Court for the District of Maine*, Adv. Pro. No. 14-1001 (the "Lawsuit"). In the Lawsuit, Trustee asserts claims against Irving Oil, CP, and others arising from the train derailment that occurred in Lac-Mégantic, Quebec (Canada) on July 6, 2013 (the "Derailment"). The Trustee alleges, inter alia, that CP acted negligently during the transport of the crude oil issue, and that its negligence caused MMAR to suffer damages due to the Derailment. In addition, nineteen personal injury actions have been filed in the United States based on the Derailment. Although Irving Oil has not been named as a defendant in any of those United States cases to date, Irving Oil understands that there could be an attempt to include Irving Oil in those United States cases.
>
> Irving Oil, recently negotiated and <u>executed a settlement agreement (the "Settlement") with the Trustee requiring Irving Oil</u> (i) to pay $75 million (CDN) to a fund designated for the compensation of victims of the Derailment, and (ii) <u>to assign to the Trustee all rights to claims Irving Oil may have against certain third parties, including CP, in connection with the Derailment.</u> The Settlement is subject to court approval, which has not yet been obtained.

37. While the Plan and the Settlement Agreements will allow the released parties to exercise their recourses against CP, CP is prevented from instituting actions in warranty or recursory actions against the parties liable for the derailment, which is inequitable, illegitimate and unjustifiable.

38. In sum, the Plan and the Settlement Agreements are indissociable and their application requires the approval by both the Superior Court presiding pursuant to the CCAA as well as by the Court seized of the Class Action.

39. As such, the Settlement Agreements constitute documents which are highly pertinent for CP to ensure that its rights are respected both as a creditor of MMAC and as a Respondent to the Class Action. Hence the necessity for CP to present its Motion to Communicate.

III. THE MOTION TO COMMUNICATE THE SETTLEMENT AGREEMENTS

40. The hearing for the Motion to Communicate took place on June 15, 2015 in Sherbrooke.

41. Since the parties to the Settlement Agreements consented to giving CP the settlement agreement to which they were party, the only question that the court had to address regarding CP's Motion to Communicate concerned the conditions by which the Settlement Agreements would be communicated and used (see Plan of Argument of Third Parties, **Exhibits R-13** to **R-15** and paragraphs 10 and 13 of the Judgment).

42. More particularly, the following questions were the object of the dispute before the Court on June 15, 2015:

   A. Do the financial details of the Settlement Agreements have to be redacted or not (with the exception of the Settlement Agreements of WFS, Irving Oil and CIT, who agreed to provide their Settlement Agreements without redacting the financial details found therein);

   B. For which purpose can the Settlement Agreements be used, specifically, if their use must be limited to the purposes of the Canadian Approval Order and the U.S. Approval Order;

   C. Must the Settlement Agreements (redacted or not) be communicated to CP's attorneys (counsel's eye only) seeing that this condition was not required by Irving Oil, the Attorney General of Canada and World Fuel Services);

   D. Did MMAC prove that the criteria justifying the issuance of an order of confidentiality and a sealing order was met.

43. After having heard the parties, Justice Dumas rendered his judgment off the bench granting in part the Motion for Communication of the Settlement Agreements and sent his written reasons to the parties on June 17, 2015 (R-1).

44. Pursuant to the Judgment, the communication of the Settlement Agreements is subject to the following conditions:

FOR THESE REASONS, THE COURT

"[13] The court grants in part the motion seeing the consent of the third parties. If the third parties, such as Irving, accepted to give more information than that which is necessary, they could have done so, but with the limitations that the court will mention in the present judgment.

[14] **GRANTS** in part the *De Bene Esse* motion of the Canadian Pacific Railway Company to order the communication of documents;

[15] **ORDERS** the third parties who signed settlement agreements to transmit them to Canadian Pacific's attorneys with the financial details of the settlement agreements redacted. The redacted settlement agreements are not to be communicated to anyone but Canadian Pacific's attorneys, the reason being that the motion would have been dismissed, if the third parties did not accept to communicate the documents under this express condition;

[16] **ALLOWS** the third parties to communicate the information as they choose and not only how Canadian Pacific chooses to receive such information. The redacted settlement agreements and their contents are inadmissible as evidence with the exception of being used for the purposes of the Canadian Approval Order and the U.S. Approval Order. The Settlement Agreements must be filed under seal in the court docket and be the object of a non-communication order and a publication ban and the communication of the redacted settlement agreements cannot be interpreted as a renunciation by any of the third parties to confidentiality thereof or to any privilege attaching thereto."

(our emphasis)

IV. REASONS FOR APPEAL

45. CP requests the permission to appeal from the Judgment for the following reasons:

A. The communication of the Settlement Agreements on the basis of counsel's eyes only is inappropriate and unjustified;

B. Justice Dumas's Order limiting the use of the Settlement Agreements to the purpose of the Canadian Approval Order and the U.S. Approval Order is unfounded and must be eliminated;

C. The communication of the Redacted Settlement Agreements in what concerns the financial undertakings is unfounded and, in law, is contrary to the rule that legal proceedings are public and deprives CP of its rights to a public hearing with a full and complete defense.

A. The communication of Settlement Agreements on the basis of counsel's eyes only is inappropriate and unjustified

46. Justice Dumas erred when he subjected the communication of the Settlement Agreements to the condition that only CP's attorneys have the right to consult such agreements.

47. Remember that the Settlement Agreements are schedules to the Plan, are indissociable to it and finally, are exhibits in the file of the court that require the approval of the court presiding pursuant to the apparent authority of the CCAA as well as the court seized of the Class Action.

48. Each party has the right to take note of the documents in the court file pursuant to the principle of the publicity of court proceedings and of a party's right to a full and complete defense.

49. A counsel's eyes only type order is not desirable nor justified as it prevents CP from achieving the primary goal of the disclosure of documents, namely where it can prepare for a trial and defend its interest in connection with it.

50. Moreover, this type of order affects the solicitor/client relationship in that it deprives the lawyer from its ethical and professional obligations, notably regarding the obligation of an attorney to render account to its client and moreover, prevents an attorney from exposing to its client the nature and extent of its legal problems which emerge from the facts brought to the attention of the attorney.

51. Rather than assessing the nature of the information contained in the Settlement Agreements in order to justify his decision, Justice Dumas justified his decision to disallow access to the Settlement Agreements with the exception of CP's lawyers by the fact that the motion would have been dismissed if third parties did not accept to communicate the documents under this express condition (paragraph 15 of the Judgment).

52. Since the rights which are at play are those of the parties and not those of their attorneys, Justice Dumas erred on a question of principle in failing to verify if the information, the

communication of which was requested under the basis of counsel's eyes only, was confidential, both subjectively and objectively.

53. It appears that, in this case, there is no question of information which is objectively confidential, the access to which by CP would compromise the commercial or scientific interest of MMAC or the released parties or particularly, sensitive personal information.

54. On the contrary, it is common practice that a notice to the members of a Class Action pursuant to Section 1025 C.c.p. contain a reference to a website such as www.classactions.ca where it is possible for all of the members of the group, and the public in general, to obtain a copy of the settlement agreement.

55. Equally, Justice Dumas erred on a question of principle in omitting to examine if MMAC or the released parties had made evidence that they would suffer a prejudice if CP were given the Settlement Agreements.

56. As the jurisprudence has established, exceptional circumstances must exist in order to permit the communication of documents on the basis of counsel's eyes only.

57. No such circumstance was demonstrated in this case.

58. Consequently, CP must have the right to consult the Settlement Agreements itself without restrictions of any nature whatsoever.

B. Justice Dumas's order limiting the use of the Settlement Agreements to the purposes of the Canadian Approval Order and of the U.S. Approval Order must be eliminated

59. The consequences related to the derailment in Lac-Mégantic are not only the object of the Class Action, but also litigation in the United States.

60. Notably, when MMAC invoked the protection of the CCAA, its parent company, Montreal, Maine and Atlantic Railway Ltd. (MMAR) instituted proceedings in the United States before the United States Bankruptcy Court for the District of Maine pursuant to Chapter 11 of the United States Bankruptcy Code.

61. Moreover, on September 4, 2013, the Superior Court approved the Cross-Border Insolvency Protocol, the purpose of which is to coordinate the proceedings pursuant to the insolvency laws of Canada with both the Superior Court and the United States

Bankruptcy Court for the District of Maine (see decision of September 4, 2013, Exhibit R-4).

62. Moreover, when Justice Dumas was seized of CP's Motion for Communication, the U.S. Bankruptcy Court for the District of Maine was seized of the same question, as appears from the Motion to Seal (Exhibit R-6).

63. In this context, Justice Dumas erred on a question of law by specifying the use that can be made of the Settlement Agreements by CP in the United States.

64. Effectively, Justice Dumas mentioned in his Judgment that the Settlement Agreements could not be invoked as evidence with the exception of being used for the purposes of the United States approval order.

65. Additionally, from a combined reading of paragraphs 15 and 16 of the Judgment we understand that the use by CP of the Settlement Agreements in the United States is subject to the restrictions imposed by Justice Dumas.

66. Accordingly, the Judgment includes extra territorial effects in that it seeks to address the access and use that can be made of the Settlement Agreements by CP in the context of American proceedings.

67. However, the Cross Border Insolvency Protocol approved by Justice Dumas on September 4, 2013 (Exhibit R-4), explicitly provides that the U.S. Bankruptcy Court possess exclusive jurisdiction over the conduct of American proceedings:

> "7. The U.S. Court shall have sole and exclusive jurisdiction and power over the conduct of the U.S. Proceeding and the hearing and determination of matters arising in the U.S. Proceedings. The Canadian Court shall have sole and exclusive jurisdiction and power over the conduct of the Canadian Proceeding and the hearing and determination of matters arising in the Canadian Proceedings."

68. The Cross Border Insolvency Protocol also provides that a court seized of a question which may affect the conduct of proceedings on both sides of the borders has the possibility to consult the foreign court before rendering a decision.

69. CP argues that a duty of judicial restraint drawn from the principle of comity applies to Justice Dumas considering that the U.S. Bankruptcy Court was already seized of the question of giving CP access to the Settlement Agreements in the context of a judgment

that it was called upon to render on a Motion to Seal and considering the Cross-Border Insolvency Protocol.

70. Due to the Judgment, there exists a genuine risk that a judgment from the U.S. Bankruptcy Court contradicts the Judgment in that it can, in dismissing the Motion to Seal, give CP enlarged rights of access to and use of the Settlement Agreements.

71. Notably, it is possible that the U.S. Bankruptcy Court does not subject CP's right of access to the Settlement Agreements to the condition that only attorneys can consult them and that they will allow the use of such agreements as evidence in the context of American litigation unrelated to the insolvency proceedings.

72. Consequently, it is necessary that the Judgment be reformed to eliminate the mention of "and the American approval order" in order to respect the Cross-Border Insolvency Protocol and to avoid any risk of contradiction, confusion or interference by the U.S. Bankruptcy Court in its determination of the merits of the Motion to Seal.

73. The hearing for the Motion to Seal is scheduled for July 15, 2015.

74. Moreover, Justice Dumas erred on a question of law by limiting CP's use of the Settlement Agreements for the purposes of the Canadian Approval Order.

75. It is well established that the communication of information or confidential documents cannot be used by the party who receives same, save for purposes of preparing for trial or a defense in the context of litigation. CP seeks to have the ability to use the Settlement Agreements only for the purposes of litigation instituted in the Province of Quebec and related to the derailment.

76. CP does not seek the right to make use of the Settlement Agreements without limits. Contrarily, it wishes to make use of such agreements only for the purposes of defending itself in the context of actions instituted against it stemming from the derailment.

77. For example, CP learned when it received Irving Oil's statement of claim (Exhibit R-17 to CP's Motion for Communication) that Irving Oil assigned its rights related to the claims stemming from the derailment to the American Trustee.

78. This assignment of rights was included in the Settlement Agreements.

79. Accordingly, in the event that there are proceedings instituted in Quebec by the Trustee or the Monitor of MMAC based upon the assignment of rights included in the Settlement

Agreements, CP must be able to use these Settlement Agreements in the context of such litigation in order to contest the extent or existence of such assigned rights.

80. The Judgment prevents CP from using the Settlement Agreements in such a way, which thereby deprives CP from a full and complete defense.

81. Consequently, it is necessary that the Judgment be reformed to eliminate any restriction regarding the use that CP can make of the Settlement Agreements where the use of such agreements is for the purposes of a dispute related to the derailment.

C. The communication of redacted Settlement Agreements in regards to the financial information is unfounded in fact and in law in that it is contrary to the rule of public hearings and deprives CP of its rights to a public hearing in complete equality and a full and complete defense.

82. The Settlement Agreements are an integral part of and are indissociable from the Plan of Arrangement.

83. The Plan and the Settlement Agreements have been submitted to the Court for approval.

84. Since the Settlement Agreements are exhibits in the court file, CP has the right to have access to all of the Settlement Agreements and to read such agreements in accordance with the rule of the public nature of hearings.

85. Moreover, CP has the right to all of the Settlement Agreements so that it is able to exercise its right to a full and complete defense.

86. However, the privilege related to the agreements does not prevent CP from exercising its right to take knowledge of the entirety of the Settlement Agreements.

87. Effectively, the circumstances of the present case demonstrate that this privilege is not applicable to the financial details of the Settlement Agreements.

88. Effectively, since the parties to the Settlement Agreement concluded these agreements when they were an integral part of the Plan and knowing that the Plan and the Settlement Agreements require the approval of the Court seized of the Class Action (see article 6.1 of the Plan, Exhibit R-5), there was no expectation of confidentiality related to the Settlement Agreements, that includes their financial details (Exhibits R-5: art. 6.1; R-20; R-21).

89. Moreover, since the Settlement Agreements mention the assignment of rights by the released parties in favour of the Trustee or of MMAC, they cannot be opposable to CP unless such agreements are communicated (Exhibit R-17).

90. Finally, supposing that there is a rule of confidentiality protecting against the release of the financial contributions made by the released parties to the Indemnity Fund, which CP denies, there was a renunciation by MMAC and the released parties to any such privilege of confidentiality related to the amounts of such contributions.

91. Effectively, MMAC and the released parties admit that they communicated the financial details of the Settlement Agreements (Exhibits R-11; R-19, page 201) to the main creditors (the Quebec government, the Class Action plaintiffs and the plaintiffs's actions instituted in the United States).

92. By communicating such information to these third parties, the confidentiality attaching to the financial contributions in the Settlement Agreements was lost.

93. The fact that the communication of the amounts of the financial contributions was made under the condition of confidentiality is not an obstacle to the fact that there was a loss of such confidential character.

V. THE CRITERIA FOR LEAVE TO APPEAL IS MET

A. The permission to appeal pursuant to articles 29 and 511 C.c.p.

94. The Judgment is an interlocutory judgment as it occurred during the proceedings prior to a final judgment.

95. However, it is not a judgment rendered at trial.

96. Secondly, the Judgment orders something that the final judgment cannot address.

97. Effectively, the Judgment has the effect of preventing CP from obtaining documents that affect its rights and which documents CP must be able to take knowledge of in order to exercise its rights as a creditor of MMAC and as defendant in the class action.

98. The Judgment, in only allowing CP's attorneys to take knowledge of the Settlement Agreements, deprives CP from its fundamental right to take knowledge of evidence submitted to the Court in support of its decision.

99. It is obvious that the final judgment cannot remedy the situation created by the Judgment, that is that CP cannot give, in complete knowledge of the case, instructions to its attorneys regarding the Settlement Agreements and the remainder of the file.

100. However, the risk of contradictory judgments created by the Order at paragraph 16 of the Judgment limiting the possible use of the Settlement Agreements in the Canadian proceedings and the American proceedings is not susceptible to be remedied by a final judgment in the context of the approval of the Plan.

101. Notably, it is necessary for CP to request leave to appeal from the Judgment based on this fact in order to dissipate any confusion right away as that it is probable that the judgment on the Motion to Seal will not be rendered before the expiration of the delay to appeal from the Judgment.

102. Thirdly, justice requires that the permission to appeal from the Judgment be granted as the appeal stems from an injustice towards CP.

103. The Judgment has the effect of preventing the attorneys of CP from fulfilling their duty and reporting to their client and denies CP its right to have the opportunity to give instructions to its lawyers for defending its rights for the remainder of the file.

104. It is contrary to justice that the fundamental principle of transparency of judicial matters is derogated by ordering that the documents be communicated on the basis of counsel's eyes only when the exceptional circumstances that justify such a mechanism are not present in this context.

105. Justice also requires that any risk of contradictory judgment regarding the access given to CP to the Settlement Agreements be addressed prior to a complex debate on the effects that a judgment on a motion to seal would have which would allow CP to have total or limited access to the Settlement Agreements, the present matter, the Class Action and the related proceedings instituted in the United States.

B. The permission to appeal pursuant to section 13 of the CCAA

106. CP argues that it is the criteria at Sections 29 and 511 C.c.p. and not those at Section 13 CCAA which apply in this case since the Judgment is not an order or decision rendered in application of the present law but rather a request to communicate documents which would be found in any ordinary civil litigation.

107. Furthermore, CP ignores the application of the CCAA.

108. Precisely, it is not appropriate to give the Judgment an increased level of deference as is normal in the granting of orders pursuant to the CCAA.

109. In any event, the criteria of section 13 of the CCAA are met.

110. Firstly, the question at play is important for the practice of law as it is crucial to reaffirm the principle of transparency and equity in our system of law.

111. Effectively, it is accepted by the courts that the attorneys of the parties conclude between themselves agreements providing that certain documents will be consulted by the attorneys, the situation is even less clear when it is a question for the court to grant an order preventing the parties themselves to consult the documents to which their attorneys have access without having given consent to this effect.

112. Many Canadian and Quebec judgments deal with the problems that this poses regarding the deontological duties of the attorney and the principle of transparency of the court, but there exists very few judgments allowing one to establish a clear line of demarcation for the communication of the documents on the basis of counsel's eyes only.

113. Consequently, the practice of law and the parties will benefit from an enlightenment by the Court of Appeal regarding the appropriate use by the communication of documents on the basis of counsel's eyes only when this restriction does not make up the object of the consent on one hand, but more so when it is imposed by the Court.

114. Regarding the order limiting the use of the Settlement Agreements, it would be equally beneficial for the practice of law and to the parties for the Court of Appeal to clarify the appropriate character of a judgment with extraterritorial reach when such is susceptible to having repercussions on connected legal proceedings instituted in a foreign jurisdiction.

115. Although the principle of international *Lis Pendens* is recognized by the Civil Code of Quebec, the jurisprudence is silent regarding the attitude that is to be adopted by the Court when it renders orders with an extraterritorial reach and in complex matters where proceedings are taking place in more than one jurisdiction at a time and which have identical and similar challenges.

116. More specifically, the clarification that this Honorable Court can bring in terms of the principle of comity in the approach which must be adopted by our courts in such circumstances would be beneficial.

117. Secondly, there is no doubt that the question at hand is crucial to the present matter as the impossibility for CP to take cognizance of the Settlement Agreements prevents it from giving instructions to its attorneys for the remainder of the file.

118. Moreover, the risk that a contradictory judgment be rendered in the United States regarding access given to CP to the Settlement Agreements is a question of equal importance in the present matter as CP may be confronted with the situation where it cannot take cognizance of the Settlement Agreements according to one judgment while the second judgment provides the contrary.

119. Thirdly, the present appeal raises serious questions for the reasons exposed at paragraphs 46 to 93 of the present Motion.

120. Fourthly, CP argues that the appeal will not, in any way, hinder the progress of the action and the "restructuring" of MMAC in terms of the Plan.

121. The implementation of the Plan will not take place before certain conditions are satisfied, notably the granting of the American Approval Order as well as the Order Regarding the Class Action.

122. More precisely, article 6 of the Plan provides the prior conditions:

> **6.1 Conditions Precedent to Implementation of Plan**
>
> The implementation of this Plan shall be conditional upon the fulfillment, or waiver (strictly with respect to Sections 6.1(e) and (f)), of the following conditions on or before the Plan Implementation Date:
>
> (a) Entry of the Canadian Approval Order
>
> The Canadian Approval shall have been granted by the CCAA Court, including the granting by the CCAA Court of its approval of the compromises, releases and injunctions contained in and effected by this Plan.
>
> (b) Confirmation by the Trustee of the entry of the U.S. Approval Order
>
> The Trustee shall have confirmed in writing to the Monitor that the U.S. Approval Order has been granted by the Bankruptcy Court, including the granting by the Bankruptcy Court of its approval of the compromises, releases and injunctions contained in and effected by this Plan.

(c) Entry of the Class Action Order

The Class Action Order shall have been granted by the Superior Court, Province of Quebec.

(d) Expiry of Appeal Periods

The Canadian Approval Order and the Class Action Order shall have become Final Orders and the Trustee shall have confirmed in writing to the Monitor that the U.S. Approval Order has become a Final Order.

(e) Contributions

Each of the Released Parties shall have paid to the Monitor the amounts payable by it pursuant to its Settlement Agreement, in accordance with the terms of the Settlement Agreements.

(f) Completion of Necessary Documentation

MMAC, the Monitor and the Trustee, as applicable, shall have obtained the execution and delivery by all relevant Persons of all agreements, settlements, resolutions, indentures, releases, documents and other instruments that are necessary to be executed and delivered to implement and give effect to all material terms and provisions of this Plan and the Settlement Agreements.

123. As appears from the Monitor's 19th report, a copy of which is produced herewith as **Exhibit R-18**, the hearing for the approval of the Plan in the United States will not be held prior to August 20, 2015 at the U.S. Bankruptcy Court, District of Portland, Maine.

124. Moreover, many steps must be achieved before the Superior Court can deliver the Order regarding the Class Action.

125. CP argues that the present appeal will be heard and decided even before the other steps are achieved in order to satisfy the prior conditions and implementation of the Plan.

126. CP argues that the means set forth herein are, in themselves, sufficient to conclude that the appeal will not have the effect of delaying the action.

127. In addition to the following, article 6.3 of the Plan clearly states that "the pendency of any appeal or application for leave to appeal with respect to the Approval Orders" does not automatically terminate the Plan.

6.3 Termination of Plan for Failure to Become Effective

> If the Plan Implementation Date shall not have occurred on or before the Plan Termination Date, then, subject to further Order of the CCAA Court and the Bankruptcy Court, as applicable, this Plan shall automatically terminate and be of no further force or effect; provided that this Plan shall not automatically terminate pursuant to this section if the sole basis for the non-occurrence of the Plan Implementation Date is the pendency of any appeal or application for leave to appeal with respect to the Approval Orders.

128. The Monitor's 19th report also states that considering the delays for appeal, obtaining the Settlement Funds and the conclusion of a resolution of claims, the initial distributions to creditors will likely take place in October or November of 2015 and that this step can be delayed in the event that an appeal is filed or delays occur during the examination, analysis and the definitive determination of the "Proven Claims".

129. The possibility to appeal the orders of the Court as well as the delays to do so make up an integral part of the Plan as well as the information provided to the creditors of MMAC by the Monitor in its capacity as an officer of the Court.

130. Finally, it is clear that we are far from a scenario where an appeal would be an obstacle to the reorganization or restructuring of an insolvent debtor, nor are we faced with a situation where a sale of assets or shares could be jeopardized.

131. In the present case, from the moment MMAC's assets were sold and when there was no value to obtain therefrom, MMAC could no longer, in any circumstance, pursue its activities, restructure as a viable entity or better yet, as can be read from the Plan, conclude a transaction with regards to its liability.

132. Effectively, the Plan does not propose any transaction nor an arrangement between MMAC and its creditors. It serves uniquely as a procedural vehicle to settle the claims between the victims of the derailment/creditors and potentially liable third parties who agreed to fund the Plan in exchange for releases and injunctions.

133. In any case, CP is ready to establish an accelerated timetable so that the appeal will be heard as soon as possible according to the availability of the Court.

VI. CONCLUSION

134. In light of the above, CP is justified in requesting permission for leave to appeal from the Judgment.

135. In addition, it clearly appears that Justice Dumas erred on questions of principle and that the Court of Appeal would be justified in intervening in order to reform the Judgment and to allow CP to have access to the Settlement Agreements and eliminate the restrictions imposed upon CP with regards to the use of the Settlement Agreements in order to avoid any risk of contradictory judgments or inappropriate influence on the judgment to intervene regarding the Motion to Seal, without any restriction of any nature.

FOR THESE REASONS, MAY IT PLEASE THE COURT TO:

GRANT the present Motion;

AUTHORIZE Canadian Pacific Railway Company to appeal the interlocutory judgment ordered by the Honorable Gaétan Dumas, J.S.C., on June 15, 2015, sitting in the Superior Court of the District of St-François in file 450-11-000167-134, the present motion serving as an inscription in appeal;

THE WHOLE costs to follow.

Montreal, July 6, 2015

(S) SIGNED

Fasken Martineau DuMoulin LLP
Attorneys for the Appellant
Canadian Pacific Railway Company


2014
CP
2014
WELCOME TO THE NEW CP
INVESTOR FACT BOOK 2014

WELCOME TO THE NEW CP

A leaner fleet, infrastructure and workforce working harder to deliver more. This is the key concept behind the new CP. We've driven continuous rapid improvement across all platforms. We're operating more efficiently with less; we're more agile; we're faster; and, we're creating more service offerings in areas we're now competitive in. Our growth is coming to life with increasing speed and it's opening a whole new world of opportunity.


9360

FORWARD LOOKING INFORMATION

This Investor Fact Book contains certain forward-looking information within the meaning of the United States Private Securities Litigation Reform Act of 1995 and under Canadian Securities laws. This forward looking information relates, but not limited, to Canadian Pacific's operations, priorities and plans, anticipated financial performance, business prospects, planned capital expenditures, programs, strategies and financial guidance. This forward-looking information also includes, but is not limited to, statements concerning expectations, beliefs, plans, goals, objectives, assumptions and statements about possible future events, conditions, and results of operations or performance.

Forward-looking information may contain statements with words such as "anticipate", "believe", "expect", "plan" or similar words suggesting future outcomes.

By its nature, CP's forward-looking information involves numerous assumptions, inherent risks and uncertainties that could cause actual results to differ materially from the forward-looking information, including but not limited to the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks in agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demand; changes in commodity prices; uncertainty surrounding timing and volumes of commodities being shipped by CP; inflation; changes in laws and regulations, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions and discount rates on the financial position of pension plans and investments, including long-term floating rate notes; and various events that could disrupt operations, including severe weather, droughts, floods, avalanches and earthquakes as well as security threats and governmental response to them, and technological changes.

Undue reliance should not be placed on forward-looking information as actual results may differ materially from the forward-looking information. Forward-looking information is not a guarantee of future performance.

The foregoing list of factors is not exhaustive. These and other factors are detailed from time to time in reports filed by CP with securities regulators in Canada and the United States. Reference should be made to "Management's Discussion and Analysis" in CP's annual and interim reports, Annual Information Form and Form 40-F.

Readers are cautioned not to place undue reliance on forward-looking information. Forward-looking information is based on current expectations, estimates and projections and it is possible that predictions, forecasts, projections, and other forms of forward-looking information will not be achieved by CP. Except as required by law, CP undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

TABLE OF CONTENTS

SETTING THE PACE

At CP, we've strengthened our operations and attitude company wide. We're no longer catching up, but setting the pace. And being in the front means having the best vantage point for seizing opportunities first.

I see no end to our runway. Because we're the ones building it. There is no resting on our laurels and past success. We want to continually change the expectations of what it means to be great railroaders. We're not just looking to be the best; we want to redefine what that word means each year. This Investor Fact Book allows us to tell you how our new attitude applies to all areas of our business, from top to bottom. And, importantly, this book shows how we're building a stronger more successful company for the long-term.

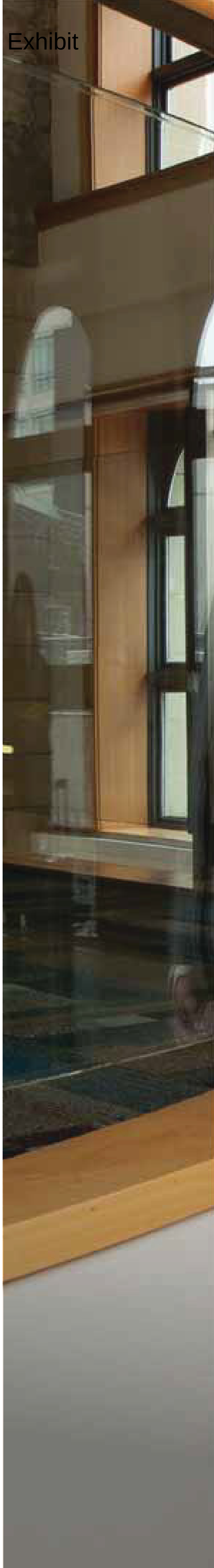
Our transformation over the last two years has been nothing short of remarkable. We've dramatically improved the operating performance of the company; our operating ratio is approaching industry best; and, we've generated significant value for shareholders. But the journey is far from over. We have been investing in our future – rebuilding the network from the ground up – to operate safer, more efficiently and add valuable capacity. We continue to build and develop a strong team of leaders with a railroader mindset and a culture of clear accountability.

Combined with an improved cost structure and service offering, we are poised for the next phase of our journey: accelerated growth. By leveraging the top line opportunities with further margin improvement, we'll drive further earnings growth and free cash flow generation which will enable us to continue to reward shareholders.

Our hope is that this book will serve as a valuable resource in understanding the markets we serve, the strengths of our franchise, our operating philosophy and the tremendous opportunity ahead of us.

Sincerely,

E. Hunter Harrison
Chief Executive Officer



"We are poised for the next phase of our journey: accelerated growth."

E. Hunter Harrison

A SERVICE-DRIVEN RAILROAD

Headquartered in Calgary, Alberta, CP is a transcontinental railroad in Canada and the United States providing logistics and supply chain expertise. Our 15,000 employees provide rail and intermodal transportation services across a network of approximately 13,700 miles, serving the principal business centres of Canada, the U.S. Midwest and U.S. Northeast.

We are able to extend our network reach through alliances and connections with other major Class 1 railroads in North America. This allows us to provide competitive services and access to markets across North America beyond our own rail network. We are able to provide service to markets in Europe and the Pacific Rim through direct access to Port of Montreal and Port Metro Vancouver, respectively. Our network in the U.S. Northeast also allows us to access the ports of Philadelphia and New York.

We are driving change as we move through our transformational journey to become North America's best performing rail carrier, while creating long-term value for shareholders. We are focused on providing customers with industry leading rail service, optimizing our assets, and reducing costs while remaining a leader in rail safety.

We finished 2013 with a full year operating ratio of 69.9%, an improvement of 710 basis points. For 2014, we expect to have a mid-60s operating ratio – two years ahead of our original schedule.

We are driving change as we move through our **transformational journey** to become North America's best performing rail carrier.

Our strategy is based on five foundations

PROVIDE SERVICE

Delivering efficient and consistent service is essential. We promise only what we can do, and we always do what we have promised.

CONTROL COSTS

Controlling and removing unnecessary costs from the organization, eliminating bureaucracy and continuing to identify productivity enhancements are the keys to success.

OPTIMIZE ASSETS

Through longer sidings, improved asset utilization, and increased train lengths, we are moving increased volumes with fewer locomotives and railcars while unlocking capacity for future growth potential.

OPERATE SAFELY

Each year, we safely move millions of carloads of freight across North America while ensuring the safety of our people and the communities through which we operate. Safety is never to be compromised.

DEVELOP PEOPLE

We recognize none of the other foundations can be achieved without our people. Every employee is a railroader and we are shaping a new culture focused on a passion for service with integrity in everything we do.

We can offer a superior product to a range of shippers who have previously turned to trucking or other carriers.

PROVIDE SERVICE

Delivering good service is the first key. Doing what we say we'll do is essential to making CP the most reliable rail service in the market.

DOMESTIC INTERMODAL

Time is critical when your business is on the line. To succeed, our customers need their goods on shelves, not en route – and they need to get it there first. We've cut 20 hours off of our regular Toronto-Calgary intermodal service, making it the fastest service available. The result: volumes in this corridor are up 27% year-over-year as more Canadian businesses are taking advantage of our industry-leading service to become more competitive and grow their bottom lines.

COAL SUPPLY CHAIN

Existing customers benefit, too. Improvements in asset velocity and efficiency are creating win-win opportunities for both our company and existing customers to move more product with fewer cars, reduce down time and increase loading capacity. We're converting performance into margin expansion and market share gains for all parties in the supply chain.

We've reduced coal transit times by 12.5 hours – enabling our long-time customer, Teck Resources, to get their products to market faster and have greater capacity to grow their business.

STRATEGY

With more reliable and efficient service, we can offer a superior product to a range of shippers who have previously turned to trucking or other carriers. We are working to leverage our network strengths and service performance to replicate our intermodal offering in other key markets and expand our approach to the merchandise segments such as steel, aggregates, chemicals, and automotive.

"At CP, my job is all about moving customers' products from one place to another and making sure the work is done safely and quickly."

Suresh Kumar Harish – Conductor, Winnipeg Yard

CONTROL COSTS

Being a low-cost provider combined with great service is an unbeatable combination. We look at every cost, even small items, to improve.

HEAD OFFICE RELOCATION

We are continuing to drive an operating focus through the organization. A key step in that culture change has been the relocation of the company's headquarters from a downtown Calgary corporate office building to our Ogden Rail Yard. The result: $20 million in annual lease cost savings and a renewed focus on what matters most – the railroad.

INSOURCING I.T.

For the past decade, our information systems have been largely developed and supported by outsourced resources. We're looking to simplify, modernize and insource key IT functions; build in-house expertise; and, remove dependencies on third-parties. This will allow our IT team to respond faster and at a significantly lower cost.

STRATEGY

There is no shortage of opportunities across the network to improve operational efficiency and drive out costs. A strategic emphasis on continuous improvement and an aggressive, ongoing focus on productivity in every corner of the business will bear fruit for years to come.

"My team and I provide the paperwork the train crews are required to have in order to move trains. Controlling costs is a regular part of our day-to-day activities, right down to our customer contact, inventory and job performance."

Heather Hanna – Director, Network Services Operations

There is no shortage of opportunities to improve operational efficiency.

We will move increased volumes with fewer locomotives and railcars.

OPTIMIZE ASSETS

Highly productive assets drive better service at a reduced cost. Doing more with less drives profitable growth.

OPTIMIZING OUR FLEET

We continue to streamline our asset base, resulting in significantly fewer locomotives and more than 10,000 fewer railcars. These surplus assets have generated more than $17 million in scrap metal, saved $30 million in annual lease charges, and enabled our company to earn rental income through the sublease of 75 high-horsepower locomotives to another rail carrier. The opportunities don't stop there. Dramatic improvements to cash flow generation also enable us to optimize our balance sheet and further reduce expense savings as we buy out leases on core assets.

TAKING A HARD LOOK AT THE NETWORK

We are developing a network that provides customers with the best possible service at the lowest possible cost. That means carefully assessing the entire network for other opportunities to optimize our track infrastructure for velocity, cost efficiency and alignment with growth initiatives. In 2014, we announced the sale of 660 miles on the west end of our Dakota, Minnesota & Eastern line for US$210 million.

A comprehensive process is currently underway to inventory and monetize up to an additional $2 billion in other non-core real estate over the next several years.

STRATEGY

Through longer sidings, improved asset utilization and increased train lengths, we will move more traffic with fewer locomotives and railcars while unlocking capacity for future growth potential.

"We are always watching for opportunities to be more efficient. If a locomotive is going to sit for any reason, break it off and do something with it. Look for opportunities to capture every moment. The goal is to utilize our locomotives 24 hours a day, every day."

Lisa Bryson – Assistant Superintendent, Brandon, Manitoba

OPERATE SAFELY

The safety of our people and surrounding communities can never be compromised. We always think before we act and we follow every rule to the letter, every time.

INVESTING IN THE CORE INFRASTRUCTURE

We will invest approximately $1.3 billion of capital in 2014. Of that, approximately $700 million will be focused on maintaining the safety and integrity of our base rail infrastructure. More specifically, this means buying and installing 530 miles of rail, one million ties, 400,000 tons of crushed-rock ballast, 200 turnouts and $80 million worth of bridges.

A CULTURE OF ACCOUNTABILITY

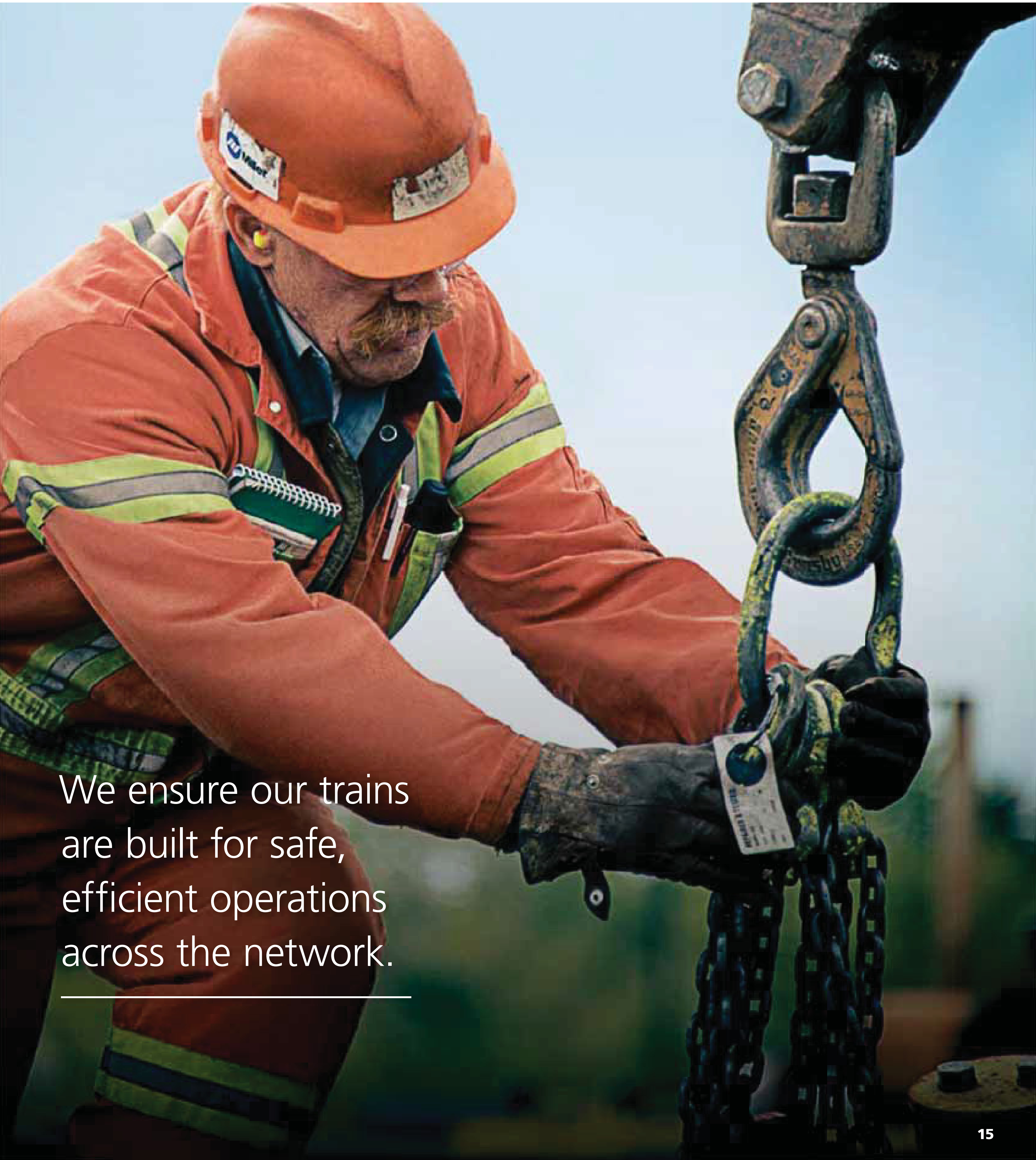
Safety starts with knowing and following the rules. In addition to increased safety inspections and internal awareness campaigns, our general managers are required to pass examinations on rules and regulations. The message: we are all accountable.

STRATEGY

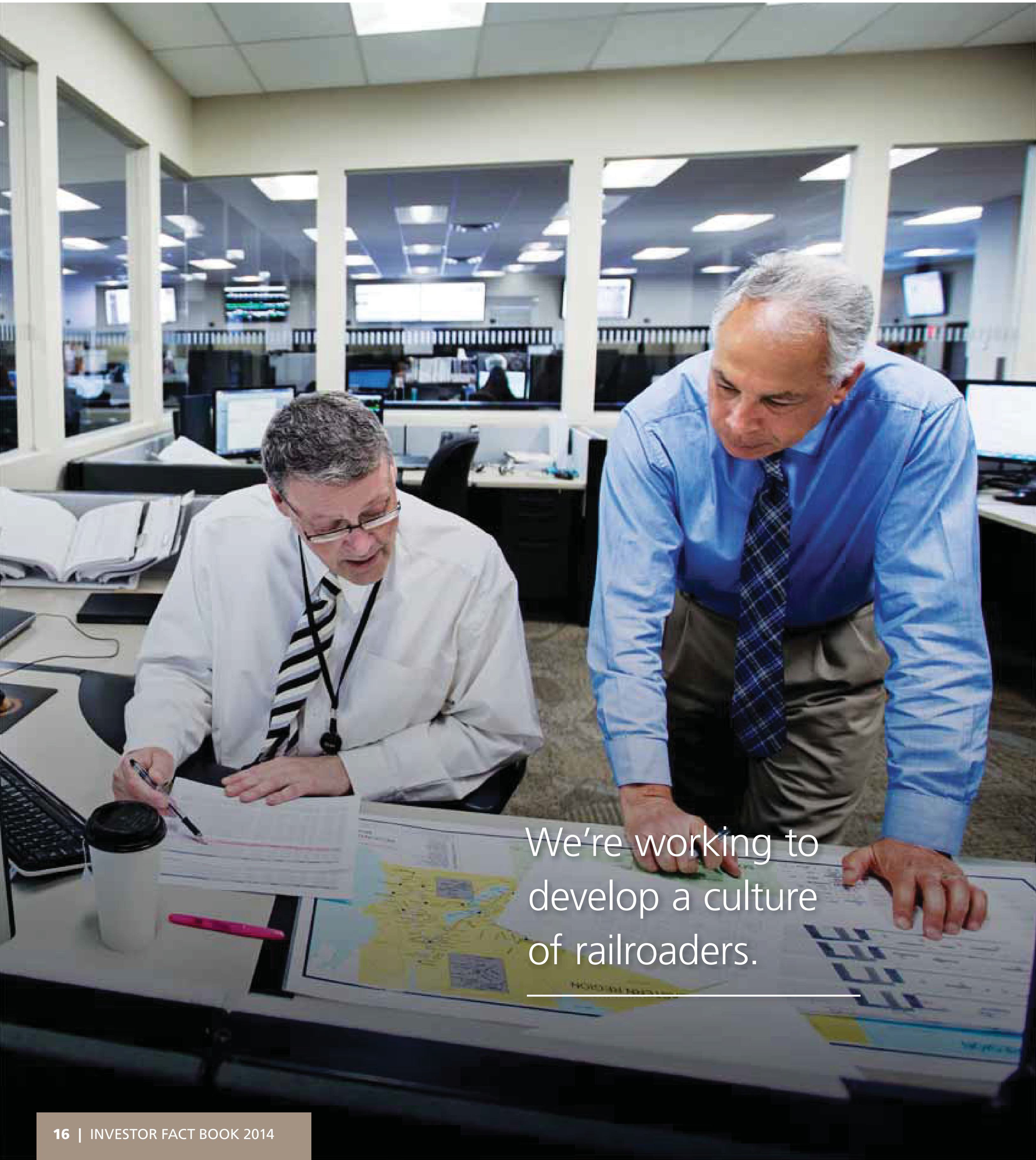
Continuous research and development in state-of-the-art safety technology and highly focused employees ensure our trains are built for safe, efficient operations across the network.

"Our commitment to safety never changes. We will always strive to operate our railway safer than the day before. We have to."

Trevor O'Donoghue – Terminal Locomotive Engineer, Calgary



We ensure our trains
are built for safe,
efficient operations
across the network.



We're working to develop a culture of railroaders.

DEVELOP PEOPLE

The passion, skills and dedication of our people fuel the engine of our growth and success. We teach them, nurture them and reward them.

BUILDING THE BENCH STRENGTH

Through internal promotions and the recruitment of experienced executives from outside the company, we have assembled a management team that brings renewed passion and fresh perspectives to create a new industry leader. People drive performance and we are putting the right people in place to get it done.

A NEW SALES FOCUS

We've taken the principles of accountability and performance – a culture of execution – to the marketing and sales team. Earlier this year, we introduced a new Sales Incentive Program designed to motivate and reward those who are profitably selling our new service into the marketplace.

MANAGEMENT CONDUCTOR TRAINING

We are building a culture of railroaders. Whether you crunch numbers, sell service, develop software or manage projects, becoming a qualified conductor or engineer is a requirement. It is also the single best way for a management employee to learn what the business is truly about and is a fundamental cornerstone to the development of our railroad culture.

STRATEGY

We're working to develop the kind of people we want: passionate about railroading, hungry for success, driven to achieve.

"Good leaders set a positive example. They're disciplined. They communicate well. They make sure their team understands the value in the new direction and they always look for ways to take results to another level."

Ben Serena – Superintendent Operations, Calgary & Alberta South

FINANCIAL & STATISTICAL HIGHLIGHTS

$ in millions, except per share data or unless otherwise indicated	2011	2012	2013	1ST HALF 2013	1ST HALF 2014
FINANCIAL HIGHLIGHTS					
Total revenues	5,177	5,695	6,133	2,992	3,190
Operating income	967	949	1,420	782	1,010
Adjusted operating income, excluding significant items (1)(2)	967	1,309	1,844	773	1,010
Net income	570	484	875	469	622
Income, excluding significant items (1)(2)	538	753	1,132	463	622
Diluted earnings per share	3.34	2.79	4.96	2.66	$3.54
Adjusted diluted earnings per share (1)(2)	3.15	4.34	6.42	2.63	$3.52
Free cash (1)(2)	(724)	93	530	171	534
Financial Ratios					
Operating ratio	81.3%	83.3%	76.8%	73.9%	68.3%
Adjusted operating ratio (1)(2)	81.3%	77.0%	69.9%	73.9%	68.3%
Debt-to-total capitalization	50.7%	47.9%	40.7%	45.9%	39.8%
STATISTICAL HIGHLIGHTS					
Revenue ton miles (millions)	129,059	135,032	144,249	72,154	72,804
Carloads (thousands)	2,597	2,669	2,688	1,327	1,307
Train weight (tons)	6,593	6,709	7,573	7,337	7,924
Train length (feet)	5,860	5,981	6,530	6,369	6,634
Fuel efficiency (Gallons per 1000 GTMs)	1.18	1.15	1.06	1.09	1.05

(1) These earnings measures have no standardized meanings prescribed by U.S. GAAP and, therefore, are unlikely to be comparable to similar measures of other companies.

(2) See Page 110 for a reconciliation of non-GAAP measures.

Key Metrics & Compound Annual Growth Rate (2011–2013)

TOTAL REVENUES

8.8%

ADJUSTED DILUTED EARNINGS PER SHARE (1)(2)

42.8%

ADJUSTED OPERATING RATIO (1)(2)

1,140 BP REDUCTION

FUEL EFFICIENCY (GALLONS PER 1000 GTMS)

5.2%

REVENUE TON MILES (MILLIONS)

5.7%

TRAIN WEIGHT (TONS)

7.2%

TRAIN LENGTH (FEET)

5.6%

OUR REACH

CP's 13,700-mile network extends from Port Metro Vancouver in Canada's west to the Port of Montreal in Canada's east; and includes the U.S. industrial centres of Chicago, Detroit, Buffalo, Kansas City and Minneapolis.

Our network is comprised of four primary corridors: Western, Eastern, Central and the Northeast U.S.

We use different train control systems on different portions of our owned track, depending on the volume of traffic. Where traffic is heaviest, we use centralized traffic control (CTC) signals to authorize the movement of trains. Approximately 4,050 miles of the network are controlled by CTC signals. We are currently in the development stage of a Positive Train Control strategy for portions of our U.S. network.

Where rail traffic is typically lighter, train movements are directed by written instructions transmitted electronically and by radio from rail traffic controllers to train crews. In some specific areas of intermediate traffic density or double track, we use an automatic block signal system (ABS) in conjunction with written instructions from rail traffic controllers. Approximately 680 miles of the network have ABS in place.

CORRIDOR	TRAIN CONTROL	TRACK MILES	AVERAGE DENSITY (THOUSAND GTMS PER MILE)	TYPICAL SIDING LENGTH (FEET)	TYPICAL SIDING SPACING (MILES)
Vancouver - Calgary	CTC	642	73.5	7,650	7 - 10
Edmonton - Calgary	OCS/ABS/CTC	189	29.3	8,400	15 - 20
North Line (Wetaskiwin - Portage La Prairie)	OCS	750	12.0	7,400	30 - 35
Calgary - Winnipeg	CTC	832	53.0	7,650	9 - 12
Winnipeg - Toronto	CTC/ABS	1226	32.5	7,700	11 - 15
Moose Jaw - Glenwood	OCS/TWC/CTC	595	33.4	8,000	20 - 25
Winnipeg - Glenwood	OCS/TWC	331	19.6	5,900	50 - 60
Glenwood - Chicago	CTC	532	54.4	10,000	11 - 25
Windsor - Montreal	CTC/ABS	555	33.0	7,000	10 - 12

Other Methods of Control: OCS – Occupancy Control System; TWC – Track Warrant Control. These are two similar methods of control that utilize written clearances to govern the movement of trains on the network.


LLOYDMINSTER
SASKATOON
REGINA
PORTAGE LA PRAIRIE
WINNIPEG
THUNDER BAY
SUDBURY
MONTREAL
DULUTH
MINNEAPOLIS/
ST. PAUL
TRACY
TORONTO
ALBANY
MILWAUKEE
DETROIT
BUFFALO
CHICAGO
NEW YORK
PHILADELPHIA
KANSAS CITY
AVERAGE DENSITY
(GTMs per route mile)
OVER 45 MILLION
30-45 MILLION
15-30 MILLION
UP TO 15 MILLION

THE WESTERN CORRIDOR: VANCOUVER-THUNDER BAY

The Western Corridor links Vancouver with Thunder Bay in Canada. With service through Calgary, the Western Corridor is an important part of our routes between Vancouver and the U.S. Midwest, and between Vancouver and Eastern Canada. The Western Corridor provides access to the Port of Thunder Bay, Canada's primary Great Lakes bulk terminal.

PRODUCTS

The Western Corridor is our primary route for bulk and resource products traffic from Western Canada to the Port Metro Vancouver for export. We also handle significant volumes of intermodal containers and domestic merchandise traffic.

FEEDER LINES

We support our Western Corridor with four significant feeder lines. The "Coal Route" links southeastern B.C. coal deposits to the Western Corridor and to coal terminals at Port Metro Vancouver. The "Edmonton-Calgary Route" provides rail access to Alberta's Industrial Heartland in addition to petrochemical facilities in central Alberta. The "Pacific CanAm Route" connects Calgary and Medicine Hat, Alberta, with Pacific Northwest rail routes at Kingsgate, B.C. via the Crowsnest Pass. The "North Line Route" provides rail service to customers from Winnipeg to Calgary through Portage la Prairie Manitoba; Yorkton and Saskatoon, Saskatchewan; and Wetaskiwin, Alberta. This line is an important collector of Canadian grain and fertilizer, serving the potash mines located east and west of Saskatoon and many high-throughput grain elevator and processing facilities. In addition, this line provides direct access to refining and upgrading facilities at Lloydminster, Alberta and Western Canada's largest pipeline terminal at Hardisty, Alberta.

CONNECTIONS

Our Western Corridor connects with the Union Pacific Railroad (UP) at Kingsgate; and with Burlington Northern Santa Fe, LLC (BNSF) at Coutts, Alberta, and at New Westminster and Huntingdon in B.C. This corridor also connects with Canadian National (CN) at many locations including Thunder Bay, Winnipeg, Regina, Saskatoon, Red Deer, Calgary, Edmonton and several locations in the Greater Vancouver area.

YARDS AND REPAIR FACILITIES

We support rail operations on the Western Corridor with main rail yards at Vancouver, Calgary, Edmonton, Moose Jaw, Winnipeg and Thunder Bay. We also have major intermodal terminals at Vancouver, Calgary, Edmonton, Regina and Winnipeg. We have locomotive and rail car repair facilities at Golden, Vancouver, Calgary, Moose Jaw and Winnipeg.


EDMONTON
WETASKIWIN
LLOYDMINSTER
GOLDEN
HARDISTY
SASKATOON
CALGARY
YORKTON
FORT STEELE
MOOSE JAW
REGINA
MEDICINE HAT
PORTAGE LA PRAIRIE
UP
KINGSGATE
BNSF
COUTTS
WINNIPEG
THUNDER BAY
SUDBURY
DULUTH
MINNEAPOLIS/ST. PAUL
TRACY
TORONTO
CONNECTIONS
MILWAUKEE
BUFFALO
DETROIT
CHICAGO
KANSAS CITY

THE CENTRAL CORRIDOR: MOOSE JAW-CHICAGO-KANSAS CITY

Our Central Corridor connects with the Western Corridor at Moose Jaw. By running south to Chicago and Kansas City through the Twin Cities of Minneapolis and St. Paul, and Milwaukee, we provide a direct, single-carrier route between Western Canada and the U.S. Midwest, with access to Great Lakes and Mississippi River ports.

From Winona, Minnesota, the Central Corridor continues south towards Kansas City via the Quad Cities, providing an efficient route for traffic destined for southern U.S. and Mexican markets. Our Kansas City line also has a direct connection into Chicago and, by extension, to points east on our network, including Toronto and the Port of Montreal.

PRODUCTS

Traffic transported on the Central Corridor include intermodal containers, fertilizers, chemicals, crude, grain, coal, automotive and other agricultural products.

FEEDER LINES

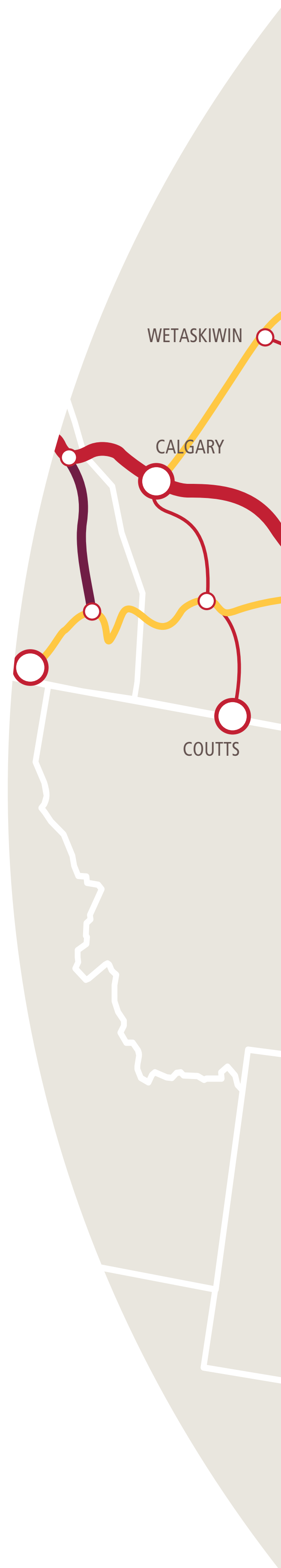
We have operating rights over the BNSF line between Minneapolis and the twin ports of Duluth, Minnesota and Superior, Wisconsin. We maintain our own yard facilities at the Twin Ports, providing an outlet for grain from the U.S. Midwest to the grain terminals at these ports. This is also a strategic entry point for large dimensional shipments that can be routed via our network to locations such as Alberta's Industrial Heartland to serve the oil sands and energy industry. The "DM&E Route" from Winona, Minnesota to Tracy, Minnesota provides access to key agricultural and industrial commodities. In North Dakota, our feeder line between Drake and Newtown, North Dakota is situated in a highly-strategic region for Bakken oil production. We also own two significant feeder lines in North Dakota and western Minnesota operated by the Dakota Missouri Valley and Western Railroad, and the Northern Plains Railroad (NPR), respectively. Both of these short lines are also active in providing service to agricultural and Bakken-oil related customers.

CONNECTIONS

Our Central Corridor connects with all major railroads at Chicago. Outside of Chicago, we have major connections with BNSF at Minneapolis and at Minot, North Dakota and with UP at St. Paul. We connect with CN at Minneapolis, Milwaukee and Chicago. At Kansas City we connect with Kansas City Southern (KCS), BNSF, Norfolk Southern Corporation (NS), and UP. Our Central Corridor also links to several shortline and regional railroads that primarily serve grain and coal producing areas in the U.S., and extend our market reach in the rich agricultural areas of the U.S. Midwest.

YARDS AND REPAIR FACILITIES

We support rail operations on the Central Corridor with main rail yards in Chicago, Milwaukee, St. Paul and Glenwood in Minnesota, and Mason City and Nahant in Iowa. We own 49% of the Indiana Harbor Belt Railroad, a switching railroad serving Greater Chicago and northwest Indiana. We have a major intermodal terminal in Chicago and one in Minneapolis. In addition, we have a major locomotive repair facility at St. Paul and car repair facilities at St. Paul and Chicago. We share a yard with KCS in Kansas City.




EDMONTON
LLOYDMINSTER
SASKATOON
MEDICINE HAT
REGINA
MOOSE JAW
WINNIPEG
BNSF
MINOT
DRAKE
NEWTOWN
THUNDER BAY
DULUTH
SUPERIOR
GLENWOOD
MINNEAPOLIS/ST. PAUL
BNSF, UP,CN
CONNECTIONS
TRACY
WINONA
LACROSSE
CN
MILWAUKEE
BNSF,UP, NS,CSX,CN
CHICAGO
KANSAS CITY
KCS, NS, UP

THE EASTERN CORRIDOR: THUNDER BAY-MONTREAL AND DETROIT

The Eastern Corridor extends from Thunder Bay through to our eastern terminus at Montreal, and from Toronto to Chicago via Detroit/Windsor. Our Eastern Corridor provides shippers direct rail service from Toronto and Montreal to Calgary and Vancouver via our Western Corridor and to the U.S. via our Central Corridor.

This is a key element of our transcontinental service, including intermodal and truck trailers moving in drive-on/drive-off Expressway service between Montreal and Toronto.

PRODUCTS

Major traffic categories transported in the Eastern Corridor include forest and industrial and consumer products, intermodal containers, automotive products and general merchandise.

FEEDER LINES

A major feeder line that serves the steel industry at Hamilton provides connections to both our Northeast U.S. corridor and other U.S. carriers at Buffalo.

CONNECTIONS

The Eastern Corridor connects with a number of shortline railroads including routes from Montreal to Quebec City; and, Montreal to St. John, New Brunswick and Searsport, Maine. We own a route to Temiscaming, Quebec via North Bay, Ontario operated by short line Ottawa Valley Railway – where connections are made with the Ontario Northland Railway. Connections are made with CN at a number of locations, including Sudbury, North Bay, Windsor, London, Hamilton, Toronto and Montreal. Connections are also made at Detroit and Buffalo with NS and CSX Corporation (CSX).

YARDS AND REPAIR FACILITIES

We support our rail operations in the Eastern Corridor with major rail yards at Toronto, London, and Montreal. Our largest intermodal facility is located in the northern Toronto suburb of Vaughan and serves the Greater Toronto and southwestern Ontario areas. We also operate intermodal terminals at Montreal and Detroit. Terminals for our Expressway service are located in Montreal and Milton, Ontario in the Greater Toronto area. We have locomotive repair facilities at Montreal and Toronto and car repair facilities at Thunder Bay, Toronto and Montreal.


THUNDER BAY
TEMISCAMING
MONTREAL
QUEBEC CITY
SUDBURY
NORTH BAY
DULUTH
MINNEAPOLIS/ST. PAUL
TORONTO
WINONA
GUELPH JTN
HAMILTON
ALBANY
MILWAUKEE
BUFFALO
DETROIT/
WINDSOR
LONDON
NS,CSX
BNSF,UP,NS,
CSX,CN
NS,CSX
CHICAGO
NEW YORK
CLEVELAND
PHILADELPHIA
KANSAS CITY
CONNECTIONS

THE NORTHEAST U.S. CORRIDOR: BUFFALO AND MONTREAL TO NEW YORK

The Northeast U.S. Corridor provides an important link between the major population centres of Eastern Canada, the U.S. Midwest and the U.S. Northeast. The corridor extends from Montreal to Harrisburg, Pennsylvania via Plattsburgh, New York and Albany in New York's Capital District Region.

PRODUCTS

Major traffic categories transported in the Northeast U.S. Corridor include ethanol, lumber, crude, metals, minerals and consumer products.

FEEDER LINES

The Northeast U.S. Corridor connects with important feeder lines. Our route between Montreal and Harrisburg, in combination with trackage rights over other railroads, provides us with direct access to New York. Agreements with NS provide us with access to shippers and receivers in the Conrail "shared asset" regions of New Jersey via Harrisburg. The "Southern Tier Route" between Guelph Junction, Ontario, Buffalo and Binghamton in New York includes haulage rights over NS lines. This route links industrial southern Ontario with key U.S. connecting rail carriers at Buffalo and provides access to short line carriers along the Buffalo to Binghamton route.

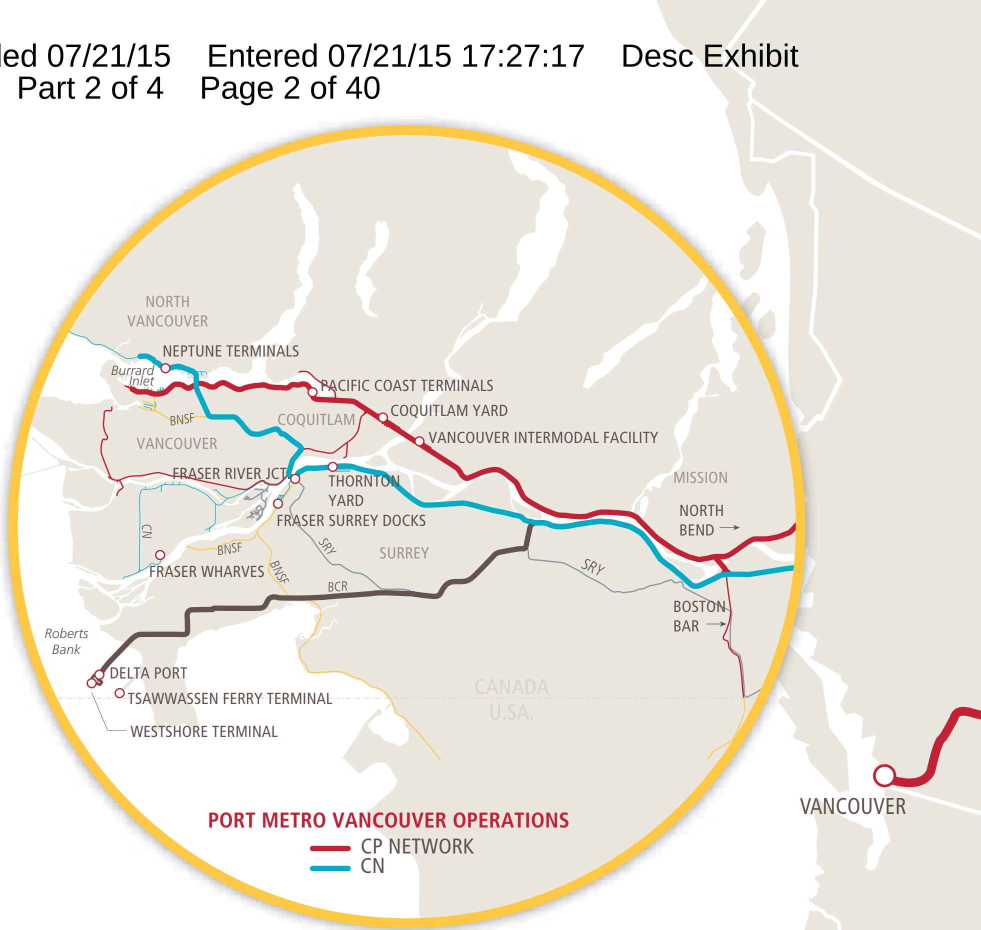
CONNECTIONS

We have major connections with NS at Harrisburg, Binghamton and Allentown, and with CSX at Buffalo. Shortline connections exist with multiple players throughout the corridor.

YARDS AND REPAIR FACILITIES

We support our Northeast U.S. Corridor with a major rail yard in Binghamton. We have locomotive and car repair facilities in Montreal and Binghamton.

EXHIBIT
D, Part 2 of 4



EXTENDING OUR REACH

Agreements and commercial arrangements with other rail carriers – short line, regional and Class 1 railroads – extend our market reach to virtually all of North America.

Continuously improving operating efficiencies between rail carriers fosters the development of new business by extending rail services into markets that previously were beyond the reach of individual railroads. As a result, rail carriers are shipping goods to new markets and moving goods that had traditionally been carried by trucks. Approximately 40% of our business is either received from or handed off to other railroads.

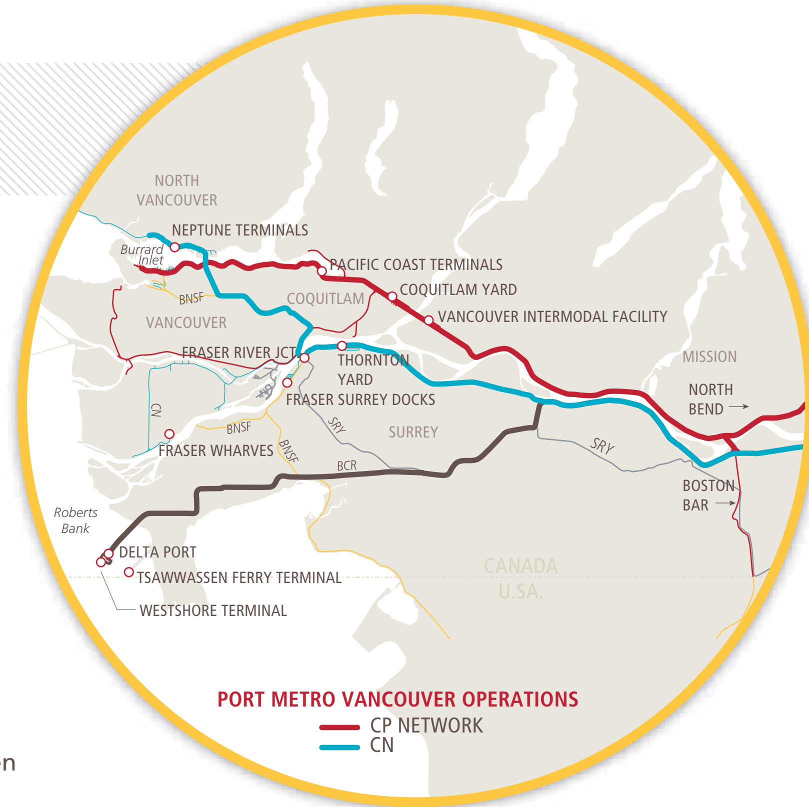
Through these agreements and commercial arrangements, we are providing our customers with more services and improved access across Canada, the U.S. and Mexico.

NETWORK AGREEMENTS

We have entered into several co-production agreements with other Class 1 railroads as part of our ongoing strategy to increase capacity and extend our reach by sharing routes and track while maintaining vigorous competition.


CN HAULAGE ON CP LINE
FRANZ
THUNDER BAY
SUDBURY
WATERFALL
SAULT-SAINTE-MARIE
PARRY SOUND
ONTARIO OPERATIONS
WESTBOUND TRAINS ON CP LINES
EASTBOUND TRAINS ON CN LINES
CP NETWORK
CN
OTHER
EDMONTON
LLOYDMINSTER
SASKATOON
CALGARY
REGINA
WINNIPEG
KINGSGATE
COUTTS
THUNDER BAY
SUDBURY
MONTREAL
DULUTH
MINNEAPOLIS/
ST. PAUL
TRACY
TORONTO
ALBANY
BUFFALO
MILWAUKEE
DETROIT
NEW YORK
CHICAGO
PHILADELPHIA
KANSAS CITY
TORONTO
BUFFALO
MILWAUKEE
DETROIT
BENSENVILLE
YARD
CHICAGO
CLEVELAND
CHICAGO TO BUFFALO HAULAGE AGREEMENT
CP NETWORK
CP HAULAGE ON CSX LINE
CP TRACKAGE ON NS LINE

PORT METRO VANCOUVER OPERATIONS



In 2008, our company and CN renegotiated the Fraser Canyon directional running zone agreement. This agreement allows both companies to mitigate the effects of steep and difficult operating terrain and improve fluidity for import and export goods.

Our company, CN, and shippers benefit from a series of agreements to realize efficiencies and improve rail service to and from Canada's largest, busiest and most diversified port: Port Metro Vancouver.

THESE AGREEMENTS PROVIDE:

- reciprocal access to Vancouver's north and south shores, with our potash and coal trains having direct access to Neptune Terminals and CN sulphur trains having direct access to Pacific Coast Terminals;
- the option to operate longer, heavier trains; and
- a reciprocal interchange at CN's Thornton Yard and our Coquitlam Yard that replaces a less efficient interchange arrangement.

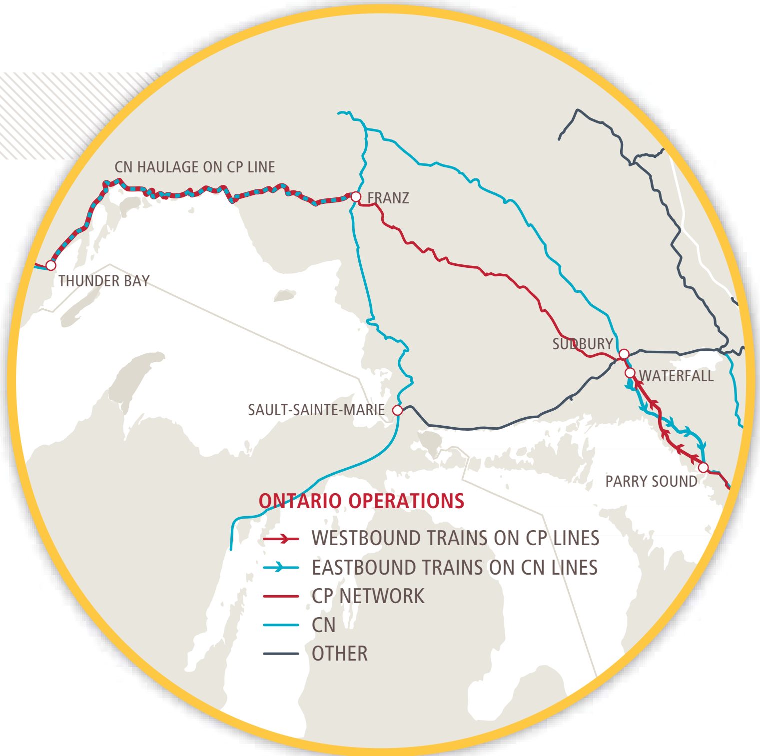
These reciprocal arrangements have been enhanced to optimize railroad infrastructure in the Lower Mainland of B.C. Under these arrangements, we operate the trains of both railroads using our crews a distance of approximately 127 miles from Boston Bar to the terminals on the south shore of Burrard Inlet in Vancouver and return to North Bend. CN operates the trains of both railroads using CN crews a distance of approximately 140 miles from Boston Bar to the terminals on the north shore of Burrard Inlet and return to North Bend. We provide all switching on the south shore of Burrard Inlet and CN provides all switching on the north shore of Burrard Inlet. In addition, we operate some CN trains a distance of approximately 135 miles to or from the Roberts Bank at Delta Port.

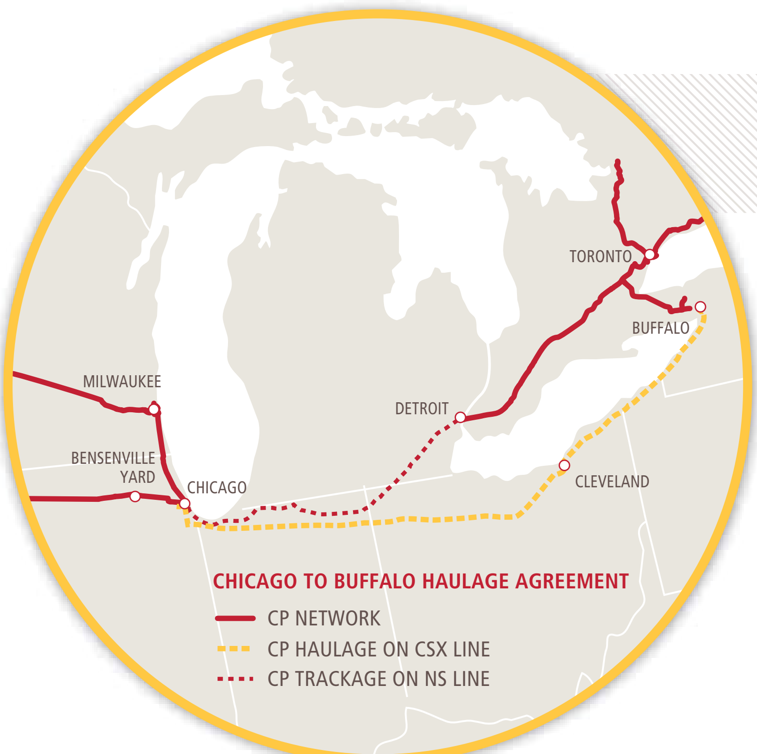
ONTARIO OPERATIONS

Our company and CN also have additional network initiatives that improve transit times and asset utilization in Ontario.

THESE INITIATIVES PROVIDE FOR:

- directional running over approximately 100 miles of parallel CP and CN track in Ontario between Waterfall, near Sudbury, and Parry Sound. The two railroads operate eastbound trains over the CN line and westbound trains over our line, improving network fluidity in this corridor; and,
- a haulage arrangement, with CN freight moving over approximately 300 miles of our track in Ontario between Thunder Bay and Franz using our route north of Lake Superior.





CHICAGO TO BUFFALO HAULAGE AGREEMENT

We negotiated a haulage agreement with the CSX to move intermodal traffic from NS trackage rights between Chicago and Detroit onto a Chicago to Buffalo route via Cleveland.

The Buffalo route is over CSX's high speed, second generation double-stack cleared Chicago Line that connects Bensenville Yard and the Buffalo Terminal via Cleveland.

BENEFITS TO CP ARE:

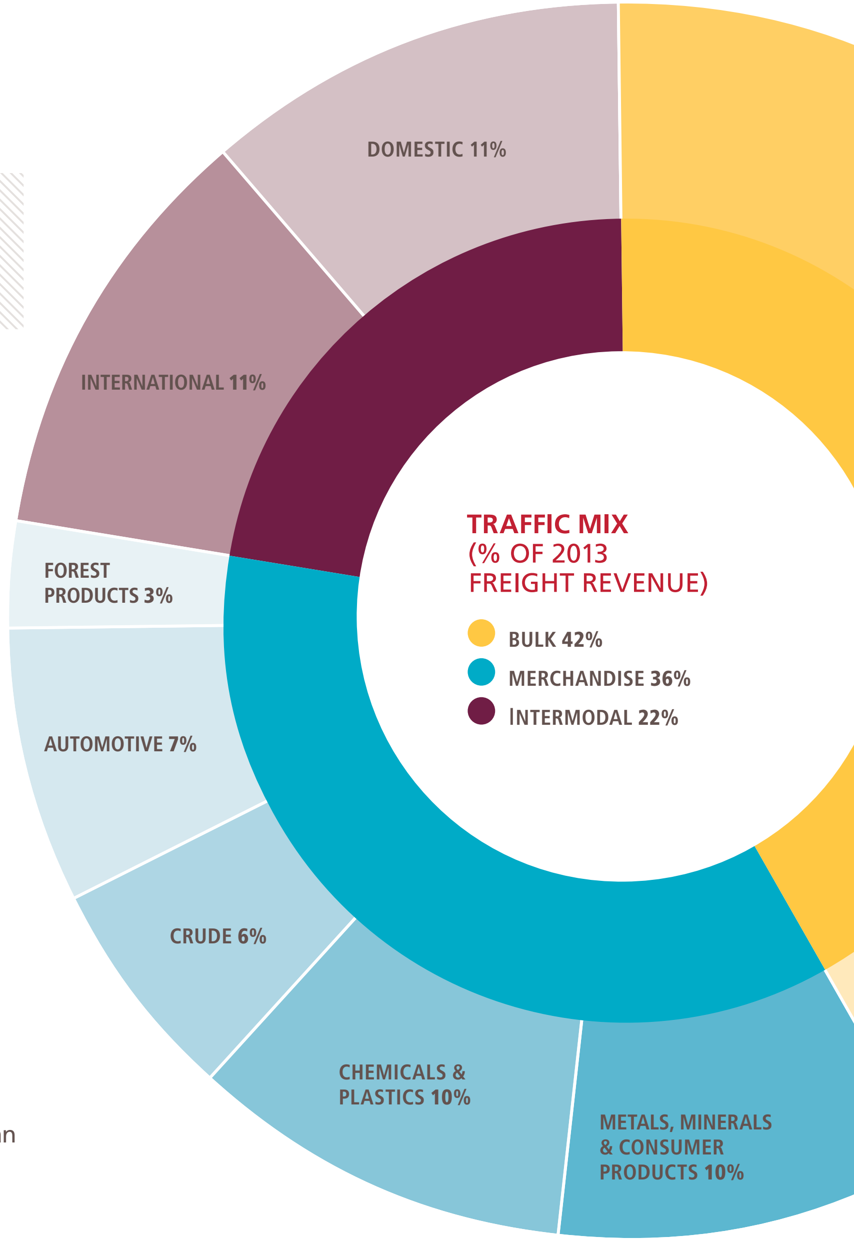
- creation of synergies and train design opportunities by operating all intermodal traffic on one train brace;
- frees 20% train start capacity over the NS Elkhart route for the movement of other traffic;
- creates 10% to 12% of additional train capacity by moving intermodal traffic from multiple trains onto one train service;
- creates train density and improves the contribution margin of the traffic by removing the single stack requirement due to Detroit River Tunnel height restrictions; and
- provides a fixed Interline cost for an 8,000-foot double-stacked intermodal train. Except for additional fuel costs, the agreement will allow us to grow our intermodal business in the corridor by 90% for the same initial cost.

BUSINESS MIX

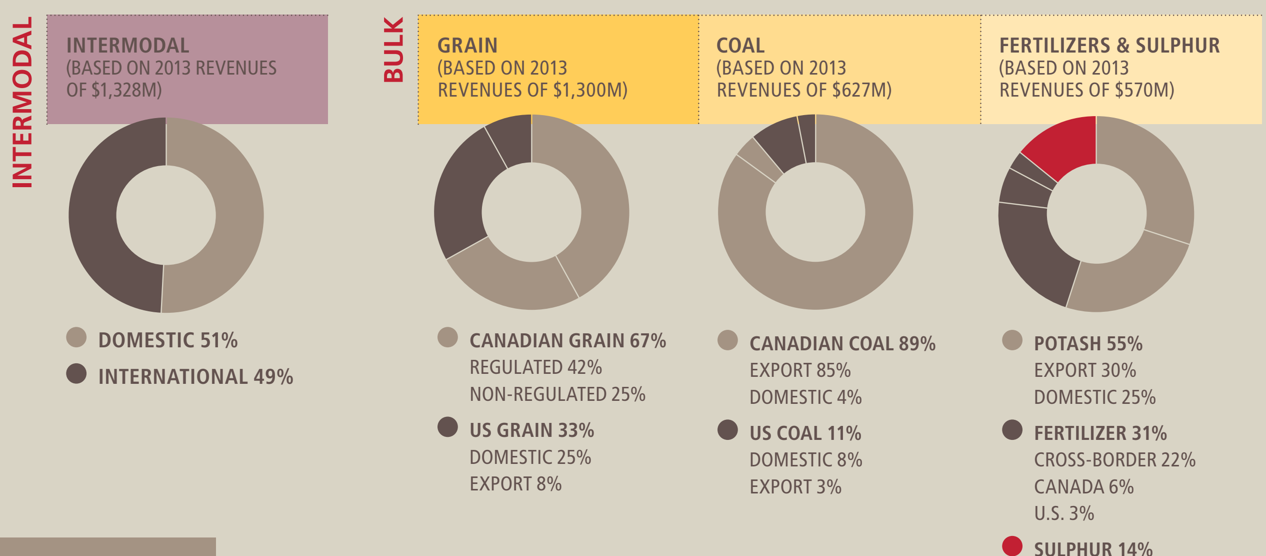
CP's product and geographic diversity creates a powerful base from which to drive sustainable, profitable growth.

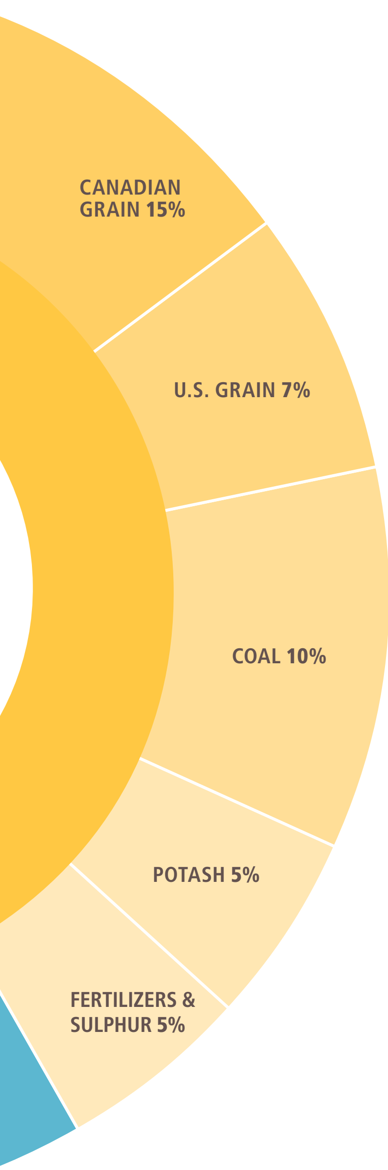
Our freight revenues are derived from 12 lines of business representing a diversified and balanced portfolio of goods transported between a wide range of origins and destinations.

We organize our freight traffic into three business groups based on the service and equipment requirements of our customers – bulk, merchandise and intermodal. Bulk commodities, which typically move in large volumes across long distances, include grain, coal, potash, fertilizers and sulphur. Merchandise products typically move in trains of mixed freight and in a variety of car types containing a range of products such as finished vehicles and automotive parts, chemicals and plastics, crude oil, forest products, as well as metals, minerals, and consumer products. Intermodal traffic consists largely of high-value, time-sensitive retail goods in overseas containers that can be transported by train, ship and truck, and in domestic containers and trailers that can be moved by train and truck.



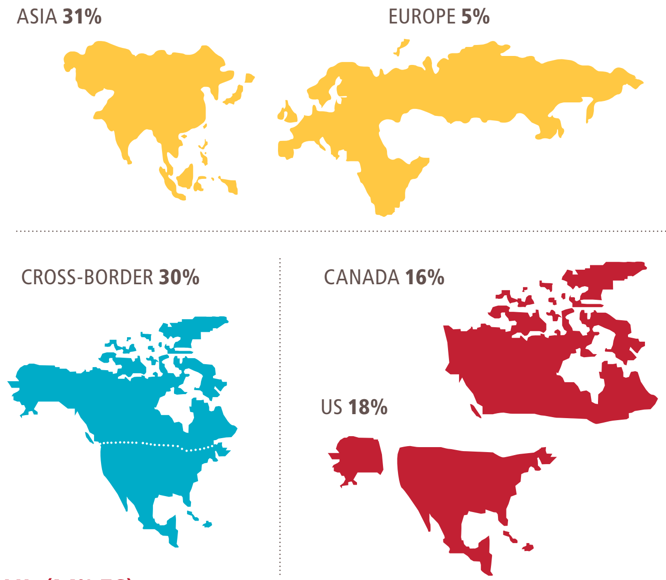
LINES OF BUSINESS



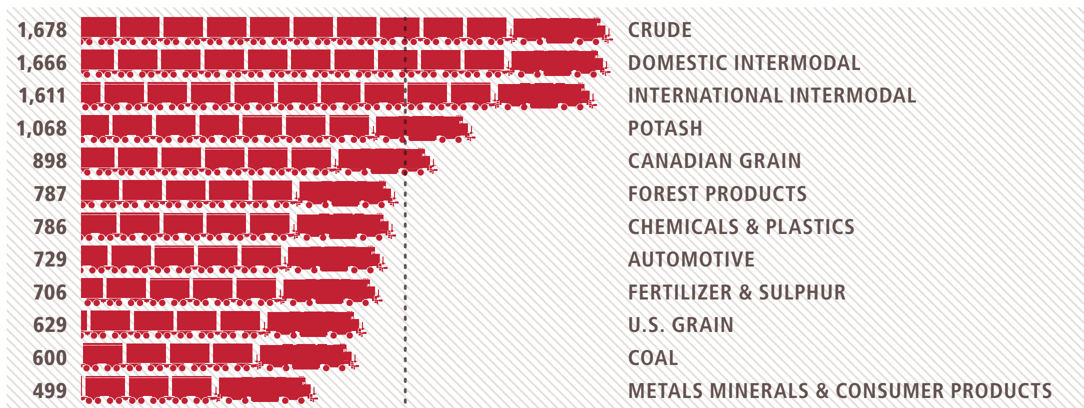


GEOGRAPHIC DISTRIBUTION (% OF 2013 FREIGHT REVENUE)

- GLOBAL 36%
- CROSS-BORDER 30%
- DOMESTIC 34%



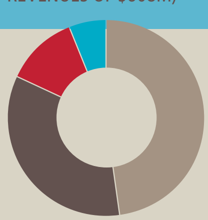
2013 AVERAGE LENGTH OF HAUL (MILES)



844 = CORPORATE AVERAGE

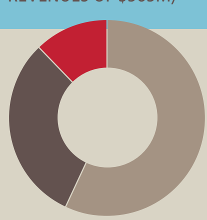
MERCHANDISE

METALS, MINERALS & CP
(BASED ON 2013 REVENUES OF $608M)



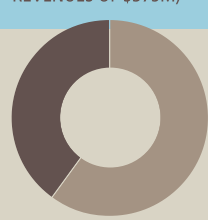
- AGGREGATES 48%
- STEEL 34%
- CONSUMER PRODUCTS 12%
- MINES & METALS 6%

CHEMICALS & PLASTICS
(BASED ON 2013 REVENUES OF $565M)



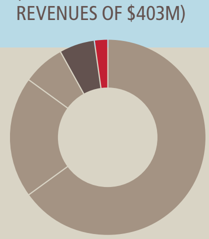
- PETROLEUM PRODUCTS 57%
- CHEMICALS 31%
- PLASTICS 12%

CRUDE
(BASED ON 2013 REVENUES OF $375M)



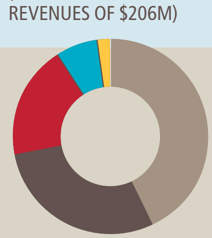
- BAKKEN 54%
- WESTERN CANADIAN 46%

AUTOMOTIVE
(BASED ON 2013 REVENUES OF $403M)



- FINISHED VEHICLES & PARTS 92%
  ORIGIN CANADA 65%
  ORIGIN US 20%
  ORIGIN MEXICO 7%
- MACHINERY 6%
- USED VEHICLES 2%

FOREST PRODUCTS
(BASED ON 2013 REVENUES OF $206M)



- PULP 43%
- LUMBER 29%
- PAPER 19%
- PANEL 7%
- OTHER 2%

GRAIN

Grain is CP's single largest commodity, accounting for 22% of our freight revenues. Grain transported by CP consists of both whole grains – such as wheat, corn, soybeans and canola – and processed products such as meals, oils and flour.

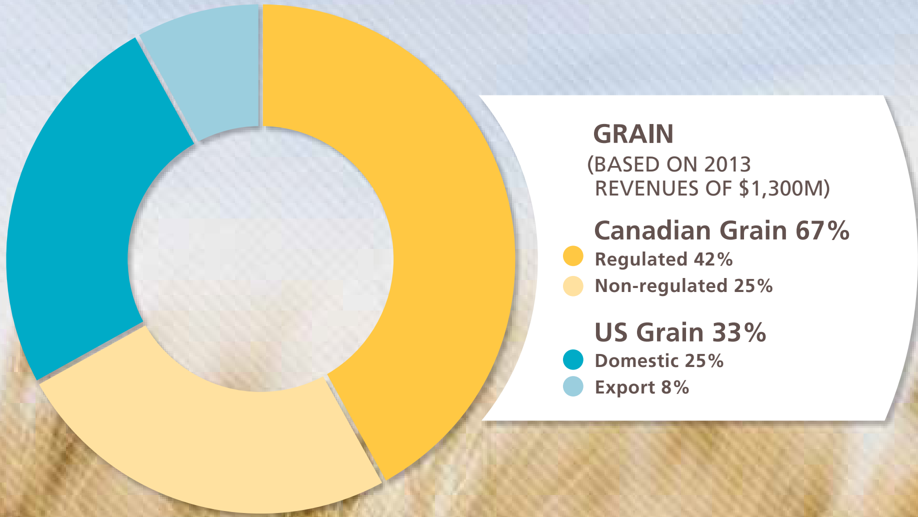
Our grain portfolio is segmented geographically into Canadian and U.S. grain markets that include the movement of agricultural products from key producing regions in North America to both domestic and international markets.

The domestic movement of grain is made up of the movement of whole grains, such as wheat, canola, corn, soybeans and specialty crops to grain processors via origins in Western Canada and the Midwest U.S. We then move the resulting finished products and by-products from these processors.

In addition to moving product for domestic use in both Canada and the U.S., our network reach utilizes multiple export terminals for shipments overseas, with major outlets on the West and East coasts, as well as rail partners to service Mexico and the southern ports in the U.S.

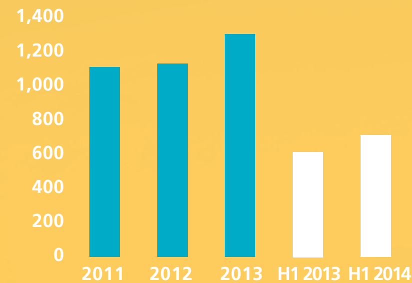
In 2013, we moved approximately 438,000 carloads of grain and grain products, resulting in $1.3 billion of revenue. Through the first half of 2014, we have increased these volumes by nearly 6%, driven predominantly by a large crop in the U.S. and a record crop in Canada.

Our network reach utilizes **multiple export terminals** for shipments overseas.



Our focus is to drive increased throughput capacity within the entire North American grain handling system.

REVENUE

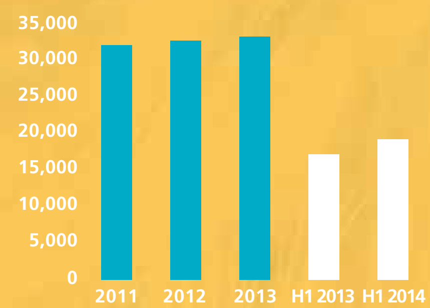


Revenue ($ millions)

2011 | 1,100
2012 | 1,172
2013 | 1,300

H1 2013 | 596
H1 2014 | 694

RTMS

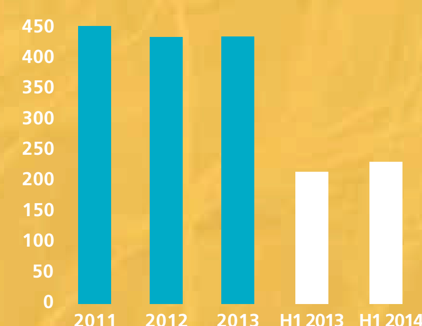


Revenue Ton Miles (millions)

2011 | 32,481
2012 | 33,082
2013 | 33,983

H1 2013 | 16,113
H1 2014 | 18,138

CARLOADS



Carloads (thousands)

2011 | 450
2012 | 433
2013 | 438

H1 2013 | 211
H1 2014 | 223

CANADIAN GRAIN

Canada is a major producer of wheat, durum, canola and barley. Wheat is Western Canada's main crop, accounting for approximately 55% of total grain production. Nearly two-thirds of all Canadian wheat production is exported annually, mostly to Asia, North America and the Middle East. The vast majority of these exports utilize rail to deliver inland grain production to overseas export locations in Vancouver, Thunder Bay, Quebec and the U.S. Pacific Northwest. Canada also ships a large amount of its grain production to the U.S. and Mexico for domestic processing.

We have a strong origination network that includes 183 elevators across the Canadian prairies, of which 70 are high-throughput, high-efficiency elevators capable of loading unit trains exceeding 100 cars in less than 24 hours.

The canola processing industry represents a growing segment in our Canadian grain portfolio. This industry has seen increased demand in recent years and a majority of its production and by-products are destined for export. More than 80% of canola seed, oil and meal produced in Canada is exported to the U.S., Mexico, China and Japan. The industry continues to invest in canola processing capacity with the planned introduction of 2.4 million metric tonnes (MMT) of additional canola processing capacity in Western Canada. The oil is used in the restaurant industry, consumer households and biodiesel production, while the by-product meal is used as an animal feed product.

Canadian grain includes a segment of business that is regulated by the Canadian government. This regulated business is subject to a maximum revenue entitlement (MRE). Under this regulation railroads can set their own freight rates for individual movements. However, the MRE governs aggregate revenue earned by the railroad based on a formula that factors in the length of haul, total volumes, average revenue per tonne and inflationary adjustments. The regulation applies to Western Canadian grain shipments to the ports of Vancouver and Thunder Bay.

In 2013, grain traffic subject to the MRE accounted for 63% of Canadian grain revenues, with the balance moving in commercial (non-regulated) corridors. Canadian grain shipments totaled 256,000 carloads and almost $869 million in revenue.

U.S. GRAIN

The U.S. is, by far, the largest producer of corn in the world, producing over 25% of the world's corn supply. Approximately 20% of this corn is for export and a large portion of crop goes towards the production of ethanol. The U.S. is also the world's largest producer and exporter of soybeans, accounting for more than 33% of the world's soybean production. Soybeans are used to create a variety of products, such as soybean oil (used in food manufacturing and frying) and meal.

In the U.S., our origination network spans key producing states across the Midwest, accessing 145 elevators in North Dakota, Minnesota, Iowa, South Dakota and Montana.

We utilize multiple gateways within the U.S. for delivery to both domestic and export markets, primarily Kingsgate, B.C., St. Paul, Chicago and Kansas City. This reach expands to the U.S. Pacific Northwest, the Northeast U.S. and south to markets in the Gulf and Mexico. Our U.S. grain shipments in 2013 totaled 182,000 carloads and $431 million in revenue.

	STATE/PROVINCE	HIGH THROUGHPUT (HTP) ELEVATORS	ALL ELEVATORS (INCLUDING HTP)
CANADA	Alberta	21	45
	Saskatchewan	34	89
	Manitoba	15	49
	TOTAL	**70**	**183**
US	North Dakota	28	72
	Minnesota	11	50
	OTHER	5	23
	TOTAL	**44**	**145**

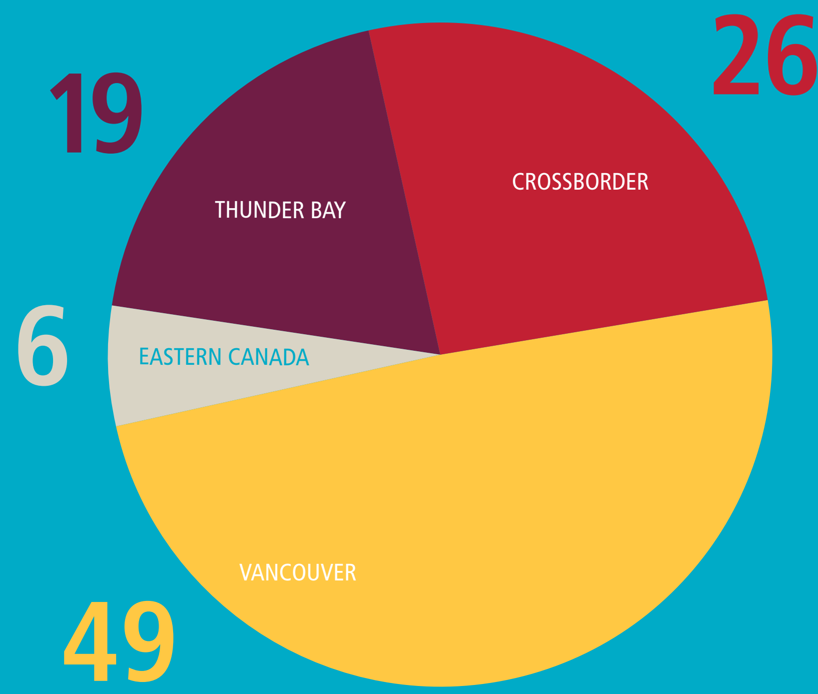
OUTLOOK

Global population and economic growth are the major drivers in projected grain demand. Countries like China and India, with population and economic growth rates above the global average, are seeing changes in dietary behaviour as their populations desire more proteins and fats due to higher disposable incomes. These changes in diet require new and expanded inputs for food and feed.

North America is well positioned to supply this growing demand for food and feed. Continued advancements in technology, fertilizers and plant genetics have increased yields in all of the major grains. Within both Canada and the U.S., the acreages farmed are growing, driven by better overall economic returns for farmers. These long-term demand trends have promoted continued strong production of wheat and expansion in the production of canola, corn and soybeans in North America.

With the continued evolution of the North American marketplace, we have seen the opportunity for integration of both the U.S. and Canadian grain transportation programs, allowing us to broaden our destination reach and increase market share. We will continue to drive efficiency improvements within the entire North American grain handling system, engaging customers and industry stakeholders in initiatives to maximize capabilities. These initiatives include development of new and more efficient loading facilities, increasing and improving the capabilities of existing terminals, and maximizing rail capacity with increased asset utilization, longer trains and improved velocity.

CANADIAN GRAIN DESTINATIONS (CARLOADS %)



OUR PORTS AND TERMINALS

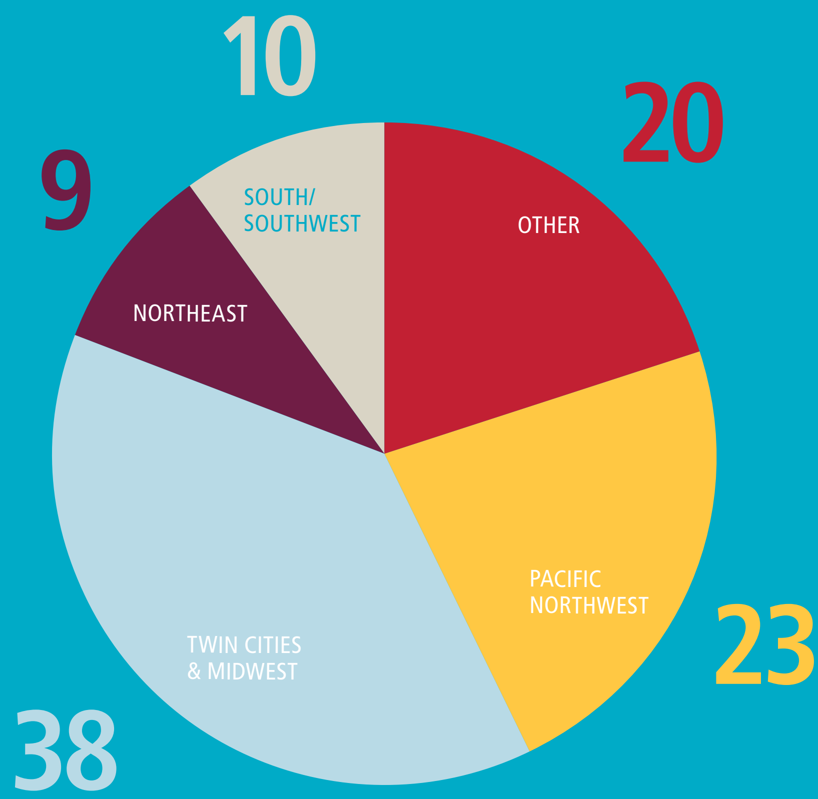
12 FACILITIES ON THE WEST COAST (IN VANCOUVER)

8 FACILITIES EAST COAST VIA THUNDER BAY AND THROUGH OUR EASTERN EXPORT PROGRAM

+ ACCESS TO FACILITIES VIA PARTNERSHIP AGREEMENTS WITH OTHER CLASS 1 RAILROADS IN THE PACIFIC NORTHWEST

THESE FACILITIES ENABLE EXPORT VOLUMES
>39 MMT OF GRAIN ANNUALLY

U.S. GRAIN DESTINATIONS (CARLOADS %)



STRATEGY

Our operating plan, industrial development initiatives, changes to our grain services and car request system, along with a collaborative approach to industry, will continue to improve our whole grain order fulfillment and shipment performance levels.

Our focus is on driving increased throughput capacity within the entire system. We are creating sustainable capacity capable of moving increasing amounts of grain across our network. In addition, through an industry approach in addressing improvement opportunities across the supply chain, we are targeting efficiencies at both port and elevators, in addition to rail. This includes improved rail velocity and asset utilization, loading on placement, loading the longest possible train, demand-pull management at the ports, 24/7 railcar unloading, as well as capital investments in infrastructure.

This enables longer, faster trains which reduces cycle times and increases the utilization of assets and creates additional capacity.

From 400-plus origination points across North America, we currently have 114 high-throughput elevators across our network. A typical grain train contains 112 railcars. We are driving towards a model capable of loading and unloading 134 car trains at both origin and destination. The net result would be more product moving more efficiently from elevator to port.

POTASH, FERTILIZERS & SULPHUR

Potash, fertilizers and sulphur benefit from the solid global fundamentals of agribusiness and Canada's position as the leading global producer of potash. Our portfolio includes potash, chemical fertilizers and sulphur shipped mainly from Western Canada to the ports of Vancouver and Portland, as well as other Canadian and U.S. destinations.

POTASH

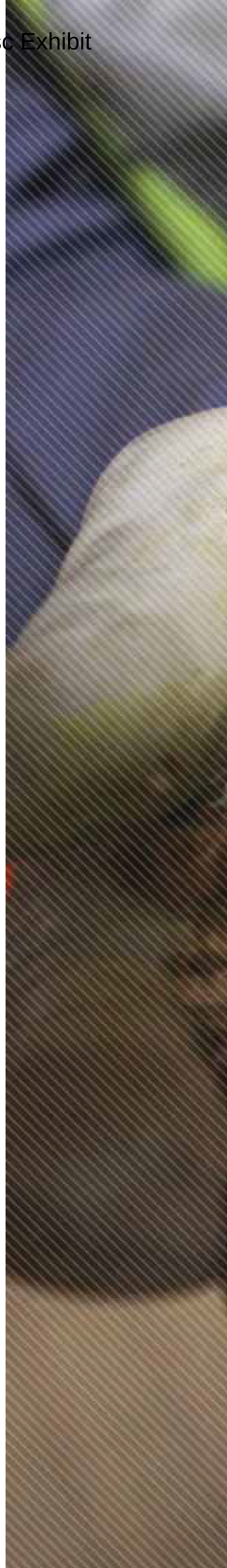
Potash, which makes up 55% of this portfolio, originates in Saskatchewan where we currently serve 10 mines. We move potash both domestically and for export. All potash shipments for export are handled by Canpotex, the world's largest exporter of potash. In 2012, we began a 10-year transportation agreement with Canpotex for tonnes moving to the West Coast via Neptune Terminals in Vancouver and Portland Bulk Terminals in Portland. This traffic is shipped to more than 30 countries, primarily in Asia, Latin America and Oceania. In 2013, we handled 68,000 carloads of export potash – approximately 70% went to Vancouver; 30% to Portland. Domestic potash is moved primarily to the U.S. Midwest for local application, via trainload and manifest service under long-term contracts with Mosaic, PotashCorp and Agrium. In 2013, we moved 38,000 carloads of potash domestically.

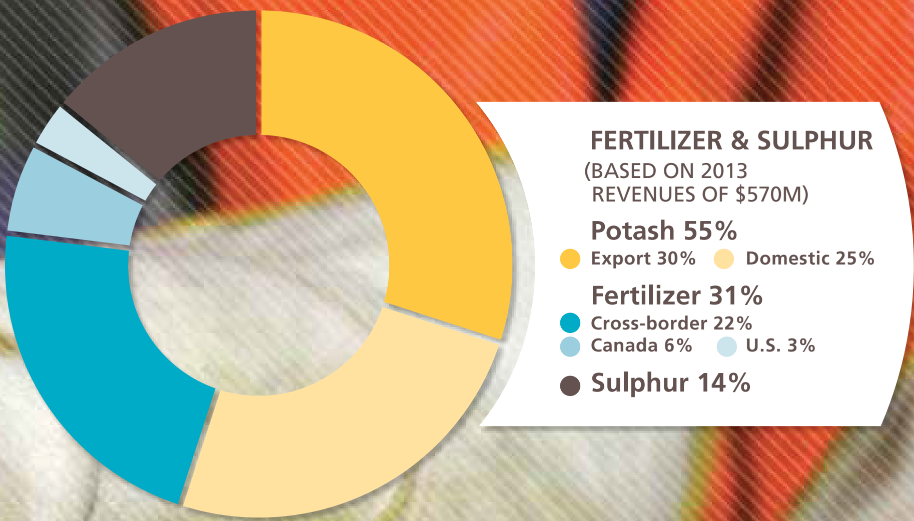
FERTILIZERS

Fertilizers – which include urea, nitrogen solutions, phosphate rock, phosphate fertilizers and ammonium nitrate and sulphate – are transported throughout North America. Traffic originates at CP-served production facilities, distribution points along the Mississippi River and various interchange points across the system. Traffic is then moved to our local customers, primarily in the Dakotas and Corn Belt regions. We also have access to Canada's largest nitrogen production facility in Medicine Hat and several other fertilizer production facilities in Alberta. Alberta originations accounted for roughly half of fertilizer revenues in 2013.

SULPHUR

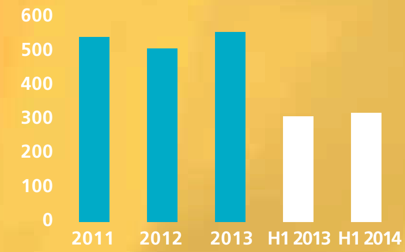
Sulphur is a by-product from the southern Alberta gas fields and oil refining process. While a large majority of sulphur is moved from the plant where it is extracted, we also have local access to several sulphur handling and forming locations (we are the leading transporter of formed sulphur shipped from gas plants in southern Alberta to Port Metro Vancouver). Despite depleting gas fields and low gas prices, we are well positioned to handle increased volumes of sulphur out of the Alberta oilsands by way of truck to transload facilities strategically located in the Edmonton area, home also to greenfield sites being developed by key industry participants. In 2013, we moved 25,000 carloads of sulphur, approximately two-thirds moved as a formed product to Pacific Coast Terminals in Vancouver for export and the remainder moved in liquid form domestically to points in Idaho or the Southeast U.S. for use in fertilizer production.





Our strategic network and operational efficiencies can serve the rising demand for food sources.

REVENUE

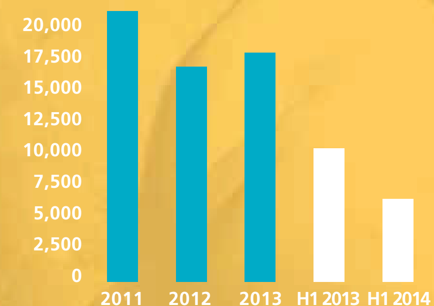


Revenue ($ millions)

2011 | 549
2012 | 520
2013 | 570

H1 2013 | 315
H1 2014 | 299

RTMS

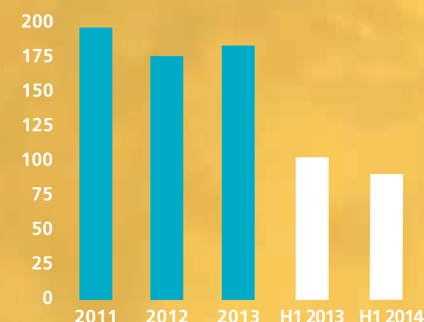


Revenue Ton Miles (millions)

2011 | 20,468
2012 | 17,058
2013 | 18,170

H1 2013 | 10,558
H1 2014 | 9,611

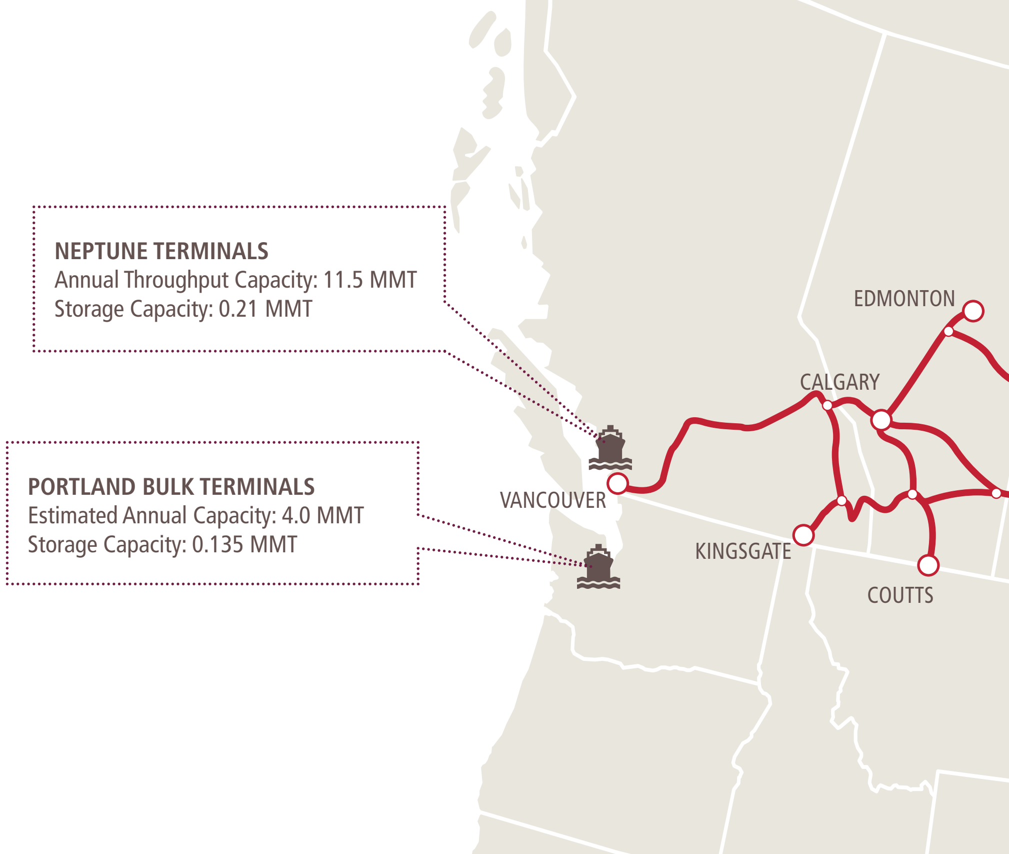
CARLOADS



Carloads (thousands)

2011 | 199
2012 | 177
2013 | 185

H1 2013 | 103
H1 2014 | 92



OUTLOOK

Potash has become one of the most expensive and important crop inputs. With much of North America and Europe already established in stable fertilizer usage patterns, the leaders in fertilizer growth are currently India, China and Brazil.

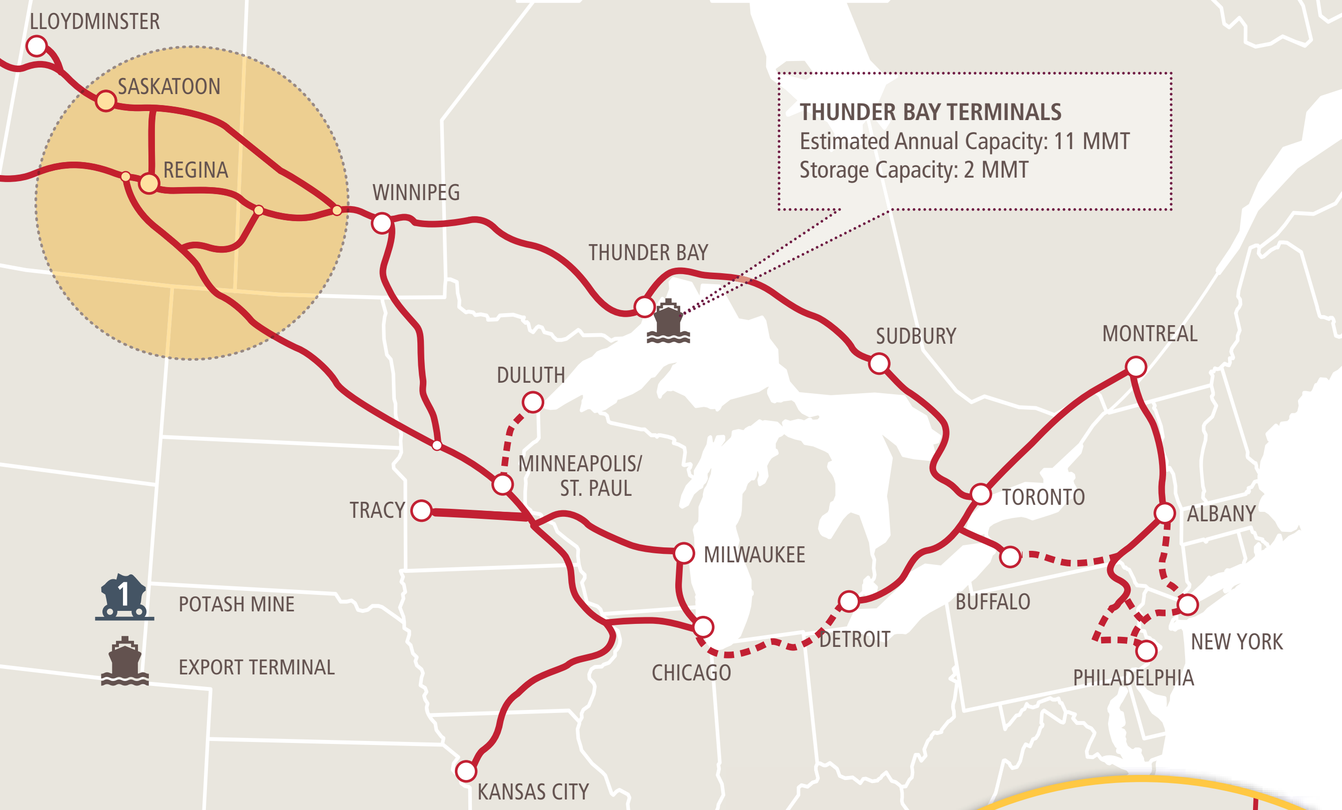
These markets are driven considerably by rising demand for food sources due to population growth, changes in monetary levels and increasing diversity in diets.

High agricultural commodity prices provide incentives for farmers in market-oriented economies to invest in fertilizers and other inputs for higher productivity. Countries such as China and India have strong government support, in the form of direct farm or input subsidies, to: increase productivity; ensure domestic food security; and, reduce exposure to price signals.

The outlook for the fertilizer industry remains positive with populations continuing to grow and the demand for efficient land use and healthy sustainable crops remaining steady. In the next five years, tight inventories and strong crop prices are expected to persist in the agricultural commodity markets because of the need to supply the fast-rising food, feed, fibre and bioenergy markets. This is anticipated to drive strong fertilizer demand, although high crop-price volatility could result in significant year-over-year variations.

While this sector is subject to short-term demand fluctuations, the long-term prospects remain promising.

COMMODITY FLOWS: *Export potash volumes move in unit trains from mines in Saskatchewan to port facilities in Vancouver and Portland. Some volumes move eastward through Thunder Bay to the St. Lawrence Seaway. Domestic potash moves by both unit train and manifest service to the U.S. Midwest.*



POTASH MINE	MINE TYPE	OPERATOR	ESTIMATED NAMEPLATE CAPACITY
1. Vanscoy	Conventional mine	Agrium	2.1 MMT
2. Cory	Conventional mine	Potash Corp	3.0 MMT
3. Patience Lake	Solution mine	Potash Corp	0.3 MMT
4. Allan	Conventional mine	Potash Corp	4.0 MMT
5. Colonsay	Conventional mine	Mosaic	2.3 MMT
6. Lanigan	Conventional mine	Potash Corp	3.8 MMT
7. Belle Plaine	Solution mine	Mosaic	2.8 MMT
8/9. Esterhazy (K1 & K2)	Conventional mine	Mosaic	5.3 MMT
10. Rocanville	Conventional mine	Potash Corp	3.0 MMT
11. Legacy (production estimated to start in mid 2016)	Solution mine	K+S	2.86 MMT

STRATEGY

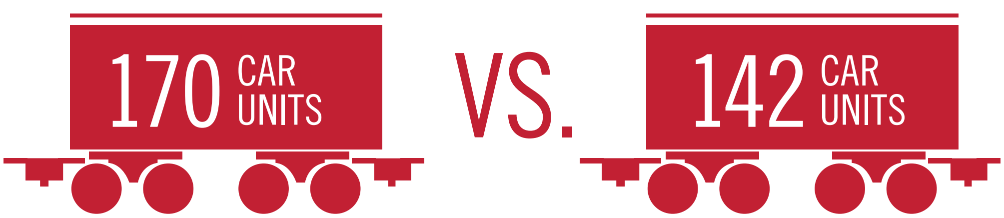
We are focused on collaborating with potash supply chain participants to drive further improvements and operational efficiencies. Recent examples include a drop-and-lift program that: reduces switching; allows assets to cycle more quickly and move to market faster; and, reduces resource costs for both our company and customers.

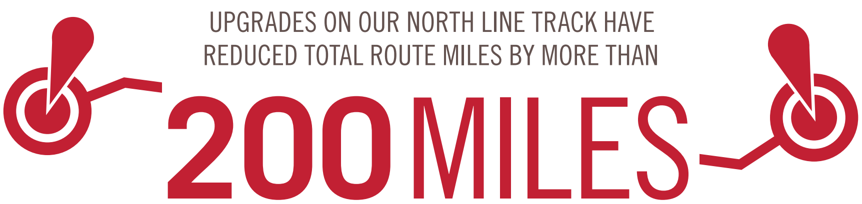
Potash destined for Vancouver now moves in 170-car-unit trains compared to the previous model of 142 cars, maximizing capacity and efficiency and moving more product with fewer train starts. The investments and upgrades that we have been making on our North Line track have strengthened operating efficiencies, including reducing total route miles by more than 200 miles.

Our primary strategy surrounding the fertilizer portfolio over the next five years is to concentrate on regional supply and demand models that project a growing demand for urea. This could result in a reliance on urea imports possibly beginning to compete in our natural footprint. We are working to understand how to push down the “tidal line” of imports and gain market share from the trucking industry.

With sulphur, we are expanding our footprint beyond originating facilities in southern Alberta. While we maintain our traditional markets, we are growing our northern Alberta capabilities by creating truck-to-rail transload capacity, allowing us to handle oilsands sulphur, and investigating further opportunities to partner with key industry participants at greenfield sites in the Edmonton area.

MAXIMIZING CAPACITY AND EFFICIENCY AND
MOVING MORE PRODUCT WITH FEWER TRAIN STARTS





SPOTLIGHT

CP will be the exclusive rail carrier for potash shipments from the K+S Legacy mine .

Serving new potash customers

K+S will be putting more than 100 years of mining experience and world-class expertise to work on the Legacy Project potash mine near Moose Jaw, Saskatchewan. The Legacy Project will be the first new greenfield potash mine built in Saskatchewan in nearly 40 years and will be exclusively served by CP.

Mine production is expected to begin in the fall of 2016 and is anticipated to ramp up to two million tonnes of production capacity by the end of 2017. The mine's capacity is expected to gradually increase to 2.86 million tonnes thereafter.

The Legacy Project is considered key to K+S's growth strategy. It allows K+S to expand their potash capacities, extend the average remaining life of their mines; and, strengthen K+S's competitiveness in Europe and abroad. Our expertise in the efficient movement of bulk products and our ability to offer the shortest route from the mine to K+S's domestic and export markets made us a natural transportation partner. K+S has also signed an agreement with port service provider Pacific Coast Terminals that will allow K+S to build and operate a new warehouse and handling facility in Vancouver.

With a unit train loop track and high speed loading capabilities, the Legacy mine will have the most modern rail infrastructure of all of the Saskatchewan potash mines.

PORT CAPACITY AND INVESTMENT

NEPTUNE TERMINALS

Neptune boasts modern, state-of-the-art equipment and handling processes. Potash throughput capacity at Neptune Terminals was increased in 2011 to 11.5 million tonnes annually from 8.5 million tonnes. Our port partners have invested $50 million including a dumper upgrade, a surge bin and conveyor improvements. Plans are also in place for an $89-million investment to create one million tonnes per year of phosphate rock capacity at the terminal.

PORTLAND BULK TERMINALS

Portland Bulk Terminals is owned by Canpotex and currently has throughput capacity of four million tonnes. The layout includes three loop tracks and can hold three Canpotex trains. The dumper is gravity fed and can hold four cars at one time. The storage shed can hold 135,000 tonnes of potash. A plan to double the storage capacity at the terminal was identified in 2010 as part of its long-term plan.

THUNDER BAY TERMINALS

Thunder Bay Terminals is a bulk handling facility in Ontario with access to the St. Lawrence Seaway. Specializing in bulk handling the terminal has an annual throughput capacity of 11 million tonnes.

COAL

CP serves both the metallurgical and thermal coal markets. Our Canadian coal business primarily consists of metallurgical coal transported from southeastern B.C. to the ports of Vancouver and Thunder Bay, and to the U.S. Midwest. Our U.S. coal business is mainly the transportation of thermal coal and petroleum coke within the U.S. Midwest or for export through West Coast ports.

METALLURGICAL COAL

Metallurgical coal is a primary feedstock in the steel manufacturing process. Metallurgical coal has lower ash and sulphur contents with the volatile constituents driven off – attractive qualities for steel production. Southeast B.C. coal is considered of high quality and one of the more sought after coals on the market.

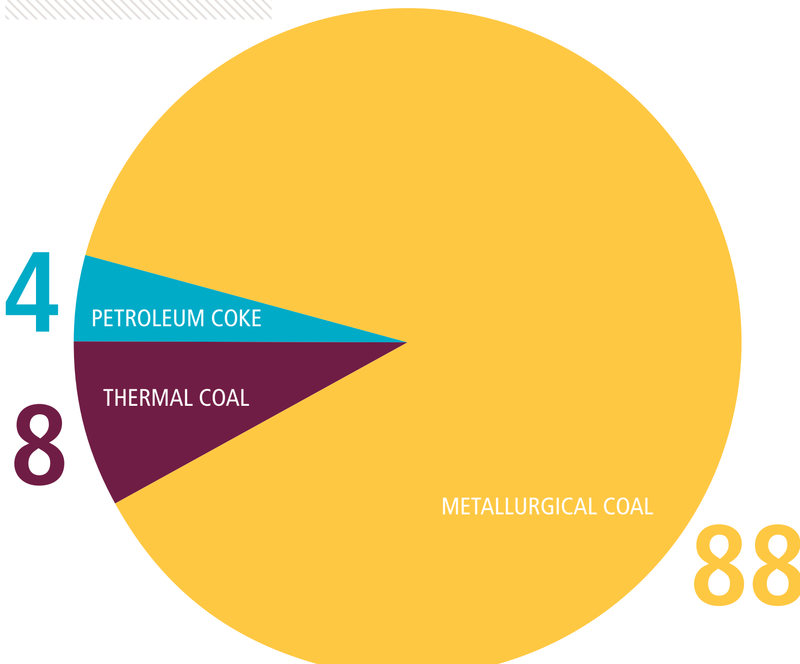
THERMAL COAL

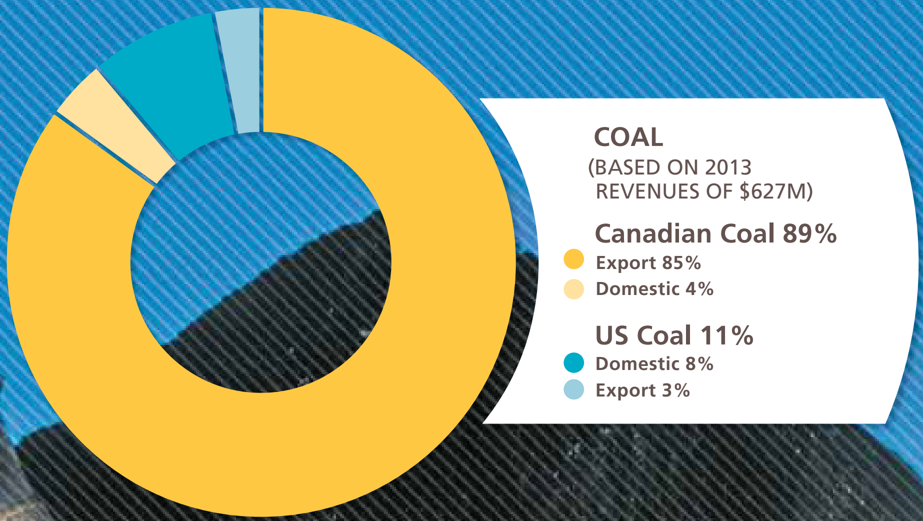
Thermal coal is used for domestic and export power generation. Thermal coal is made attractive by middle to high British Thermal Unit (BTU) values and low amounts of sulphur, mercury and other impurities. Thermal coal is used as a fuel to produce electricity through combustion.

PETROLEUM COKE

Petroleum coke (or petcoke) is a carbonaceous material that results from the coking process during upgrading. Petroleum coke is used in power generation and aluminum production.

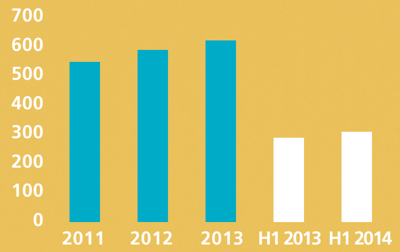
% OF REVENUE





Our service allows the supply chain to maximize capacity, improve mine-to-port service and decrease cycle times.

REVENUE

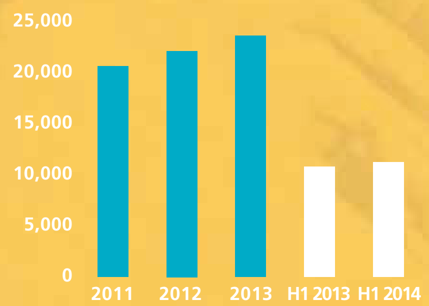


Revenue ($ millions)

2011 | 556
2012 | 602
2013 | 627

H1 2013 | 293
H1 2014 | 313

RTMS

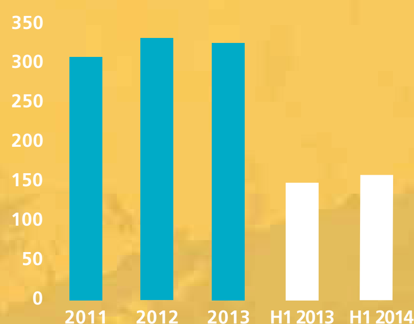


Revenue Ton Miles (millions)

2011 | 21,041
2012 | 22,375
2013 | 23,172

H1 2013 | 10,956
H1 2014 | 11,382

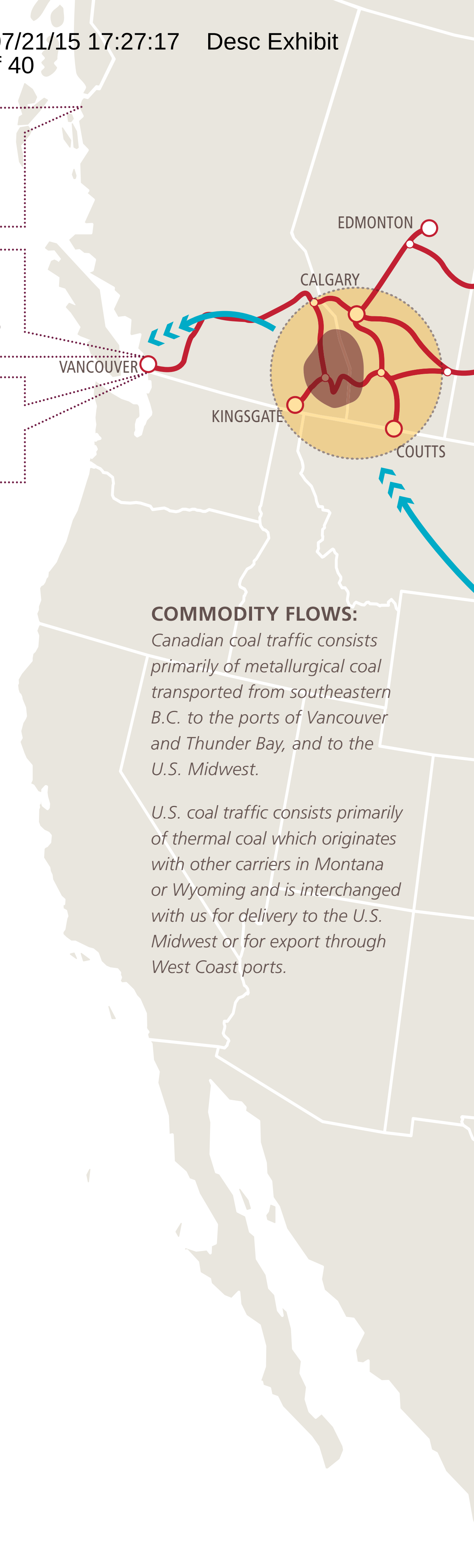
CARLOADS



Carloads (thousands)

2011 | 313
2012 | 337
2013 | 330

H1 2013 | 156
H1 2014 | 160



RIDLEY TERMINALS
Estimated Annual Capacity: 12 MMT
Expansion Capacity: 24 MMT by end of 2014

NEPTUNE TERMINALS
Estimated Annual Capacity: 12.5 MMT
Expansion Capacity: 18.5 MMT in 2015

WESTSHORE TERMINALS
Estimated Annual Capacity: 33 MMT
Expansion Capacity: 36 MMT in 2018

CANADIAN COAL

Our Canadian coal portfolio is comprised almost entirely of metallurgical coal shipments, with more than 28 million metric tonnes (MMT) transported in 2013 – equating to approximately 245,000 carloads and $560 million of revenue.

The coal is produced at Teck Resources' five southeast B.C. mines, which are considered to be among the most productive in the world. This coal is exported through Westshore and Neptune terminals in Vancouver and is destined to steel makers located in the Pacific Rim, Europe and South America. We have a 10-year transportation agreement with Teck which expires in 2021.

In 2013, more than 93% of our Canadian coal shipments were exported from the West Coast. The remaining 7% went to Thunder Bay terminals or rail direct to receivers in the Great Lakes area.

U.S. COAL

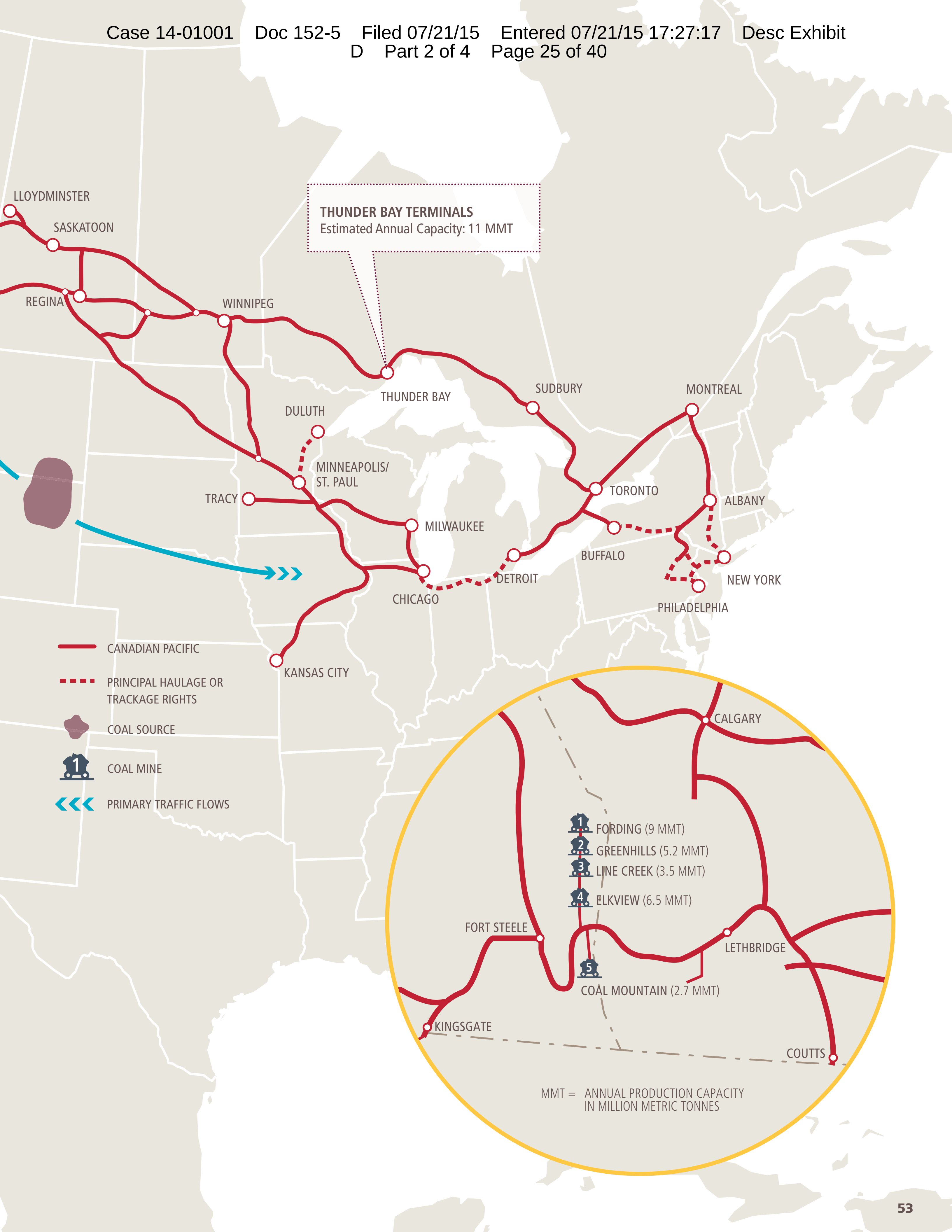
We moved 85,000 carloads of U.S. coal in 2013, generating $67 million of revenue. We receive U.S. coal from connecting railroads serving the thermal coal fields in the Powder River Basin (PRB) in Montana and Wyoming. It is then delivered to power generating facilities in the Midwest states of Minnesota, Illinois and Iowa.

We also move PRB coal destined for export from Sweetgrass, Montana through Edmonton to Ridley Terminals in Prince Rupert for delivery into Asia for power generation. Driven by increases in Asian demand, this market continues to be opportunistic with export volumes tied closely to world pricing levels of other key producing regions.

COMMODITY FLOWS:

Canadian coal traffic consists primarily of metallurgical coal transported from southeastern B.C. to the ports of Vancouver and Thunder Bay, and to the U.S. Midwest.

U.S. coal traffic consists primarily of thermal coal which originates with other carriers in Montana or Wyoming and is interchanged with us for delivery to the U.S. Midwest or for export through West Coast ports.


THUNDER BAY TERMINALS
Estimated Annual Capacity: 11 MMT
LLOYDMINSTER
SASKATOON
REGINA
WINNIPEG
THUNDER BAY
DULUTH
MINNEAPOLIS/
ST. PAUL
TRACY
MILWAUKEE
CHICAGO
DETROIT
SUDBURY
TORONTO
BUFFALO
MONTREAL
ALBANY
NEW YORK
PHILADELPHIA
KANSAS CITY
CANADIAN PACIFIC
PRINCIPAL HAULAGE OR TRACKAGE RIGHTS
COAL SOURCE
COAL MINE
PRIMARY TRAFFIC FLOWS
CALGARY
1 FORDING (9 MMT)
2 GREENHILLS (5.2 MMT)
3 LINE CREEK (3.5 MMT)
4 ELKVIEW (6.5 MMT)
FORT STEELE
LETHBRIDGE
5 COAL MOUNTAIN (2.7 MMT)
KINGSGATE
COUTTS
MMT = ANNUAL PRODUCTION CAPACITY IN MILLION METRIC TONNES

OUTLOOK

The demand for steel production is driven by population growth and corresponding increases in GDP, urbanization and industrial development. China, India, Indonesia and Brazil are expected to account for the majority of the incremental demand for metallurgical coal.

Population growth and climate are the main catalysts for thermal coal demand. An estimated 40% of the world's electricity comes from coal. In the U.S., the figure is roughly one-third, down from nearly 50% just four years ago. The combination of regulatory changes calling for stricter controls on emissions and abundant gas supplies at near historic lows in recent years have resulted in some short- and long-term conversion to gas in the U.S. However, U.S. demand could slowly begin to rebound with any increases in gas prices. Although coal-produced electricity may be moderating in North America, China is building coal generated facilities every year and is extremely dependent on this energy source.

Economic growth in developing countries is driving global steel demand with long-term growth expected to continue. Accordingly, global seaborne metallurgical coal demand is expected to increase to meet the needs of both our traditional markets in Japan, Europe and Korea; as well as growth markets in China, India and Brazil. The corresponding increase in demand for Canadian-based metallurgical coal will be met by announced Teck expansion plans and greenfield development in both northeast and southeast B.C.

We have been in discussions with a number of parties regarding mine development plans near our mainline in southeast B.C. With a reserve of high-quality coal at these locations, our current and potential partners are expected to maintain a strong position in the metallurgical coal marketplace. Our supply chain is an efficient and reliable way to get coal from these mines to the ports and loaded onto vessels.

In the U.S., proposed domestic power-plant emission regulations and competitiveness of natural gas as a viable alternative will continue to challenge the coal industry. Our primary movements originate on Class 1 rail partners out of the PRB, destined to utility providers for electrical generation in the U.S. Midwest. Our volumes have not been impacted to the extent seen across the marketplace, largely due to the fact that the power generation facilities we serve have less ability to switch to gas with their current infrastructure. As well, these facilities are newer and have been able to meet regulatory standards with relatively less investment.

Growth in Asian demand will continue to present opportunities for incremental movements of PRB-originating coal. We participate in the most efficient route to Prince Rupert's Ridley Terminal and are well positioned to capitalize on future opportunities to supply the market.

SPOTLIGHT

Moving more, and on time

Today, coal trains run at evenly spaced intervals, with a consistent flow to ports.

There was a time when people said bulk trains couldn't be scheduled. However, our trains carrying Teck coal to two Port Metro Vancouver terminals are now running close to clockwork.

We move five trains a day – one every four hours – shipping more coal than we did a year ago at this time. And with fewer trains.

With customer collaboration, successful implementation and execution, ongoing process improvement and clear communication, we are providing better service to our largest customer than ever before.

The most significant shift was flipping the entire shipping philosophy on its head. Instead of pushing the largest amount of coal possible to be stock piled at the distribution terminals, a new operating philosophy called "pull-to-demand" (PTD) was launched.

PTD focuses on serving demand. In the past, coal would pile up at the terminals – more coal than the terminals could load on incoming ocean vessels. Meanwhile, full trains were plugging up the tracks, sometimes waiting for days before terminals had capacity to empty the incoming freight.

This situation damaged our system: crews got out of balance; cars jammed up waiting to get unloaded; and, we kept adding cars at the loading zones. The fleet size became bloated, network speed was impacted and service was sub-optimal.

Today, coal trains run at evenly spaced intervals, with a consistent flow to ports.

With this new improved service, our partners can better schedule production, inventory, and vessels.

STRATEGY

We continue to invest in building a world-class coal and transportation model. Our service is based on highly efficient unit trains that travel in continuous motion from the mine to port and back.

In 2012, we transitioned the export supply network to 152-car unit trains (previously 129 cars), allowing the supply chain to maximize capacity, improve mine-to-port service and decrease cycle times.

In conjunction with our partners, we are continually developing and introducing a suite of supply chain tools to provide all parties visibility to performance, metrics and train movements. This provides for aligned planning and execution between our operations teams, the ports and mines. Additional investments in technology include remote load-out systems being introduced for the first time at one mine (with potential for rollout at additional locations). This enables Teck's load-out operators to control the train remotely while loading the train at the same time. The technology also reduces the number of our crews required to complete the load-out process and optimizes resource planning and asset utilization for both Teck and our company.

Our collaborative approach with customers is an ongoing commitment resulting in a continuous improvement to the supply chain and supporting technologies. This includes communication and data-sharing initiatives, a pull-to-demand strategy and ongoing review and revision to ensure programs are working as anticipated. These strategies, along with expansion plans in both new and existing mine production and West Coast port capacity, will ensure we can meet current and expected growth in future demand.

RELATIONSHIP WITH PORTS AND TERMINALS

West Coast ports have been investing steadily in capacity to meet future demand. Throughput is expected to increase significantly over the next few years. Additionally, Thunder Bay Terminal provides an additional outlet for eastbound exports via the Great Lakes and St. Lawrence Seaway.

Westshore Terminals

Westshore Terminals, located in Delta near Vancouver, has invested significant capital over the last several years on expansion projects. Over that time, facility capacity has increased to 33 MMT from 24 MMT. Further planning and investments are underway to expand throughput capacity to 36 MMT by 2018. Westshore handles both metallurgical coal and thermal coal.

Neptune Terminals

Neptune Terminals, located in North Vancouver, recently completed the installation of a new stacker reclaimer in June of 2013. The $60-million investment increased throughput from nine MMT to approximately 12.5 MMT per year. Additional approvals are in place that would increase capacity to 18.5 MMT. Neptune solely handles metallurgical coal.

Ridley Terminals

Ridley Terminals, located in Prince Rupert, B.C., currently has a capacity of 12 MMT per year. They have announced plans to add a second dumper and new stacker reclaimer by the end of 2014 that will increase throughput capacity to 24 MMT per year once complete.

Thunder Bay Terminals

Located at the head of Lake Superior, Thunder Bay Terminals has the ability to handle coal to vessel for transport up the St. Lawrence Seaway. Thunder Bay has an annual throughput capacity of 11 MMT, handling multiple bulk commodities.

CRUDE

CP's crude-by-rail services have been growing at a rapid pace. Carloads have grown from 11,000 in 2011 to 90,000 in 2013, making crude our fastest growing line of business.

The crude-by-rail model was developed in 2010 in response to inadequate pipeline takeaway capacity in the quickly growing Bakken shale region. We proved in the Bakken that rail could provide reliable takeaway capacity and ratable delivery to refineries. Since this time, the model has successfully moved north into the light-, mid- and heavy-grades of Saskatchewan and Alberta crude.

There are several elements of the crude-by-rail model that make it sustainable.

CAPACITY

Rail capacity is immediately available, easy to access and has lower upfront capital costs relative to pipeline projects.

OPTIONALITY

Rail provides industry with access to all refining markets from all producing regions. Rail serves as a supplement to pipelines that do not provide either sufficient capacity or access to markets. With rail, the industry has the ability to supply consistent refining requirements or to quickly move between markets to capture the benefit of changing conditions.

FLEXIBILITY

Rail provides solutions for both small- and large-scale operations, and accommodates terms ranging from a few months to several years.

SPEED TO MARKET

Rail can reliably provide faster transit times than pipelines. This time difference translates into lower inventory costs, faster working capital turns and lower cost of carry.

VALUE

Although rail is not always equal to existing pipelines in terms of price, the model provides more compelling value through its service features. In the case of heavy oil, rail economics become more compelling. Where bitumen is required to be diluted up to 30% to travel in pipelines, rail can transport it in general purpose tank cars at dilution levels of 15% to 20% or in insulated tank cars with little to no dilution. Thus, rail reduces the requirement to both purchase and move diluent.

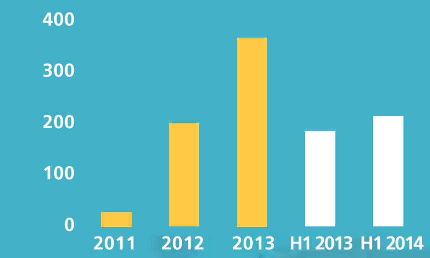
Importantly, we are the only railroad with access to all of the Bakken light-sweet crude, the medium-grade oil producing regions in Alberta, and the heavier oil production in northern Alberta and Saskatchewan.

CRUDE
(BASED ON 2013
REVENUES OF $375M)

- Bakken 54%
- Western Canada 46%

Our optionality not only provides the industry with flexibility, but ensures we can capture volumes as markets change.

REVENUE

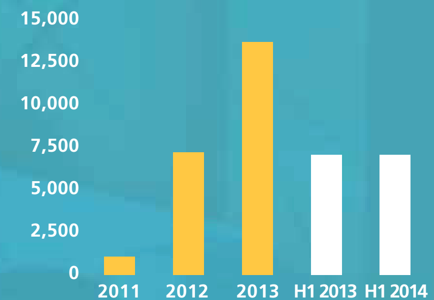


Revenue ($ millions)

2011 | 29
2012 | 206
2013 | 375

H1 2013 | 189
H1 2014 | 218

RTMS

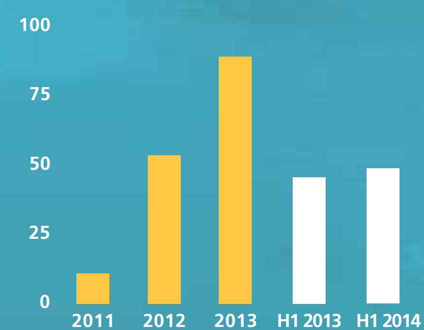


Revenue Ton Miles (millions)

2011 | 1,096
2012 | 7,303
2013 | 13,898

H1 2013 | 7,131
H1 2014 | 7,174

CARLOADS



Carloads (thousands)

2011 | 11
2012 | 54
2013 | 90

H1 2013 | 46
H1 2014 | 49

OUTLOOK

We have a strong origination franchise for crude oil throughout Alberta, Saskatchewan and North Dakota. Crude-by-rail has evolved from smaller truck-to-rail manifest facilities into the development of larger scale unit train terminals.

We are connected at these origin facilities with direct production as well as pipeline access. Additional crude-by-rail projects are currently being contemplated and progressed, and we are well positioned to take on additional capacity.

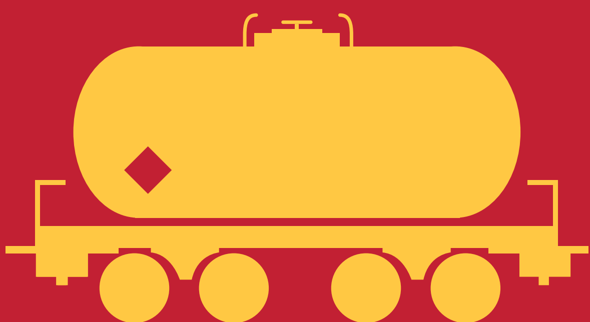
We move crude oil to refining markets in Eastern Canada, the Northeast U.S., the Midwest, the Gulf Coast and the West Coast. The majority of these volumes travel to destination through connections with our interline railroad partners. While potential exists in all markets, our most significant growth in the near term will continue to be in the Gulf Coast and Northeast U.S. markets.

We expect to move 115,000-120,000 carloads of crude in 2014 and anticipate it will grow to nearly 200,000 carloads in 2015.

We expect to move **115,000-120,000 carloads** of crude in 2014 and anticipate it will grow to nearly **200,000 carloads** in 2015.

SPOTLIGHT

Phase 2 development of the Hardisty Rail Terminal will enable the movement of four trains per day.



Investing in crude-by-rail

Our capital program continues to be focused on investments that improve the productivity, fluidity and safety of our railroad. Specifically, we have been focused on siding extensions, new sidings and the installation of Centralized Train Control. In addition to improving the productivity and capacity of the overall network, these investments are also supporting our growth in crude-by-rail. Investments along our North Line, between Edmonton and Calgary, and between Portal, North Dakota and Chicago, are improving capacity and safety along some of our key crude corridors.

Hardisty rail terminal

In June 2014, U.S. Development Group and Gibson Energy successfully commissioned their highly anticipated Hardisty Rail Terminal. The state-of-the-art facility is located on our North Line and is connected to Gibson's 4.3-million-barrel storage terminal, with access to all major inbound and outbound pipelines. Hardisty Rail Terminal currently has the ability to launch up to two trains per day of multiple grades of crude to various end markets. Work is currently underway to complete a Phase 2 expansion which would enable the terminal to handle up to four trains per day.

STRATEGY

Given our access and the benefits of crude-by-rail, our approach is to develop with partners a matrix of originations and destinations across North America for various grades of crude. This optionality not only provides the industry with flexibility, but ensures we can capture volumes as markets change.

CRUDE ORIGIN POINTS

Alberta

The oil sands are made up of the Athabasca, Cold Lake, and Peace River deposits in Northern Alberta. We are able to access product from these deposits by leveraging existing pipeline systems that carry crude to pipeline hubs in Edmonton, Hardisty and the Alberta Industrial Heartland. Rail terminals at these hubs allow crude moving down from the north the option of continuing in the pipeline system or moving onto rail. Substantial investments have been made in these locations to ensure appropriate rail infrastructure is in place to handle the growing demand for crude unit trains. A number of future projects are also being considered, including the Kinder Morgan/Imperial Oil Edmonton rail terminal.

Saskatchewan

Our network provides access to a number of strategic oil plays in Saskatchewan, including the Shaunavon, Viking and Bakken plays. We also serve Lloydminster and Kerrobert, two areas of potential future growth for crude-by-rail.

North Dakota

North Dakota is a continuously evolving hub with direct access to the Bakken oil play. We are well established in the North Dakota Bakken with two manifest facilities and three large, recently expanded unit train terminals. While the Bakken represents the majority of our origin volumes and continues to expand, the pace of growth from Canadian origins will potentially see Canadian crude volumes surpass those from North Dakota by the end of 2014.


EDMONTON
LLOYDMINSTER
SASKATOON
CALGARY
REGINA
WINNIPEG
KINGSGATE
COUTTS
THUNDER BAY
DULUTH
MINNEAPOLIS/
ST. PAUL
TRACY
MILWAUKEE
CHICAGO
KANSAS CITY
MANIFEST
1. Scotford, AB
2. Calmar/Texaco Spur, AB
3. Tilley, AB
4. Bowden, AB
5. Rimbey, AB
6. Lethbridge, AB
7. Lloydminster, SK
8. Instow, SK
9. Dollard, SK
10. Southhall, SK
11. Estevan, SK
12. Unity, SK (1)
13. Unity, SK (2)
TRAINLOAD
14. Bruderheim, AB
15. Hardisty, AB
16. Stampede, ND
17. Van Hook, ND
18. New Town, ND
19. Stoughton, SK
20. Kerrobert, SK
21. Edmonton, AB
22. Plaza, ND
1 CURRENTLY MOVING CRUDE
1 UNDER DEVELOPMENT
LIGHT CRUDE OIL DEPOSITS
MEDIUM CRUDE OIL DEPOSITS
HEAVY CRUDE OIL DEPOSITS

MAJOR EXISTING CRUDE TERMINALS AND TRANSLOADS

FORMATION(S)	TYPE OF OIL	TERMINAL LOCATION	SITE CAPABILITIES	OWNER	OPERATOR	CAPACITY
Multiple Alberta Crude Streams	Various (Light to Heavy)	Bruderheim, AB	Pipe or Truck to Rail	Canexus		Manifest Unit Train
Multiple Alberta Crude Streams	Various (Light to Heavy)	Hardisty	Pipe to Rail	US Development and Gibson Energy		Unit Train
Bakken, Three Forks	Light Sweet	New Town, ND	Direct Truck or Pipe to Rail	Dakota Plains		Unit Train
Bakken, Three Forks	Light Sweet	New Town (Van Hook), ND	Truck or Pipe to Tank to Rail	Plains All American		Unit Train
Bakken, Three Forks	Light Sweet	Stampede, ND	Truck or Pipe to Tank to Rail	Basin Transload		Unit Train
Bow River, Pekisko, Fosterton	Medium to Heavy Sour	Tilley, AB	Direct Truck to Rail	CP	Torq	Manifest
Multiple Alberta Crude Streams	Various (Light to Heavy)	Lethbridge, AB	Direct Truck to Rail	Transmark		Manifest
Cold Lake, Lloydminster	Heavy Sour	Lloydminster, SK	Direct Truck to Rail	CP	Torq	Manifest
Viking, Lloydminster	Viking – Light Sweet Lloyd – Heavy Sour	Unity, SK	Direct Truck to Rail	CP	Savage	Manifest
Shaunavon	Medium Sour	Dollard, SK	Direct Truck to Rail	Crescent Point Energy		Manifest
Bakken, Torquay, Spearfish	Light Sweet	Stoughton, ND	Direct Truck to Rail, No Storage (Mobile & Fixed Pumps)	Crescent Point Energy		Manifest Unit Train

MAJOR PROPOSED AND ANNOUNCED CRUDE TERMINALS AND TRANSLOADS

FORMATION(S)	TYPE OF OIL	TERMINAL LOCATION	SITE CAPABILITIES	OWNER	CAPACITY
Multiple Alberta Crude Streams	Various (Light to Heavy)	Edmonton, AB	Pipe to Rail	Kinder Morgan/ Imperial Oil	Unit Train
Viking, Lloydminster	Viking – Light Sweet Lloyd – Heavy Sour	Unity, SK	Direct Truck to Rail	Torq Transloading	Manifest
Viking, Lloydminster	Viking – Light Sweet Lloyd – Heavy Sour	Kerrobert, SK	Truck and Pipe to Rail	Torq Transloading	Unit Train
Bakken, Three folks	Light Sweet	Plaza, ND	Pipe to Rail	Dakota Gold Transfer	Unit Train

CRUDE DESTINATION ACCESS

Our main crude unloading destination is the Global Partners terminal located in Albany, NY. This terminal is a rail-to-vessel operation where the vessels serve refineries along the Canadian and U.S. East Coast, and U.S. Gulf Coast. We also access other refineries and terminals through established foreign-line partnerships. PADDs 1, 3 and 5 are particular points of interest for our crude-by-rail destination reach.

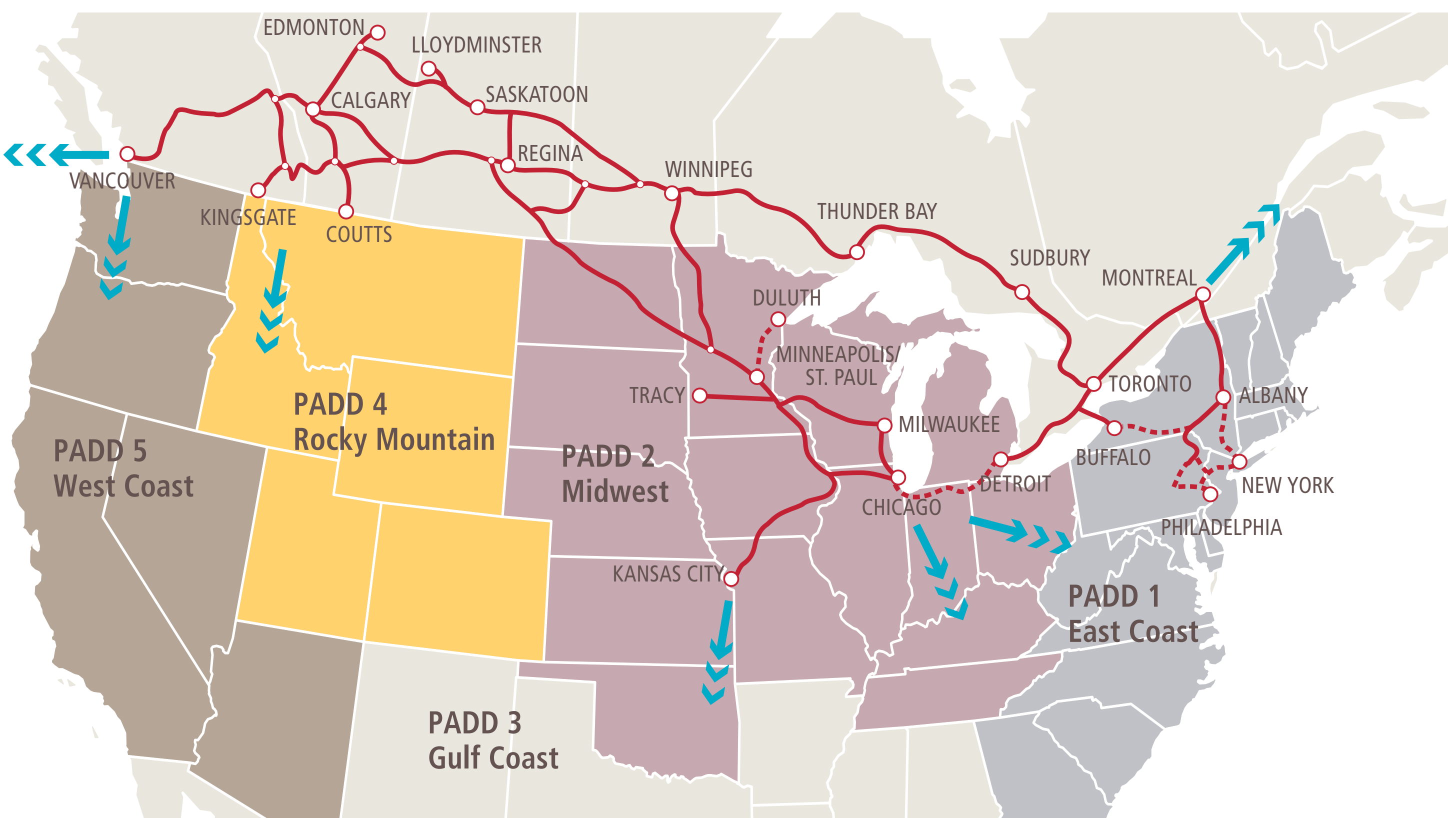
- PADD 1 (U.S. East Coast): predominantly processes light sweet crude that can be sourced from our Bakken terminals.
- PADD 3 (U.S. Gulf Coast): contains a large proportion of the refineries capable of processing heavy crude, making it a preferred outlet for product coming from the oil sands. This was the primary market for Canadian crude-by-rail volumes in 2013.
- PADD 5 (West Coast): There are a number of rail projects being pursued in this district that, once complete, could source product from Western Canada. We can provide the shortest route miles from Western Canada into California.

As the markets evolve, the necessity for tidewater access continues to grow. Foreign crude demand in Asia and Europe is increasing and we are investigating ways in which these markets can be reached. We are looking to leverage our position on the West Coast, St. Lawrence Seaway, Great Lakes and the Mississippi River to access both foreign and domestic markets.

Corridors and flexibility

We continue to explore ways to extract end-to-end supply chain efficiencies by interchanging traffic with foreign line partners to deliver faster transit times and alleviate congestion in key pinch points. It is our goal to continue to deliver crude production to high-growth refining destinations. Access to numerous interchange points provides our customers with the flexibility of accessing their markets through various routes. It also provides contingency options to make improvements to service as needed.

CLASS 1 RAIL PARTNERS	INTERCHANGE LOCATIONS	CRUDE MARKET ACCESS
BNSF	New Westminster, Coutts, Noyes	PADDs 2, 3, 4, 5
UP	Kansas City, Kingsgate	PADDs 2, 3, 5
CSX	Chicago	PADD 1
NS	Chicago	PADD 1
KCS	Kansas City	PADDs 2,3



AUTOMOTIVE

CP is a key player in the North American automotive supply chain. Our automotive portfolio consists of four finished vehicle traffic segments: import vehicles that move through Port Metro Vancouver to Eastern Canadian markets; Canadian-produced vehicles that ship to the U.S. from Ontario production facilities; U.S.-produced vehicles that ship within the U.S. as well as cross-border into Canadian markets; and, Mexican-produced vehicles that ship to the U.S. and Canada.

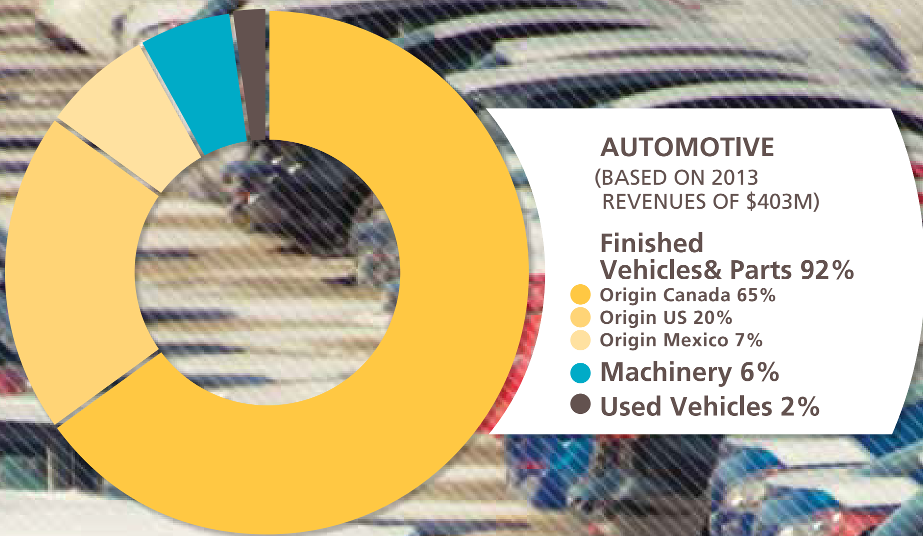
In addition to finished vehicles, we handle shipments of automotive parts, machinery and Canadian personal and pre-owned vehicles.

Right from the production plant, we provide direct rail service to five of the eight southern Ontario auto producers, and service two others through transload facilities in the region. We also handle a significant number of shipments via gateway interchange with our foreign line counterparts.

We operate a number of automotive compounds in key markets across Canada and the U.S. These facilities operate seven days a week and provide customers with vehicle loading and unloading services. Through our coast-to-coast Canadian rail network – that stems into the U.S. Midwest – and well-positioned compounds, we are ideally situated to access key markets and port facilities.

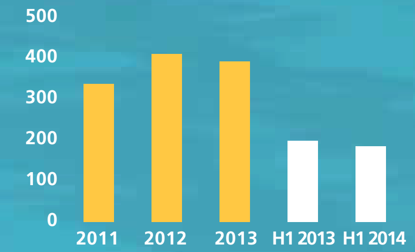
In 2013, we handled 145,000 carloads of automotive product equating to $403 million in revenue. Approximately 51% of these revenues originated in Ontario; 20% originated in the U.S.; 14% were imports originating at Port Metro Vancouver; and, 7% were imports originating in Mexico.

We continue to lead the industry with the lowest damage frequencies for finished vehicles.



We are perfectly poised to handle the upward trend in the market.

REVENUE

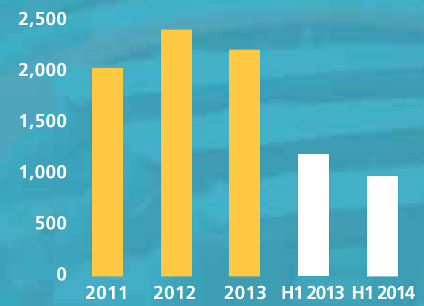


Revenue ($ millions)

2011 | 338
2012 | 425
2013 | 403

H1 2013 | 203
H1 2014 | 192

RTMS

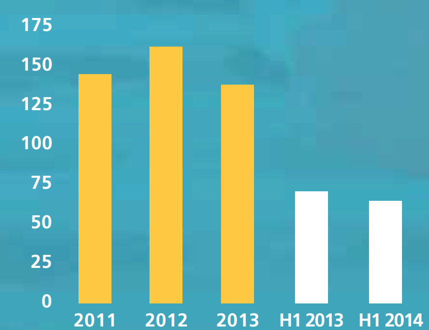


Revenue Ton Miles (millions)

2011 | 2,080
2012 | 2,482
2013 | 2,329

H1 2013 | 1,233
H1 2014 | 1,111

CARLOADS



Carloads (thousands)

2011 | 145
2012 | 162
2013 | 146

H1 2013 | 73
H1 2014 | 67

OUTLOOK

Volumes in the second half of 2014 and first half of 2015 will be challenged due to the loss of a major customer. However, North American lightweight vehicle production and vehicle sales remain strong over the next few years. We are perfectly poised to handle the upward trend in the market. We are aligned with industry leaders in the marketplace and strategically equipped to handle shifting production. We are also well-equipped to fulfill the North American trend in market demand for trucks and SUVs.

STRATEGY

We will work with our automotive partners and stakeholders to execute our operating plan and strategy. Our anticipated growth will come from focusing on key metrics and providing fluid on-time service to all of our customers.

ALIGNMENT WITH INDUSTRY LEADERS

Our automotive franchise is built around alignment with strong industry performers, such as Toyota and Honda. Through strategic partnerships, the lowest damage frequency in the industry, and our solid product offerings, we are ideally positioned for retention and growth with our core customer base. This strong base lays the foundation for growth with other industry participants as we look to foster and build a fully integrated automotive network.

PRODUCTION SHIFT TO MEXICO

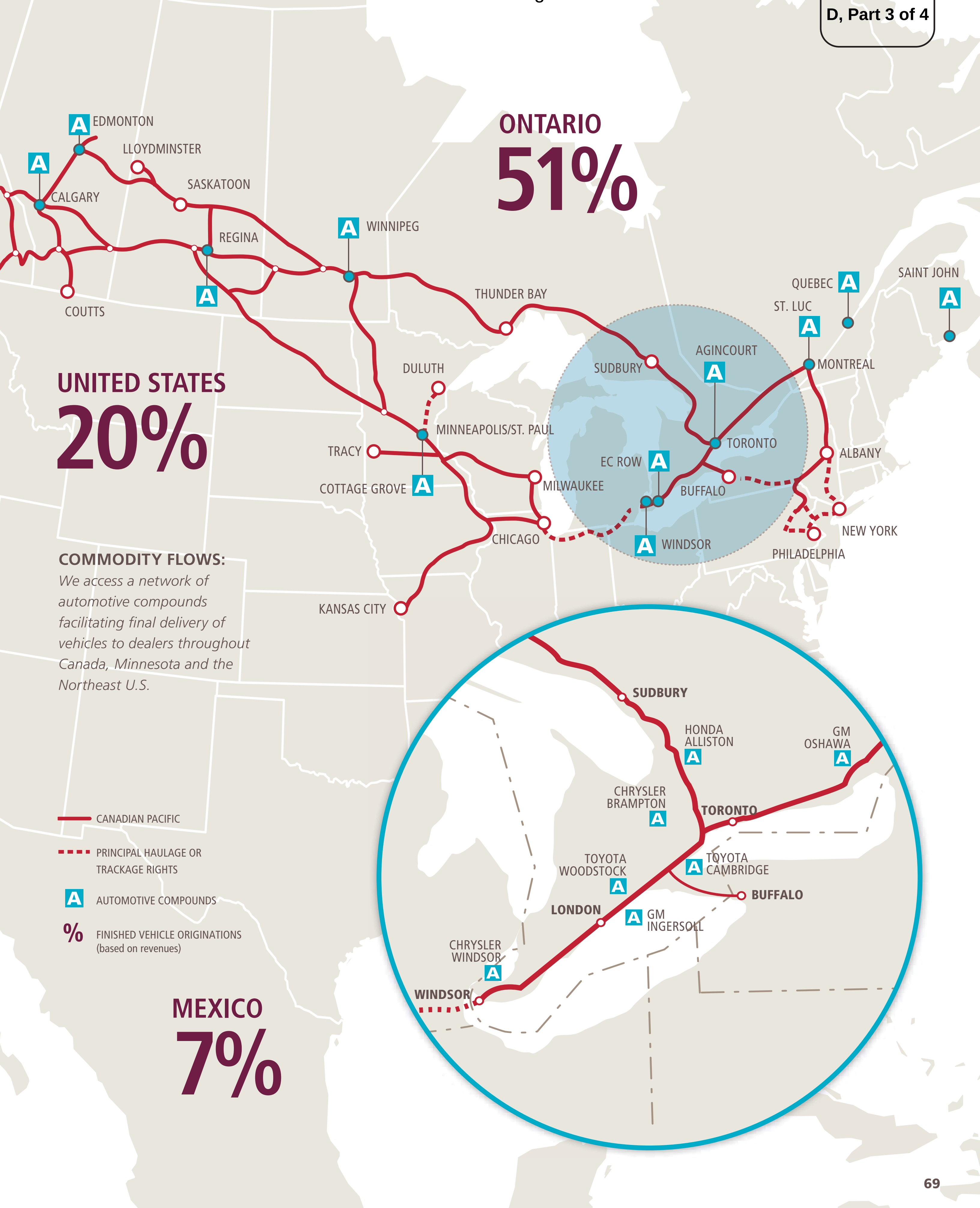
As more import models shift production to North America (Mexico), we stand to benefit from adjusted traffic flows that will change from “west to east” across Canada to a more “south to north” axis as we leverage our Kansas City Gateway to interchange traffic bound for the U.S. Midwest and Canada. This shift will allow us to optimize overall car supply as more loads will originate offline and terminate in Canada, and eliminates the need to source empty equipment from elsewhere on the network.

LOW COST GROWTH

Strategically developed cost-reduction initiatives and shifting production to Mexico are both crucial to improving the overall profitability of our automotive franchise. By replacing high empty-car repositioning with an increase in in-bound loads, we will significantly reduce our cost structure while increasing effectiveness and efficiency.

Further, the operational changes we’ve made over the last two years have created the capacity in our fleet and facilities to accommodate the growth prospects ahead of us without the need for significant capital investment.

EXHIBIT
D, Part 3 of 4



METALS, MINERALS & CONSUMER PRODUCTS

Metals, minerals and consumer products continue to be one of CP's highest growth portfolios. The portfolio is involved in the transportation of a diverse mix of input materials which includes aggregates, steel, consumer products and non-ferrous metals.

In 2013, we handled 232,000 carloads of metals, minerals and consumer products equating to $608 million, or 10% of total freight revenues.

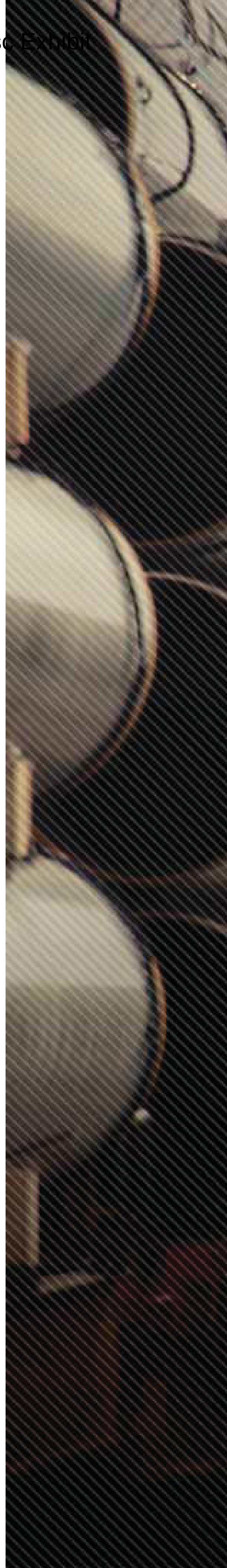
AGGREGATES

Aggregates are comprised of coarse particulate and composite materials such as frac sand, cement, clay, gravel, salt, and gypsum. Aggregates are used in a variety of functions: from base materials under foundations and roadways to use in the hydraulic fracturing process.

Frac sand and cement make up approximately 75% of all aggregate shipments. Frac sand originates at mines located along our network in Iowa and Wisconsin and moves to a diverse set of shale plays across North America. The majority of our cement traffic is direct-line haul traffic produced in Alberta, Iowa, Ontario or Montana and shipped to construction and energy projects in North Dakota, Alberta, Manitoba and the U.S. Midwest.

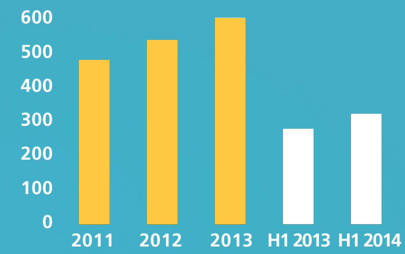
Demand for the remainder of aggregate products is primarily driven by construction-sector growth and ships both to and from a variety of locations across our network.

Frac sand and cement make up **approximately 75%** of all aggregate shipments.



We expect this upward trajectory to continue, targeting $1 billion in annual revenues by 2020.

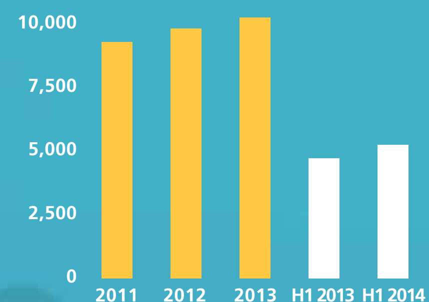
REVENUE



Revenue ($ millions)

2011	499
2012	550
2013	608
H1 2013	285
H1 2014	331

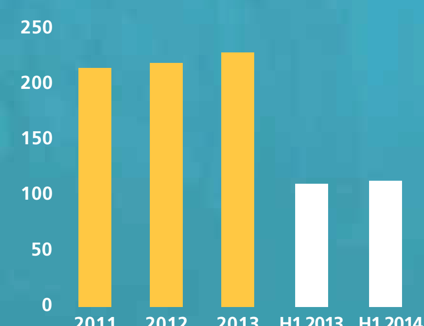
RTMS



Revenue Ton Miles (millions)

2011	9,504
2012	9,933
2013	10,404
H1 2013	4,850
H1 2014	5,411

CARLOADS



Carloads (thousands)

2011	218
2012	222
2013	232
H1 2013	112
H1 2014	116

STEEL

We transport steel in a variety of forms, including pipe, coil, plate and scrap. The Ontario, Saskatchewan and Iowa steel mills we serve are major suppliers to industries spanning oil and gas, transportation, packaging and construction. End products include steel pipe, automobiles, railcars and appliances.

Approximately one-third of steel revenues are derived from the movement of scrap steel, used as an input material for the production of coil, pipe and cast-iron products. Shipments of scrap metal originate from centres across North America and primarily funnel toward key steelmaking facilities in Regina, Saskatchewan and Montpelier, Iowa.

MINES & METALS

We carry mined non-ferrous base metals such as copper, ores, lead, zinc and aluminum. Unrefined ores are transported from mines to smelters and refineries for processing. We then ship the processed metal to end customers in the automobile industry and makers of consumer products such as appliances and batteries.

CONSUMER PRODUCTS

Consumer products consist of a diverse mix of goods such as food products, building materials, packaging products, waste products, private railroad equipment, and other miscellaneous goods. Approximately half of the portfolio is represented by food products such as frozen French fries, meats, vegetables, sugar, and beverages.

OUTLOOK

With an extensive rail network and significant improvements in service reliability and cycle times, our portfolio is well positioned to continue to outpace GDP for the next several years.

In particular, frac sand, steel pipe and cement will lead future growth, driven by the strength in the energy sector and further development of North American shale plays. We currently have five frac sand mines on our lines, with plans to develop two new facilities and two plant expansions in 2015. Meanwhile, our largest cement customer, Lafarge, has begun expansion on its Exshaw plant to support growing North American shale development. The Exshaw expansion, expected to be complete in 2015, will increase production by approximately 60%.

Increased steel production will also result in steady growth of input materials, such as scrap steel. We expect improvements in asset velocity and subsequent empty order fulfillment will enable us to capture a large portion of that growth.

Although mines and metals are expected to remain somewhat flat in the near term, we will continue to work closely with customers on new opportunities.

There is potential growth for copper and we anticipate growth in aluminum as a result of new government regulations seeking to improve fuel efficiency. This has spurred some steel-for-aluminum substitution as car manufacturers look for ways to cut vehicle weight.

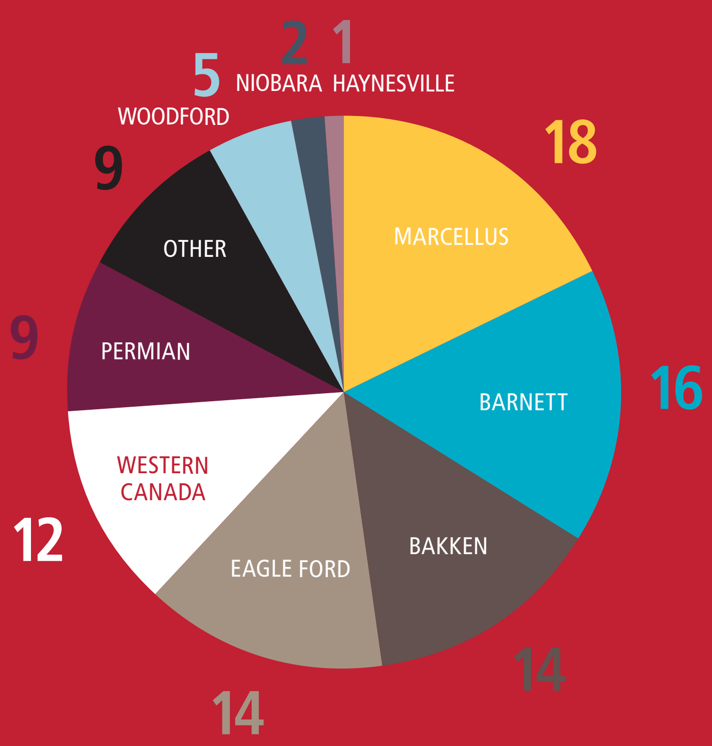
As the economy continues its recovery in North America, and construction programs pick up, we expect the remainder of the portfolio to grow with, or slightly above, GDP.

SPOTLIGHT

Frac sand fuelling growth

We expect frac sand shipments will continue to grow at a rapid pace.

FRAC SAND DESTINATIONS (SHALE PLAYS / % CARLOADS)



The innovative technique of multi-stage horizontal fracturing has significantly increased the economics of shale projects and the number of wells being drilled in North America on an annual basis. Frac sand is used as a proppant in the hydraulic fracturing process to keep fractures and pores open so that oil and gas can flow out.

We have direct access into Wisconsin, the largest producer of the highly sought after Northern White frac sand. We originate traffic directly from frac sand mines located along our track in Iowa and Wisconsin and move the product in customer-owned cars to a diverse set of shale plays including the Bakken, Marcellus, Eagleford and Western Canadian Sedimentary Basin either via single line haul or in concert with one of our many interchange partners.

In 2013, we moved approximately 31,000 carloads of frac sand, a 54% increase from the year previous. We expect frac sand shipments will continue to grow at a rapid pace – 60,000 annual carloads estimated by 2016. This growth will come in the form of increased traffic from existing customers, new facilities emerging on our lines, and through additional volumes - bound for the Bakken or Western Canada - being interchanged to us.

The importance of frac sand to the hydraulic fracturing process and the great distances between the shale plays and silica deposits, necessitates shipment by rail. As the number of wells in North America continues to grow, so, too, will shipments of sand by rail.

STRATEGY

Metals, minerals & consumer products has been one of our fastest growing lines of business over the past several years. We expect this upward trajectory to continue in the coming years, targeting $1 billion in annual revenues by 2020.

We plan to achieve this growth through disciplined pricing, a reliable and efficient service offering, and targeting both existing and emerging markets by leveraging our transload facilities and extended network footprint.

LEVERAGING ENERGY GROWTH

The largest opportunities for growth are related to the burgeoning oil and gas industry. We plan to leverage our network – from origination points in the U.S. Midwest and Alberta to the shale-rich destinations of the Bakken, Marcellus, and Western Canada – to strategically target energy-related growth.

Growth is not limited to our physical network. By working with our Class 1 partners we can extend our reach across North America. Through major interchanges at Kansas City, Chicago and St. Paul, we are able to service the Eagleford, Permian, Barnett, Woodford, Haynesville, Niobrara and Utica shale plays. Through these same interchange points, we can assist customers not located on our network in accessing the Bakken, Marcellus, and Western Canadian Sedimentary Basin.

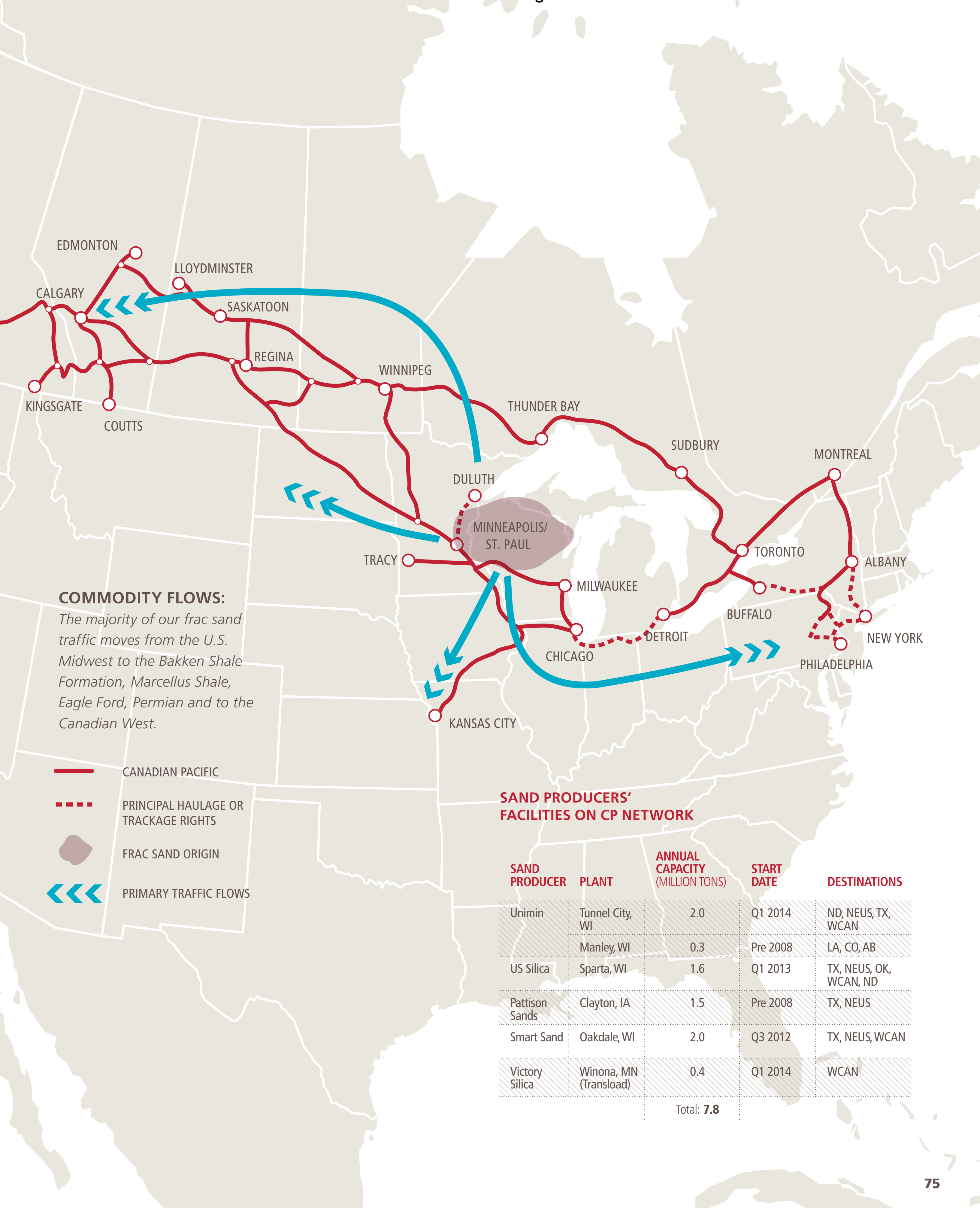
DELIVERING RELIABLE SERVICE

Our operational improvements provide faster and more consistent rail service for customers. Our customers can more precisely plan production cycles and inventory levels, as well as cycle their assets more quickly. This helps customers reduce underlying cost structures and make them more competitive in the markets they serve.

As we move forward, we will leverage the strength of our network to target growth in areas where we have a market advantage. We can also expand our product offering to customers by working with CP Logistic Solutions (CPLS), who can provide their transloading and supply-chain management expertise as well as industry-leading tracking programs.

LOW-COST GROWTH

What makes these opportunities so exciting is that growth is occurring in areas along our network where we have existing capacity. As a result, growth can be accommodated without significant capital investment on our side. Furthermore, several customers are demonstrating confidence in the longer term prospects of their businesses by investing their own capital in facilities and railcars which limits the downside to our company if economic conditions were to change.



COMMODITY FLOWS:

The majority of our frac sand traffic moves from the U.S. Midwest to the Bakken Shale Formation, Marcellus Shale, Eagle Ford, Permian and to the Canadian West.

SAND PRODUCERS' FACILITIES ON CP NETWORK

SAND PRODUCER	PLANT	ANNUAL CAPACITY (MILLION TONS)	START DATE	DESTINATIONS
Unimin	Tunnel City, WI	2.0	Q1 2014	ND, NEUS, TX, WCAN
	Manley, WI	0.3	Pre 2008	LA, CO, AB
US Silica	Sparta, WI	1.6	Q1 2013	TX, NEUS, OK, WCAN, ND
Pattison Sands	Clayton, IA	1.5	Pre 2008	TX, NEUS
Smart Sand	Oakdale, WI	2.0	Q3 2012	TX, NEUS, WCAN
Victory Silica	Winona, MN (Transload)	0.4	Q1 2014	WCAN
		Total: **7.8**		

CHEMICALS & PLASTICS

CP's chemicals and plastics portfolio encompasses a wide variety of commodities that ship across our network. Petroleum products represent the largest segment of this portfolio, followed by chemicals and plastics, respectively.

PETROLEUM PRODUCTS

Petroleum products consist of commodities such as liquid petroleum gas (LPG), gasoline, diesel, condensate (diluent), asphalt and lubricant oils. In Western Canada, the majority of our petroleum shipments originate in Saskatchewan and in the Alberta Industrial Heartland, Canada's largest hydrocarbon processing region and one of the world's most attractive locations for chemical, petrochemical, oil, and gas investment. Our network also reaches the Bakken formation in Saskatchewan and North Dakota. Although the Bakken is better known for its oil production, the region continues to present exciting opportunities for petroleum growth given our ability to provide efficient truck-to-rail transportation solutions for condensate, LPG and natural gas liquids (NGL).

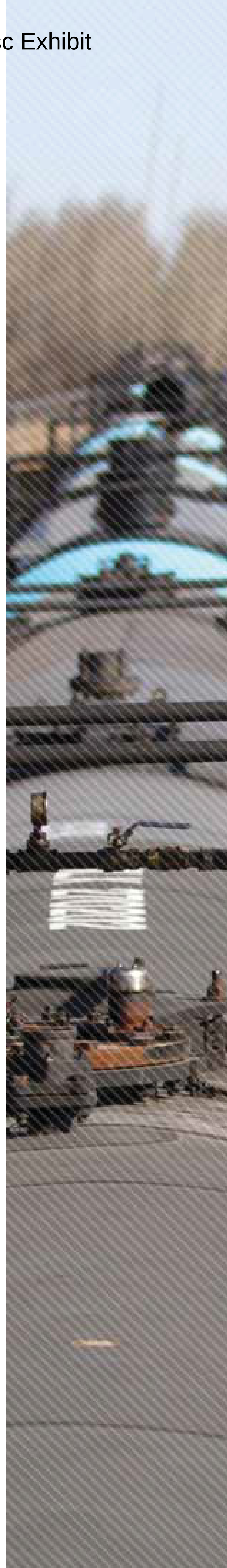
Our connectivity to several rail interline partners gives us strong and long-term exposure to refineries and export facilities in the Pacific Northwest and Gulf Coast, as well as refineries and emerging shale plays in the Northeast U.S. – notably the Marcellus and Utica shale plays. In addition, our interline connections provide us access to the Texas and Louisiana petrochemical corridor and port connections, enabling our customers to penetrate the market not only in Canada, but throughout the U.S. and beyond.

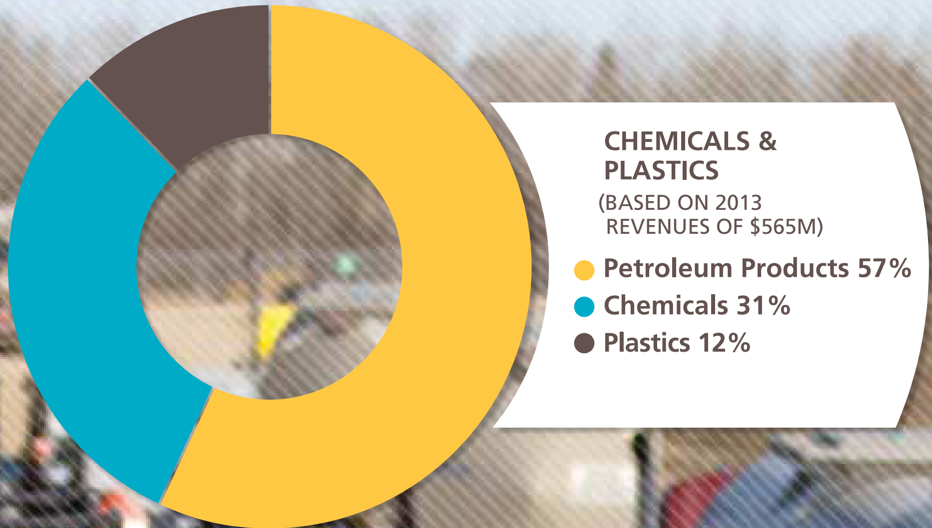
CHEMICALS

Our chemical shipments originate from one of four key regions: Eastern Canada (primarily Ontario and Quebec), Alberta, the U.S. Midwest and the Gulf of Mexico. Our chemical carloads include products such as ethylene glycol, styrene, sulphuric acid, methanol, sodium chlorate, caustic soda, insecticides and herbicides as well as soda ash which move to end markets in Canada, the U.S. and overseas via the North American ports.

PLASTICS

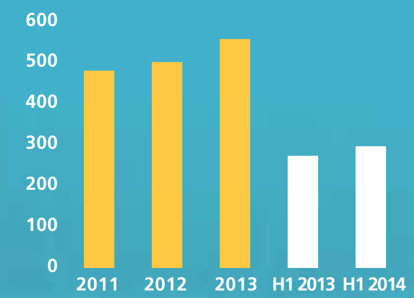
Plastics are most heavily used in food packaging and consumer products, building and construction materials, and automotive materials. The most commonly shipped plastic resins are polyethylene and polypropylene. A little under half of our plastic shipments originate in central and northern Alberta where we have a strong presence with petrochemical manufacturers. The durability and moisture resistance of plastic means it can remain in storage, or be transloaded into silos, with very little impact to the integrity of the product.





The Bakken formation presents exciting opportunities for growth given our ability to provide efficient truck-to-rail transportation solutions.

REVENUE

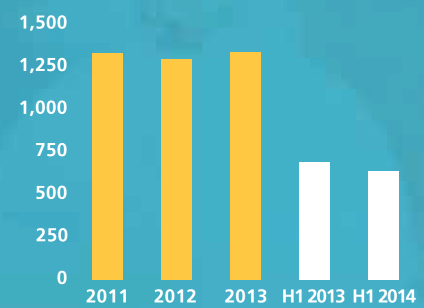


Revenue ($ millions)

2011 | 489
2012 | 512
2013 | 565

H1 2013 | 277
H1 2014 | 302

RTMS

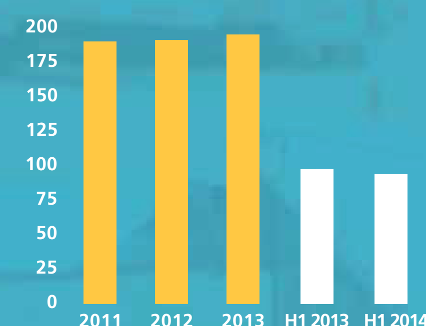


Revenue Ton Miles (millions)

2011 | 13,522
2012 | 13,233
2013 | 13,573

H1 2013 | 6,969
H1 2014 | 6,532

CARLOADS



Carloads (thousands)

2011 | 192
2012 | 193
2013 | 197

H1 2013 | 99
H1 2014 | 94

OUTLOOK

The continued development of a growing number of oil-and-gas related plays across North America, combined with tight pipeline take-away capacity, are expected to create attractive growth opportunities for petroleum products.

In particular, there is significant potential to move LPG from Western Canada to the Canadian and U.S. West Coast, as well as to the U.S. Midwest. We also anticipate substantial opportunity to grow our condensate volumes – particularly from the Bakken, Marcellus and Utica plays to the Alberta diluent market.

Chemicals are used as raw input materials in the manufacturing of goods critical to the North American economy. Our chemical shipments primarily serve the oil and gas, automotive, food and beverage, construction, plastics, and forest products industries. Demand will be closely correlated with the performance of the North American economy.

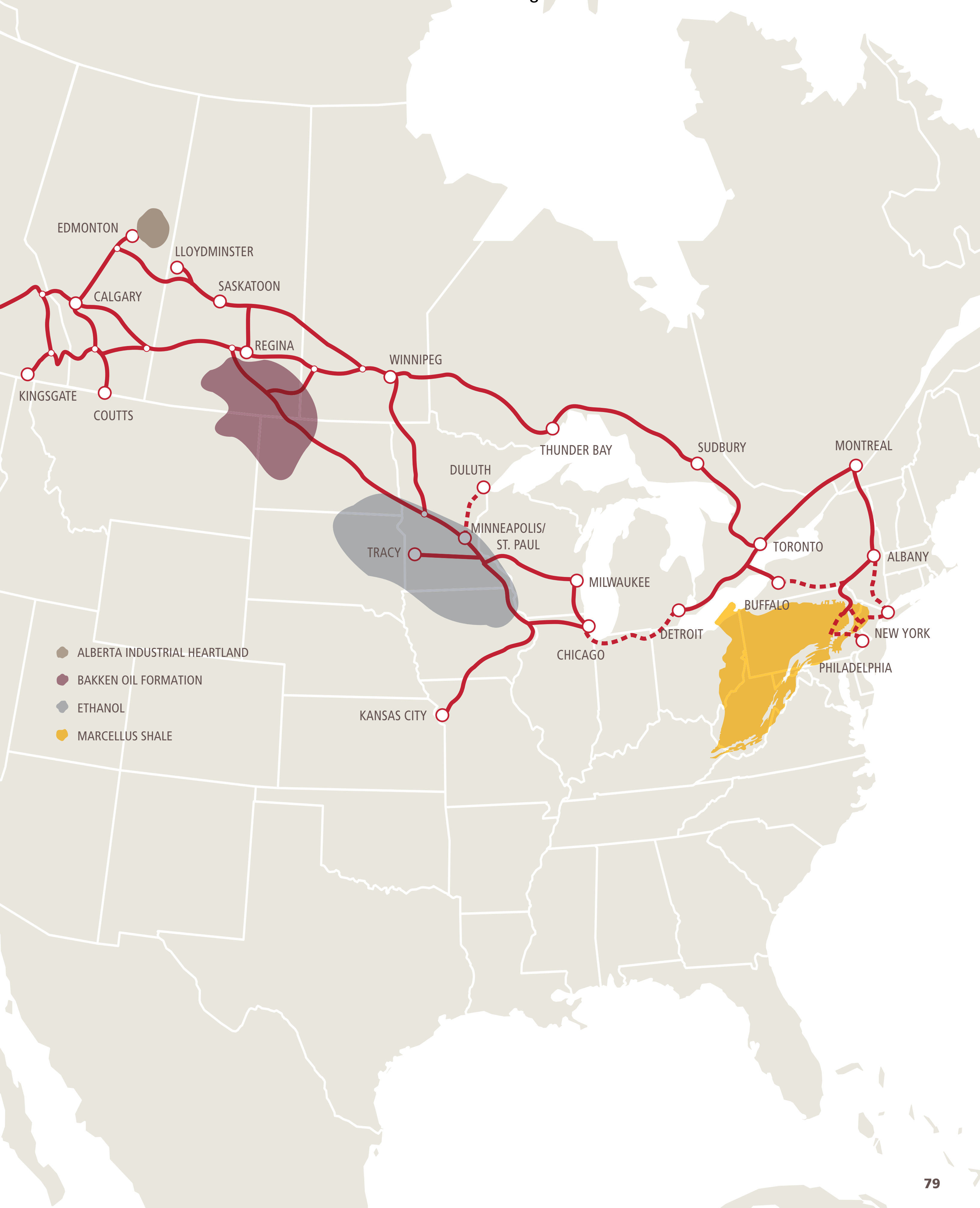
The abundance of competitively priced energy products and feedstock (such as natural gas) are also expected to benefit the plastics industry through improved margins, facility expansions and new project approvals. There are a number of expansion projects slated over the next several years – such as the expansion at the Nova Chemicals facility in Joffre, Alberta – that could benefit our plastics segment.

SPOTLIGHT

Diluent in demand

Growing Canadian production of oil sands requires diluent to blend it to pipeline-flow specifications as heavy crude oil or bitumen does not flow at ambient temperatures and pressures. Blending requirements vary depending on the type of crude oil (heavy, bitumen, synthetic). In general, blending bitumen with diluent requires approximately a 70:30 bitumen to diluent ratio. Shipping heavy oil or bitumen by rail requires little to no diluent, which is a significant advantage for our customers. We also see tremendous opportunity in bringing heavy crude oil trains to market and then using the same railcars to move the diluent back into Alberta.

As the production from the oil sands has grown significantly, the resulting demand for diluent exceeds domestic production. We have direct access to the major diluent offloading facilities in Alberta. The strength of our network and proven experience in the transportation of energy products positions us for success in bringing diluent from the U.S. and various Canadian shale plays into Alberta.


EDMONTON
LLOYDMINSTER
SASKATOON
CALGARY
REGINA
WINNIPEG
KINGSGATE
COUTTS
THUNDER BAY
SUDBURY
MONTREAL
DULUTH
MINNEAPOLIS/
ST. PAUL
TRACY
TORONTO
ALBANY
MILWAUKEE
BUFFALO
DETROIT
NEW YORK
CHICAGO
PHILADELPHIA
KANSAS CITY
ALBERTA INDUSTRIAL HEARTLAND
BAKKEN OIL FORMATION
ETHANOL
MARCELLUS SHALE

FOREST PRODUCTS

CP's forest products franchise consists primarily of pulp, paper, lumber and panel products. Pulp is the primary raw material used in the manufacture of finished paper products, ranging from standard newsprint and photocopier paper to coated papers used in magazines.

These finished paper products are often shipped in large rolls and transported to printing presses throughout North America. Lumber and panel products supply the home construction and renovation industries.

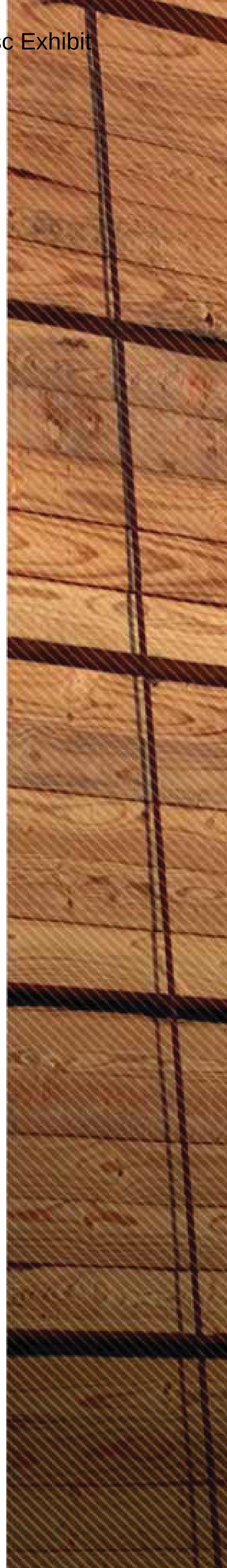
In 2013, we handled 66,000 carloads of forest products, equating to $206 million in revenue.

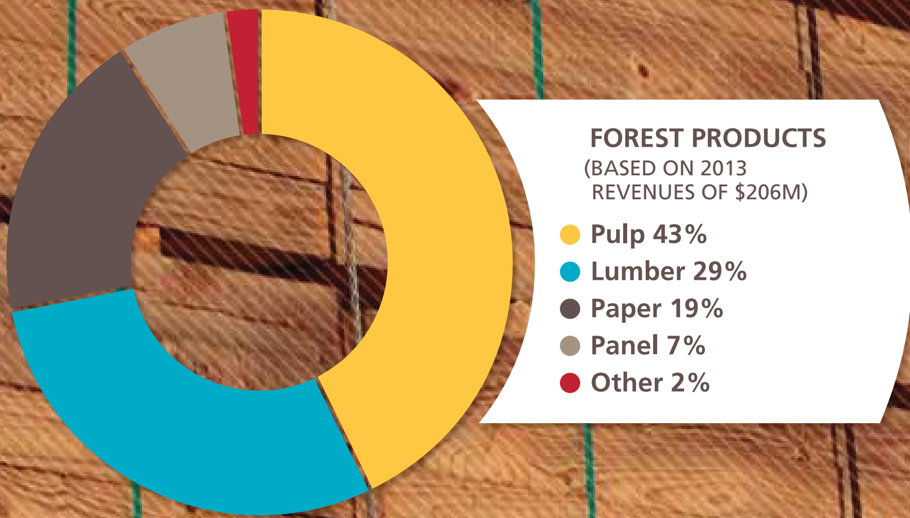
Pulp products comprise the largest segment of this portfolio, accounting for 43% of forest products revenues. We serve eight pulp mills in B.C., Ontario and Quebec. Approximately 55% of the pulp produced on our lines is consumed by the domestic North American market. The remaining 45% of the pulp is exported to Asia.

Lumber and panel account for 36% of forest product revenues. We directly serve nine lumber and panel mills in North America. However, we are able to extend our reach and grow our business by utilizing strategically located transload facilities. We have key transload facilities established in B.C., Alberta, Saskatchewan, Ontario and Quebec. Lumber and panel shipments originate primarily in Western Canada, with B.C. and Alberta shipments accounting for 83% of revenues. The business is shipped to markets across North America.

Paper products, accounting for 19% of revenues, are comprised of newsprint and paperboard. Newsprint originates primarily in Quebec and Ontario. Paperboard typically originates on foreign lines and is interchanged with us for delivery to Minnesota and Wisconsin.

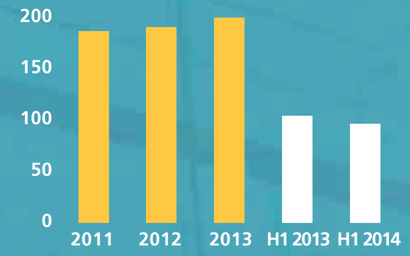
We are able to extend our reach and grow our business by utilizing **strategically located transload facilities**.





We have a stronger, more sustainable revenue base from which to grow our forest products business.

REVENUE

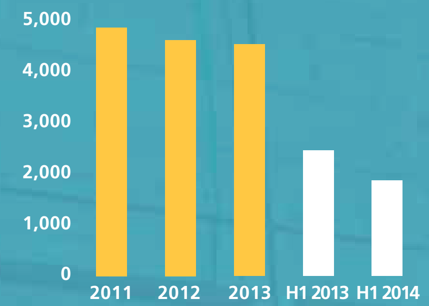


Revenue ($ millions)

2011 | 189
2012 | 193
2013 | 206

H1 2013 | 106
H1 2014 | 100

RTMS

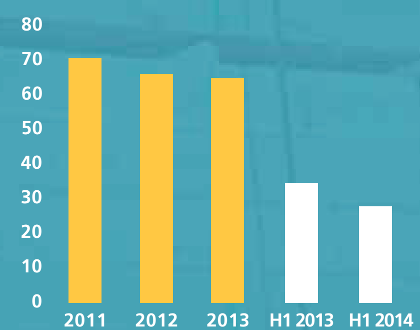


Revenue Ton Miles (millions)

2011 | 4,960
2012 | 4,713
2013 | 4,619

H1 2013 | 2,490
H1 2014 | 1,923

CARLOADS



Carloads (thousands)

2011 | 72
2012 | 67
2013 | 66

H1 2013 | 36
H1 2014 | 29

OUTLOOK

Over the course of 2013, we took steps to exit certain low margin lanes of traffic, particularly in the lumber and panel segment. The result is a stronger, more sustainable revenue base from which to grow our forest products business going forward. This growth will be driven by our improved service offering and a recovery in U.S. housing starts.

Further consolidation in the pulp and paper industry is still expected. However our customers are well-positioned in the market and have been responding positively to the changing environment. In fact, the recent weakening of the Canadian dollar has benefited Canadian paper manufacturers and enabled them to capture additional U.S. market share. With improved service levels, we will be looking to maximize growth opportunities by capturing volumes that would have previously moved via truck or other carriers.

The demand for lumber and panel products is driven primarily by U.S. housing starts. With economic conditions improving, a number of mills previously shuttered on our network are expected to re-start production in the second half of 2014 and first half of 2015. We are well equipped to meet the increasing demand.

SPOTLIGHT

Extending our reach

Lumber mills aren't always located right next to railroad tracks. Our network of strategically located transload facilities allows us to extend the reach of our network to non-rail served lumber mills.

Transloading is the process of transferring a shipment from one mode of transportation to another to create an efficient customer supply chain. Producers of lumber, panel and wood products are able to truck product to key reloads located in B.C., Alberta, Saskatchewan, Ontario and Quebec for transfer to railcar.

Our transload network is operated by key business partners who are committed to exceptional customer service. Our operators provide all the required equipment and all of these facilities are overseen by experienced and responsive on-site managers. We continue to work with customers to expand our transload reach to meet customer's needs.


EDMONTON
LLOYDMINSTER
CALGARY
SASKATOON
REGINA
COUTTS
WINNIPEG
THUNDER BAY
SUDBURY
MONTREAL
DULUTH
MINNEAPOLIS/
ST. PAUL
TRACY
TORONTO
ALBANY
MILWAUKEE
BUFFALO
DETROIT
NEW YORK
CHICAGO
PHILADELPHIA
KANSAS CITY
COMMODITY FLOWS:
Forest products include lumber, wood pulp, paper products and panel transported from key producing areas in Western Canada, Ontario and Quebec to various destinations in North America.
CANADIAN PACIFIC
PRINCIPAL HAULAGE
OR TRACKAGE RIGHTS
CP SHORTLINE CONNECTION
CP SERVED PULP MILL
CP SERVED LUMBER MILL/TRANSLOAD

INTERMODAL

Beginning early 2013, CP intermodal began a renewal and rebalancing of the portfolio. Our objectives were three-fold: improve the quality of the book of business; leverage our faster and more consistent rail service; and, grow in a controlled, sustainable and profitable way.

Our intermodal portfolio is comprised of two main segments: domestic and international. Domestic intermodal primarily involves the distribution of domestic 53-foot container shipments within North America. International intermodal involves the movement of ocean-carrier owned marine containers through the ports and into North American inland markets, as well as export shipments of goods to Asia, Europe and beyond.

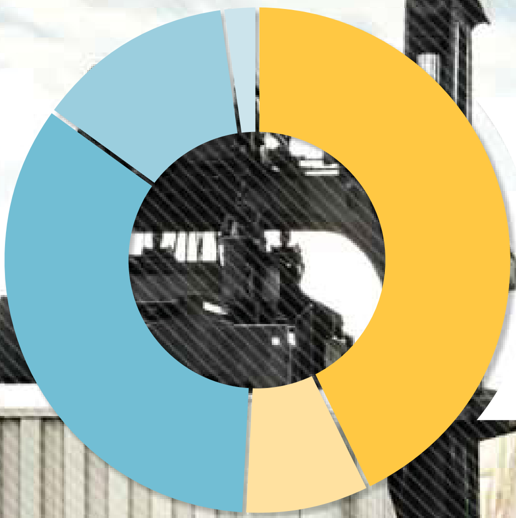
DOMESTIC

Our domestic intermodal segment, which represented 51% of intermodal revenues in 2013, covers a broad spectrum of industries including: food, retailers, less than truckload, trucking, forest products and various other commodities and consumer-related products. Key service factors in domestic intermodal include: speed; consistent on-time delivery; the ability to provide door-to-door service; and, the availability of value-added services.

In 2013, 87% of our domestic intermodal business originated in Canada where we market our services directly to retailers and manufacturers, provide complete door-to-door service and maintain direct relationships with customers. In the U.S., our service is delivered predominantly through intermodal marketing companies (IMC).

INTERNATIONAL

Our international segment, which represented 49% of intermodal revenues in 2013, has a customer base primarily composed of ocean shipping lines. Containerized traffic moves between ports in Vancouver, Montreal and New York, and inland points across Canada and the U.S. Import and export traffic from Vancouver's port is largely long-haul business destined for Eastern Canada and the U.S. Midwest and Northeast. Montreal's port, a major year-round East Coast gateway to Europe, primarily serves markets in Canada and the U.S. Midwest. Our U.S. Northeast service connects the port of New York to Canada, offering a competitive alternative to trucks.



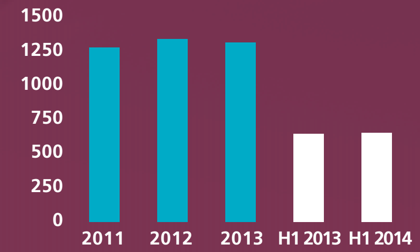
INTERMODAL
(BASED ON 2013
REVENUES OF $1,328M)

Domestic 51%
- Canada 43%
- Cross-border 8%

International 49%
- Port Metro Vancouver 34%
- Port of Montreal 13%
- Other 2%

We believe the intermodal portfolio is poised to be a significant growth engine over the next several years.

REVENUE

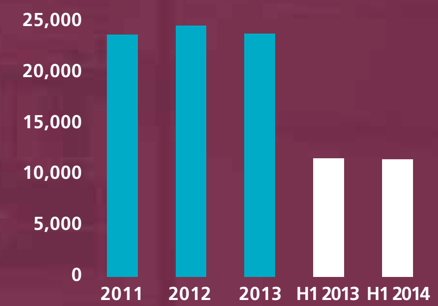


Revenue ($ millions)

2011 | 1,303
2012 | 1,370
2013 | 1,328

H1 2013 | 653
H1 2014 | 667

RTMS

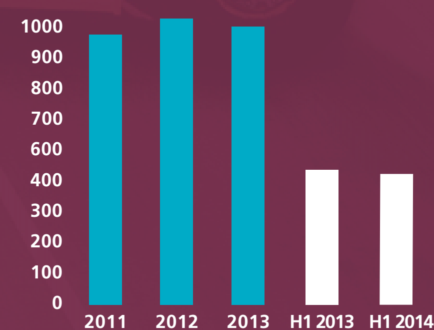


Revenue Ton Miles (millions)

2011 | 23,907
2012 | 24,853
2013 | 24,101

H1 2013 | 11,854
H1 2014 | 11,522

CARLOADS



Carloads (thousands)

2011 | 997
2012 | 1,024
2013 | 1,004

H1 2013 | 491
H1 2014 | 477

LEVERAGING OUR NETWORK AND OPERATING ADVANTAGES

Our intermodal network has sustainable competitive advantages, including:

- Shortest route miles in key domestic and international lanes on the "Intermodal Triangle": from Vancouver (west), Montreal (east) and Chicago (south);
- Faster, more consistent service defining the premium product for our customers; and
- Improved service and lower cost advantages allowing growth into more traditionally truck competitive lanes.

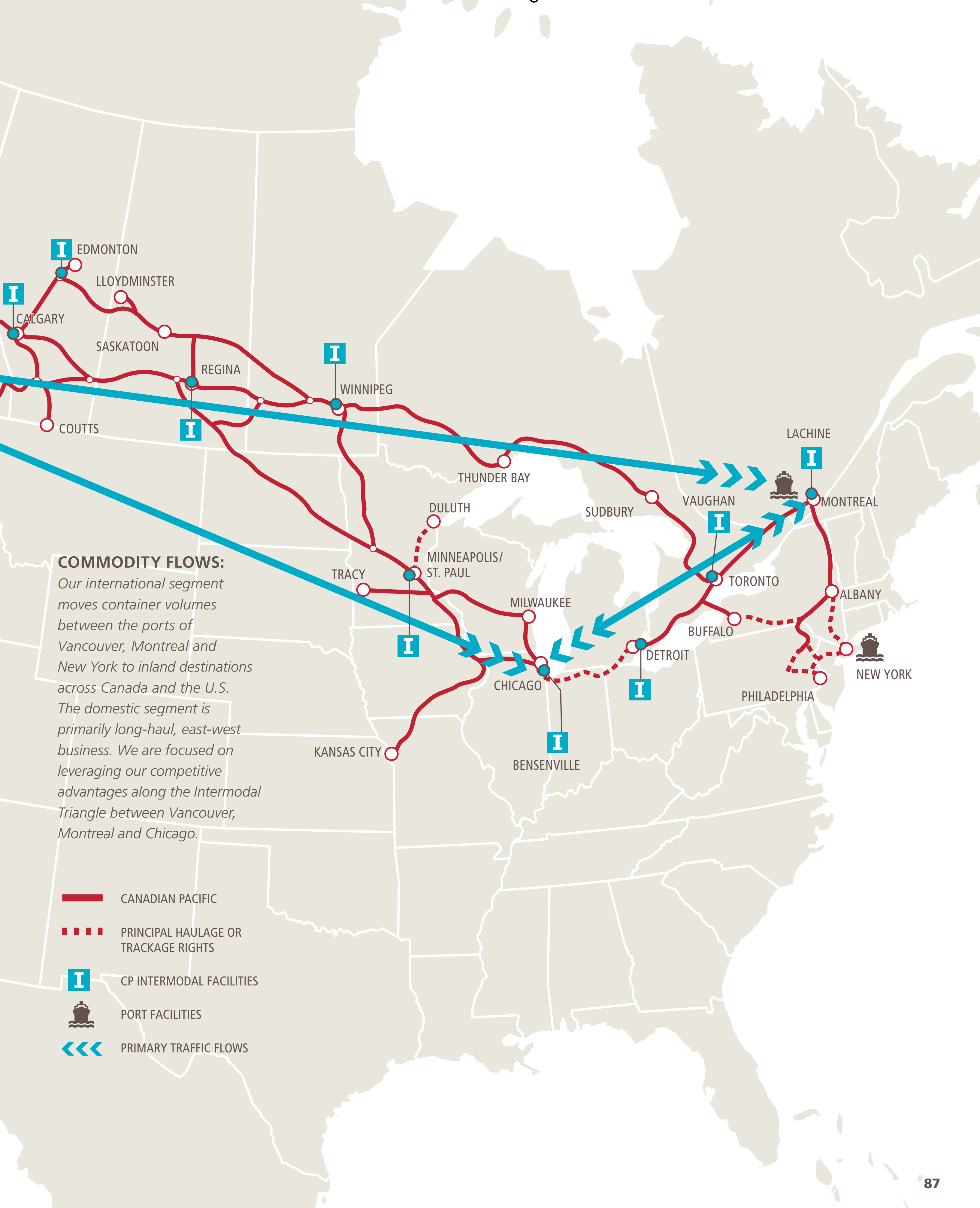
In 2013, after an in-depth examination of core operational processes, we introduced a new 61-hour service from Toronto to Calgary to deliver goods not only one day sooner than previous, but faster than any competing rail offering. Since then, we have also implemented industry-leading services from Eastern Canada to Calgary and Vancouver; and from Port Metro Vancouver to the U.S. Midwest. The result has been double-digit growth in these key lanes as the market takes advantage of the benefits from a faster, more consistent service.

OUTLOOK

Global sourcing, population growth, highway congestion and rising fuel costs all support the long-term fundamentals for intermodal growth. We believe the intermodal portfolio is poised to be a significant growth engine for the company over the next several years.

Domestic intermodal is a key focus because of the value customers place on speed and consistency of service. With 27% and 22% improvements in transit time between Toronto-Calgary and Calgary-Vancouver, respectively, our offering is second-to-none in the industry. We will continue to grow over the next several years as we leverage our new services and expand them to new markets. Further growth will come from new product offerings such as an expanded fleet of specialized, temperature-controlled equipment; continued conversion; and, re-entry into specific truck markets. The rebalancing of our international business has created a strong platform for growth going forward.

Our strong customer base values our consistent, reliable service and the new offering is gaining traction. We anticipate that growth will be driven by a stronger U.S. economy, increasing our network reach beyond Chicago, and winning back business as ocean carriers recognize the value-proposition of our improved service offering.



COMMODITY FLOWS:

Our international segment moves container volumes between the ports of Vancouver, Montreal and New York to inland destinations across Canada and the U.S. The domestic segment is primarily long-haul, east-west business. We are focused on leveraging our competitive advantages along the Intermodal Triangle between Vancouver, Montreal and Chicago.

STRATEGY

Profitable and measured growth is a key feature of the intermodal strategy over the next several years. There are three pillars to support this growth:

NEW PRODUCTS

Building on superior train service and the success of our flagship transcontinental service between Eastern Canada and the major distribution hubs of Calgary and Vancouver, we will apply our new service model to additional destinations on our "Intermodal Triangle."

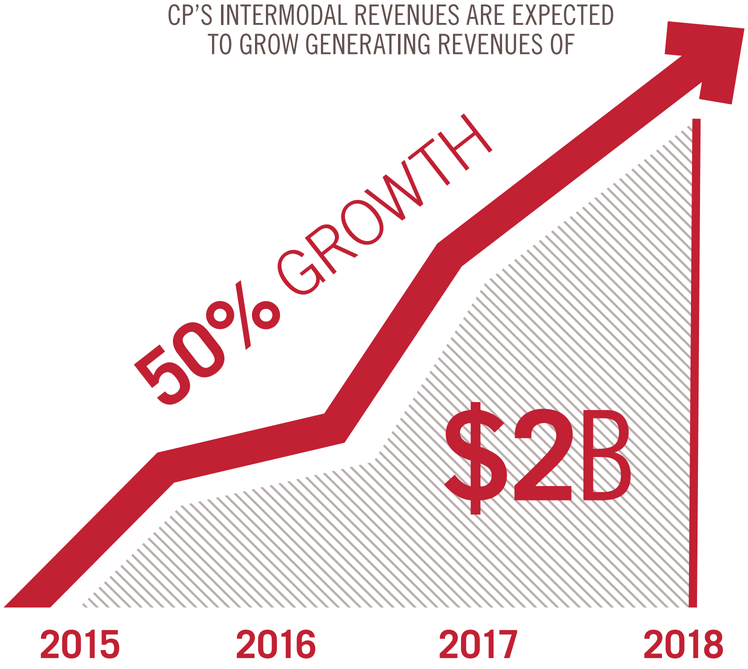
NEW CUSTOMERS

The fastest, most reliable service continues to generate interest from current and new customers, resulting in quality revenue growth.

NEW MARKETS

In partnership with other railroads, we will extend our premium service to markets not previously served by us.

CP'S INTERMODAL REVENUES ARE EXPECTED TO GROW GENERATING REVENUES OF



SPOTLIGHT

Expressway winning business

Expressway has more than met the needs of a growing number of motor carriers.

Our Expressway service is a multi-modal transportation system operating in the Montreal-Toronto corridor. We work in partnership with retailers, private fleet operators and the trucking industry. This innovative system uses a flexible drive-on, drive-off ramp system capable of handling a wide variety of trailers – including vans, flats, tankers and reefers – on specialized flatcars in dedicated trains. The resulting combination provides the trailers and their contents with a ride quality similar or superior to over-the-road transport. Expressway's market-driven schedules, competitive transit times and high productivity between Montreal and Toronto give trucking companies a lower cost alternative and the opportunity to re-deploy scarce resources, such as drivers, to other areas.

Expressway's proven system, common operating platform and brand recognition has more than met the needs of a growing number of motor carriers. We believe Expressway's unique system and partnership approach give us a competitive advantage over other multi-modal retailing specialty trailers in short-haul markets. In addition, Expressway continues to win government and community support as it works to divert trailers from congested highways and reduce greenhouse gases.

Expressway has also reaped the benefits of our company's focus on improved operations. Faster transit times and improved reliability have resulted in double-digit growth in this segment. Carloads have grown from 36,000 carloads in 2012 to 48,000 carloads in 2013, an increase of 33%.

SPOTLIGHT

Offering customized supply chain management solutions

CP Logistics Solutions (CPLS) delivers logistics and transportation management solutions that create value within our customers' supply chains.

When the movement of goods requires a single party to coordinate activities and information from end-to-end, CPLS works with railroads, truckers, facility operators, freight forwarders and other vendors to deliver integrated logistics solutions.

To bring the advantages of our rail services to customers, we focus on their goals through the lens of managing and controlling operational activities across different organizations and regions. Working with customers in a variety of industries – including packaged goods, bulk liquids, industrial materials and dimensional machinery – CPLS designs, builds and executes customized transportation solutions.

CPLS generates value for customers by:

- evaluating distribution and transportation strategies to meet a customer's supply chain goals;
- designing and managing solutions that bring together the capabilities of a number of logistics service providers;
- sourcing lower-cost, quality providers of transportation, warehousing and distribution services;
- streamlining the delivery of goods through integrated logistics and transportation management solutions; and
- capturing and reporting performance information to identify opportunities for supply-chain performance improvement.

CPLS develops shipment plans that balance customer delivery commitments, mode selection and overall lowest total cost. We facilitate the flow of goods across modes, facilities, borders and agencies. We also provide intervention, problem resolution and vendor management. Acting as an extension of a customer's logistics team, CPLS integrates processes and technology at an operational level.

Our ability to provide effective solutions means we can respond to market changes in established industries such as food manufacturing and retailing, and new emerging markets such as energy and other industrial products. We provide custom design and manage multi-modal distribution solutions, delivering added value for both our customers and company. This winning combination enhances benefits to customers, while generating profits and new rail business. It is also integral to our goal of fluidity and an important tool for us to be able to adapt and grow in new markets.


COSCO
Hapag-Lloyd
LINEA MEXICANA
HANJIN
CAPITAL
K LINE
SENATOR

CAPITAL EXPENDITURES

CP's focus on cost control and asset utilization has unleashed significant capacity across the railroad. We have generated surplus locomotives; under-utilized track have been re-deployed; and, previously congested hump yards that processed thousands of cars per day now process a fraction of what they used to.

As we turn our focus towards growth opportunities, the capacity generated through velocity and productivity will be supplemented with additional targeted corridor expansions and improvements. Core capital will continue to be focused on investments that improve the productivity, fluidity and safety of our railroad.

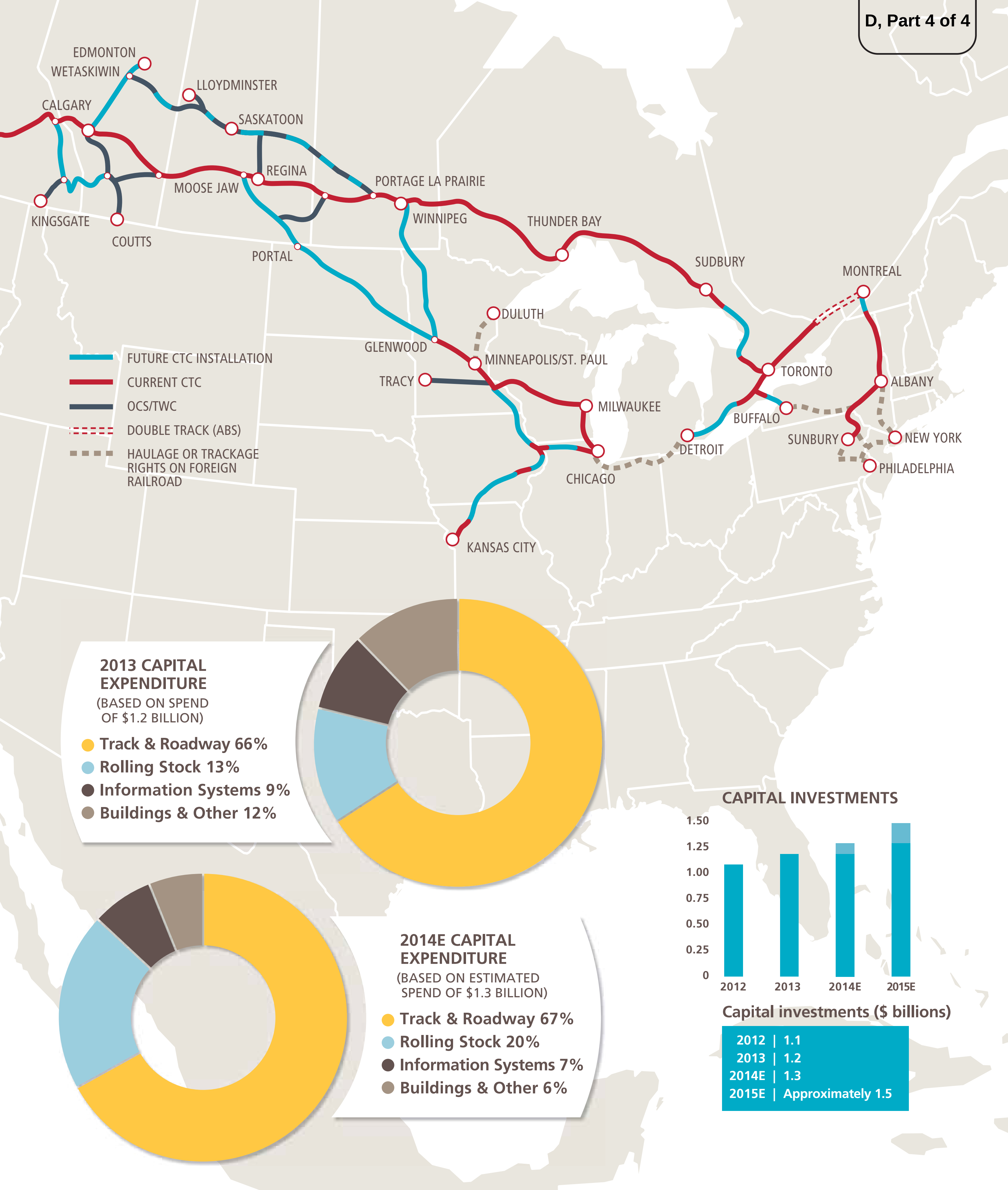
TRACK AND ROADWAY

Track and roadway expenditures include the replacement and enhancement of our track infrastructure. Approximately $700 million of expenditures are dedicated annually to the renewal of depleted assets – namely rail, ties, ballast, signals and bridges. The remaining track and roadway expenditure, which amounted to $130 million in 2013, is targeted on network improvements to increase productivity, efficiency and capacity.

Recent investments include:

- new sidings and siding extensions along our network to enable longer trains, improve transit times, and reduce train and crew starts. In 2013, we extended eight sidings along our mainline between Toronto and Vancouver. We are constructing or extending another 12 sidings in 2014. Work will be targeted along our North Line between Wetaskiwin, Alberta and Portage La Prairie, Manitoba; between Calgary and Edmonton; and between Glenwood and St. Paul in Minnesota;
- upgrades to signaling systems – specifically, the installation of Centralized Traffic Control (CTC) – on portions of our mainline between Portal, North Dakota and Glenwood. CTC not only provides for simplified and safer movement of trains but also allows for switches to be lined from a remote centralized location eliminating the need for crews to stop and line switches manually. This efficiency improves the travel time over a subdivision which ultimately increases capacity; and
- track upgrades to our North Line between Winnipeg and Edmonton, have increased corridor speed from 25 to 40 miles per hour, and improved service reliability.

EXHIBIT
D, Part 4 of 4



ROLLING STOCK

Investments in rolling stock have primarily been focused on the remanufacture of older four-axle yard and local service locomotives as well as six-axle SD40 road units. In addition to reducing maintenance costs and improving fuel efficiency, these investments also reduce the number of units required through improved reliability, the allowance for interoperability with our existing road fleet and better utilize horsepower. The remanufacture of our four-axle fleet in 2013 and 2014 represents the first major investment in new yard locomotives in several years and also allows us to stay ahead of the more restrictive 2015 Tier 4 emissions standards.

Other rolling stock investments include the purchase of existing railcars that had previously been leased and the acquisition of temperature-controlled intermodal containers to meet growing demand.

INFORMATION SYSTEMS

We have been investing roughly $100 million per year toward insourcing activities and the rationalization and modernization of our information systems. Insourcing activities have included the construction of new data centres in Calgary and Minneapolis to replace data centre space and hardware that had previously been leased from, and managed by, third-party vendors. There is also significant work underway to reduce the total number of supported applications while migrating to a standardized platform. The net result is a more responsive and less costly system infrastructure.

BUILDINGS AND OTHER

Building expenditures are focused on providing productive and safe work environments for our No. 1 asset: our people. In 2013, building expenditures were significantly higher as we spent $40 million constructing and relocating our headquarters from a leased office tower to Calgary’s Ogden Yard. The move is expected to save us approximately $20 million a year in lease costs.

SPOTLIGHT

Expanding Centralized Traffic Control

Centralized Traffic Control (CTC) is a system in which a rail traffic controller (RTC) gives routing instructions to train crews using lineside signals and remotely controlled power switches. With the click of a mouse, the RTC can direct train crews to proceed across main lines, or divert trains onto sidings, yard tracks or branch lines. In places where CTC is not in place, the RTC must issue instructions to crews by radio, and crews must stop their trains to line switches by hand. CTC uses track circuits to detect whether a stretch of track is occupied, and displays red signals to trains approaching occupied track “blocks.”

Currently, only a portion of CP’s route across Canada is CTC, as is the U.S. route between the Chicago area and Glenwood. However, most key secondary routes still rely on radio-issued instructions to train crews. Future investments in CTC will focus on completing the Portal to Glenwood corridor, the North Line from Calgary to Portage la Prairie and southern B.C. and Alberta.


HELLY HANSEN

INFORMATION TECHNOLOGY

CP relies on many information systems for resource planning, scheduling, monitoring and reporting railroad traffic, customer relationships, accounting and financial controls, staff records, payroll and the safe efficient execution of our operations.

Our information system applications capture shipment orders and both financial and operational data. These systems also map out complex interconnections of freight cars, locomotives, facilities, and track and train crews to meet more than 10,000 individual customer service commitments daily.

Since 2013, our Information Technology (IT) structure and capabilities have been undergoing a fundamental change in direction with a focus on operations, asset utilization, cost control, service improvements and people development.

INTERNAL CAPABILITIES STRENGTHENED

We have a new approach to ownership and control of all areas related to IT. For the past decade, our IT systems have been largely developed and supported by outsourced resources or non-company staff. We have now insourced a large portion of these outsourced contracts in 2013/2014 and built an internal team of "railroad" IT experts (infrastructure, networks, software development and support). We have transitioned from an 85% outsourced IT service to 80% internal support capabilities. This is leading to improved knowledge of our systems, reduced resolution times, reduced incident frequency and improved response times. We have strengthened our ability to build out our technical capability in line with business objectives.

In 2014, we also invested in new data centres in Calgary and Minneapolis to replace existing "outsourced" data centres that were service managed by external vendors. These new centres will provide the foundation for a reduction in the number of technology platforms and decommissioning of more than 800 mid-range servers and two mainframes, leading to reduced cost and improved service.

MORE INFORMED DECISIONS

Our "Railway Performance Monitoring" (RPM) application is a near real time dashboard that consolidates information from multiple sources into an easy to read geographical map interface of railroad operations. RPM is designed to provide visibility to key information to assist our operating personnel (from executive to the train master) in making rapid and informed decisions on train movements and other asset-related topics.

IMPROVED SECURITY AND REPORTING

Our new Environment, Health & Safety (EHS) system will provide an integrated solution replacing three existing legacy systems. EHS will deliver incident reporting, WCB claims, U.S. casualty management and regulatory incident management. The integration of these modules will feature strengthened security and access control and feature enhanced reporting capabilities relating to legal, risk management, finance, operations and current government regulatory requirements, with an improved system security and access control.

We have also continued the build-out of our disaster recovery capability for technology systems that support business functions. This will ensure we can keep all aspects of the business functioning in the midst of any unplanned disruptive events.

REGULATORY

CP's railroad operations are subject to extensive federal laws, regulations and rules in both Canada and the United States which directly affect how operations and business activities are managed.

Operations are subject to economic and safety regulation in Canada primarily by the Canadian Transportation Agency (the Agency) and Transport Canada through the Canada Transportation Act (CTA) and the Railway Safety Act. The CTA provides shipper rate and service remedies, including Final Offer Arbitration, competitive line rates and compulsory inter-switching in Canada. The Agency regulates the maximum revenue entitlement for the movement of grain, commuter and passenger access, charges for ancillary services and noise-related disputes. Transport Canada regulates safety-related aspects of railroad operations in Canada.

Our U.S. operations are subject to economic and safety regulation by the Surface Transportation Board (STB) and Federal Railroad Administration (FRA). The STB is an economic regulatory body with jurisdiction over railroad rate and service issues and reviewing proposed railroad mergers. The FRA regulates safety-related aspects of our railroad operations in the U.S. under the Federal Railroad Safety Act, as well as rail portions of other safety statutes. State and local regulatory agencies may also exercise limited jurisdiction over certain safety and operational matters of local significance.

Various other regulators directly and indirectly affect our operations in areas such as health, safety, security and environmental and other matters. To mitigate statutory and regulatory impacts, we are actively and extensively engaged throughout the different levels of government and regulators, both directly and indirectly through industry associations, including the Association of American Railroads and the Railway Association of Canada. No assurance can be given to the content, timing or effect on our company of any anticipated legislation or further legislative action.

REGULATORY CHANGE

On March 26, 2014, the Canadian government introduced Bill C-30, "Fair Rail Act for Farmers". This legislation requires our company and CN to move a minimum amount of grain specified in the legislation or as specified by the federal cabinet. In addition, it expands the terms and conditions associated with the interswitching provisions of the CTA in the provinces of Alberta, Saskatchewan and Manitoba. Bill C-30 also amends the Canada Grain Act to permit the regulation of contracts relating to grain and the arbitration of disputes respecting the provisions of those contracts. Bill C-30 received a second reading on March 28, 2014. It is too soon to determine what impact the changes proposed in Bill C-30 will have on our company's financial condition and operations.

After the tragic accident in Lac-Megantic, Quebec in July of 2013 following a significant derailment involving a non-related short-line railroad, the Government of Canada implemented several measures pursuant to the Rail Safety Act and the Transportation of Dangerous Goods Act. These modifications implemented changes with respect to rules associated with securing unattended trains, the classification of crude oil being imported, handled, offered for transport or transported and the provision of information to municipalities through which dangerous goods are transported by rail. These changes do not have a material impact on our operating practices.

On November 19, 2013, the CTA initiated consultation on the current approach to determining the adequacy of railroad third-party liability coverage and solicited input on possible improvements to the current regulatory framework.

There is ongoing discussion with Canadian and American regulators concerning amendments to the regulation for the transportation of hazardous commodities including the tank cars used for the transportation of crude oil. The freight rail industry petitioned the U.S. Pipeline and Hazardous Materials Safety Administration in 2011 to adopt the industry's new tank car standards. In November 2013, the industry renewed its request to the U.S. Pipeline and Hazardous Materials Safety Administration and also urged that existing cars used for crude oil and ethanol be retrofitted to the higher standard or phased out of flammable service. We do not own any tank cars used for commercial transportation of hazardous commodities.

Bill C-52 was enacted by the Canadian government on June 26, 2013. This legislation provides shippers with the right to an agreement concerning the manner in which a railroad company must provide service to the shipper. If a service agreement cannot be reached through commercial negotiations, arbitration is available to the shipper to establish the terms of service. It is too soon to determine if this legislation will have a material impact on our company.

Congress did not reauthorize the Railway Safety Improvement Act and the Passenger Rail Investment and Improvement Act which expired at the end of September of 2013. It is uncertain whether legislation will be enacted in 2014.

The STB serves as both an adjudicatory and regulatory body. Matters pending before the STB include proposed rules to address its rate case processes and a petition by the National Industrial Transportation League for new reciprocal switching rules. No assurance can be given that any future regulatory or legislative initiatives by the STB will not materially adversely affect the Company's operations or its competitive or financial position.

In the U.S., the Rail Safety Improvement Act requires Class 1 railroads to implement, by December 31, 2015, interoperable PTC on main track in the U.S. that has passenger rail traffic or toxic inhalant hazard commodity traffic. The legislation defines PTC as a system designed to prevent train-to-train collisions, over-speed derailments, incursions into established work zone limits, and the movement of a train through a switch left in the wrong position. The FRA has issued rules and regulations for the implementation of PTC, and we filed our PTC Implementation Plans in April 2010, which outlined our solution for interoperability as well as our consideration of relative risk in the deployment plan. We are participating in industry and government working groups to evaluate the scope of effort that will be required to comply with these regulatory requirements, and to further the development of an industry standard interoperable solution that can be supplied in time to complete deployment. At this time we estimate the cost to implement PTC as required for railroad operations in the U.S. to be up to US$328 million. As at June 30, 2014, total expenditures related to PTC were approximately $175 million.

LABOUR RELATIONS

CP employs 15,000 employees across North America with 75% based in Canada and the remainder in the United States. Unionized employees represent 77% of our workforce and are represented by 39 bargaining units.

CANADA

Within Canada there are seven bargaining units representing 8,300 Canadian unionized employees. From time-to-time, we negotiate to renew collective agreements with various unionized groups of employees. In such cases, the collective agreements remain in effect until the bargaining process has been exhausted (as per Canada Labour Code).

Agreements with unions representing Canadian running trades employees and Canadian car and locomotive repair employees expire at the end of 2014. Agreements with the other five Canadian bargaining units are in place through at least December 31, 2017.

U.S.

In the U.S., there are currently 32 bargaining units on three subsidiary railroads representing 3,000 unionized employees.

All of the U.S. collective bargaining agreements are in place until the end of 2014, with the exception of two agreements on the Dakota, Minnesota & Eastern which became amendable at the end of 2013.

SPOTLIGHT

Hourly rated agreements

An hourly based pay structure is commonplace in many industries. However, this straightforward concept still is considered somewhat uncommon for Train and Engine (T&E) employees among Class 1 railroads in North America. Yet the benefits are mutual to both employees and employers.

Hourly rated agreements introduce work/rest scheduling for employees and pay each employee the same all-inclusive hourly rate for work performed under their collective agreement. These agreements remove traditional work rules in order to provide operational flexibility that enables our company to manage our business in the most efficient and competitive manner. We also believe that due to the competitive nature of today's labor market, hourly agreements will also enhance our ability to attract and retain employees.

CANADIAN UNIONS

	# OF EMPLOYEES AS AT JUNE 2014	TYPE OF EMPLOYEES	EXPIRATION
Teamsters Canada Rail Conference (TCRC - T&E)	3,289	Train & Engine Crews	31-Dec-14
Teamsters Canada Rail Conference Maintenance of Way Employees Division (TCRC - MWED)	2,476	Track Maintainers, Buildings/Structures	31-Dec-17
Unifor Local 101R (previously Canadian Auto Workers)	1315	Car & Locomotive Repair Employees	31-Dec-14
United Steel Workers of America Transportation Communications Local 1976 (TC-USWA)	644	Clerical Employees	31-Dec-17
International Brotherhood of Electrical Workers (IBEW)	436	Signal Maintainers	31-Dec-17
Teamsters Canada Rail Conference - Rail Canada Traffic Controllers (TCRC - RCTC)	122	Rail Traffic Controllers	31-Dec-20
Canadian Pacific Police Association (CPPA)	48	Police	31-Dec-17
Total	**8,330**		

U.S. UNIONS

SOO LINE	# OF EMPLOYEES AS AT JUNE 2014	TYPE OF EMPLOYEES	EXPIRATION
United Transportation Union (UTU)	463	Train Service Employees	31-Dec-14
Teamsters (BMWE)	462	Track Maintainers	31-Dec-14
Teamsters (BLE&T)	409	Locomotive Engineers	31-Dec-14
Transportation Communications International Union (TCU)	148	Clerical Employees	31-Dec-14
Brotherhood of Railway Carmen - Division of Transportation Communication International Union (TCU-BRC)	125	Car Repair Employees	31-Dec-14
Brotherhood of Railway Signalmen (BRS)	113	Signal Maintainers	31-Dec-14
International Association of Machinists & Areospace Workers (IAM)	96	Machinists	31-Dec-14
International Brotherhood of Electrical Workers (IBEW)	52	Electricians	31-Dec-14
American Train Dispatchers Department - Division of Brotherhood of Locomotive Engineers (ATDD)	49	Train Dispatchers	31-Dec-14
Soo Line Locomotive and Car Foremen Association (SLL&CFA)	24	Locomotive/Car Foremen	31-Dec-14
National Conference of Firemen and Oilers (NCF&O)	22	Mechanical Laborers	31-Dec-14
United Transportation Union - Yardmasters (UTU-Y)	20	Yardmasters	31-Dec-14
Various	2	Various	31-Dec-14
DELEWARE AND HUDSON			
Teamsters (BMWE)	207	Track Maintainers	31-Dec-14
United Transportation Union (UTU)	70	Conductors & Trainpersons	31-Dec-14
Teamsters (BLE&T)	57	Locomotive Engineers	31-Dec-14
Brotherhood of Railway Signalmen (BRS)	37	Signal Maintainers	31-Dec-14
Brotherhood of Railway Carmen (BRC)	15	Car Repair Employees	31-Dec-14
Various	36	Various	31-Dec-14
DAKOTA, MINNESOTA AND EASTERN			
Teamsters	271	Locomotive Engineers (represent Conductors and Trainpersons on ICE network)	31-Dec-13
Brotherhood of Maintenance of Way (BMWED)	186	Track Maintainers	31-Dec-14
International Association of Machinists (IAM)	53	Mechanics	31-Dec-14
United Transportation Union (UTU)	48	Conductors & Trainpersons	31-Dec-13
Brotherhood of Railway Signalmen (BRS)	38	Signal Maintainers	31-Dec-14
Total	**3,003**		

DRIVING SHAREHOLDER VALUE

Since embarking on our turnaround journey just over two years ago, CP has transformed from the worst performing railroad in North America to quickly approaching industry best.

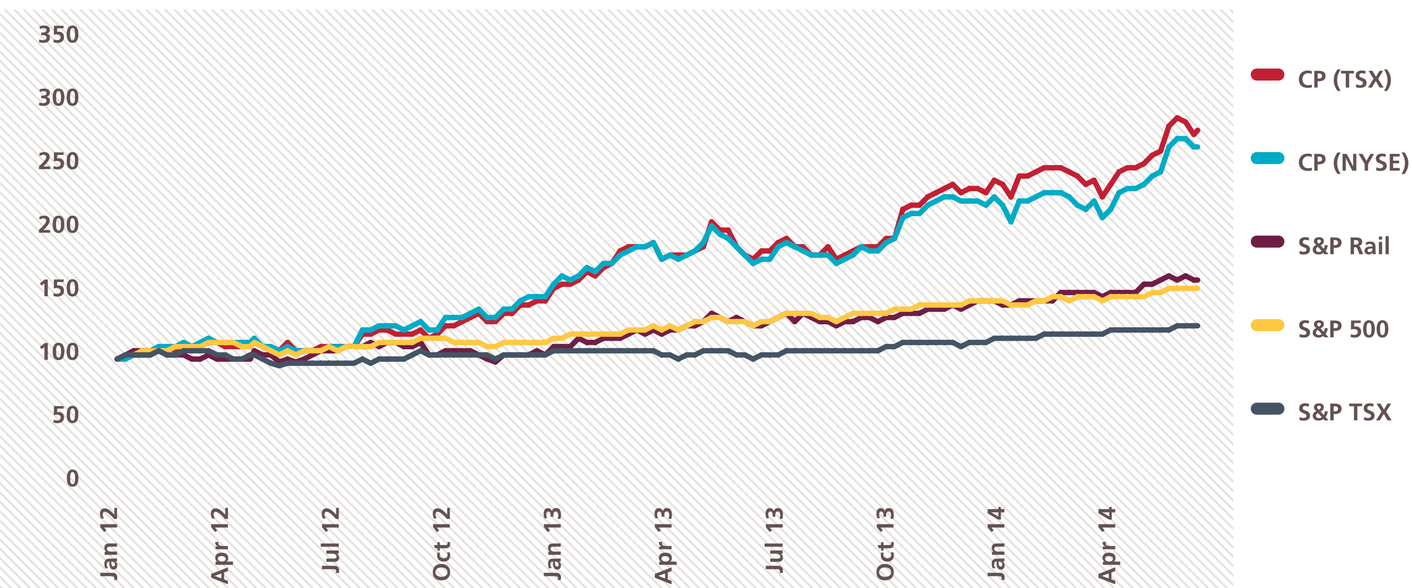
We ended 2011 with an operating ratio of 81.3% - trailing the industry average by nearly 1,200 basis points. By the end of 2013, our operating ratio had improved to 69.9%, and we anticipate ending 2014 with a mid-60s operating ratio – two years ahead of plan.

Our stock price appreciation and market capitalization growth have been unprecedented. Since the start of 2012, our share price has grown by more than 280% and our market capitalization has increased from $11.7 billion to more than $33.4 billion.

SHARE REPURCHASE PROGRAM

With a strong balance sheet and improved cash flow generation, we announced a normal course issuer bid (NCIB) in the first quarter of 2014 to purchase up to 5.3 million common shares

CP SHARE PRICE PERFORMANCE – JANUARY 2012 TO JUNE 2014
JANUARY 2012 = 100



or three per cent of our common shares outstanding. The share repurchase program commenced on March 17, 2014, and is due to terminate no later than March 16, 2015.

From March 17, 2014 to June 30, 2014, we repurchased 3.3 million common shares at an average price of $172.90 per share.

We expect to amend the NCIB prior to expiration in order to increase the number of common shares that may be repurchased under the program.

DIVIDENDS

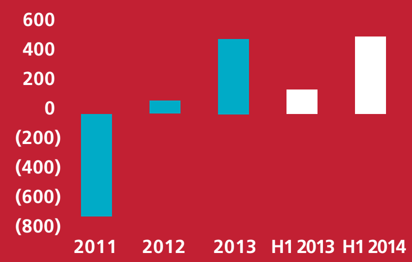
We currently pay a quarterly dividend of $0.35 per common share. Our Board of Directors gives consideration on a quarterly basis to the payment of future dividends.

BOND RATINGS

Credit ratings provide information relating to our financing costs, liquidity and operations. Credit ratings affect our ability to obtain short-term and long-term financing and/or the cost of such financing. As a result of the significant improvement in our operating results and financial position, we have received upgrades from all three agencies in the first half of 2014.

- On April 16, 2014, Standard & Poor's Ratings Services raised our long-term corporate credit rating to "BBB" from "BBB-" and assigned a positive outlook to the rating.
- On April 24, 2014, Moody's Investors Service upgraded our senior unsecured ratings to Baa2 from Baa3 and assigned a positive outlook to the rating.
- On June 5, 2014, DBRS upgraded our Issuer Rating, Unsecured Debentures and Medium-Term Notes ratings to "BBB" from "BBB(low)" and assigned a positive outlook to the ratings.

FREE CASH[1]

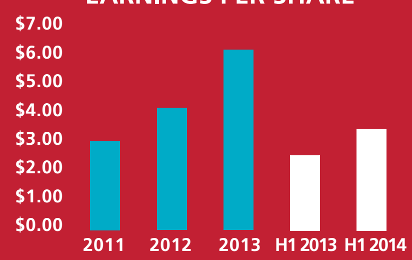


Free Cash ($ millions)

2011 | (724)
2012 | 93
2013 | 530

H1 2013 | 171
H1 2014 | 534

ADJUSTED DILUTED EARNINGS PER SHARE[1]

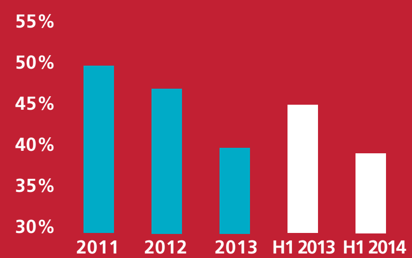


Adjusted Diluted Earnings per Share

2011 | $3.15
2012 | $4.34
2013 | $6.42

H1 2013 | $2.64
H1 2014 | $3.55

DEBT TO TOTAL CAPITALIZATION



Debt to Total Capitalization (%)

2011 | 50.7%
2012 | 47.9%
2013 | 40.7%

H1 2013 | 45.9%
H1 2014 | 39.8%

(1) See description of "Reconciliation of Non-GAAP measures to GAAP measures," on page 110.

FINANCIALS

QUARTERLY CONSOLIDATED STATEMENT OF INCOME

$ in millions, except per share data or unless otherwise indicated

	2012					2013					2014		H1	
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	2013	2014
REVENUES														
Canadian Grain	202	160	186	219	767	203	191	212	263	869	221	252	394	473
U.S. Grain	86	73	110	136	405	111	91	107	122	431	106	115	202	221
Coal	137	148	161	156	602	149	144	177	157	627	148	165	293	313
Potash	63	97	59	62	281	82	95	66	69	312	80	101	177	181
Fertilizers & Sulphur	63	53	52	71	239	70	68	63	57	258	54	64	138	118
Forest Products	50	48	49	46	193	53	53	51	49	206	48	52	106	100
Chemicals & Plastics	134	120	125	133	512	139	138	142	146	565	147	155	277	302
Crude	28	48	59	71	206	92	97	78	108	375	104	114	189	218
Metals, Minerals & Consumer Products	136	138	145	131	550	141	144	164	159	608	161	170	285	331
Automotive	105	116	105	99	425	97	106	95	105	403	88	104	203	192
Domestic Intermodal	169	153	165	166	653	170	171	170	173	684	177	200	341	377
International Intermodal	167	178	198	174	717	152	160	170	162	644	140	150	312	290
Total freight revenues	1,340	1,332	1,414	1,464	5,550	1,459	1,458	1,495	1,570	5,982	1,474	1,642	2,917	3,116
Other revenue	36	34	37	38	145	36	39	39	37	151	35	39	75	74
Total revenues	**1,376**	**1,366**	**1,451**	**1,502**	**5,695**	**1,495**	**1,497**	**1,534**	**1,607**	**6,133**	**1,509**	**1,681**	**2,992**	**3,190**
OPERATING EXPENSES														
Compensation and benefits	382	358	364	371	1,474	392	334	324	335	1,385	345	342	726	687
Fuel	269	242	232	256	999	270	246	226	262	1,004	271	273	516	544
Materials	43	41	40	42	166	44	35	36	45	160	52	47	79	99
Equipment rents	50	56	52	48	206	46	44	44	39	173	41	40	90	81
Depreciation and amortization	127	135	137	140	539	141	141	139	144	565	141	137	282	278
Purchased services and other	231	295	251	267	1,044	240	277	241	240	998	236	255	517	491
Asset impairment	-	-	-	265	265	-	-	-	435	435	-	-		
Labour restructuring	-	-	-	53	53	-	-	-	(7)	(7)	-	-		
Total operating expenses	**1,102**	**1,127**	**1,075**	**1,442**	**4,746**	**1,133**	**1,077**	**1,010**	**1,493**	**4,713**	**1,086**	**1,094**	**2,210**	**2,180**
Operating income	**274**	**239**	**376**	**60**	**949**	**362**	**420**	**524**	**114**	**1,420**	**423**	**587**	**782**	**1,010**
Other income and charges	13	19	2	3	37	3	8	-	6	17	-	3	11	3
Net interest expense	69	69	69	69	276	70	68	70	70	278	70	69	138	139
Income before income tax	192	151	305	(12)	636	289	344	454	38	1,125	353	515	633	868
Income tax expense (recovery)	50	48	81	(27)	152	72	92	130	(44)	250	99	144	164	243
Net income	**$ 142**	**$ 103**	**$ 224**	**$ 15**	**$ 484**	**$ 217**	**$ 252**	**$ 324**	**$ 82**	**$ 875**	**$ 254**	**$ 371**	**$ 469**	**$ 625**
Operating ratio	80.1%	82.5%	74.1%	96.0%	83.3%	75.8%	71.9%	65.9%	92.9%	76.8%	72.0%	65.1%	73.9%	68.3%
Adjusted operating ratio (1)	80.1%	78.5%	74.1%	74.8%	77.0%	76.4%	71.9%	65.9%	65.9%	69.9%	72.2%	65.1%	73.9%	68.3%
Diluted earnings per share	$ 0.82	$ 0.60	$ 1.30	$ 0.08	$ 2.79	$ 1.24	$ 1.43	$ 1.84	$ 0.47	$ 4.96	$ 1.44	$ 2.11	$ 2.66	$ 3.54
Adjusted diluted earnings per share (1)	$ 0.88	$ 0.90	$ 1.30	$ 1.28	$ 4.34	$ 1.21	$ 1.43	$ 1.88	$ 1.91	$ 6.42	$ 1.42	$ 2.11	$ 2.63	$ 3.52

(1) See description of "Reconciliation of Non-GAAP measures to GAAP measures," on page 110.

Certain of the comparative figures have been reclassified in order to be consistent with the 2014 presentation.

QUARTERLY CONSOLIDATED BALANCE SHEET

$ in millions

	2012				2013				2014	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
ASSETS										
Current assets										
Cash and cash equivalents	77	82	207	333	347	442	329	476	279	369
Restricted cash and cash equivalents	-	-	-	-	-	99	261	411	409	402
Accounts receivable, net	526	497	533	546	585	547	594	580	723	687
Materials and supplies	171	151	142	136	190	174	158	165	190	174
Deferred income taxes	187	175	175	254	292	305	294	344	345	220
Other current assets	67	69	61	60	67	84	73	53	64	61
	1,028	974	1,118	1,329	1,481	1,651	1,709	2,029	2,010	1,913
Investments	135	138	87	83	85	89	177	92	98	98
Properties	12,743	12,964	12,967	13,013	13,122	13,422	13,493	13,327	13,518	13,538
Assets held for sale	-	-	-	-	-	-	-	222	230	-
Goodwill and intangible assets	188	192	185	161	164	170	166	162	168	162
Pension asset	-	-	-	-	-	-	-	1,028	1,092	1,151
Other assets	142	138	134	141	175	187	189	200	199	150
Total assets	**$ 14,236**	**$ 14,406**	**$ 14,491**	**$ 14,727**	**$ 15,027**	**$ 15,519**	**$ 15,734**	**$ 17,060**	**$ 17,315**	**$ 17,012**
LIABILITIES AND SHAREHOLDERS' EQUITY										
Current liabilities										
Short-term borrowing	-	-	-	-	-	-	-	-	-	-
Accounts payable and accrued liabilities	1,059	1,101	1,047	1,176	1,089	1,086	1,074	1,189	1,144	1,257
Long-term debt maturing within one year	51	52	54	54	154	172	177	189	95	92
	1,110	1,153	1,101	1,230	1,243	1,258	1,251	1,378	1,239	1,349
Pension and other benefit liabilities	1,312	1,240	1,174	1,366	1,172	1,104	1,036	657	663	660
Other long-term liabilities	353	313	306	306	315	337	329	338	348	364
Long-term debt	4,681	4,745	4,602	4,636	4,590	4,692	4,591	4,687	4,774	4,633
Deferred income taxes	1,954	2,017	2,077	2,092	2,258	2,403	2,499	2,903	3,028	2,870
Total liabilities	9,410	9,468	9,260	9,630	9,578	9,794	9,706	9,963	10,052	9,876
Shareholders' equity										
Share capital	1,909	1,934	2,042	2,127	2,183	2,213	2,221	2,240	2,253	2,248
Additional paid-in capital	72	81	57	41	35	33	35	34	36	34
Accumulated other comprehensive loss	(2,691)	(2,656)	(2,610)	(2,768)	(2,621)	(2,563)	(2,533)	(1,503)	(1,465)	(1,452)
Retained earnings	5,536	5,579	5,742	5,697	5,852	6,042	6,305	6,326	6,439	6,306
	4,826	4,938	5,231	5,097	5,449	5,725	6,028	7,097	7,263	7,136
Total liabilities and shareholders' equity	**$ 14,236**	**$ 14,406**	**$ 14,491**	**$ 14,727**	**$ 15,027**	**$ 15,519**	**$ 15,734**	**$ 17,060**	**$ 17,315**	**$17,012**

QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS

$ in millions

	2012					2013					2014		H1	
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	2013	2014
OPERATING ACTIVITIES														
Net income	142	103	224	15	484	217	252	324	82	875	254	371	469	625
Reconciliation of net income to cash provided by (used in) operating activities:														
Depreciation and amortization	127	135	137	140	539	141	141	139	144	565	141	137	282	278
Deferred income taxes	46	48	68	(22)	140	63	87	110	(48)	212	89	(15)	150	74
Pension funding in (excess) of / less than expense	(7)	(23)	(14)	(17)	(61)	(9)	(14)	(17)	(15)	(55)	(32)	(33)	(23)	(65)
Asset impairment	-	-	-	265	265	-	-	-	435	435	-	-	-	-
Labour restructuring, net	-	-	-	50	50	-	-	-	(12)	(29)	-	-	-	-
Other operating activities, net	(29)	6	(58)	(3)	(84)	2	(21)	(21)	(28)	(51)	17	23	(19)	40
Change in non-cash working capital balances related to operations	(78)	57	(25)	41	(5)	(147)	75	(31)	101	(2)	(182)	162	(72)	(20)
Cash provided by (used in) operating activities	201	326	332	469	1,328	267	520	504	659	1,950	287	645	787	932
INVESTING ACTIVITIES														
Additions to properties	(233)	(292)	(287)	(336)	(1,148)	(203)	(301)	(298)	(434)	(1,236)	(224)	(298)	(504)	(522)
Proceeds from sale of west end of Dakota, Minnesota & Eastern Railroad	-	-	-	-	-	-	-	-	-	-	-	236	-	236
Proceeds from sale of properties and other assets	45	17	76	7	145	16	11	11	35	73	5	11	27	16
Change in restricted cash and cash equivalents					-	-	(99)	(247)	(65)	(411)	2	7	(99)	9
Other	(1)	-	-	(7)	(8)	(25)	(1)	(1)	4	(23)	-	(1)	(26)	(1)
Cash used in investing activities	(189)	(275)	(211)	(336)	(1,011)	(212)	(390)	(535)	(460)	(1,597)	(217)	(45)	(602)	(262)
FINANCING ACTIVITIES														
Dividends paid	(51)	(51)	(60)	(61)	(223)	(61)	(60)	(62)	(61)	(244)	(61)	(62)	(121)	(123)
Issuance of common shares	38	17	81	62	198	40	23	6	14	83	14	22	63	36
Purchase of common shares	-	-	-	-	-	-	-	-	-	-	(85)	(447)	-	(532)
Issuance of long-term debt	71	-	-	-	71	-	-	-	-	-	-	-	-	-
Repayment of long-term debt	(12)	(13)	(16)	(9)	(50)	(19)	(7)	(19)	(11)	(56)	(143)	(11)	(26)	(154)
Net increase (decrease) in short-term borrowing	(27)	-	-	-	(27)	-	-	-	-	-	-	-	-	-
Other	-	-	-	1	1	-	-	-	(3)	(3)	-	-	-	-
Cash (used in) provided by financing activities	19	(47)	5	(7)	(30)	(40)	(44)	(75)	(61)	(220)	(275)	(498)	(84)	(773)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	(1)	1	(1)	-	(1)	(1)	9	(7)	9	10	8	(12)	8	(4)
CASH POSITION														
Increase (decrease) in cash and cash equivalents	30	5	125	126	286	14	95	(113)	147	143	(197)	90	109	(107)
Cash and cash equivalents at beginning of period	47	77	82	207	47	333	347	442	329	333	476	279	333	476
Cash and cash equivalents at end of period	$ 77	$ 82	$ 207	$ 333	$ 333	$ 347	$ 442	$ 329	$ 476	$ 476	$ 279	$369	$ 442	$ 369

QUARTERLY STATISTICAL DATA

	2012					2013					2014		H1	
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	2013	2014
VOLUME														
Gross Ton Miles (GTM) (millions)	62,688	60,926	64,536	66,204	254,354	67,679	67,232	64,188	68,531	267,629	62,349	71,333	134,910	133,682
Train Miles (thousands)	10,342	9,681	10,201	10,046	40,270	9,993	9,645	8,837	9,341	37,817	8,727	9,335	19,639	18,062
Revenue Ton Miles (RTM) (millions)	32,811	32,559	34,133	35,529	135,032	36,163	35,991	34,684	37,411	144,249	34,375	38,429	72,154	72,804
Carloads (thousands)	656	646	687	680	2,669	659	668	675	686	2,688	618	689	1,327	1,307
FUEL														
Fuel efficiency (Gallons per 1,000 GTMs)	1.23	1.14	1.09	1.14	1.15	1.13	1.05	1.02	1.06	1.06	1.11	1.00	1.09	1.05
Average fuel price (U.S. dollars per U.S. gallon)	3.50	3.49	3.35	3.47	3.45	3.55	3.45	3.34	3.51	3.47	3.63	3.53	3.50	3.58
U.S. gallons of locomotive fuel consumed (millions)	76.6	68.8	69.4	74.4	289.2	75.7	69.8	64.7	71.4	281.7	68.3	70.3	145.6	138.7
OPERATIONS														
Train speed (miles per hour)	18.7	17.5	18.3	17.6	18.0	18.0	18.6	18.7	17.6	18.2	15.9	18.1	18.4	17.1
Terminal dwell (hours)	7.6	7.8	7.4	7.4	7.5	6.6	6.8	7.2	7.9	7.1	10.3	8.6	6.7	9.4
Train weight (tons)	6,420	6,690	6,723	7,014	6,709	7,209	7,471	7,817	7,844	7,573	7,653	8,178	7,337	7,924
Train length (feet)	5,757	5,955	6,021	6,198	5,981	6,298	6,444	6,746	6,668	6,530	6,371	6,880	6,369	6,634
SAFETY														
FRA personal injuries per 200,000 employee-hours	1.15	1.31	1.58	2.05	1.55	1.74	1.51	1.89	1.77	1.69	1.50	1.84	1.62	1.73
FRA train accidents per million train-miles	1.58	1.43	1.98	1.68	1.67	1.96	1.94	1.78	1.35	1.78	0.92	1.03	1.95	1.08
PEOPLE														
Total employees (average)	16,671	17,327	17,572	16,369	16,999	14,920	15,471	14,974	14,677	15,011	14,246	14,787	15,196	14,516
Total employees (end of period)	16,862	17,998	17,175	15,713	15,713	15,112	15,355	14,766	14,506	14,506	14,446	14,736	15,355	14,736
Workforce (end of period)	18,945	19,505	18,587	16,907	16,907	16,108	16,053	15,318	14,977	14,977	14,774	14,960	16,053	14,960

QUARTERLY COMMODITY DETAILS

	2012					2013					2014		H1	
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	2013	2014
CARLOADS THOUSANDS														
Canadian Grain	68	54	60	66	248	59	61	61	75	256	62	78	120	140
U.S. Grain	42	37	50	56	185	49	42	45	46	182	39	44	91	83
Coal	78	82	89	88	337	81	75	90	84	330	78	82	156	160
Potash	23	37	22	21	103	30	35	24	25	114	28	33	65	61
Fertilizers & Sulphur	19	17	16	22	74	19	19	17	16	71	15	16	38	31
Forest Products	18	16	17	16	67	18	18	15	15	66	14	15	36	29
Chemicals & Plastics	52	45	47	49	193	51	48	49	49	197	45	49	99	94
Crude	9	13	16	16	54	22	24	19	25	90	24	25	46	49
Metals, Minerals & Consumer Products	54	55	59	54	222	54	58	61	59	232	56	60	112	116
Automotive	42	42	39	39	162	35	38	35	38	146	30	37	73	67
Domestic Intermodal	87	83	89	88	347	89	93	93	95	370	97	110	182	207
International Intermodal	164	165	183	165	677	152	157	166	159	634	130	140	309	270
Total carloads	656	646	687	680	2,669	659	668	675	686	2,688	618	689	1,327	1,307
REVENUE TON MILES MILLIONS														
Canadian Grain	6,066	4,795	5,364	5,924	22,149	5,375	5,272	5,363	6,854	22,864	5,846	7,074	10,647	12,920
U.S. Grain	2,534	1,917	2,778	3,704	10,933	3,055	2,411	2,501	3,152	11,119	2,539	2,679	5,466	5,218
Coal	5,205	5,329	6,032	5,809	22,375	5,640	5,316	6,440	5,776	23,172	5,441	5,941	10,956	11,382
Potash	2,745	4,500	2,514	2,462	12,221	3,636	4,254	2,583	2,758	13,231	3,293	4,114	7,890	7,407
Fertilizers & Sulphur	1,297	1,117	1,047	1,376	4,837	1,316	1,352	1,179	1,092	4,939	1,074	1,130	2,668	2,204
Forest Products	1,215	1,169	1,200	1,129	4,713	1,223	1,267	1,093	1,036	4,619	920	1,003	2,490	1,923
Chemicals & Plastics	3,533	2,961	3,289	3,450	13,233	3,534	3,435	3,218	3,386	13,573	3,206	3,326	6,969	6,532
Crude	943	1,634	2,244	2,482	7,303	3,491	3,640	2,894	3,873	13,898	3,358	3,816	7,131	7,174
Metals, Minerals & Consumer Products	2,560	2,425	2,533	2,415	9,933	2,511	2,339	2,825	2,729	10,404	2,713	2,698	4,850	5,411
Automotive	659	658	604	561	2,482	604	629	533	563	2,329	514	597	1,233	1,111
Domestic Intermodal	2,437	2,302	2,493	2,486	9,718	2,517	2,546	2,565	2,648	10,276	2,634	3,003	5,064	5,637
International Intermodal	3,617	3,752	4,035	3,731	15,135	3,261	3,530	3,490	3,544	13,825	2,837	3,048	6,790	5,885
Total revenue ton-miles	32,811	32,559	34,133	35,529	135,032	36,163	35,991	34,684	37,411	144,249	34,375	38,429	72,154	72,804

	2012					2013					2014		H1	
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	2013	2014
FREIGHT REVENUE PER CARLOAD DOLLARS														
Canadian Grain	2,989	2,978	3,102	3,266	3,089	3,418	3,127	3,512	3,507	3,397	3,570	3,219	3,271	3,374
U.S. Grain	2,002	1,980	2,222	2,442	2,188	2,283	2,159	2,360	2,607	2,359	2,710	2,645	2,225	2,675
Coal	1,759	1,799	1,811	1,777	1,787	1,849	1,921	1,952	1,888	1,904	1,897	2,027	1,878	1,963
Potash	2,705	2,633	2,731	2,828	2,711	2,734	2,706	2,842	2,808	2,745	2,902	3,046	2,719	2,983
Fertilizers & Sulphur	3,288	3,228	3,290	3,379	3,213	3,577	3,609	3,834	3,446	3,615	3,533	3,925	3,593	3,770
Forest Products	2,837	2,918	2,935	2,893	2,895	3,028	2,998	3,145	3,254	3,132	3,400	3,502	2,944	3,452
Chemicals & Plastics	2,566	2,638	2,650	2,746	2,649	2,728	2,809	2,899	2,975	2,857	3,244	3,185	2,759	3,213
Crude	3,306	3,753	3,749	4,232	3,828	4,151	4,095	4,072	4,236	4,144	4,375	4,524	4,122	4,452
Metals, Minerals & Consumer Products	2,530	2,476	2,476	2,446	2,482	2,617	2,537	2,700	2,721	2,655	2,869	2,810	2,571	2,839
Automotive	2,493	2,734	2,664	2,560	2,629	2,742	2,759	2,747	2,797	2,758	2,913	2,798	2,751	2,850
Domestic Intermodal	1,939	2,071	1,855	1,883	1,885	1,916	1,839	1,820	1,831	1,850	1,827	1,822	1,877	1,825
International Intermodal	1,020	1,077	1,081	1,060	1,058	1,004	1,017	1,024	1,020	1,016	1,073	1,074	1,011	1,074
Total freight revenue per carload	2,043	2,061	2,059	2,152	2,079	2,214	2,183	2,214	2,291	2,226	2,385	2,383	2,198	2,384
FREIGHT REVENUE PER RTM CENTS														
Canadian Grain	3.33	3.33	3.46	3.70	3.46	3.77	3.61	3.96	3.83	3.80	3.78	3.56	3.69	3.66
U.S. Grain	3.37	3.82	3.97	3.67	3.70	3.64	3.77	4.26	3.86	3.87	4.16	4.31	3.70	4.24
Coal	2.63	2.77	2.68	2.68	2.69	2.64	2.70	2.76	2.72	2.71	2.72	2.79	2.67	2.75
Potash	2.28	2.15	2.35	2.51	2.29	2.25	2.24	2.64	2.49	2.36	2.41	2.46	2.24	2.44
Fertilizers & Sulphur	4.89	4.77	5.02	5.14	4.96	5.31	5.01	5.32	5.20	5.22	4.98	5.61	5.16	5.35
Forest Products	4.14	4.08	4.10	4.10	4.11	4.33	4.20	4.66	4.74	4.46	5.18	5.20	4.26	5.19
Chemicals & Plastics	3.79	4.04	3.81	3.85	3.87	3.92	3.98	4.40	4.31	4.15	4.57	4.67	3.94	4.63
Crude	2.98	2.93	2.64	2.80	2.80	2.63	2.67	2.69	2.79	2.70	3.10	2.99	2.65	3.04
Metals, Minerals & Consumer Products	5.32	5.69	5.72	5.47	5.55	5.67	6.22	5.83	5.85	5.90	5.95	6.27	5.92	6.11
Automotive	15.89	17.65	17.39	17.72	17.13	16.09	16.87	17.70	18.64	17.27	17.23	17.37	16.49	17.31
Domestic Intermodal	6.94	6.67	6.61	6.69	6.73	6.73	6.72	6.63	6.53	6.65	6.73	6.66	6.73	6.69
International Intermodal	4.63	4.73	4.89	4.67	4.73	4.68	4.52	4.86	4.58	4.66	4.92	4.94	4.60	4.93
Total freight revenue per RTM	$4.08	$4.09	$4.14	$4.12	$4.11	$4.04	$4.05	$4.31	$4.20	$4.15	$4.29	$4.27	$4.04	$4.28

RECONCILIATION OF NON-GAAP MEASURES TO GAAP MEASURES

We present non-GAAP measures and cash flow information in this document to provide a basis for evaluating underlying earnings and liquidity trends in our business that can be compared with the results of our operations in prior periods. These non-GAAP measures have no standardized meaning and are not defined by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies.

For further discussion on non-GAAP earnings, refer to Section 15 Non-GAAP Measures in our Management Discussion and Analysis in our Annual Report for the year ended December 31, 2013.

	2012					2013					H1	
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	2013	2014
OPERATING RATIO												
Excluding significant items	80.1%	79.4%	74.1%	74.8%	77.0%	76.4%	71.9%	65.9%	65.9%	69.9%	74.5%	68.5%
Significant items:												
Labour restructuring	-	-	-	3.5%	0.9%	-	-	-	(0.4%)	(0.1%)	-	(0.2%)
Asset impairment	-	-	-	17.7%	4.7%	-	-	-	27.1%	7.1%	-	-
Management transition costs	-	3.1%	-	-	0.7%	(0.6%)	-	-	0.3%	(0.1%)	(0.6%)	-
As reported	80.1%	82.5%	74.1%	96.0%	83.3%	75.8%	71.9%	65.9%	92.9%	76.8%	73.9%	68.3%
DILUTED EARNINGS PER SHARE												
Excluding significant items	$ 0.88	$ 0.90	$ 1.30	$ 1.28	$ 4.34	$ 1.21	$ 1.43	$ 1.88	$ 1.91	$ 6.42	$ 2.63	$ 3.52
Significant items:												
Labour restructuring	-	-	-	0.22	0.22	-	-	-	(0.03)	(0.03)	-	(0.02)
Asset impairment	-	-	-	0.98	0.98	-	-	-	1.45	1.46	-	-
Management transition costs	-	0.18	-	-	0.17	(0.03)	-	-	0.02	(0.01)	(0.03)	-
Advisory fees related to shareholder matters	0.06	0.06		-	0.12	-	-	-	-	-	-	-
Income tax rate change	-	0.06	-	-	0.06	-	-	0.04	-	0.04	-	-
As reported	$ 0.82	$ 0.60	$ 1.30	$ 0.08	$ 2.79	$ 1.24	$ 1.43	$ 1.84	$ 0.47	$ 4.96	$ 2.66	$ 3.54
FREE CASH												
Cash provided by operating activities					1,328					1,950	787	932
Cash used in investing activities					(1,011)					(1,597)	(602)	(262)
Change in restricted cash and cash equivalents used to collateralize letters of credit					-					411	99	(9)
Dividends paid					(223)					(244)	(121)	(123)
Effect of foreign exchange on cash and cash equivalents					(1)					10	8	(4)
Free Cash					$ 93					$ 530	$ 171	$ 534
Change provided by financing activities, excluding dividend payment					193					24		
Change in restricted cash and cash equivalents used to collateralize letters of credit					-					(411)	(99)	9
Increase in cash and cash equivalents, as shown on the Consolidated Statement of Cash Flows					$ 286					$ 143	$ 109	$ (107)


FRA PI
FRA TA
MVA
SPILLS
DAYS INJURY FREE
RELEASE PLAN
INBOUND
MISSES
QUALITY
VARIANCE
- Sign off
E-services
CANADIAN PACIFIC

GLOSSARY

AVERAGE LENGTH OF HAUL

The average distance in miles one ton is carried. Calculated by dividing total ton miles by tons of freight.

AVERAGE TERMINAL DWELL

The average time a freight car resides within terminal boundaries expressed in hours. The timing starts with a train arriving in the terminal, a customer releasing the car to us, or a car arriving that is to be transferred to another railroad. The timing ends when the train leaves, a customer receives the car from us or the freight car is transferred to another railroad. Freight cars are excluded if they are being stored at the terminal or used in track repairs.

AVERAGE TRAIN LENGTH

The average train length is the sum of each car and locomotive's equipment length multiplied by the distance travelled, divided by train miles. Local trains are excluded from this measure.

AVERAGE TRAIN SPEED

The average speed measures the line-haul movement from origin to destination including terminal dwell hours calculated by dividing the total train miles traveled by the total hours operated. This calculation does not include the travel time or the distance traveled by: i) trains used in or around our yards; ii) passenger trains; and iii) trains used for repairing track.

AVERAGE TRAIN WEIGHT

The average gross weight of our trains, both loaded and empty. This excludes trains in short haul service, work trains used to move our track equipment and materials and the haulage of other railroads' trains on CP's network.

CLASS 1 RAILROAD

A railroad with annual operating revenues exceeding US$401.4 million.

CARLOADS

Revenue-generating shipments of containers, trailers and freight cars.

CONTAINER

A large, weatherproof box designed for shipping and/or transferring freight between rail, truck or marine modes.

FREIGHT REVENUE PER CARLOAD

The amount of freight revenue earned for every carload moved, calculated by dividing the freight revenue for a commodity by the number of carloads of the commodity transported in the period.

FREIGHT REVENUE PER RTM

The amount of freight revenue earned for every RTM moved, calculated by dividing the total freight revenue by the total RTMs in the period.

GROSS TON-MILES (GTM)

The movement of the combined tons (freight car tare, inactive locomotive tare, and contents) a distance of one mile.

HAULAGE

The right of one railroad to have another railroad transport freight over that railroad's tracks, using the other's crews and usually its locomotives.

INTERMODAL SERVICE

Freight moving via two or more modes of transport. International intermodal generally moves via marine, truck and rail, while domestic intermodal typically utilizes truck and rail.

JOINT USE AGREEMENT

A joint use agreement is an agreement under which two railroads agree to share segments of track owned by each carrier. Implementation of a joint use arrangement may involve either trackage rights and/or haulage granted by either railroad to the other.

MAINLINE ROUTE

A primary rail line over which trains operate from terminal to terminal.

MARSHALLING

The activity of grouping and connecting together cars and locomotives in the correct sequence to make up a train that can safely travel between rail terminals.

METRIC TONNE

A metric tonne is 2,204.6 pounds.

OPERATING RATIO (OR)

The percentage of revenues expended in operating the railroad. It is calculated by dividing operating expenses by operating revenues.

REVENUE TON-MILE (RTM)

The movement of one revenue-producing ton of freight one mile.

RIGHT OF WAY

The property owned by a railroad on which tracks have been laid, including the track and land surrounding that track.

ROLLING STOCK

General term for all locomotives and railcars

SHORTLINE

A railroad that is not large enough to be classified as a Class 1 or regional railroad.

SIDING

A section of track, separate from, but connecting to, the mainline. Sidings enable trains travelling in opposite directions to pass.

TRACK CAPACITY

The maximum number of trains that can operate safely over a given segment of track during a specified time period (e.g., one day). Factors such as signal systems, siding lengths, number of tracks and geography all have an impact on track capacity.

TRACKAGE RIGHTS

The right of one railroad to operate over another railroad's tracks, using its own crews and locomotives.

TRANSLOAD FACILITY

A transfer facility enabling the railroad to expand market reach through truck-to-rail service.

UNIT TRAIN

A freight train consisting of carloads of the same commodity moving from origin to one destination.

CORPORATE INFORMATION

EXECUTIVE LEADERSHIP

E. Hunter Harrison
Chief Executive Officer

Keith Creel
President and Chief
Operating Officer

Bart W. Demosky
Executive Vice-President and
Chief Financial Officer

Guido De Ciccio
Senior Vice-President
Operations, Western Region

Peter Edwards
Vice-President, Human
Resources & Labour Relations

Paul A. Guthrie
Chief Legal Officer and
Corporate Secretary

Robert Johnson
Senior Vice-President
Operations, Southern Region

Jeff Kampsen
Vice-President and
Comptroller

Scott MacDonald
Senior Vice-President
Operations (System)

Tony Marquis
Senior Vice-President
Operations, Eastern Region

Michael Redeker
Vice-President and
Chief Information Officer

Mark Wallace
Vice-President, Corporate
Affairs and Chief of Staff

BOARD OF DIRECTORS

Gary F. Colter
Chairman of the Board
Canadian Pacific Railway
Limited

President
CRS Inc.
Mississauga, Ontario

William A. Ackman
Founder, Chief Executive
Officer
Pershing Square Capital
Management, L.P.
New York, New York

Isabelle Courville
Corporate Director
Montreal, Quebec

Krystyna T. Hoeg, C.A.
Former President and Chief
Executive Officer
Corby Distilleries Limited
Corporate Director
Toronto, Ontario

Paul G. Haggis
Corporate Director
Canmore, Alberta

E. Hunter Harrison
Chief Executive Officer
Canadian Pacific Railway
Limited
Wellington, Florida

Paul C. Hilal
Partner
Pershing Square Capital
Management, L.P.
New York, New York

Rebecca MacDonald
Founder, Executive Chair
Just Energy Group Inc.
Toronto, Ontario

Dr. Anthony R. Melman
President and Chief Executive
Officer
Acasta Capital
Toronto, Ontario

Linda J. Morgan
Partner
Nossaman LLP
Bethesda, Maryland

Andrew F. Reardon
Retired Chairman and Chief
Executive Officer, TTX

Corporate Director
Marco Island, Florida

Stephen C. Tobias
Former Vice-Chairman and
Chief Operating Officer
Norfolk Southern
Corporation
Garnett, South Carolina

SHAREHOLDER & INVESTOR CONTACT INFORMATION

SHAREHOLDER ADMINISTRATION

Computershare Investor Services Inc., with transfer facilities in Montreal, Toronto, Calgary and Vancouver, serves as transfer agent and registrar for the Common Shares in Canada. Computershare Trust Company NA, Denver, Colorado, serves as co-transfer agent and co-registrar for the Common Shares in the United States.

For information concerning dividends, lost share certificates, estate transfers or for change in share registration or address, please contact the transfer agent and registrar by telephone at 1-877-4-CP-RAIL (1-877-427-7245) toll free North America or International (514) 982-7555, visit their website at www.investorcentre.com/cp; or write to:

Computershare Investor Services Inc.
100 University Avenue,
8th Floor
Toronto, Ontario Canada
M5J 2Y1

INVESTOR RELATIONS

Nadeem Velani
Assistant Vice-President,
Investor Relations

Maeghan Albiston
Director, Investor Relations

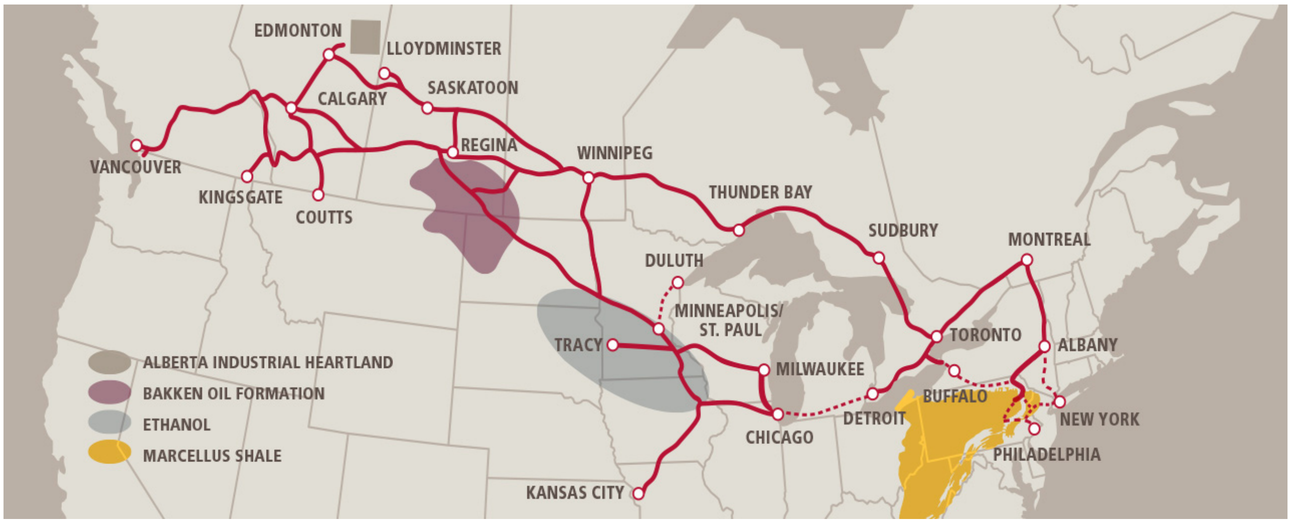
Telephone: 403-319-3591
email: investor@cpr.ca

Mailing address
Canadian Pacific
7550 Ogden Dale Road S.E.
Calgary, AB T2C 4X9
Canada

EXHIBIT
E

CP

Energy



Simplify your energy supply chain with us.

We're a logistics and supply chain management company with over 15,000 track miles and access to ports on the east and west coasts. Working with CP, you can open and grow markets in advance of pipeline investment and simplify your energy supply chain.

Using existing rail infrastructure, tap into short or long-term market opportunities, as we are the only Class 1 railway positioned to serve the Oilsands, the Bakken Shale formation, the Marcellus Shale and major ethanol production areas in the Midwest U.S., connecting them to key consumer markets across the northeast U.S. and Canada.

A Responsible Care® partner, we are committed to transporting energy in a safe, environmentally-friendly and socially-responsible way.

EXHIBIT
F

40-F 1 d448398d40f.htm 40-F

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

CANADIAN PACIFIC RAILWAY LIMITED
(Commission File No. 1-01342)
CANADIAN PACIFIC RAILWAY COMPANY
(Commission File No. 1-15272)
(Exact name of Registrant as specified in its charter)

		98-0355078 (Canadian Pacific Railway Limited) 98-0001377
CANADA	**4011**	**(Canadian Pacific Railway Company)**
(Province or other jurisdiction of incorporation or organization)	***(Primary Standard Industrial Classification Code Number)***	***(I.R.S. Employer Identification Number)***

Suite 500, Gulf Canada Square, 401-9th Avenue S.W., Calgary, Alberta, Canada T2P 4Z4
(403) 319-7000
(Address and telephone number of Registrant's principal executive offices)

CT Corporation System, 111 Eighth Avenue, New York, New York 10011, (212) 894-8940
(Name, address (including zip code) and telephone number (including area code) of Agent for Service of Registrant in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, without par value, of Canadian Pacific Railway Limited	**New York Stock Exchange**
Common Share Purchase Rights of Canadian Pacific Railway Limited	**New York Stock Exchange**
Perpetual 4% Consolidated Debenture Stock of Canadian Pacific Railway Company	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Table of Contents

For annual reports, indicate by check mark the information filed with this form:

☒ Annual information form ☒ Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

At December 31, 2012, 173,939,795 Common Shares of Canadian Pacific Railway Limited ("CPRL") were issued and outstanding. At December 31, 2012, 347,170,009 Ordinary Shares of Canadian Pacific Railway Company ("CPRC") were issued and outstanding. All of the ordinary shares of CPRC are held by CPRL.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES ☒ NO ☐

Table of Contents

PRIOR FILINGS MODIFIED AND SUPERSEDED

The Registrants' Annual Report on Form 40-F for the year ended December 31, 2012, at the time of filing with the Securities and Exchange Commission (the "Commission"), modifies and supersedes all prior documents filed pursuant to Sections 13 and 15(d) of the Exchange Act for purposes of any offers or sales of any securities after the date of such filing pursuant to any Registration Statement under the Securities Act of 1933 of either Registrant which incorporates by reference such Annual Report, including without limitation the following: Form S-8 No. 333-13962 (Canadian Pacific Railway Limited); Form S-8 No. 333-127943 (Canadian Pacific Railway Limited); Form S-8 No. 333-140955 (Canadian Pacific Railway Limited); Form S-8 No. 333-183891 (Canadian Pacific Railway Limited); Form S-8 No. 333-183892 (Canadian Pacific Railway Limited) and Form S-8 No. 333-183893 (Canadian Pacific Railway Limited).

In addition, this Annual Report on Form 40-F is incorporated by reference into or as an exhibit to, as applicable, the Registration Statement on Form F-9 No. 333-175032 (Canadian Pacific Railway Company), and the Registration Statement on Form F-10 No. 333-175033 (Canadian Pacific Railway Limited).

ANNUAL INFORMATION FORM, CONSOLIDATED AUDITED ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

A. Annual Information Form

For the Annual Information Form of CPRL for the year ended December 31, 2012, see pages 1 through 46 of CPRL's 2012 Annual Information Form incorporated by reference and included herein.

B. Audited Annual Financial Statements

For audited consolidated financial statements (U.S. GAAP), including the reports of the independent public accounting firms with respect thereto, see pages 81 through 122 of CPRL's 2012 Annual Report incorporated by reference and included herein.

C. Management's Discussion and Analysis

For management's discussion and analysis, see pages 26 through 80 of CPRL's 2012 Annual Report incorporated by reference and included herein.

For the purposes of this Annual Report on Form 40-F, only pages 26 through 122 of CPRL's 2012 Annual Report referred to above shall be deemed filed, and the balance of such 2012 Annual Report, except as it may be otherwise specifically incorporated by reference in CPRL's Annual Information Form, shall be deemed not filed with the Securities and Exchange Commission as part of this Annual Report on Form 40-F under the Exchange Act.

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2012, an evaluation was carried out under the supervision of and with the participation of the Registrants' management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Registrants' disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of December 31, 2012, to ensure that information required to be disclosed by the Registrants in reports that they file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Commission rules and forms and (ii) accumulated and communicated to the Registrants' management, including their Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

It should be noted that while the Registrants' Chief Executive Officer and Chief Financial Officer believe that the Registrants' disclosure controls and procedures and internal control over financial reporting provide a reasonable level of assurance that they are effective, they do not expect that the Registrants' disclosure controls

Table of Contents

and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

For management's report on internal control over financial reporting, see page 82 of the Registrant's 2012 Annual Report, incorporated by reference and included herein.

ATTESTATION REPORT OF THE INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

The effectiveness of the Registrants' internal control over financial reporting as of December 31, 2012 has been audited by Deloitte LLP, Independent Registered Chartered Accountants, as stated in their report on pages 83 through 85 of the Registrant's 2012 Annual Report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the period covered by this Annual Report on Form 40-F, no changes occurred in the Registrants' internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

NOTICES PURSUANT TO REGULATION BTR

None.

CODE OF ETHICS

The Registrants' Code of Business Ethics specifically addresses, among other things, conflicts of interest, protection and proper use of corporate assets and opportunities, confidentiality of corporate information, fair dealing with third parties, compliance with laws, rules and regulations and reporting of illegal or unethical behavior. The Code applies to all directors, officers and employees, both unionized and non-unionized, of the Registrants and their subsidiaries in Canada, the U.S. and elsewhere, and forms part of the terms and conditions of employment of all such individuals. All members of the board of directors of the Registrants have signed acknowledgements that they have read, understood and agree to comply with the Code, and they annually confirm compliance. Annually, officers and non-union employees are required to acknowledge that they have read, understood and agree to comply with the Code. Contractors engaged on behalf of the Registrants or their subsidiaries must undertake, as a condition of their engagement, to adhere to principles and standards of business conduct consistent with those set forth in the Code. The Code is available on the Registrants' web site at www.cpr.ca and in print to any shareholder who requests it. All amendments to the Code, and all waivers of the Code with respect to any director or executive officer of the Registrants, will be posted on the Registrants' web site and provided in print to any shareholder who requests them.

In addition, the Registrants have adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers. This code applies to the Registrants' Chief Executive Officer, Chief Financial Officer and Comptroller. It is available on the Registrants' web site at www.cpr.ca and in print to any shareholder who requests it. All amendments to the code, and all waivers of the code with respect to any of the officers covered by it, will be posted on the Registrants' web site and provided in print to any shareholder who requests them.

Table of Contents

CORPORATE GOVERNANCE PRINCIPLES AND GUIDELINES

The Registrants have adopted their Corporate Governance Principles and Guidelines which pertain to such matters as, but are not limited to: director qualification standards and responsibilities; election of directors; discretionary term limits for service as board or board committee chairs; access by directors to management and independent advisors; director compensation; director retirement age; director orientation and continuing education; management succession; and annual performance evaluations of the board, including its committees and individual directors, and of the Chief Executive Officer. The Corporate Governance Principles and Guidelines are available on the Registrants' web site at www.cpr.ca and in print to any shareholder who requests them.

COMMITTEE TERMS OF REFERENCE

The terms of reference of each of the following committees of the Registrants are available on the Registrants' web site at www.cpr.ca and in print to any shareholder who requests them: the Audit Committee; the Corporate Governance and Nominating Committee; the Finance Committee; the Management Resources and Compensation Committee; and the Safety, Operations and Environment Committee.

DIRECTOR INDEPENDENCE

The boards of the Registrants have adopted standards for director independence: (a) prescribed by Section 10A(m)(3) of the Exchange Act and Rule 10A-3(b)(1) promulgated thereunder and National Instrument 52-110 for members of public company audit committees; and (b) set forth in the NYSE Listed Company Manual (the "NYSE Standards"), the Canadian corporate governance standards set forth in National Instrument 58-101 and National Instrument 52-110 in respect of public company directors. The boards also conducted a comprehensive assessment of each of their members as against these standards and determined that all current directors, except Mr. Harrison, have no material relationship with the Registrants and are independent. Mr. Harrison is not independent by virtue of the fact that he is the Chief Executive Officer of the Registrants.

EXECUTIVE SESSIONS OF NON-MANAGEMENT DIRECTORS

The independent directors met in executive sessions without management present at most of the regular and special meetings of the board of directors of CPRL and its standing committees in 2012. In fact, each regularly scheduled meeting's agenda included one or more such sessions (often at the beginning and end of the meeting).

Interested parties may communicate directly with Mr. P.G. Haggis, the chair of the boards of the Registrants, who presided at such executive sessions, by writing to him at the following address, and all communications received at this address will be forwarded to him:

Office of the Corporate Secretary
Canadian Pacific Railway
Suite 920, 401 – 9th Avenue S.W.
Calgary, Alberta
Canada, T2P 4Z4

Table of Contents

IDENTIFICATION OF AUDIT COMMITTEE AND AUDIT COMMITTEE FINANCIAL EXPERT

The following individuals comprise the current membership of the Registrants' Audit Committees ("Audit Committees"), which have been established in accordance with Section 3(a)(58)(A) of the Exchange Act:

Gary F. Colter
Richard C. Kelly
John P. Manley
Linda J. Morgan
Hartley T. Richardson

Each of the aforementioned directors, with the exception of Ms. Morgan, has been determined by the boards of the Registrants to meet the audit committee financial expert criteria prescribed by the Securities and Exchange Commission and has been designated as an audit committee financial expert for the Audit Committees of the boards of both Registrants. Each of the aforementioned directors has been determined by the boards of the Registrants to be independent within the criteria referred to above under the subheading "Director Independence", including the NYSE Standards.

FINANCIAL LITERACY OF AUDIT COMMITTEE MEMBERS

The boards of the Registrants have determined that all members of the Audit Committees have "accounting or related financial management expertise" within the meaning of the NYSE Standards. The boards have determined that all members of the Audit Committees are financially literate within the definition contained in, and as required by, National Instrument 52-110 and the NYSE Standards.

SERVICE ON OTHER PUBLIC COMPANY AUDIT COMMITTEES

Each Registrant's board has determined that no director who serves on more than two public company audit committees in addition to its own Audit Committee shall be eligible to serve as a member of the Audit Committee of that Registrant, unless that Registrant's board determines that such simultaneous service would not impair the ability of such member to effectively serve on that Registrant's Audit Committee. For purposes of calculating the aggregate number of public company audit committees on which a director serves, each Registrant is counted as a separate public company.

Two members of the Audit Committees of the Registrants serve on more than two public company audit committees in addition to the Audit Committee of each Registrant, namely Messrs. Colter and Manley. Each Registrant's board has determined that such simultaneous service does not impair the ability of Messrs. Colter and Manley to effectively serve on that Registrant's Audit Committee.

Table of Contents

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Deloitte LLP ("Deloitte"), Independent Registered Chartered Accountants, was appointed as the Registrants' external auditors in May 2012. As detailed in the following table, fees payable to Deloitte for the year ended December 31, 2012 totaled $2,166,100 and for the year ended December 31, 2011, from the date of appointment as the Registrants' external auditors, totaled $2,213,600. Fees payable to PricewaterhouseCoopers LLP ("PWC") (the Registrants' independent auditors prior to May 2011) totaled $311,900 for the year ended December 31, 2011.

	Deloitte Year Ended December 31, 2012	Deloitte (1) Year Ended December 31, 2011	PWC (2) Year Ended December 31, 2011	Total Year Ended December 31, 2011
Audit Fees	$ 2,090,300	$ 1,806,300	$ 56,200	$ 1,668,800
Audit-Related Fees	$ 27,500	$ 57,300	$ 100,500	$ 351,500
Tax Fees	$ 48,300	$ 50,000	$ 155,200	$ 205,200
All Other Fees	—	$ 300,000	—	$ 300,000
TOTAL	$ 2,166,100	$ 2,213,600	$ 311,900	$ 2,525,500

(1) Fees paid to Deloitte for the fiscal year ended December 31, 2011 beginning after the appointment of Deloitte as principal auditors in May 2011

(2) Fees paid to PWC for the fiscal year ended December 31, 2011 up to the appointment of Deloitte as principal auditors in May 2011

The nature of the services provided by the current and former independent public accounting firms under each of the categories indicated in the table is described below.

Audit Fees

Audit fees were for professional services rendered for the audit and interim review of the Registrants' annual financial statements and services provided in connection with statutory and regulatory filings or engagements, including the attestation engagement for the report from the independent public accounting firms on the effectiveness of internal controls over financial reporting, the audit or interim review of financial statements of certain subsidiaries and of various pension and benefits plans of the Registrants; special attestation services as may be required by various government entities; access fees for technical accounting database resources; and general advice and assistance related to accounting and/or disclosure matters with respect to new and proposed U.S. and Canadian accounting standards, securities regulations, and/or laws.

Audit-Related Fees

Audit-related fees were for attestation and related services reasonably related to the performance of the audit or review of the annual financial statements, but which are not reported under "Audit Fees" above. These services consisted of audit work related to securities filings.

Tax Fees

Tax fees were for professional services related to tax compliance, tax planning and tax advice. These services consisted of: tax compliance including the review of tax returns; assistance with questions regarding corporate tax audits; tax planning and advisory services relating to common forms of domestic and international taxation (i.e. income tax, capital tax, goods and services tax, and value added tax); and access fees for taxation database resources.

All Other Fees

Fees disclosed under this category would be for products and services other than those described under "Audit Fees", "Audit-Related Fees" and "Tax Fees" above. These services consisted of services in connection with our business interruption and property damage claim.

Table of Contents

PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES PROVIDED BY INDEPENDENT PUBLIC ACCOUNTING FIRMS

The Audit Committee of each Registrant has adopted a written policy governing the pre-approval of audit and non-audit services to be provided to the Registrants by their independent public accounting firm. The policy is reviewed annually and the audit and non-audit services to be provided by their independent public accounting firm, as well as the budgeted amounts for such services, are pre-approved at that time, including by the board of directors of the Registrant in respect of fees for audit services. The Vice-President and Comptroller of the Registrants must submit to the Audit Committee at least quarterly a report of all services performed or to be performed by the independent public accounting firm pursuant to the policy. Any additional non-audit services to be provided by the independent public accounting firm either not included among the pre-approved services or exceeding the budgeted amount for such pre-approved services by more than 10% must be individually pre-approved by the Audit Committee or its Chairman, who must report all such additional pre-approvals to the Audit Committee at its next meeting following the granting thereof. The independent public accounting firm's annual audit services engagement terms are subject to the specific pre-approval of the Audit Committee, with the associated fees being subject to approval by the board of directors of the Registrant. In addition, prior to the granting of any pre-approval, the Audit Committee or its Chairman, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of the independent public accounting firm. The Chief Internal Auditor for the Registrants monitors compliance with this policy.

OFF-BALANCE SHEET ARRANGEMENTS

A description of the Registrants' off-balance sheet arrangements is set forth on page 65 of the Registrants' 2012 Annual Report incorporated by reference and included herein.

TABLE OF CONTRACTUAL COMMITMENTS

The table setting forth the Registrants' contractual commitments is set forth on page 66 of the Registrants' 2012 Annual Report incorporated by reference and included herein.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

Each Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

B. Consent to Service of Process

Each Registrant has previously filed a Form F-X in connection with the class of securities to which the obligation to file this report arises. Any change to the name or address of the agent for service of process of either Registrant shall be communicated promptly to the Commission by an amendment to the Form F-X referencing the file number of such Registrant.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Exchange Act, each Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this Annual Report on Form 40-F to be signed on its behalf by the undersigned, thereto duly authorized, in the City of Calgary, Province of Alberta, Canada.

CANADIAN PACIFIC RAILWAY LIMITED
CANADIAN PACIFIC RAILWAY COMPANY
(Registrants)

/s/ Paul A. Guthrie
Name: Paul A. Guthrie
Title: Corporate Secretary

Date: March 12, 2013

Table of Contents

EXHIBITS

99.1	Consent of Deloitte LLP, Independent Registered Chartered Accountants.
99.2	Consent of PricewaterhouseCoopers LLP, Independent Auditors.
99.3	Certification by the Chief Executive Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
99.4	Certification by Chief Financial Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
99.5	Certification by the Chief Executive Officer of the Registrants furnished pursuant to 18 U.S.C. Section 1350.
99.6	Certification by the Chief Financial Officer of the Registrants filed pursuant to 18 U.S.C. Section 1350.
101	Interactive Data File

Table of Contents

Table of Contents

TABLE OF CONTENTS

All dollar amounts in this Annual Information Form (“AIF”) are in Canadian dollars, unless otherwise noted.

March 12, 2013

Table of Contents

SECTION 1: CORPORATE STRUCTURE

In this AIF, "our", "us", "we", "CP" and "the Company" refer to Canadian Pacific Railway Limited ("CPRL"), CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL's subsidiaries, as the context may require.

1.1 Name, Address and Incorporation Information

Canadian Pacific Railway Limited was incorporated on June 22, 2001, as 3913732 Canada Inc. pursuant to the *Canada Business Corporations Act* ("the CBCA"). On July 20, 2001, CP amended its Articles of Incorporation to change its name to Canadian Pacific Railway Limited. On October 1, 2001, Canadian Pacific Limited ("CPL") completed an arrangement ("the Arrangement") pursuant to section 192 of the CBCA whereby it distributed to its common shareholders all of the shares of newly formed corporations holding the assets of four of CPL's five primary operating divisions. The transfer of Canadian Pacific Railway Company ("CPRC"), previously a wholly owned subsidiary of CPL, to CPRL was accomplished as part of a series of steps, pursuant to the terms of the Arrangement.

Our registered, executive and head office is located at Suite 500, 401 - 9th Avenue S.W., Calgary, Alberta T2P 4Z4.

Table of Contents

SECTION 2: INTERCORPORATE RELATIONSHIPS

2.1 Principal Subsidiaries

The table below sets out our principal subsidiaries, including the jurisdiction of incorporation and the percentage of voting and non-voting securities we currently own directly or indirectly:

Principal Subsidiary[1]	Incorporated under the Laws of	Percentage of Voting Securities Held Directly or Indirectly	Percentage of Non - Voting Securities Beneficially Owned, or over which Control or Direction is Exercised
Canadian Pacific Railway Company	Canada	100%	Not applicable
Soo Line Corporation[2]	Minnesota	100%	Not applicable
Soo Line Railroad Company[3]	Minnesota	100%	Not applicable
Dakota, Minnesota & Eastern Railroad Corporation[4]	Delaware	100%	Not applicable
Delaware and Hudson Railway Company, Inc.[2]	Delaware	100%	Not applicable
Mount Stephen Properties Inc.[5]	Canada	100%	Not applicable

(1) This table does not include all of our subsidiaries. The assets and revenues of unnamed subsidiaries did not exceed 10% of the total consolidated assets or total consolidated revenues of CP individually, or 20% of the total consolidated assets or total consolidated revenues of CP in aggregate.
(2) Indirect wholly owned subsidiary of Canadian Pacific Railway Company.
(3) Wholly owned subsidiary of Soo Line Corporation.
(4) Indirect wholly owned subsidiary of the Soo Line Corporation.
(5) Wholly owned subsidiary of Canadian Pacific Railway Company.

Table of Contents

SECTION 3: GENERAL DEVELOPMENTS OF THE BUSINESS

3.1 Recent Developments

During 2012, the Company experienced a number of noteworthy events summarized below:

Proxy Contest

In January 2012, Pershing Square Capital Management, L.P. ("Pershing Square") launched a proxy contest in order to replace a minority of the Board of Directors of the Company (the "Board") and to advocate for management change (the "Proxy Contest"). As a result of this contest, the Company incurred $27 million in advisory costs ("advisory costs associated with shareholder matters") in the first six months of 2012 with a further $6 million incurred in the fourth quarter of 2011. The proxy contest was settled in May 2012 with changes described below in "Change in Board of Directors" and "Management transition".

Change in Board of Directors

On May 17, 2012, following the Proxy Contest Messrs. John Cleghorn, Tim Faithfull, Fred Green, Edmond Harris, Michael Phelps and Roger Phillips advised the Company that they did not intend to stand for re-election to the Board.

At the Company's annual shareholders meeting held on May 17, 2012, seven new directors were elected to the Board, namely Messrs. William Ackman, Gary Colter, Paul Haggis and Paul Hilal, Ms. Rebecca MacDonald, and Messrs. Anthony Melman and Stephen Tobias. In addition, Mr. Richard George, Ms. Krystyna Hoeg, Messrs. Tony Ingram and Richard Kelly, the Hon. John Manley, Mesdames Linda Morgan and Madeleine Paquin, and Messrs. David Raisbeck and Hartley Richardson were all re-elected to the Board at the May 17, 2012 meeting. Following the meeting, the new Board selected Ms. Paquin to serve as acting Chair of the Company. On June 4, 2012, Mr. Haggis was appointed Chairman of the Company's Board.

Subsequent to the May 17, 2012 shareholders meeting, Messrs. Raisbeck, George and Ingram resigned from the Board on June 11, June 26 and July 5, 2012, respectively. In addition, effective July 6, 2012, Mr. E. Hunter Harrison was appointed to the Board.

As a result of the aforementioned changes to the composition of the Board, certain accelerated vesting provisions for certain grants under the Company's management stock option incentive plan, performance share unit plan and deferred share unit plan were triggered effective June 26, 2012. The effect of such accelerated vesting on the Company's second quarter financial statements was a credit to Compensation and benefits of $8 million and the recognition of a related liability under the accelerated vesting provisions of these plans of $31 million, which liability was settled in full in the third quarter of 2012.

Management transition

On May 17, 2012, following the Proxy Contest, Mr. Fred Green left his position as President and Chief Executive Officer of the Company. That same day, Mr. Stephen Tobias, a new Board member elected at the Company's annual shareholders meeting held on May 17, 2012, was appointed by the Board as Interim Chief Executive Officer and served in that role until June 28, 2012. On June 28, 2012, Mr. E. Hunter Harrison was appointed by the Board as President and Chief Executive Officer. As a result of the appointment of Mr. Harrison, the Company recorded a charge of $38 million with respect to compensation and other transition costs, including $2 million of associated costs, in the second quarter of 2012. This charge was recorded in the Company's financial statements in Compensation and benefits and Purchased services and other, in the amounts of $16 million and $22 million respectively.

Included in this charge were amounts totaling $16 million in respect of deferred retirement compensation for Mr. Harrison and $20 million to Pershing Square and related entities. Pershing Square and related entities own or control approximately 14% of the Company's outstanding shares and two Board members, Mr. William Ackman and Mr. Paul Hilal, are partners of Pershing Square. The amount paid to Pershing Square and related entities was to reimburse them, on behalf of Mr. Harrison, for certain amounts they had previously paid to, or incurred on behalf of, Mr. Harrison pursuant to an indemnity in favour of Mr. Harrison in connection with losses suffered in legal proceedings commenced against Mr. Harrison by his former employer. The terms of Pershing Square's indemnity required Mr. Harrison to return any funds advanced under the indemnity in the event he accepted employment at CP. As a result, Mr. Harrison made it a precondition of accepting the Company's offer of employment that CP assume the indemnity obligations and return the funds advanced by Pershing Square. As a result of the payment, the Company would have been entitled to enforce Mr. Harrison's rights in the aforementioned legal proceedings, allowing the Company to recover to the extent of Mr. Harrison's success in those proceedings; however, on February 3, 2013, the Company and Mr. Harrison settled the legal proceedings with Mr. Harrison's former employer, providing the Company with partial recovery (US$9 million) of the amounts in dispute. The Company may receive repayment in other circumstances in the event of certain breaches by Mr. Harrison of his obligations under an employment agreement with the Company. In addition, the Company agreed to indemnify Mr. Harrison for certain other amounts sought for

Table of Contents

repayment by Mr. Harrison's former employer, to a maximum of $3 million plus legal fees, but as a result of the settlement of the aforementioned legal proceedings, such indemnity is no longer applicable.

The Company also recorded a charge of $4 million in the second quarter of 2012 with respect to a retirement allowance for Mr. Green.

On February 5, 2013, as part of its long-term succession plan, the Company appointed Mr. Keith Creel as President and Chief Operating Officer. In connection with this appointment, Mr. Harrison's title changed to Chief Executive Officer.

Strike

On May 23, 2012, the Teamsters Canada Rail Conference Running Trade Employees ("TCRC-RTE") and the Rail Canada Traffic Controllers ("TCRC-RCTC"), representing 4,800 engineers, conductors and rail traffic controllers in Canada, commenced a strike that caused a nine-day Canadian work stoppage ("the strike"). Bill C-39, the Restoring Rail Service Act, was passed by the Parliament of Canada on May 31, 2012 and employees returned to work on June 1, 2012.

The strike caused a significant loss of revenue during the second quarter. Partly offsetting this revenue loss were cost savings in Compensation and benefits, Fuel, and Equipment rents. During the strike, we took the opportunity to advance track and other maintenance including mechanical and engineering work.

Once the unions returned to work the Company quickly re-established service and reset the network.

Investor Conference

At Canadian Pacific's Investor conference in New York on December 4-5, 2012, CP's Chief Executive Officer E. Hunter Harrison outlined the Company's plan for change to improve service, increase the railway's efficiency, lower cost and grow the business.

Under the leadership of new management, the second half of 2012 included a rapid change agenda where progress was made on this plan. Highlights of CP's evolution to a more competitive railway include:

- a new executive leadership team in place, including a new Senior Operations lead team, with a mandate for centralized planning and decentralized execution, that eliminates bureaucracy to make service decisions faster and closer to the customer;
- revamped intermodal and merchandise train services which provide faster transit times for customers, such as the new intermodal services connecting Vancouver to Chicago or Toronto;
- the closure of hump-switching yards in Toronto, Winnipeg, Calgary and Chicago which provides significant cost savings and more efficient operating practices;
- the closure of intermodal terminals in Milwaukee, Obico (Toronto), and Schiller Park (Chicago) which reduces CP's footprint and operating expenses while also facilitating efficient operating practices and reduced end-to-end transit times;
- network design changes made after July 2012 allowed CP to reduce operating plan train miles by 39,000 per week, a 7 per cent improvement, and crew starts by approximately 30 per day, a 5 per cent improvement over previous designs from the first half of the year. Together, these design changes reduced annual operating costs, while increasing capacity; and
- a reduction of the Company's active locomotive fleet by more than 195 engines in the second half of 2012, with more than 460 locomotives now stored, returned or declared surplus year-to-date. Over the course of 2012, CP has provided return notification on 5,400 rail cars.

Asset impairment and labour restructuring charges

During the fourth quarter of 2012, the Company recorded a number of significant charges in part due to on-going efforts to improve the efficiency of the company. These significant charges included:

- $53 million labour restructuring charge ($39 million after tax), which unfavourably impacted diluted earnings per share ("EPS") by 22 cents;
- $185 million impairment of Powder River Basin ("PRB") and other investment ($111 million after tax), which unfavourably impacted diluted EPS by 64 cents; and
- $80 million asset impairment of certain locomotives ($59 million after tax), which unfavourably impacted diluted EPS by 34 cents.

Table of Contents

SECTION 3: GENERAL DEVELOPMENTS OF THE BUSINESS

2011 Highlights

The first half of 2011 was challenging, as CP experienced significant disruptions to its operations across our network. These disruptions were mainly due to unusually severe winter weather and the impact of subsequent flooding, in one case causing a mainline outage lasting for three weeks. These extraordinary conditions resulted in slower train speeds, reduced productivity and asset velocity and lower than expected volumes in the first half of the year. Our priority was to re-establish our reputation for service which underpins our price and growth plans.

In the second half of the year, we successfully reset our network. There was a strong focus on rebuilding our customer confidence, through improved service reliability. Despite these challenges, we were able to complete our planned capital program in 2011. Our continued work on building new sidings and extending our current ones to support our long-train strategy paid dividends; CP set a new full-year record in train weights in 2011. In addition, we set full year records in both terminal dwell and car miles per car day as a result of implementing our First Mile-Last Mile program in Canada. We expect further improvement as we continue to tighten standards in Canada and roll out the program in the U.S. We completed the second phase of our Locomotive Reliability Centre strategy, which reduced the number of major locomotive repair facilities from eight to four highly efficient super shops with improved repair capabilities. These improved efficiencies allow us to do more with less and to reduce our asset pools and associated costs.

CP has signed several commercial agreements with customers, terminal operators and ports that will drive improvements in supply chain performance. In early 2012, we announced a new five-year agreement with Canadian Tire and a ten-year agreement with Canpotex. In addition, CP has worked with its customers, leveraging technology to enhance car request management and implementing new productivity tools. Our scheduled grain program has been successfully implemented in Canada and was further extended to the U.S. in August 2012. We are also developing new volumes of Powder River Basin coal for export off the west coast of British Columbia.

During 2011, we continued to strengthen our balance sheet in order to maintain financial flexibility and reduce volatility. We put our surplus cash to work in 2011 on our strategic network enhancements, supporting our capital plans. In addition, we:

- managed our overall indebtedness by repaying US$246 million of maturing 2011 debt and called US$101 million of 2013 debt;
- made a $600 million voluntary prepayment to our main Canadian defined benefit pension plan;
- financed our voluntary pension prepayment and new locomotives at very attractive interest rates; and
- delivered consistent dividend growth by increasing our quarterly dividend to common shareholders by 11%, from $0.27 to $0.30.

2010 Highlights

In 2010, CP announced a ten-year agreement with Teck Resources Limited (“Teck”). The agreement reflected the companies’ commitment to work together to achieve growth in the volume of coal shipped through a range of economic and marketplace dynamics and provided flexibility critical for a long term agreement.

In 2010, we made significant progress re-organizing the Company to reduce the total number of management layers. The new organizational structure was based on ensuring clear accountability and alignment to facilitate more efficient decision making consistent with delivering on our multi-year service reliability, productivity and asset velocity objectives. The redesign reduced the number of operating regions.

During 2010, CP took on new initiatives targeted at permanently reducing structural costs. This included the consolidation of certain offices, as well as the consolidation of locomotive and freight car repair facilities.

In addition, we took further actions to strengthen our balance sheet and enhance the organization’s financial flexibility. CP took advantage of low cost debt markets and used both debt and funds from operations to pre-fund the main Canadian defined benefit pension plan. This effectively put our cash to work more quickly and reduced expected future pension contributions. The actions taken have given the company significant flexibility in pension funding levels over the next three to five years.

Finally, with the strengthening economy in 2010, CP enjoyed a 13% increase in volumes (as measured by carloads) and delivered on the key objective of sustaining long train improvements while managing a busier network. Our capital plan included the intention to expand and increase the number of sidings that can accommodate long trains to allow further productivity improvements. Our 2011 capital plan included key improvements in productive IT and investment to support growth.

Table of Contents

SECTION 4: DESCRIPTION OF THE BUSINESS

4.1 Our Background and Network

CPRC was incorporated by Letters Patent in 1881 pursuant to an Act of the Parliament of Canada. CPRC is one of Canada's oldest corporations. From our inception 132 years ago, we have developed into a fully integrated and technologically advanced Class I railway (a railroad earning a minimum of US$398.7 million in revenues annually) providing rail and intermodal freight transportation services over a 14,400-mile network serving the principal business centres of Canada, from Montreal to Vancouver, British Columbia ("B.C."), and the U.S. Midwest and Northeast regions.

We own approximately 10,600 miles of track. An additional 3,800 miles of track are owned jointly, leased or operated under trackage rights. Of the total mileage operated, approximately 6,000 miles are located in western Canada, 2,200 miles in eastern Canada, 5,100 miles in the U.S. Midwest and 1,100 miles in the U.S. Northeast. Our business is based on funnelling railway traffic from feeder lines and connectors, including secondary and branch lines, onto our high-density mainline railway network. We have extended our network reach by establishing alliances and connections with other major Class I railways in North America, which allows us to provide competitive services and access to markets across North America beyond our own rail network. We also provide service to markets in Europe and the Pacific Rim through direct access to the Port of Montreal and the Port Metro Vancouver in Vancouver, B.C., respectively.

Our network accesses the U.S. market directly through three wholly owned subsidiaries: Soo Line Railroad Company ("Soo Line"), a Class I railway operating in the U.S. Midwest; DM&E, a wholly owned subsidiary of the Soo Line, which operates in the U.S. Midwest; and the Delaware and Hudson Railway Company, Inc. ("D&H"), which operates between eastern Canada and major U.S. Northeast markets, including New York City, New York; Philadelphia, Pennsylvania; and Washington, D.C.

4.2 Strategy

Canadian Pacific is driving change as it moves through its transformational journey to become the best railroad in North America, while creating long-term value for shareholders. The Company is focused on providing customers with industry leading rail service; driving sustainable, profitable growth; optimizing our assets; and reducing costs, while remaining a leader in rail safety.

Looking forward, CP is executing its strategic plan while aggressively targeting a mid-60s operating ratio by 2016. The plan is centered on five key foundations, which are the Company's performance drivers.

Provide Service: Providing efficient and consistent transportation solutions for our customers. "Doing what we say we are going to do" is what drives CP by providing a reliable product with a lower cost operating model. Centralized planning aligned with local execution is bringing the company closer to the customer and accelerating decision-making.

Control Costs: Controlling and removing unnecessary costs from the organization, eliminating bureaucracy and continuing to identify productivity enhancements are the keys to success.

Optimize Assets: Through longer sidings, improved asset utilization, and increased train lengths, the Company will move increased volumes with fewer locomotives and cars while unlocking capacity for future growth potential.

Operate Safely: Each year, CP safely moves millions of carloads of freight across North America while ensuring the safety of our people and the communities through which we operate. Safety is never to be compromised. Continuous research and development in state-of-the-art safety technology and highly focused employees ensure our trains are built for safe, efficient operations across our network.

Develop People: CP recognizes none of the other foundations can be achieved without its people. Every CP employee is a railroader and the Company is shaping a new culture focused on a passion for service with integrity in everything it does. Coaching and mentoring managers into becoming leaders will help drive CP forward.

At Canadian Pacific's Investor Conference in New York on December 4-5, 2012, the company outlined plans it will execute to continue to improve service reliability, increase the railway's efficiency, and grow the business in 2013 and beyond. Key highlights include:

Table of Contents

- the reduction of approximately 4,500 employee and/or contractor positions by 2016 through job reductions, natural attrition and fewer contractors;
- the installation of longer sidings that will improve asset utilization and increase train length and velocity. The plan will allow CP to move the same or increased volumes with fewer trains, and is expected to reduce crew starts by over 14,500, or 4%, crew starts;
- exploring options to maximize full value of existing and anticipated surplus real estate holdings;
- the relocation of CP's current corporate headquarters in downtown Calgary to new office space at the Company owned Ogden Yard by 2014;
- the review of options for the Delaware & Hudson (D&H) in the U.S. Northeast, while maintaining options for continued growth in the energy business; and
- assessing the opportunities that will come from an expression of interest issued in December 2012 for the 660-mile portion of the Dakota, Minnesota & Eastern (DM&E), west of Tracy, Minnesota.

4.3 Partnerships, Alliances and Network Efficiency

Some customers' goods may have to travel on more than one railway to reach their final destination. The transfer of goods between railways can cause delays and service interruptions. Our rail network connects to other North American rail carriers and, through partnerships, we continue to co-develop processes and products designed to provide seamless and efficient scheduled train service to these customers.

We continue to increase the capacity and efficiency of our core franchise through infrastructure-sharing and joint-service programs with other railways and third parties, strategic capital investment programs, and operating plan strategies. Combined with the continued improvement of our locomotive and rail car fleets, these strategies enable us to achieve more predictable and fluid train operations between major terminals.

Over the past few years, Class I railway initiatives have included:

- co-operation initiatives with the Canadian National Railway Company ("CN") in the Port Metro Vancouver Terminal and B.C. Lower Mainland;
- working very closely with all the Class I and other carriers that serve Chicago, Illinois under the Chicago Region Environmental and Transportation Efficiency ("CREATE") program. Class I railways, Amtrak, Metra and switching carriers Indiana Harbor Belt Railroad ("IHB") and Belt Railway of Chicago ("BRC") have partnered in CREATE to initiate operating and structural changes that will improve operating efficiency and fluidity in and around Chicago, creating the largest railroad hub in North America; and
- CP working with the State Departments of Transportation of New York, Illinois, Wisconsin and Minnesota to develop plans for improved track infrastructure to support intercity passenger rail. This infrastructure will support the fluidity of passenger and freight traffic on shared CP track.

We also develop mutually beneficial arrangements with smaller railways, including shortline and regional carriers.

Table of Contents

SECTION 4: DESCRIPTION OF THE BUSINESS

4.4 Network and Right-of-Way

Our 14,400-mile network extends from the Port Metro Vancouver on Canada's Pacific Coast to the Port of Montreal in eastern Canada, and to the U.S. industrial centres of Chicago; Detroit, Michigan; Newark, New Jersey; Philadelphia; New York City and Buffalo, New York; Kansas City, Missouri; and Minneapolis, Minnesota.

Our network is composed of four primary corridors: Western, Eastern, Central and the Northeast U.S.

4.4.1 The Western Corridor: Vancouver-Thunder Bay

Overview — The Western Corridor links Vancouver with Thunder Bay, Ontario, which is the western Canadian terminus of our Eastern corridor. With service through Calgary, Alberta the Western Corridor is an important part of our routes between Vancouver and the U.S. Midwest, and between Vancouver and eastern Canada. The Western Corridor provides access to the Port of Thunder Bay, Canada's primary Great Lakes bulk terminal.

Products — The Western Corridor is our primary route for bulk and resource products traffic from western Canada to the Port Metro Vancouver for export. We also handle significant volumes of international intermodal containers and domestic general merchandise traffic.

Feeder Lines — We support our Western Corridor with four significant feeder lines: the "Coal Route", which links southeastern B.C. coal deposits to the Western Corridor and to coal terminals at the Port Metro Vancouver; the "Edmonton-Calgary Route", which provides rail access to Alberta's Industrial Heartland in addition to the petrochemical facilities in central Alberta; the "Pacific CanAm Route", which connects Calgary and Medicine Hat, Alberta, with Pacific Northwest rail routes at Kingsgate, B.C. via the Crowsnest Pass; and the "North Main Line route" that provides rail service to customers from Winnipeg, Manitoba to Calgary through Portage la Prairie, Manitoba, Yorkton, Saskatoon, Saskatchewan and Wetaskiwin, Alberta. This line is an important collector of Canadian grain and fertilizer, serving the potash mines located east and west of Saskatoon and many high-throughput grain elevator and processing facilities. In addition, this line provides direct access to refining and upgrading facilities at Lloydminster, and western Canada's largest pipeline terminal at Hardisty.

Connections — Our Western Corridor connects with the Union Pacific Railroad ("UP") at Kingsgate and with Burlington Northern Santa Fe, LLC ("BNSF") at Coutts, Alberta, and at New Westminster and Huntingdon in B.C. This corridor also connects with CN at many locations including Thunder Bay, Winnipeg, Regina and Saskatoon, Saskatchewan, Red Deer, Camrose, Calgary, and Edmonton, Alberta; and several locations in the Greater Vancouver area.

Yards and Repair Facilities — We support rail operations on the Western Corridor with main rail yards at Vancouver, Calgary, Edmonton, Moose Jaw, Saskatchewan, Winnipeg and Thunder Bay. We also have major intermodal

Table of Contents

terminals at Vancouver, Calgary, Edmonton, Regina and Winnipeg. We have locomotive and rail car repair facilities at Golden, B.C., Vancouver, Calgary, Moose Jaw and Winnipeg.

4.4.2 The Central Corridor: Moose Jaw-Chicago-Kansas City

Overview — The Central Corridor connects with the Western Corridor at Moose Jaw. By running south to Chicago and Kansas City through the twin cities of Minneapolis and St. Paul, Minnesota and Milwaukee, Wisconsin, we provide a direct, single-carrier route between western Canada and the U.S. Midwest, providing access to Great Lakes and Mississippi River ports. The west end of the Central Corridor is proximate to the PRB located in Wyoming, the largest thermal coal producing region in the U.S. From Lacrosse, Wisconsin, the Central Corridor continues south towards Kansas City via the Quad Cities, providing an efficient route for traffic destined for southern U.S. and Mexican markets. Our Kansas City line also has a direct connection into Chicago and by extension points east to CP's network such as Toronto and the Port of Montreal.

Products — Primary traffic categories transported on the Central Corridor include intermodal containers from the Port Metro Vancouver, fertilizers, chemicals, grain, coal, automotive and other agricultural products.

Feeder Lines — We have operating rights over the BNSF line between Minneapolis and the twin ports of Duluth, Minnesota and Superior, Wisconsin. CP maintains its own yard facilities at the twin ports that provide an outlet for grain from the U.S. Midwest to the grain terminals at these ports, and a strategic entry point for large dimensional shipments that can be routed via CP's network to locations such as Alberta's Industrial Heartland to serve the needs of the oil sands and energy industry. The DM&E route from Winona, Minnesota to Colony, Wyoming and Rapid City, South Dakota provides access to key agricultural and industrial commodities. In North Dakota, CP's feeder line between Drake and Newtown, North Dakota is geographically situated in a highly-strategic region for Bakken oil production. CP also owns two significant feeder lines in North Dakota and western Minnesota operated by the Dakota Missouri Valley and Western Railroad, and the Northern Plains Railroad respectively. Both of these short lines are also active in providing service to agricultural and Bakken oil related customers.

Connections — Our Central Corridor connects with all major railways at Chicago. Outside of Chicago, we have major connections with BNSF at Minneapolis and at Minot, North Dakota and with UP at St. Paul. We connect with CN at Minneapolis, Milwaukee and Chicago. At Kansas City we connect with Kansas City Southern ("KCS"), BNSF, Norfolk Southern Corporate ("NS"), and UP. Our Central Corridor also links to several shortline railways that primarily serve grain and coal producing areas in the U.S., and extend CP's market reach in the rich agricultural areas of the U.S. Midwest.

Yards and Repair Facilities — We support rail operations on the Central Corridor with main rail yards in Chicago, Milwaukee, Wisconsin, St. Paul and Glenwood, Minnesota, Mason City, and Nahant, Iowa; and Huron, South Dakota. We own 49% of the IHB Railroad Company, a switching railway serving Greater Chicago and northwest Indiana, and have two major intermodal terminals in Chicago and one in Minneapolis. In addition, we have a major locomotive repair facility at St. Paul and car repair facilities at St. Paul and Chicago. We share a yard with KCS in Kansas City.

4.4.3 The Eastern Corridor: Thunder Bay-Montreal and Detroit

Overview — The Eastern Corridor extends from Thunder Bay through to its eastern terminus at Montreal and from Toronto to Chicago via Windsor/Detroit. Our Eastern Corridor provides shippers direct rail service from Toronto and Montreal to Calgary and Vancouver via our Western Corridor and to the U.S. via our Central Corridor. This is a key element of our transcontinental intermodal and other services, as well as truck trailers moving in drive-on/drive-off Expressway service between Montreal and Toronto. The corridor also supports our market position at the Port of Montreal by providing one of the shortest rail routes for European cargo destined to the U.S. Midwest, using our CP-owned route between Montreal and Detroit, coupled with a trackage rights arrangement on NS tracks between Detroit and Chicago.

Products — Major traffic categories transported in the Eastern Corridor include forest and industrial and consumer products, intermodal containers, automotive products and general merchandise.

Feeder Lines — A major feeder line that serves the steel industry at Hamilton, Ontario provides connections to both our Northeast U.S. corridor and other U.S. carriers at Buffalo.

Connections — The Eastern Corridor connects with a number of shortline railways including routes from Montreal to Quebec City, Quebec and Montreal to Saint John, New Brunswick and Searsport, Maine. CP owns a route to Temiscaming, Quebec via North Bay, Ontario operated by short line Ottawa Valley Railway, where connections are made with the Ontario Northland Railway. Connections are also made with CN at a number of locations, including

Table of Contents

Sudbury, North Bay, Windsor, London, Hamilton, Toronto, Ontario and Montreal and NS and CSX Corporation ("CSX") at Detroit and Buffalo as well as CSX in Montreal.

Yards and Repair Facilities — We support our rail operations in the Eastern Corridor with major rail yards at Toronto, London, Windsor and Montreal. Our largest intermodal facility is located in the northern Toronto suburb of Vaughan and serves the Greater Toronto and southwestern Ontario areas. We also operate intermodal terminals at Montreal and Detroit. Terminals for our Expressway service are located in Montreal and at Milton in the Greater Toronto area.

We have locomotive repair facilities at Montreal and Toronto and car repair facilities at Thunder Bay, Toronto and Montreal.

4.4.4 The Northeast U.S. Corridor: Buffalo and Montreal to New York

Overview — The Northeast U.S. Corridor provides an important link between the major population centres of eastern Canada, the U.S. Midwest and the U.S. Northeast. The corridor extends from Montreal to Harrisburg, Pennsylvania via Plattsburgh, Albany and Schenectady, New York.

Products — Major traffic categories transported on the Northeast U.S. Corridor include industrial and consumer products.

Feeder Lines — The Northeast U.S. Corridor connects with important feeder lines. Our route between Montreal and Harrisburg, Pennsylvania, in combination with trackage rights over other railways, provides us with direct access to New York City; Philadelphia; and Newark, New Jersey. Agreements with NS provide CP with access to shippers and receivers in the Conrail "shared asset" regions of New Jersey via Harrisburg. The "southern tier" route between Guelph Junction, Ontario, Buffalo and Binghamton, New York that includes haulage rights over NS lines, links industrial southern Ontario with key U.S. connecting rail carriers at Buffalo and provides access to CP for short line carriers along the Buffalo to Binghamton route.

Connections – We have major connections with NS at Harrisburg and Allentown in Pennsylvania, and with CSX at Philadelphia. Multiple shortline connections exist throughout the corridor.

Yards and Repair Facilities — We support our Northeast U.S. Corridor with a major rail yard in Binghamton. We have locomotive and car repair facilities in Montreal and Binghamton, in addition to car repair facilities in Chicago and locomotive and car repair facilities in Toronto.

4.4.5 Right-of-Way

Our rail network is standard gauge, which is used by all major railways in Canada, the U.S. and Mexico. Continuous welded rail is used on our core main line network.

We use different train control systems on portions of our owned track, depending on the volume of rail traffic. Remotely controlled centralized traffic control signals are used to authorize the movement of trains where traffic is heaviest. CP is currently in the development stage of its positive train control strategy for portions of its U.S. network.

Where rail traffic is lighter, train movements are directed by written instructions transmitted electronically and by radio from rail traffic controllers to train crews. In some specific areas of intermediate traffic density, we use an automatic block signalling system in conjunction with written instructions from rail traffic controllers.

4.5 Quarterly Trends

Volumes of and, therefore, revenues from certain goods are stronger during different periods of the year. First-quarter revenues can be lower mainly due to winter weather conditions, closure of the Great Lakes ports and reduced transportation of retail goods. Second-and third-quarter revenues generally improve over the first quarter as fertilizer volumes are typically highest during the second quarter and demand for construction-related goods is generally highest in the third quarter. Revenues are typically strongest in the fourth quarter, primarily as a result of the transportation of grain after the harvest, fall fertilizer programs and increased demand for retail goods moved by rail. Operating income is also affected by seasonal fluctuations. Operating income and cash flows are typically lowest in the first quarter due to higher operating costs associated with winter conditions. Net income is typically influenced by these seasonal fluctuations in customer demand and weather-related issues.

Table of Contents

4.6 Business Categories

The following table compares the percentage of our total freight revenue derived from each of our major business lines in 2012 compared with 2011:

Business Category	2012	2011
Bulk	**41%**	44%
Merchandise	**34%**	30%
Intermodal	**25%**	26%

4.7 Revenues

The following table summarizes our annual freight revenues since 2010:

Freight Revenues (in $ millions, except for percentages) Business Category	2012	2011	2010	% Change 2012 vs. 2011	% Change 2011 vs. 2010
Bulk					
Grain	**$1,172**	$1,100	$1,135	7	(3)
Coal	**602**	556	491	8	13
Sulphur and fertilizers	**520**	549	475	(5)	16
Total bulk	**2,294**	2,205	2,101	4	5
Merchandise					
Forest products	**193**	189	185	2	2
Industrial and consumer products	**1,268**	1,017	903	25	13
Automotive	**425**	338	316	26	7
Total merchandise	**1,886**	1,544	1,404	22	10
Intermodal	**1,370**	1,303	1,348	5	(3)
Total freight revenues	**$5,550**	$5,052	$4,853	10	4

4.7.1 Bulk

Our bulk business represented approximately 41% of total freight revenues in 2012.

4.7.1.1 Grain

Our grain business accounted for approximately 21% of total freight revenues in 2012.

Grain transported by CP consists of both whole grains, such as wheat, corn, soybeans, and canola, and processed products such as meals, oils, and flour.

Our grain business is centred in two key agricultural areas: the Canadian prairies (Alberta, Saskatchewan and Manitoba) and the states of North Dakota, Minnesota, Iowa and South Dakota. Western Canadian grain is shipped primarily west to the Port Metro Vancouver and east to the Port of Thunder Bay for export. Grain is also shipped to the U.S. and to eastern Canada for domestic consumption. U.S.-originated export grain traffic is shipped to ports at Duluth and Superior. In partnership with other railways, we also move grain to export terminals in the U.S. Pacific Northwest and the Gulf of Mexico. Grain destined for domestic consumption moves east via Chicago to the U.S. Northeast or is interchanged with other carriers to the U.S. Southeast, Pacific Northwest and California markets.

Railway revenues for the movement of export grain from western Canada are subject to legislative provisions. These provisions apply to defined commodities and origin/destination pairings set out in the Canada Transportation Act (“CTA”). The revenue formula included in the CTA is indexed annually to reflect changes in the input costs associated with transporting grain destined for export markets. For additional information, refer to Section 21 of our 2012 Management’s Discussion and Analysis (“MD&A”), which is available on SEDAR at www.sedar.com in Canada, on EDGAR at www.sec.gov in the U.S. and on our website at www.cpr.ca.

Table of Contents

4.7.1.2 Coal

Our coal business represented approximately 11% of total freight revenues in 2012.

We handle mostly metallurgical coal destined for export through the Port Metro Vancouver for use in the steel-making process in the Pacific Rim, Europe and South America.

Our Canadian coal traffic originates mainly from Teck's mines in southeastern B.C. They are considered to be among the most productive, highest-quality metallurgical coal mines in the world. We move coal west from these mines to port terminals for export to world markets, and east for the U.S. midwest markets and for consumption in steel-making mills along the Great Lakes.

In the U.S., we move primarily thermal coal from connecting railways serving the thermal coal fields in the PRB in Montana and Wyoming. It is then delivered to power generating facilities in the Midwest U.S. We also serve petroleum coke operations in Canada and the U.S. where the product is used for power generation and aluminum production.

4.7.1.3 Sulphur and Fertilizers

Sulphur and fertilizers business represented approximately 9% of total freight revenues in 2012.

Sulphur

Most sulphur is produced in Alberta as a by-product of processing sour natural gas, refining crude oil and upgrading bitumen produced in the Alberta oil sands. Sulphur is a raw material used primarily in the manufacturing of sulphuric acid, which is used most extensively in the production of phosphate fertilizers. Demand for elemental sulphur rises with demand for fertilizers. Sulphuric acid is also a key ingredient in industrial processes ranging from smelting and nickel leaching to paper production.

We transport approximately half of the sulphur that enters international markets from Canada and we are the leading transporter of formed sulphur shipped from gas plants in southern Alberta to the Port Metro Vancouver. The two largest shipping points in southern Alberta are Shantz and Waterton and both are located on our rail lines. Currently, our export traffic is destined mainly to China and Australia. In addition, we transport liquid sulphur from Scotford, Alberta, site of one of the largest refineries in the Edmonton area, and from other origins to the southeastern and northwestern U.S. for use in the fertilizer industry.

Fertilizers

Fertilizers traffic consists primarily of potash and chemical fertilizers. Our potash traffic moves mainly from Saskatchewan to offshore markets through the ports of Metro Vancouver, Thunder Bay and Portland, Oregon and to markets in the U.S. Chemical fertilizers are transported to markets in Canada and the U.S. from key production areas in the Canadian prairies. Phosphate fertilizer is also transported from U.S. and Canadian producers to markets in Canada and the northern U.S.

We provide transportation services from major potash and nitrogen production facilities in western Canada and have efficient routes to the major U.S. markets. We also have direct service to key fertilizer distribution terminals, such as the barge facilities on the Mississippi River system at Minneapolis-St. Paul, as well as access to Great Lakes vessels at Thunder Bay.

4.7.2 Merchandise

Our merchandise business represented approximately 34% of total freight revenues in 2012.

Merchandise products move in trains of mixed freight and in a variety of car types. Service involves delivering products to many different customers and destinations. In addition to traditional rail service, we move merchandise traffic through a network of truck-rail transload facilities and provide logistics services.

4.7.2.1 Forest Products

Our forest products business represented approximately 3% of total freight revenues in 2012.

Forest products traffic includes wood pulp, paper, paperboard, newsprint, lumber, panel and oriented strand board shipped from key producing areas in B.C., northern Alberta, northern Saskatchewan, Ontario and Quebec to destinations throughout North America.

Table of Contents

4.7.2.2 Industrial and Consumer Products

Our industrial and consumer products business represented approximately 23% of total freight revenues in 2012.

Industrial and consumer products traffic include a wide array of commodities grouped under chemicals, energy and plastics as well as mine, metals and aggregates.

Our industrial and consumer products traffic is widely dispersed across our Canadian and U.S. network with large bases in Alberta, Ontario, Quebec and the Midwest U.S. We are also taking advantage of our new Kansas City connection to move energy, chemical and steel products between the Gulf Coast and Alberta thus bypassing the busy Chicago rail interchange. We transport products to destinations throughout North America, including to and from ports. We also participate in the movement of products from the U.S. to Canadian destinations, including chemicals originating in and around the Gulf Coast and destined to points in eastern Canada.

4.7.2.3 Automotive

Our automotive business represented approximately 8% of total freight revenues in 2012.

Automotive traffic includes domestic, import and pre-owned vehicles as well as automotive parts. We transport finished vehicles from U.S. and Canadian assembly plants to the Canadian marketplace, and to other markets throughout North America via major interchanges at Detroit, Chicago and Buffalo. We also move imported vehicles to retail markets in Canada and the U.S. Midwest. A comprehensive network of automotive compounds is utilized to facilitate final delivery of vehicles to dealers throughout Canada and in the U.S.

4.7.3 Intermodal

Our intermodal business accounted for approximately 25% of total freight revenues in 2012.

Domestic intermodal freight consists primarily of manufactured consumer products moving in containers. International intermodal freight moves in marine containers to and from ports and North American inland markets.

Domestic Intermodal

Our domestic intermodal business covers a broad spectrum of industries including food, retail, less-than truckload shipping, trucking, forest products and various other consumer-related products. Key service factors in domestic intermodal include consistent on-time delivery, the ability to provide door-to-door service and the availability of value-added services. The majority of our domestic intermodal business originates in Canada where we market our services directly to retailers, providing complete door-to-door service and maintaining direct relationships with our customers. In the U.S., our service is delivered mainly through wholesalers.

International Intermodal

Our international intermodal business consists primarily of containerized traffic moving between the ports in Vancouver, Montreal, New York and Philadelphia and inland points across Canada and the U.S.

We are a major carrier of containers moving via the ports in Montreal and Vancouver. Import traffic from the Port Metro Vancouver is mainly long-haul business destined for eastern Canada and the U.S. Midwest and Northeast. Our trans-Pacific service offers the shortest route between the Port Metro Vancouver and Chicago. We work closely with the Port of Montreal, a major year-round East Coast gateway to Europe, to serve markets primarily in Canada and the U.S. Midwest. Our U.S. Northeast service connects eastern Canada with the ports of Philadelphia and New York, offering a competitive alternative to trucks.

4.7.4 Other Revenue

Other revenue is generated from leasing certain assets, switching fees, other engagements including logistical services and contracts with passenger service operators.

4.7.5 Significant Customers

In 2012, 2011 and 2010 no one customer comprised more than 10% of total revenues and accounts receivable.

Table of Contents

4.8 Railway Performance

We focus on safety, franchise investment, increasing network efficiency and improving asset utilization, train operations productivity and labour productivity. Detailed definitions of the performance indicators listed below are set out in Section 25, Glossary of Terms in our MD&A, which section is incorporated by reference herein. The following table summarizes the effect of these strategies based on industry-recognized performance indicators:

Performance Indicators

For the year ended December 31	2012	2011	2010	% Change 2012 vs. 2011	% Change 2011 vs. 2010
Operations Performance					
Freight gross ton-miles (millions)	**254,354**	247,955	242,757	3	2
Train miles (thousands)	**40,270**	40,145	39,576	—	1
Average train weight - excluding local traffic (tons)	**6,709**	6,593	6,519	2	1
Average train length - excluding local traffic (feet)	**5,838**	5,665	5,660	3	—
Average train speed - AAR definition (mph)	**24.4**	21.3	22.7	15	(6)
Average terminal dwell - AAR definition (hours)	**17.6**	19.9	21.4	(12)	(7)
Car miles per car day	**202.3**	160.1	159.4	26	—
Locomotive productivity (daily average GTMs/active horsepower (“HP”))	**179.8**	166.7	176.6	8	(6)
Employee productivity (million GTMs/expense employee)[2]	**17.4**	17.5	17.5	(1)	—
Fuel efficiency[1]	**1.15**	1.18	1.17	(3)	1
Average number of active employees – expense[2]	**14,594**	14,169	13,879	3	2
Average daily active cars on-line (thousands)	**40.9**	51.4	50.9	(20)	1
Average daily active road locomotives on-line	**1,007**	1,085	1,016	(7)	7
Safety indicators[3]					
FRA personal injuries per 200,000 employee-hours	**1.46**	1.85	1.67	(21)	11
FRA train accidents per million train-miles	**1.67**	1.88	1.67	(11)	13

(1) Fuel efficiency is defined as U.S. gallons of locomotive fuel consumed per 1,000 Gross ton-miles (“GTMs”) – freight and yard.

(2) An employee is defined as an individual who has worked more than 40 hours in a standard biweekly pay period. This excludes part time employees, contractors, consultants, and trainees.

(3) Certain prior period figures have been revised to conform with current presentation or have been updated to reflect new information.

During 2012, the Company’s continued focus on service resulted in improvements in many key operational performance indicators, discussed below. The Company’s fourth quarter operational performance indicators demonstrate that these improvements are continuing.

GTMs for 2012 were 254,354 million, which increased by 3% compared with 247,955 million in 2011. This increase was primarily due to higher traffic volumes in the Company’s Intermodal and Merchandise franchises. This increase was offset by a reduction in bulk shipments, and the impact of volumes lost during the strike in the second quarter.

GTMs for 2011 were 247,955 million, which increased by 2% compared with 242,757 million in 2010. This increase was primarily due to traffic mix changes.

Train miles for 2012 were relatively flat compared with 2011, with higher workload offset by an increase in train weights. Train miles for 2011 were also relatively flat compared with 2010. Train miles in the first half of 2012 increased 6% compared to the same period in 2011. Train miles in the second half of 2012 decreased by 3%, largely attributable to compressed train service transit schedules.

Average train weight increased in 2012 by 116 tons or 2% from 2011. Average train weight in the first half of 2012 was relatively flat compared to the same period in 2011. Average train weight in the second half of 2012 increased by 4%. Average train length increased in 2012 by 173 feet or 3% from 2011. Average train length in the first half of 2012 was relatively flat compared to the same period in 2011. Average train length in the second half of 2012 increased by 6%. Average train weight and length benefited from increased Merchandise and Intermodal workload moving in existing train service and the successful execution of the Company’s operating plan. Improvements to

Table of Contents

average train weight and length were further enabled by the siding extension strategy, which allowed for the operation of longer and heavier trains.

Average train weight increased in 2011 by 74 tons or 1% from 2010. This increase was primarily due to our continued implementation of the long-train strategy in the bulk franchise.

Average train length increased in 2011 by 5 feet from 2010. This was relatively flat year over year.

Average train speed was 24.4 miles per hour in 2012, an increase of 15%, from 21.3 miles per hour in 2011. This increase was primarily due to ongoing capacity investments, improved operating conditions and the successful execution of the Company's operating plan.

Average train speed was 21.3 miles per hour in 2011, a decrease of 6%, from 22.7 miles per hour in 2010. This decrease was primarily due to increased volumes, traffic mix and significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year of 2011.

Average terminal dwell, the average time a freight car resides in a terminal, decreased by 12% in 2012 to 17.6 hours from 19.9 hours in 2011. This decrease was primarily due to a focus on maintaining yard fluidity and the successful execution of our operating plan. Decreases in average terminal dwell were also impacted by the decommissioning of hump operations yards in Toronto, Winnipeg, Chicago and Calgary, and intermodal terminal consolidations in Toronto and Chicago.

Average terminal dwell, decreased by 7% in 2011 to 19.9 hours when compared to 21.4 hours in 2010. This decrease was primarily due to programs supporting the execution of our operating plan designed to improve asset velocity and a continued focus on the storage of surplus cars.

Car miles per car day were 202.3 in 2012, an increase of 26% from 160.1 in 2011. This increase was primarily due to the successful execution of the operating plan, improved operating conditions and the removal of 10,500 active cars from the network over the full year.

Car miles per car day were 160.1 in 2011, relatively flat compared to 159.4 in 2010. This was primarily due to poor operating fluidity as a result of significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year and was partially offset by various initiatives in the design and execution of our operating plan focused on improving asset velocity.

Locomotive productivity, which is daily average GTMs/active HP, increased in 2012 by 8% from 2011. Locomotive productivity in the first half of 2012 increased 6% compared to the same period in 2011. Locomotive productivity in the second half of 2012 increased by 11%. This increase was primarily due to improvements in network fluidity and the successful execution of the Company's operating plan.

Locomotive productivity decreased in 2011 by 6% from 2010. The decrease was primarily due to significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year.

Employee productivity, which is million GTMs/expense employee, was relatively flat in 2012 compared to 2011. Benefits realized through the successful execution of the Company's operating plan were offset by the Company's hiring plan in advance of anticipated attrition in the first half of 2012.

Employee productivity in 2011 was relatively flat from 2010.

Fuel efficiency improved by 3% in 2012 compared to 2011. This improvement was primarily due to improved operating conditions and the advancement of the Company's fuel conservation strategies including replacement of older units with new more fuel efficient locomotives.

Fuel efficiency declined by 1% in 2011 compared with 2010. This decline was primarily due to significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year.

The average number of active expense employees for 2012 increased by 425, or 3%, compared with 2011. This increase was primarily due to additional hiring early in the year to address volume growth projections and anticipated attrition over future quarters, partially offset by improvements in labour productivity and the impact of the strike, including temporary layoffs. During the first half of 2012, the average number of active expense employees

Table of Contents

increased, however labour productivity improvements allowed for a decrease in active expense employees by the end of the year.

The average number of active expense employees for 2011 increased by 290, or 2%, compared with 2010. This increase was primarily due to additional hiring to address volume growth projections and attrition.

The average daily active cars on-line for 2012 decreased by 10,500 cars, or 20%, compared with 2011. This decrease was primarily due to improved network fluidity, our successful execution of our operating plan and a focus on the storage, disposal and return to lessors of surplus cars.

The average daily active cars on-line for 2011 was relatively flat compared with 2010.

The average daily active road locomotives on-line for 2012 decreased by 78 units, or 7%, compared with 2011. This improvement was primarily due to more efficient and fluid operations, driving improved asset velocity, improved fleet reliability, and the successful execution of the operating plan, offset in part by higher traffic volumes.

The average daily active road locomotives on-line for 2011 increased by 69 units, or 7%, compared with 2010. This increase was primarily due to significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year which reduced network speed and added train miles for rerouting of traffic.

4.9 Franchise Investment

Franchise investment is an integral part of our capital program and supports our growth initiatives. Our annual capital program typically includes investments in track and facilities (including rail yards and intermodal terminals); locomotives; information technology (“IT”); and freight cars and other equipment. On an accrual basis, we invested approximately $3.1 billion in our core assets from 2010 to 2012, with annual capital spending over this period averaging approximately 19% of revenues. This included approximately $2.1 billion invested in track and roadway, $0.4 billion in rolling stock, $0.2 in other equipment, $0.3 billion in IT and $0.1 billion in buildings.

4.9.1 Locomotive Fleet

Our locomotive fleet is comprised largely of high-adhesion alternating current (“AC”) locomotives, which are more fuel efficient and reliable and have superior hauling capacity compared with standard direct current (“DC”) locomotives. Our locomotive fleet now includes 827 AC locomotives. While AC locomotives represent approximately 65.6% of our road-freight locomotive fleet, they handle approximately 87.6% of our workload. Our investment in AC locomotives has helped to improve service reliability and generate cost savings in fuel, equipment rents and maintenance. There was a reduction of the Company’s active locomotive fleet by more than 195 locomotives in the second half of 2012, with more than 450 locomotives now stored, returned or declared surplus year-to-date.

Following is a synopsis of our owned and leased locomotive fleet:

Number of Locomotives

(owned and long-term leased)	Road Freight		Road	Yard	
Age in Years	AC	DC	Switcher	Switcher	Total
0-5	131	—	24	—	155
6-10	319	—	—	—	319
11-15	294	—	—	—	294
16-20	83	—	—	—	83
Over 20	—	433	264	146	843
Total	**827**	**433**	**288**	**146**	**1,694**

4.9.2 Railcar Fleet

We own, lease or manage approximately 51,900 freight cars. Approximately 17,000 are owned by CP, approximately 6,500 are hopper cars owned by Canadian federal and provincial government agencies, approximately 9,200 are leased on a short-term basis and 19,200 are held under long-term leases. Short-term leases on approximately 3,700 cars are scheduled to expire during 2013, and the leases on approximately 9,800 additional cars are scheduled to expire before the end of 2017.

Table of Contents

SECTION 4: DESCRIPTION OF THE BUSINESS

Over the course of 2012, CP has provided return notification on 5,400 rail cars.

Our covered hopper car fleet, used for transporting regulated grain, consists of owned, leased and managed cars. A portion of the fleet used to transport export grain is leased from the Government of Canada, with whom we completed an operating agreement in 2007.

4.10 Operating Plan ("OP")

Our OP is the foundation for our scheduled railway operations, through which we strive to provide quality service for customers and improve asset utilization to achieve high levels of efficiency. The key principles upon which our OP is built include moving freight cars across the network with as few handlings as possible, creating balance in directional flow of trains in our corridors by day of week, and minimizing the time that locomotives and freight cars are idle.

Under our OP, trains are scheduled to run consistently at times agreed upon with our customers. To accomplish this, we establish a plan for each rail car that covers its entire trip from point of origin to final destination. Cars with similar destinations are consolidated into blocks. This reduces delays at intermediate locations by simplifying processes for employees, eliminating the duplication of work and helping to ensure traffic moves fluidly through rail yards and terminals. These measures improve transit times for shipments throughout our network and increase car availability for customers. Our OP also increases efficiency by more effectively scheduling employee shifts, locomotive maintenance, track repair, track renewal and material supply.

We have capitalized on the new capabilities of our network and our upgraded locomotive fleet to safely operate longer and heavier trains. This has reduced associated expenses, simplified the departure of shipments from points of origin and provided lower-cost capacity for growth.

We are committed to continuously improve scheduled railway operations as a means to achieve additional efficiencies that will enable further growth without the need to incur significant capital expenditures to accommodate the growth.

4.11 Information Services

As a 24-hour-a-day, 7-day-a-week business, CP relies heavily on IT systems to schedule and manage planning and operational components safely and efficiently. IT applications map out complex interconnections of freight cars, locomotives, facilities, track and train crews to meet more than 10,000 individual customer service commitments every day. Across the network, CP's suite of operating systems manages the overall movement of customers' shipments and provides railway employees with reliable data on shipment performance, transit times, connections with other trains, train and yard capacities, and locomotive requirements. Within the yards, individual shipments are matched to freight car blocks, which in turn are matched to trains that are scheduled according to CP's operating plan.

4.12 Business Risks and Enterprise Risk Management

In the normal course of our operations, we are exposed to various business risks and uncertainties that can have an effect on our financial condition. CP's Enterprise Risk Management ("ERM") program targets strategic risk areas to determine additional prevention or mitigation plans that can be undertaken to either reduce risk or enable opportunities to be realized. The ERM process instills discipline in the approach to managing risk at CP and has been a contributing factor in providing focus on key areas. CP has managed to mitigate a number of strategic business risks using this focused approach.

The risks and our enterprise risk management are discussed in more detail in Section 21, Business Risks in our 2012 MD&A, which section is incorporated by reference herein.

4.13 Indemnifications

Pursuant to a trust and custodial services agreement with the trustee of the Canadian Pacific Railway Company Pension Plan, we have undertaken to indemnify and save harmless the trustee, to the extent not paid by the fund, from any and all taxes, claims, liabilities, damages, costs and expenses arising out of the performance of the trustee's obligations under the agreement, except as a result of misconduct by the trustee. The indemnity includes liabilities, costs or expenses relating to any legal reporting or notification obligations of the trustee with respect to the defined contribution option of the pension plans or otherwise with respect to the assets of the pension plans that are not part of the fund. The indemnity survives the termination or expiry of the agreement with respect to claims and liabilities arising prior to the termination or expiry. At December 31, 2012, we had not recorded a liability associated with this indemnification, as we do not expect to make any payments pertaining to it.

Table of Contents

SECTION 4: DESCRIPTION OF THE BUSINESS

4.14 Safety

Safety is a key priority for our management and Board of Directors. Our two main safety indicators – personal injuries and train accidents – follow strict U.S. Federal Railroad Administration ("FRA") reporting guidelines.

The FRA personal injury rate per 200,000 employee-hours for CP was 1.46 in 2012, compared with 1.85 in 2011 and 1.67 in 2010. The FRA train accident rate for CP in 2012 was 1.67 accidents per million train-miles, compared with 1.88 in 2011 and 1.67 in 2010. CP strives to continually improve its safety performance through our key strategies and activities such as training and technology.

Our Safety, Operations and Environment Committee provides ongoing focus, leadership, commitment and support for efforts to improve the safety of our operations as well as the safety and health of our employees. The committee is comprised of all of the most senior representatives from our different operations departments and is a key component of safety governance at CP. Our Safety Framework governs the safety management process, which involves more than 1,000 employees in planning and implementing safety-related activities. This management process, combined with planning that encompasses all operational functions, ensures a continuous and consistent focus on safety.

4.15 Environmental Protection

We have implemented a comprehensive Environmental Management System, which uses the five elements of the ISO 14001 standard – policy, planning, implementation and operation, checking and corrective action, and management review – as described below. See Section 21, Business Risks of the 2012 MD&A for further details.

4.15.1 Policy

We have adopted an Environmental Protection Policy and continue to develop and implement policies and procedures to address specific environmental issues and reduce environmental risk. Each policy is implemented with training for employees and a clear identification of roles and responsibilities.

We are a partner in Responsible Care®, an initiative of the Chemistry Industry Association of Canada and the American Chemistry Council ("ACC") in the U.S., an ethic for the safe and environmentally sound management of chemicals throughout their life cycle. Partnership in Responsible Care® involves a public commitment to continually improve the industry's environmental, health and safety performance. We completed our first Responsible Care® external verification in June 2002 and were granted "Responsible Care® practice-in-place" status. We were successfully re-verified in 2005, 2008 and again in October 2012.

4.15.2 Planning

We prepare an annual Operations Environmental Plan, which include details of our environmental goals and targets as well as high-level strategies. These plans are used by various departments to integrate key corporate environmental strategies into their business plans.

4.15.3 Implementation and Operation

We have developed specific environmental programs to address areas such as air emissions, wastewater, management of vegetation, chemicals and waste, storage tanks and fuelling facilities, and environmental impact assessment. Our environmental specialists and consultants lead these programs.

Our focus is on preventing spills and other incidents that have a negative impact on the environment. As a precaution, we have established a Strategic Emergency Response Contractor network and located spill equipment kits across Canada and the U.S. to ensure a rapid and efficient response in the event of an environmental incident. In addition, we regularly update and test emergency preparedness and response plans.

4.15.4 Environmental Contamination

We continue to be responsible for remediation work on portions of a property in the State of Minnesota and continue to retain liability accruals for remaining future anticipated costs. The costs are expected to be incurred over a period of approximately 10 years. The state's voluntary investigation and remediation program will oversee the work to ensure it is completed in accordance with applicable standards. We currently estimate the remaining liability associated with these areas to be US$24 million.

4.15.5 Checking and Corrective Action

Our environmental audit comprehensively, systematically and regularly assesses our facilities for compliance with legal and regulatory requirements and conformance to our policies, which are based on legal requirements and

Table of Contents

accepted industry standards. Audits are scheduled based on risk assessment for each facility and are led by third-party environmental audit specialists supported by our environmental staff.

Audits are followed by a formal Corrective Action Planning process that ensures findings are addressed in a timely manner. Progress is monitored against completion targets and reported quarterly to senior management. Our audit program includes health and safety.

4.15.6 Management Review

Our Board of Directors' Safety, Operations and Environment Committee conducts a semi-annual comprehensive review of environmental issues. An Environmental Lead Team, which is comprised of senior leaders of our Real Estate, Legal Services, Sales and Marketing, Finance, Operations, Supply Services, and Safety and Environmental Services departments, meets quarterly to review environmental matters.

4.15.7 Expenditures

We spent $36 million in 2012 for environmental management, including amounts spent on ongoing operations, fuel conservation, capital upgrades and remediation.

4.16 Insurance

We maintain insurance policies to protect our assets and to protect against liabilities. Our insurance policies include, but are not limited to, liability insurance, director and officer liability insurance, automobile insurance and property insurance. The property insurance program includes business interruption coverage and contingent business interruption coverage, which would apply in the event of catastrophic damage to our infrastructure and specified strategic assets in the transportation network. We believe our insurance is adequate to protect us from known and unknown liabilities. However, in certain circumstances, certain losses may not be covered or completely covered by insurance and we may suffer losses, which could be material.

4.17 Competitive Conditions

For a discussion of CP's competitive conditions in which we operate, please refer to the subsection titled Competition under Section 21, Business Risks included in our MD&A, which subsection is incorporated by reference herein.

Table of Contents

SECTION 5: DIVIDENDS

5.1 Declared Dividends and Dividend Policy

Dividends

Dividends declared by the Board of Directors in the last three years are as follows:

Dividend amount	Record date	Payment date
$ 0.3500	March 29, 2013	April 29, 2013
$ 0.3500	December 28, 2012	January 28, 2013
$ 0.3500	September 28, 2012	October 29, 2012
$ 0.3500	June 22, 2012	July 30, 2012
$ 0.3000	March 30, 2012	April 30, 2012
$ 0.3000	December 30, 2011	January 30, 2012
$ 0.3000	September 30, 2011	October 31, 2011
$ 0.3000	June 24, 2011	July 25, 2011
$ 0.2700	March 25, 2011	April 25, 2011
$ 0.2700	December 31, 2010	January 31, 2011
$ 0.2700	September 24, 2010	October 25, 2010
$ 0.2700	June 25, 2010	July 26, 2010
$ 0.2475	March 26, 2010	April 26, 2010

Our Board of Directors is expected to give consideration on a quarterly basis to the payment of future dividends. The amount of any future quarterly dividends will be determined based on a number of factors that may include the results of operations, financial condition, cash requirements and future prospects of the Company. The Board of Directors is, however, under no obligation to declare dividends and the declaration of dividends is wholly within their discretion. Further, our Board of Directors may cease declaring dividends or may declare dividends in amounts that are different from those previously declared. Restrictions in the credit or financing agreements entered into by the Company or the provisions of applicable law may preclude the payment of dividends in certain circumstances.

Table of Contents

SECTION 6: CAPITAL STRUCTURE

6.1 Description of Capital Structure

The Company is authorized to issue an unlimited number of Common Shares, an unlimited number of First Preferred Shares and an unlimited number of Second Preferred Shares. At December 31, 2012, no First or Second Preferred Shares had been issued.

1) The rights, privileges, restrictions and conditions attaching to the Common Shares are as follows:

a) **Payment of Dividends**: The holders of the Common Shares will be entitled to receive dividends if, as and when declared by CP's Board of Directors out of the assets of the Company properly applicable to the payment of dividends in such amounts and payable in such manner as the Board may from time to time determine. Subject to the rights of the holders of any other class of shares of the Company entitled to receive dividends in priority to or rateably with the holders of the Common Shares, the Board may in its sole discretion declare dividends on the Common Shares to the exclusion of any other class of shares of the Company.

b) **Participation upon Liquidation, Dissolution or Winding Up**: In the event of the liquidation, dissolution or winding up of the Company or other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the Common Shares will, subject to the rights of the holders of any other class of shares of the Company entitled to receive the assets of the Company upon such a distribution in priority to or rateably with the holders of the Common Shares, be entitled to participate rateably in any distribution of the assets of the Company.

c) **Voting Rights**: The holders of the Common Shares will be entitled to receive notice of and to attend all annual and special meetings of the shareholders of the Company and to one (1) vote in respect of each Common Share held at all such meetings, except at separate meetings of or on separate votes by the holders of another class or series of shares of the Company.

2) The rights, privileges, restrictions and conditions attaching to the First Preferred Shares are as follows:

a) **Authority to Issue in One or More Series**: The First Preferred Shares may at any time or from time to time be issued in one or more series. Subject to the following provisions, the Board may by resolution fix from time to time before the issue thereof the number of shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to the shares of each series of First Preferred Shares.

b) **Voting Rights**: The holders of the First Preferred Shares will not be entitled to receive notice of or to attend any meeting of the shareholders of the Company and will not be entitled to vote at any such meeting, except as may be required by law.

c) **Limitation on Issue**: The Board may not issue any First Preferred Shares if by so doing the aggregate amount payable to holders of First Preferred Shares as a return of capital in the event of the liquidation, dissolution or winding up of the Company or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs would exceed $500,000,000.

d) **Ranking of First Preferred Shares**: The First Preferred Shares will be entitled to priority over the Second Preferred Shares and the Common Shares of the Company and over any other shares ranking junior to the First Preferred Shares with respect to the payment of dividends and the distribution of assets of the Company in the event of any liquidation, dissolution or winding up of the Company or other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs.

e) **Dividends Preferential:** Except with the consent in writing of the holders of all outstanding First Preferred Shares, no dividend can be declared and paid on or set apart for payment on the Second Preferred Shares or the Common Shares or on any other shares ranking junior to the First Preferred Shares unless and until all dividends (if any) up to and including any dividend payable for the last completed period for which such dividend is payable on each series of First Preferred Shares outstanding has been declared and paid or set apart for payment.

3) The rights, privileges, restrictions and conditions attaching to the Second Preferred Shares are as follows:

a) **Authority to Issue in One or More Series**: The Second Preferred Shares may at any time or from time to time be issued in one or more series. Subject to the following provisions, the Board may by resolution fix from time to time before the issue thereof the number of shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to the shares of each series of Second Preferred Shares.

Table of Contents

b) **Voting Rights**: The holders of the Second Preferred Shares will not be entitled to receive notice of or to attend any meetings of the shareholders of the Company and will not be entitled to vote at any such meeting, except as may be required by law.

c) **Limitation on Issue**: The Board may not issue any Second Preferred Shares if by so doing the aggregate amount payable to holders of Second Preferred Shares as a return of capital in the event of the liquidation, dissolution or winding up of the Company or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs would exceed $500,000,000.

d) **Ranking of Second Preferred Shares**: The Second Preferred Shares will be entitled to priority over the Common Shares of the Company and over any other shares ranking junior to the Second Preferred Shares with respect to the payment of dividends and the distribution of assets of the Company in the event of the liquidation, dissolution or winding up of the Company or any other distribution of the assets of the Company among its shareholders for the purpose of winding up of its affairs.

e) **Dividends Preferential**: Except with the consent in writing of the holders of all outstanding Second Preferred Shares, no dividend can be declared and paid on or set apart for payment on the Common Shares or on any other shares ranking junior to the Second Preferred Shares unless and until all dividends (if any) up to and including any dividend payable for the last completed period for which such dividend is payable on each series of Second Preferred Shares outstanding has been declared and paid or set apart for payment.

6.2 Security Ratings

The following information relating to the Company's credit ratings is provided as it may relate to the Company's financing costs, liquidity and operations. Specifically, credit ratings affect the Company's ability to obtain short-term and long-term financing and/or the cost of such financing. Additionally, the ability of the Company to engage in certain collateralized business activities on a cost effective basis depends on the Company's credit ratings. A reduction in the current rating on the Company's debt by its rating agencies, particularly a downgrade below investment grade ratings, or a negative change in the Company's ratings outlook could adversely affect the Company's cost of financing and/or its access to sources of liquidity and capital. In addition, changes in credit ratings may affect the Company's ability to, and/or the associated costs of, (i) entering into ordinary course derivative or hedging transactions and may require the Company to post additional collateral under certain of its contracts, and (ii) entering into and maintaining ordinary course contracts with customers and suppliers on acceptable terms and (iii) ability to self-insure certain leased or financed rolling stock assets per common industry practice.

The Company's debt securities are rated by three approved rating organizations – Moody's Investors Service, Inc., Standard & Poor's Corporation and Dominion Bond Rating Service Limited. Currently, our securities are rated as Investment Grade, shown in the table below:

Approved Rating Organization	Long-Term Debt Rating
Moody's Investors Service	Baa3
Standard & Poor's Corporation	BBB-
Dominion Bond Rating Service	BBB(low)

Table of Contents

SECTION 6: CAPITAL STRUCTURE

The ratings provided by each of Standard & Poor's Corporation, Moody's Investors Service and Dominion Bond Rating Service have a stable outlook.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities and are indicators of the likelihood of payment and of the capacity and willingness of a company to meet its financial commitment on an obligation in accordance with the terms of the obligation. A description of the rating categories of each of the rating agencies in the table above is set out below.

Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor and may be subject to revision or withdrawal at any time by the rating agencies. Credit ratings may not reflect the potential impact of all risks on the value of securities. In addition, real or anticipated changes in the rating assigned to a security will generally affect the market value of that security. There can be no assurance that a rating will remain in effect for any given period of time or that a rating will not be revised or withdrawn entirely by a rating agency in the future.

The following table summarizes rating categories for respective rating agencies:

Moody's Investors Service	Standard & Poor's	Dominion Bond Rating Service	
Aaa	AAA	AAA	
Aa1	AA+	AA(high)	
Aa2	AA	AA	High Investment Grade
Aa3	AA-	AA(low)	
A1	A+	A(high)	
A2	A	A	
A3	A-	A(low)	
Baa1	BBB+	BBB(high)	
Baa2	BBB	BBB	Investment Grade
Baa3	BBB-	BBB(low)	
Ba1	BB+	BB(high)	
Ba2	BB	BB	
Ba3	BB-	BB(low)	
B1	B+	B(high)	Below Investment Grade
B2	B	B	
B3	B-	B(low)	
Caa	CCC	CCC	
Ca	CC	CC	
C	C	C	

Table of Contents

SECTION 7: MARKET FOR SECURITIES

7.1 Stock Exchange Listings

The Common Shares of CP are listed on the Toronto Stock Exchange and the New York Stock Exchange under the symbol "CP".

7.2 Trading Price and Volume

The following table provides the monthly trading information for our Common Shares on the Toronto Stock Exchange during 2012:

Toronto Stock Exchange Month	Opening Price per Share ($)	High Price per Share ($)	Low Price per Share ($)	Closing Price per Share ($)	Volume of Shares Traded
January	68.60	73.68	67.99	71.51	16,749,698
February	71.81	77.11	71.41	74.14	14,570,189
March	73.78	79.29	71.81	75.71	12,637,208
April	75.52	77.55	72.46	76.45	10,059,609
May	76.61	77.89	72.50	76.08	19,246,947
June	75.99	75.99	71.61	74.72	9,288,403
July	75.30	83.57	72.66	81.51	14,247,507
August	81.49	85.66	80.53	81.48	7,193,743
September	81.39	85.60	80.03	81.59	7,902,443
October	81.61	93.91	81.29	91.88	13,807,121
November	91.92	94.44	89.49	92.70	9,372,107
December	92.45	101.81	90.69	100.90	12,973,066

The following table provides the monthly composite trading information for our Common Shares on the New York Stock Exchange during 2012:

New York Stock Exchange Month	Opening Price per Share ($)	High Price per Share ($)	Low Price per Share ($)	Closing Price per Share ($)	Volume of Shares Traded
January	68.19	72.62	66.23	71.32	17,792,011
February	72.07	77.55	71.39	74.73	18,715,908
March	74.97	79.91	71.67	75.95	13,178,848
April	75.70	78.23	72.17	77.48	14,567,902
May	77.56	79.00	70.85	73.49	25,003,031
June	73.00	74.59	68.69	73.26	14,432,897
July	73.72	83.20	71.22	81.15	13,801,592
August	81.37	86.92	80.07	82.71	9,098,712
September	82.64	88.23	80.01	82.89	8,818,249
October	82.98	94.78	82.75	92.06	12,579,231
November	92.08	94.83	89.30	93.34	13,082,331
December	93.08	102.80	91.34	101.62	18,816,168

Table of Contents

SECTION 8: DIRECTORS AND OFFICERS

Following are the names and municipalities of residence of the directors and officers of the Company, their positions and principal occupations within the past five years, the period during which each director has served as director of the Company, and the date on which each director's term of office expires.

8.1 Directors

Name and Municipality of Residence	Position Held and Principal Occupation within the Preceding Five Years (1)	Year of Annual Meeting at which Term of Office Expires (Director Since)
Paul G. Haggis Canmore, Alberta, Canada	Chairman, Canadian Pacific Railway Limited and Canadian Pacific Railway Company	2013 (2012)
William A. Ackman(3)(4) New York, New York, U.S.A.	Founder, Chief Executive Officer, Pershing Square Capital Management, L.P. (investment advisor)	2013 (2012)
Gary F. Colter(2)(5) Mississauga, Ontario, Canada	President, CRS Inc. (corporate restructuring and strategy consulting company)	2013 (2012)
E. Hunter Harrison(6) Wellington, Florida, U.S.A.	Chief Executive Officer, Canadian Pacific Railway Limited and Canadian Pacific Railway Company	2013 (2012)
Paul C. Hilal(4)(5) New York, New York, U.S.A.	Partner, Pershing Square Capital Management, L.P. (investment advisor)	2013 (2012)
Krystyna T. Hoeg, C.A.(3)(5) Toronto, Ontario, Canada	Former President and Chief Executive Officer, Corby Distilleries Limited (marketer and seller of spirits and wine)	2013 (2007)
Richard C. Kelly(2)(4) Denver, Colorado, U.S.A.	Retired Chairman and Chief Executive Officer, Xcel Energy Inc. (utility supplier of electric power and natural gas services)	2013 (2008)
Rebecca MacDonald(3)(5) Toronto, Ontario, Canada	Founder, Executive Chair, Just Energy Group Inc. (independent marketer of deregulated gas and electricity)	2013 (2012)
The Hon. John P. Manley(2)(4) Ottawa, Ontario, Canada	President and Chief Executive Officer, Canadian Council of Chief Executives (non-profit public policy, consultation and advocacy organization)	2013 (2006)
Dr. Anthony R. Melman(4)(6) Toronto, Ontario, Canada	President and Chief Executive Officer, Acasta Capital (strategic and financial advisor)	2013 (2012)
Linda J. Morgan(2)(6) Bethesda, Maryland, U.S.A.	Partner, Nossaman LLP (law firm)	2013 (2006)

Table of Contents

SECTION 8: DIRECTORS AND OFFICERS

Madeleine Paquin (3)(6) Montreal, Quebec, Canada	President and Chief Executive Officer, Logistec Corporation (international cargo-handling company)	2013 (2001)
Hartley T. Richardson, C.M., O.M.(2)(6) Winnipeg, Manitoba, Canada	President and Chief Executive Officer, James Richardson & Sons, Limited (privately owned corporation)	2013 (2006)
Stephen C. Tobias(3)(5)(6) Garnett, South Carolina, U.S.A.	Former Vice-Chairman and Chief Operating Officer, Norfolk Southern Corporation (U.S. Class I railroad)	2013 (2012)

Notes:

(1) P.G. Haggis was Chairman of the Board of C.A. Bancorp Inc. from July 2011 until March 7, 2013, and served as Interim Chief Executive Officer of C.A. Bancorp Inc. from May to September 2010; he has also been Chairman of the Board of Alberta Enterprise Corporation since February 2009; in addition Mr. Haggis was a Corporate Consultant from May 2007 to February 2009. E.H. Harrison was President and Chief Executive Officer of Canadian Pacific Railway Limited from June 2012 to February 2013, Interim President and Chief Executive Officer of Dynegy Inc. from April 9 to July 11, 2011, and President and Chief Executive Officer of Canadian National Railway from January 2003 to December 2009. R.C. Kelly was Chairman and Chief Executive Officer of Xcel Energy Inc. from September 2009 until September 2011, and was its Chairman of the Board, President and Chief Executive Officer from December 2005 until September 2009. The Hon. J.P. Manley was counsel at McCarthy Tetrault from May 2004 until December 2009 and President-Elect of the Canadian Counsel of Chief Executives from October to December 2009. A.R. Melman was previously Chairman and CEO of Nevele Inc. L.J. Morgan was Of Counsel (from February 2010 to September 2011), and before that Partner (from September 2003 to September 2011) at the U.S. law firm of Covington & Burling LLP. S.C. Tobias was Interim Chief Executive Officer of Canadian Pacific Railway Limited from May 17 to June 28, 2012, and Vice-Chairman and Chief Operating Officer of Norfolk Southern Corporation from July 1998 to March 2009.

(2) Member of the Audit Committee.

(3) Member of the Corporate Governance and Nominating Committee.

(4) Member of the Finance Committee.

(5) Member of the Management Resources and Compensation Committee.

(6) Member of the Safety, Operations and Environment Committee.

8.2 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Mr. Harrison was a director of Dynegy Inc. (“Dynegy”) from March 9 to December 16, 2011 (Chairman from July 11 to December 16, 2011), as well as its Interim President and Chief Executive Officer from April 9 to July 11, 2011. On July 6, 2012, Dynegy filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code, such filing being primarily a technical step necessary to facilitate the restructuring of one or more Dynegy subsidiaries. Dynegy exited bankruptcy on October 1, 2012.

Mr. Kelly was President and Chief Executive Officer of NRG Energy, Inc. (“NRG”), a former subsidiary of Xcel Energy Inc. from June 6, 2002 to May 14, 2003, and a director of NRG from June 2000 to May 14, 2003. In May 2003, NRG and certain of NRG’s affiliates filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code to restructure their debt. NRG emerged from bankruptcy on December 5, 2003.

As a result of the announcement in May 2004 by Nortel Networks Corporation and Nortel Networks Limited (collectively, the “Nortel Companies”) of the need to restate certain of their previously reported financial results and the resulting delays in filing interim and annual financial statements for certain periods by the required filing dates under Ontario securities laws, the Ontario Securities Commission made a final order on May 31, 2004 prohibiting all trading by directors, officers and certain current and former employees including J.P. Manley, a former director. The Quebec and Alberta Securities commissions issued similar orders. The cease trade order issued by the Ontario Securities Commission was revoked on June 21, 2005. The Quebec and Alberta orders were revoked shortly thereafter. Mr. Manley was not subject to the Quebec and Alberta orders. Following the March 10, 2006 announcement by the Nortel Companies of the need to restate certain of their previously reported financial results and the resulting delay in the filing of certain 2005 financial statements by the required filing dates, the Ontario Securities Commission issued a final management cease trade order on April 10, 2006 prohibiting all of the directors, officers and certain current and former employees including Mr. Manley from trading in the securities of the Nortel Companies. The British Columbia and Quebec Securities commissions issued similar orders. The Ontario Securities

Table of Contents

SECTION 8: DIRECTORS AND OFFICERS

Commission lifted the cease trade order effective June 8, 2006 and the British Columbia and the Quebec Securities commissions also lifted their cease trade orders shortly thereafter. Mr. Manley was not subject to the British Columbia and Quebec orders.

Mr. Manley was a director of the Nortel Companies when the Nortel Companies applied for and were granted creditor protection under the Companies' Creditors Arrangement Act on January 14, 2009.

Table of Contents

SECTION 8: DIRECTORS AND OFFICERS

8.3 Senior Officers

As at March 12, 2013, the following were executive officers of CP:

Name and municipality of residence	Position held	Principal occupation within the preceding five years
P.G. Haggis Canmore, Alberta, Canada	Chairman	Chairman, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chairman, C.A. Bancorp Inc.; Interim Chief Executive Officer, C.A. Bancorp Inc.; Chairman, Alberta Enterprise Corporation; Corporate Consultant
E.H. Harrison Wellington, Florida, U.S.A.	Chief Executive Officer	Chief Executive Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; President and Chief Executive Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chairman of the Board, Dynegy Inc.; Interim President and Chief Executive Officer, Dynegy Inc.; President and Chief Executive Officer, Canadian National Railway Company
K.E. Creel Chicago, Illinois, U.S.A.	President and Chief Operating Officer	President and Chief Operating Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Executive Vice-President and Chief Operating Officer, Canadian National Railway Company; Executive Vice-President, Operations, Canadian National Railway Company
J.A. O'Hagan Calgary, Alberta, Canada	Executive Vice-President and Chief Marketing Officer	Executive Vice-President and Chief Marketing Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Senior Vice-President, Marketing and Sales and Chief Marketing Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Senior Vice-President, Strategy and Yield, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President, Strategy and External Affairs, Canadian Pacific Railway Company
B.W. Grassby Calgary, Alberta, Canada	Senior Vice-President, Chief Financial Officer and Treasurer	Senior Vice-President, Chief Financial Officer and Treasurer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Senior Vice-President Finance and Comptroller, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President and Comptroller, Canadian Pacific Railway Company and Canadian Pacific Railway Limited

Table of Contents

SECTION 8: DIRECTORS AND OFFICERS

Name and municipality of residence	Position held	Principal occupation within the preceding five years
P.J. Edwards Calgary, Alberta, Canada	Vice-President, Human Resources and Industrial Relations	Vice-President Human Resources and Industrial Relations, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President Human Resources, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President Human Resources, Canadian National Railway Company
P.A. Guthrie, Q.C. Municipal District of Rockyview, Alberta, Canada	Chief Legal Officer and Corporate Secretary	Chief Legal Officer and Corporate Secretary, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President, Law and Risk Management, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President Law, Canadian Pacific Railway Company and Canadian Pacific Railway Limited
M. Wallace Calgary, Alberta, Canada	Vice-President, Corporate Affairs and Chief of Staff	Vice-President, Corporate Affairs and Chief of Staff, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chief of Staff – Office of the President and CEO, Canadian Pacific Railway Company; Client Partner, Longview Communications Inc.; Head of Investor Relations, Husky Injection Molding Systems Inc.; Assistant Vice-President Public Affairs, Canadian National Railway Company
M. Redeker St. Albert, Alberta, Canada	Vice-President and Chief Information Officer	Vice-President and Chief Information Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chief Information Officer, ATB Financial; Chief Technology Officer, ATB Financial
J.D. Kampsen Calgary, Alberta, Canada	Vice-President and Comptroller	Vice-President and Comptroller, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Director of Finance, FedEx Corporation

Table of Contents

SECTION 8: DIRECTORS AND OFFICERS

8.4 Shareholdings of Directors and Officers

As at December 31, 2012, the directors and executive officers of CPRL owned or controlled a total of 24,378,372 shares representing approximately 14.02% of the outstanding shares at that date (173,939,795). Mr. Ackman exercises control over the voting and disposition of 24,159,888 of such shares which are beneficially owned by Pershing Square Capital Management, L.P. and its affiliates.

Table of Contents

SECTION 9: LEGAL PROCEEDINGS

We are involved in various claims and litigation arising in the normal course of business. There are no significant legal proceedings currently in progress.

Table of Contents

SECTION 10: TRANSFER AGENTS AND REGISTRARS

10.1 Transfer Agent

Computershare Investor Services Inc., with transfer facilities in Montreal, Toronto, Calgary and Vancouver, serves as transfer agent and registrar for CP's Common Shares in Canada.

Computershare Trust Company NA, Denver, Colorado, serves as co-transfer agent and co-registrar for CP's Common Shares in the U.S.

Requests for information should be directed to:

Computershare Investor Services Inc.
100 University Avenue, 9th Floor
Toronto, Ontario Canada
M5J 2Y1

Table of Contents

SECTION 11: INTERESTS OF EXPERTS

Deloitte LLP, Independent Registered Chartered Accountants, Calgary, Alberta, was appointed as the Company's external auditor on May 12, 2011 and have issued their audit opinion dated March 12, 2013, in respect of the Company's consolidated financial statements as of and for the years ended December 31, 2012 and 2011. Deloitte LLP is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta and is independent within the meaning of the rules of the Securities Act of 1933, as amended, and the applicable rules and regulations adopted by the U.S. Securities and Exchange Commission and the Public Company Accounting Oversight Board (United States).

The Company's former independent auditors were PricewaterhouseCoopers LLP, Chartered Accountants. PricewaterhouseCoopers LLP has issued an independent auditor's report dated February 24, 2011 on the consolidated balance sheet of the Company as at December 31, 2010 and the consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for the year ended December 31, 2010. PricewaterhouseCoopers LLP has advised that they were independent with respect to CP within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta and within the meaning of Public Company Accounting Oversight Board Rule 3520, Auditor Independence.

Table of Contents

SECTION 12: AUDIT COMMITTEE

12.1 Composition of the Audit Committee and Relevant Education and Experience

The following individuals comprise the entire membership of the Audit Committee ("the Committee").

G.F. Colter – Mr. Colter is the President of CRS Inc., a corporate restructuring, strategic and management consulting company, which he founded in 2002. Previously, Mr. Colter spent 34 years with KPMG Canada and its predecessor firm Peat Marwick, where he was a Partner for 27 years, holding various senior positions, including Vice Chairman of Financial Advisory Services and member of the Management Committee from 1989 to 1998. From 1998 to 2000, Mr. Colter was Global Managing Partner of Financial Advisory Services and a member of a then new International Executive Team for KPMG International. In 2002, he retired as Vice Chairman of KPMG Canada. Since 2002, Mr. Colter has been a director of Owens-Illinois Inc., the largest manufacturer of glass bottles in the world. In 2003, he joined the board of Canadian Imperial Bank of Commerce, a chartered Canadian bank and financial services institution. In 2004, he joined the board of Core-Mark Holding Company, Inc., a leading North American distributor of fresh and broad-line supply solutions to the convenience retail industry. In 2005, he joined the board of Retirement Residences REIT, a company that provides accommodation, care and services for seniors. In 2007, the company was purchased by Public Service Pension Investment Board and changed its name to Revera Inc. Mr. Colter has a B.A. (Honours) in Business Administration from the Ivey Business School of the University of Western Ontario, and is a Fellow Chartered Accountant.

R.C. Kelly – Mr. Kelly is the Retired Chairman and Chief Executive Officer of Xcel Energy Inc., a utility supplier of electric power and natural gas service in eight Western and Midwestern States. He held that position from September 2009 until retirement in September 2011. From December 2005 to September 2009 he was Chairman of the Board, President and Chief Executive Officer; from June to mid-December 2005 he served as President and Chief Executive Officer; and previous to that he served as Chief Financial Officer. Mr. Kelly is Chairman of the Board of Trustees, Regis University. Mr. Kelly earned both an M.B.A. and a bachelor's degree in accounting from Regis University.

The Hon. J.P. Manley – Mr. Manley is President and Chief Executive Officer of the Canadian Council of Chief Executives. He has held that position since January 2010. From May 2004 to December 2009 he was counsel at the law firm of McCarthy Tétrault LLP. He is a director of Canadian Imperial Bank of Commerce, CAE Inc. and TELUS Corporation. In addition, Mr. Manley serves on the Boards of MaRS Discovery District, National Arts Center Foundation, CARE Canada, The Conference Board of Canada and the Institute for Research on Public Policy. Mr. Manley was previously the Member of Parliament for Ottawa South from November 1988 to June 2004. As a Member of Parliament, Mr. Manley also held various positions in the Canadian Federal Government, including Deputy Prime Minister of Canada from January 2002 to December 2003, Minister of Finance from June 2002 to December 2003, Minister of Foreign Affairs from October 2000 to January 2002 and Minister of Industry prior thereto. He graduated from Carleton University with a B.A. and from the University of Ottawa with a J.D. He was granted the designation C.Dir (Chartered Director) by McMaster University in 2006.

L.J. Morgan – Ms. Morgan is a Partner at Nossaman LLP, a premier transportation infrastructure law firm based in the United States, where she plays a key role in the firm's transportation and public policy practices. Prior to joining Nossaman in September of 2011, she was a Partner at Covington & Burling LLP, a United States based international law firm, where she chaired its transportation and government affairs practices. She also serves on the Board of Visitors for the Georgetown University Law Centre and the Business Advisory Committee for Northwestern University's Transportation Centre. Ms. Morgan was previously Chairman of the United States Surface Transportation Board, and its predecessor the Interstate Commerce Commission, from March 1995 to December 2002. Prior to joining the Interstate Commerce Commission, Ms. Morgan served as General Counsel to the Senate Committee on Commerce, Science and Transportation. Ms. Morgan has been granted the honour of Recognition in Chambers – USA, Best Lawyers in America, and SuperLawyers for outstanding legal counsel in the transportation sector. She graduated from Vassar College with an A.B. and the Georgetown University Law Centre with a J.D., and is an alumna of the Program for Senior Managers in Government at Harvard University's John F. Kennedy School of Government.

H.T. Richardson – Mr. Richardson is President and Chief Executive Officer of James Richardson & Sons, Limited, a privately owned corporation involved in the international grain trade, real estate, oil and gas development, financial services, and private equity investments. He has held that position since April 1993. Mr. Richardson is a director of GMP Capital Inc. and Zalicus Inc. He is Chairman of the Canadian Council of Chief Executives; Past Chairman of the Business Council of Manitoba; Co-Chairman of TransCanada Trail Foundation; and Chairman of the Board of Governors for The Duke of Edinburgh's Award Charter for Business. Mr. Richardson's other affiliations include: The World Economic Forum, Global Leaders of Tomorrow, and the Young President's Organization. He is involved in a number of charitable endeavours and community organizations. He graduated from the University of Manitoba in

Table of Contents

Winnipeg with a B.Com. (Hons.). The University of Manitoba conferred upon Mr. Richardson the honorary degree of Doctor of Laws in 2004. He was appointed to the Order of Canada in 2007 and to the Order of Manitoba in 2008.

Each of the aforementioned committee members has been determined by the board to be independent and financially literate within the meaning of National Instrument 52-110.

12.2 Pre-Approval of Policies and Procedures

The Committee has adopted a written policy governing the pre-approval of audit and non-audit services to be provided to CP by our independent auditors. The policy is reviewed annually and the audit and non-audit services to be provided by our independent auditors, as well as the budgeted amounts for such services, are pre-approved at that time, including by the Board of Directors of the Company in respect of fees for audit services. Our Vice-President and Comptroller must submit to the Committee at least quarterly a report of all services performed or to be performed by our independent auditors pursuant to the policy. Any additional non-audit services to be provided by our independent auditors either not included among the pre-approved services or exceeding the budgeted amount for such pre-approved services by more than 10% must be individually pre-approved by the Committee or its Chairman, who must report all such additional pre-approvals to the Committee at its next meeting following the granting thereof. Our independent auditors' annual audit services engagement terms are subject to the specific pre-approval of the Committee, with the associated fees being subject to approval by the Board of Directors of the Company. In addition, prior to the granting of any pre-approval, the Committee or its Chairman, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of our independent auditors. Our Chief Internal Auditor monitors compliance with this policy.

12.3 Audit Committee Charter

The term "Corporation" herein shall refer to each of Canadian Pacific Railway Limited ("CPRL") and Canadian Pacific Railway Company ("CPRC"), and the terms "Board," "Directors", "Board of Directors" and "Committee" shall refer to the Board, Directors, Board of Directors, or Committee of CPRL or CPRC, as applicable.

A. Committee and Procedures

1. Purpose

The purposes of the Audit Committee (the "Committee") of the Board of Directors of the Corporation are to fulfill applicable public company audit committee legal obligations and to assist the Board of Directors in fulfilling its oversight responsibilities in relation to the disclosure of financial statements and information derived from financial statements, including:

- the review of the annual and interim financial statements of the Corporation;
- the integrity and quality of the Corporation's financial reporting and systems of internal control;
- the Corporation's compliance with applicable legal and regulatory requirements;
- the qualifications, independence, engagement, compensation and performance of the Corporation's external auditors; and
- the performance of the Corporation's internal audit function;

and to prepare, if required, an audit committee report for inclusion in the Corporation's annual management proxy circular, in accordance with applicable rules and regulations. In addition, the Committee will assist the Board with the identification of the principal risks of the Corporation's business and ensure the implementation of appropriate risk assessment and risk management policies and processes to manage these risks.

The Corporation's external auditors shall report directly to the Committee.

2. Composition of Committee

Table of Contents

The members of the Committee of each of CPRL and CPRC shall be identical and shall be Directors of CPRL and CPRC, respectively. The Committee shall consist of not less than three and not more than the number of Directors who are not officers or employees of the Corporation, none of whom is either an officer or employee of the Corporation or any of its subsidiaries. Members of the Committee shall meet applicable requirements and guidelines for audit committee service, including requirements and guidelines with respect to being independent and unrelated to the Corporation and to having accounting or related financial management expertise and financial literacy, as set forth in applicable securities laws or the rules of any stock exchange on which the Corporation's securities are listed for trading. No Director shall be eligible to serve on the Committee if such Director currently serves on the audit committees of three public companies other than the Corporation, unless the Board of Directors has determined that such simultaneous service would not impair the ability of such member to effectively serve on the Committee. Determinations as to whether a particular Director satisfies the requirements for membership on the Committee shall be affirmatively made by the full Board.

3. Appointment of Committee Members

Members of the Committee shall be appointed from time to time by the Board and shall hold office at the pleasure of the Board.

4. Vacancies

Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board. The Board shall fill a vacancy whenever necessary to maintain a Committee membership of at least three Directors.

5. Committee Chair

The Board shall appoint a Chair for the Committee.

6. Absence of Committee Chair

If the Chair of the Committee is not present at any meeting of the Committee, one of the other members of the Committee who is present at the meeting shall be chosen by the Committee to preside at the meeting.

7. Secretary of Committee

The Committee shall appoint a Secretary who need not be a Director of the Corporation.

8. Meetings

The Committee shall meet at regularly scheduled meetings at least once every quarter and shall meet at such other times during each year as it deems appropriate, without management being present when the Committee deems appropriate. In addition, the Chair of the Committee or the Chairman of the Board or any two of its other members may call a meeting of the Committee at any time.

9. Quorum

Three members of the Committee shall constitute a quorum.

10. Notice of Meetings

Notice of the time and place of every meeting shall be given in writing by any means of transmitted or recorded communication, including facsimile, telex, telegram or other electronic means that produces a written copy, to each member of the Committee at least 24 hours prior to the time fixed for such meeting; provided however, that a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting constitutes a waiver of notice of the meeting,

Table of Contents

except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

11. Attendance of Others at Meetings

At the invitation of the Chair of the Committee, other individuals who are not members of the Committee may attend any meeting of the Committee.

12. Procedure, Records and Reporting

Subject to any statute or the articles and by-laws of the Corporation, the Committee shall fix its own procedures at meetings, keep records of its proceedings and report to the Board when the Committee may deem appropriate (but not later than the next regularly scheduled meeting of the Board).

13. Delegation

The Committee may delegate from time to time to any person or committee of persons any of the Committee's responsibilities that may be lawfully delegated.

14. Report to Shareholders

The Committee shall prepare a report to shareholders or others, concerning the Committee's activities in the discharge of its responsibilities, when and as required by applicable laws or regulations.

15. Guidelines to Exercise of Responsibilities

The Board recognizes that meeting the responsibilities of the Committee in a dynamic business environment requires a degree of flexibility. Accordingly, the procedures outlined in these Terms of Reference are meant to serve as guidelines rather than inflexible rules, and the Committee may adopt such different or additional procedures as it deems necessary from time to time.

16. Use of Outside Legal, Accounting or Other Advisers; Appropriate Funding

The Committee may retain, at its discretion, outside legal, accounting or other advisors, at the expense of the Corporation, to obtain advice and assistance in respect of any matters relating to its duties, responsibilities and powers as provided for or imposed by these Terms of Reference or otherwise by law.

The Committee shall be provided by the Corporation with appropriate funding, as determined by the Committee, for payment of:

(i) compensation of any outside advisers as contemplated by the immediately preceding paragraph;

(ii) compensation of any independent auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation; or

(iii) ordinary administrative expenses that are necessary or appropriate in carrying out the Committee's duties.

All outside legal, accounting or other advisors retained to assist the Committee shall be accountable ultimately to the Committee.

17. Remuneration of Committee Members

No member of the Committee shall receive from the Corporation or any of its affiliates any compensation other than the fees to which he or she is entitled as a Director of the Corporation or a

Table of Contents

member of a committee of the Board. Such fees may be paid in cash and/or shares, options or other in-kind consideration ordinarily available to Directors.

B. Mandate of Committee

1. Committee Role:

The Committee's role is one of oversight. Management is responsible for preparing the interim and annual financial statements of the Corporation and for maintaining a system of risk assessment and internal controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly, for maintaining disclosure controls and procedures to ensure that it is informed on a timely basis of material developments and the Corporation complies with its public disclosure obligations, and for ensuring compliance by the Corporation with applicable legal and regulatory requirements. The external auditors are responsible for auditing the Corporation's financial statements.

In carrying out its oversight responsibilities: (i) each member of the Committee is entitled to, absent knowledge to the contrary, rely upon the accuracy and completeness of the Corporation's records and upon information, opinions, reports or statements presented by any of the Corporation's officers or employees, or consultants of the Corporation which the member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation; and (ii) the Committee and its members do not provide any professional certification or special assurance as to the Corporation's financial statements or the external auditors' work.

The Committee shall:

External Auditors' Report on Annual Audit

a) obtain and review annually prior to the completion of the external auditors' annual audit of the year-end financial statements a report from the external auditors describing:

   (i) all critical accounting policies and practices to be used;

   (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors; and

   (iii) other material written communications between the external auditors and management, such as any management letter or schedule of unadjusted differences;

Management's/Internal Auditors' Reports on External Audit Issues

b) review any reports on the above or similar topics prepared by management or the internal auditors and discuss with the external auditors any material issues raised in such reports;

Annual Financial Reporting Documents and External Auditors' Report

c) meet to review with management, the internal auditors and the external auditors the Corporation's annual financial statements, the report of the external auditors thereon, the related Management's Discussion and Analysis, and the information derived from the financial statements, as contained in the Annual Information Form and the Annual Report. Such review will include obtaining assurance from the external auditors that the audit was conducted in a manner consistent with applicable law and will include a review of:

Table of Contents

SECTION 12: AUDIT COMMITTEE

(i) all major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting policies or principles;

(ii) all significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including the effects on the financial statements of alternative methods within generally accepted accounting principles;

(iii) the effect of regulatory and accounting issues, as well as off-balance sheet structures, on the financial statements;

(iv) all major issues as to the adequacy and effectiveness of the Corporation's internal controls and any special steps adopted in light of material control deficiencies and any consideration by the external auditors of fraud during the performance of the audit of the Corporation's annual financial statements; and

(v) the external auditors' judgment about the appropriateness and quality, not just the acceptability, of the accounting principles applied in the Corporation's financial reporting;

d) following such review with management and the external auditors, recommend to the Board whether to approve the audited annual financial statements of the Corporation and the related Management's Discussion and Analysis, and report to the Board on the review by the Committee of the information derived from the financial statements contained in the Annual Information Form and Annual Report;

Interim Financial Statements and MD&A

e) review with management, the internal auditors and the external auditors the Corporation's interim financial statements and its interim Management's Discussion and Analysis, and if thought fit, approve the interim financial statements and interim Management's Discussion and Analysis and the public release thereof by management;

Earnings Releases, Earnings Guidance

f) review and discuss earnings press releases, including the use of "pro forma" or "adjusted" information determined other than in accordance with generally accepted accounting principles, and the disclosure by the Corporation of earnings guidance and other financial information to the public including analysts and rating agencies, it being understood that such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and that the Committee need not discuss in advance each earnings release or each instance in which the Corporation discloses earnings guidance or other financial information; and be satisfied that adequate procedures are in place for the review of such public disclosures and periodically assess the adequacy of those procedures;

Material Litigation, Tax Assessments, Etc.

g) review with management, the external auditors and, if necessary, legal counsel all legal and regulatory matters and litigation, claims or contingencies, including tax assessments, that could have a material effect upon the financial position of the Corporation, and the manner in which these matters may be, or have been, disclosed in the financial statements; and obtain reports from management and review with the Corporation's chief legal officer, or appropriate delegates, the Corporation's compliance with applicable legal and regulatory requirements;

Oversight of External Auditors

Table of Contents

SECTION 12: AUDIT COMMITTEE

h) subject to applicable law relating to the appointment and removal of the external auditors, be directly responsible for the appointment, retention, termination and oversight of the external auditors; recommend to the Board the approval of compensation of the external auditors as such compensation relates to the provision of audit services; and be responsible for the resolution of disagreements between management and the external auditors regarding financial reporting;

Rotation of External Auditors' Audit Partners

i) review and evaluate the lead audit partner of the external auditors and assure the regular rotation of the lead audit partner and the audit partner responsible for reviewing the audit and other audit partners, as required by applicable law;

External Auditors' Internal Quality Control

j) obtain and review, at least annually, and discuss with the external auditors a report by the external auditors describing the external auditors' internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues;

External Auditors' Independence

k) review and discuss, at least annually (and prior to the engagement of any new external auditors), with the external auditors all relationships that the external auditors and their affiliates have with the Corporation and its affiliates in order to assess the external auditors' independence, including, without limitation:

   (i) obtaining and reviewing, at least annually, a formal written statement from the external auditors delineating all relationships that in the external auditors' professional judgment may reasonably be thought to bear on the independence of the external auditors with respect to the Corporation;

   (ii) discussing with the external auditors any disclosed relationships or services that may affect the objectivity and independence of the external auditors; and

   (iii) recommending that the Board take appropriate action in response to the external auditors' report to satisfy itself as to the external auditors' independence;

Policies Regarding Hiring of External Auditors' Employees, Former Employees

l) set clear policies for the hiring by the Corporation of partners, employees and former partners and employees of the external auditors;

Pre-Approval of Audit and Non-Audit Services Provided by External Auditors

m) be solely responsible for the pre-approval of all audit and non-audit services to be provided to the Corporation and its subsidiary entities by the external auditors (subject to any prohibitions provided in applicable law), and of the fees paid for the non-audit services; provided however, that the Committee may delegate, to an independent member or members of the Committee, authority to pre-approve such non-audit services, and such member(s) shall report to the Committee at its next scheduled meeting following the granting any pre-approvals granted pursuant to such delegated authority;

n) review the external auditors' annual audit plan (including scope, staffing, location, reliance on management and internal controls and audit approach);

o) review the external auditors' engagement letter;

Table of Contents

SECTION 12: AUDIT COMMITTEE

Oversight of Internal Audit

p) oversee the internal audit function by being directly responsible for the appointment or dismissal of the Chief Internal Auditor, who shall report directly to the Committee and administratively to the President and Chief Executive Officer; afford the Chief Internal Auditor unrestricted access to the Committee; review the charter, activities, internal audit plan, organizational structure, and the skills and experience of the Internal Audit Department; discuss with management and the external auditors the competence, performance, resources, and cooperation of the internal auditors; and approve, after discussion with management and proper performance evaluation, the compensation of the Chief Internal Auditor;

q) review and consider, as appropriate, any significant reports and recommendations issued by the Corporation or by any external party relating to internal audit issues, together with management's response thereto;

Internal Controls and Financial Reporting Processes

r) review with management, the internal auditors and the external auditors, the Corporation's financial reporting processes and its internal controls;

s) review with the internal auditors the adequacy of internal controls and procedures related to any corporate transactions in which Directors or officers of the Corporation have a personal interest, including the expense accounts of officers of the Corporation at the level of Vice-President and above and officers' use of corporate assets, and consider the results of any reviews thereof by the internal or external auditors;

Complaints Processes

t) establish procedures for:

  (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and

  (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;

  and review periodically with management and the internal auditors these procedures and any significant complaints received;

Separate Meetings with External Auditors, Internal Audit, Management

u) meet separately with management, the external auditors and the internal auditors periodically to discuss matters of mutual interest, including any audit problems or difficulties and management's response thereto, the responsibilities, budget and staffing of the Internal Audit Department and any matter that they recommend bringing to the attention of the full Board;

Enterprise Risk Management

v) discuss risk assessment and risk management policies and processes to be implemented for the Corporation, review with management and the Corporation's internal auditors the effectiveness and efficiency of such policies and processes and their compliance with other relevant policies of the Corporation, and make recommendations to the Board with respect to any outcomes, findings and issues arising in connection therewith;

w) review management's program to obtain appropriate insurance to mitigate risks;

x) oversee risks that may have a material impact on the Corporation's financial statements;

Table of Contents

Tax

y) review the Corporation's tax status and monitor its approach to tax strategy that may have a material impact on the Corporation's financial statements, including tax reserves and potential reassessments and audits;

Codes of Ethics

z) monitor compliance with the Corporation's code of business ethics and the code of ethics applicable to the Chief Executive Officer and senior financial officers of the Corporation, as well as waivers from compliance therefrom, and ensure that any issues relating to financial governance which are identified by the Directors are raised with management;

Review of Terms of Reference

aa) review and reassess the adequacy of these Terms of Reference annually or otherwise as it deems appropriate and recommend changes to the Board;

Other

bb) perform such other activities, consistent with these Terms of Reference, the Corporation's articles and by-laws and governing law, as the Committee or the Board deems appropriate; and

cc) report regularly to the Board of Directors on the activities of the Committee.

September 26, 2012

Table of Contents

SECTION 12: AUDIT COMMITTEE

12.4 Audit and Non-Audit Fees and Services

Deloitte LLP ("Deloitte") was appointed as the independent auditor of the Company in May 2011 for fiscal year 2011. Prior to May 2011, and for fiscal years prior to 2011, PricewaterhouseCoopers LLP ("PWC) was the independent public auditor of the Company.

In accordance with applicable laws and the requirements of stock exchanges and securities regulatory authorities, the audit committee of the Company must pre-approve all audit and non-audit services to be provided by the independent auditors.

Fees payable for the years ended December 31, 2012 and December 31, 2011, totaled $2,166,100 and $2,525,500, respectively, as detailed in the following table:

For the year ended December 31	**Total[(1)] 2012**	Deloitte[(2)] 2011	PWC[(3)] 2011	Total 2011
Audit Fees	**$2,090,300**	$1,806,300	$ 56,200	$1,862,500
Audit-Related Fees	**27,500**	57,300	100,500	157,800
Tax Fees	**48,300**	50,000	155,200	205,200
All Other Fees	—	300,000	—	300,000
TOTAL	**$2,166,100**	$2,213,600	$311,900	$2,525,500

(1) Includes fees paid to Deloitte for the fiscal year ended December 31, 2012.
(2) Includes fees paid to Deloitte for the fiscal year ended December 31, 2011 beginning after the appointment of Deloitte as principal auditor in May 2011.
(3) Includes fees paid to PWC for the fiscal year ended December 31, 2011 up to the appointment of Deloitte as principal auditor in May 2011.

The nature of the services provided under each of the categories indicated in the table is described below:

12.4.1 Audit Fees

Audit fees were for professional services rendered for the audit or review of CP's financial statements and services provided in connection with statutory and regulatory filings or engagements, including the attestation engagement for the independent auditors' report on the effectiveness of internal controls over financial reporting, the audit or review of financial statements of certain subsidiaries and of various pension and benefit plans of CP; special attestation services as may be required by various government entities; access fees for technical accounting database resources; and general advice and assistance related to accounting and/or disclosure matters with respect to new and proposed U.S. and Canadian accounting standards, securities regulations, and/or laws.

12.4.2 Audit-Related Fees

Audit-related fees were for attestation and related services reasonably related to the performance of the audit or review of the annual financial statements, but which are not reported under "Audit Fees" above. These services consisted of audit work related to securities filings.

12.4.3 Tax Fees

Tax fees were for professional services related to tax compliance, tax planning and tax advice. These services consisted of: tax compliance including the review of tax returns; assistance with questions regarding corporate tax audits; tax planning and advisory services relating to common forms of domestic and international taxation (i.e. income tax, capital tax, goods and services tax, and value added tax); and access fees for taxation database resources.

12.4.4 All Other Fees

Fees disclosed under this category would be for products and services other than those described under "Audit Fees", "Audit-Related Fees" and "Tax Fees" above. These services consisted of services in connection with our business interruption and property damage claim.

Table of Contents

SECTION 13: FORWARD-LOOKING INFORMATION

This AIF contains certain forward-looking statements within the meaning of the *Private Securities Litigation Reform Act of 1995* (U.S.) and other relevant securities legislation relating, but not limited to expected improvements in operating efficiency and fluidity, the ability of information technology initiatives to improve service and operations, the benefits of lean process and continuous improvement principles, the cost of environmental remediation, and anticipated capital expenditures. Forward-looking information typically contains statements with words such as “anticipate”, “believe”, “expect”, “plan” or similar words suggesting future outcomes.

Readers are cautioned to not place undue reliance on forward-looking information because it is possible that actual results will be different from our forward-looking information. In addition, except as required by law, we undertake no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information in this document involves numerous assumptions, inherent risks and uncertainties, including but not limited to the following factors: the ability to implement cost-cutting and efficiency initiatives, the effectiveness of new information technology and estimates of future costs. There are more specific factors that could cause actual results to differ materially from those described in this AIF. These more specific factors and related assumption are identified and discussed in Section 3, Forward-Looking Information and Section 21, Business Risks in our MD&A, which sections are incorporated by reference herein.

Table of Contents

SECTION 14: ADDITIONAL INFORMATION

14.1 Additional Company Information

Additional information about CP is available on SEDAR (System for Electronic Document Analysis and Retrieval) at www.sedar.com in Canada, and on the U.S. Securities and Exchange Commission's website (EDGAR) at www.sec.gov. The aforementioned information is issued and made available in accordance with legal requirements and is not incorporated by reference into this AIF except as specifically stated.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, where applicable, is contained in the information circular for our most recent annual meeting of shareholders at which directors were elected.

Additional financial information is provided in our Consolidated Financial Statements and MD&A for the most recently completed financial year.

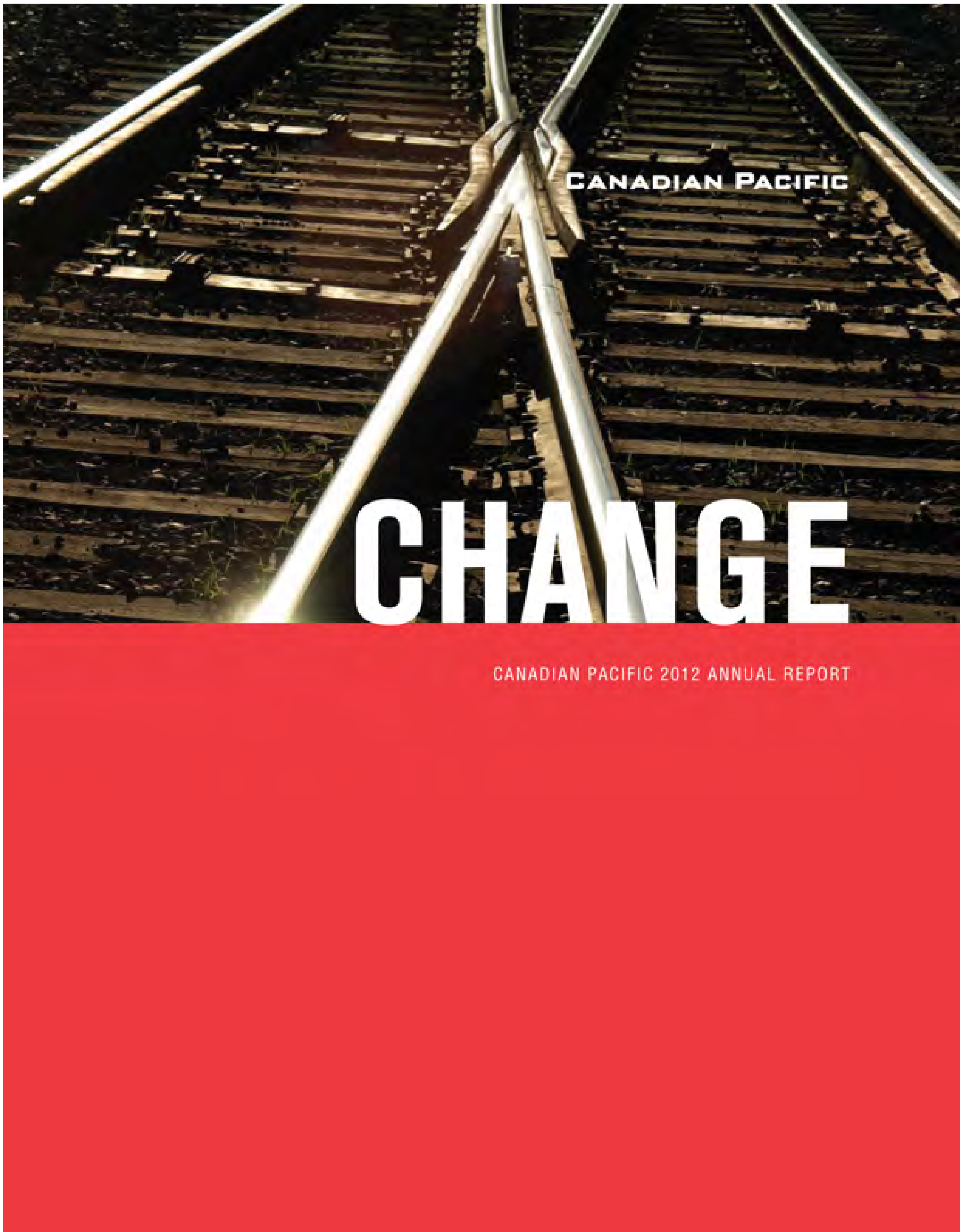
This information is also available on our website at www.cpr.ca.

Table of Contents

CANADIAN PACIFIC

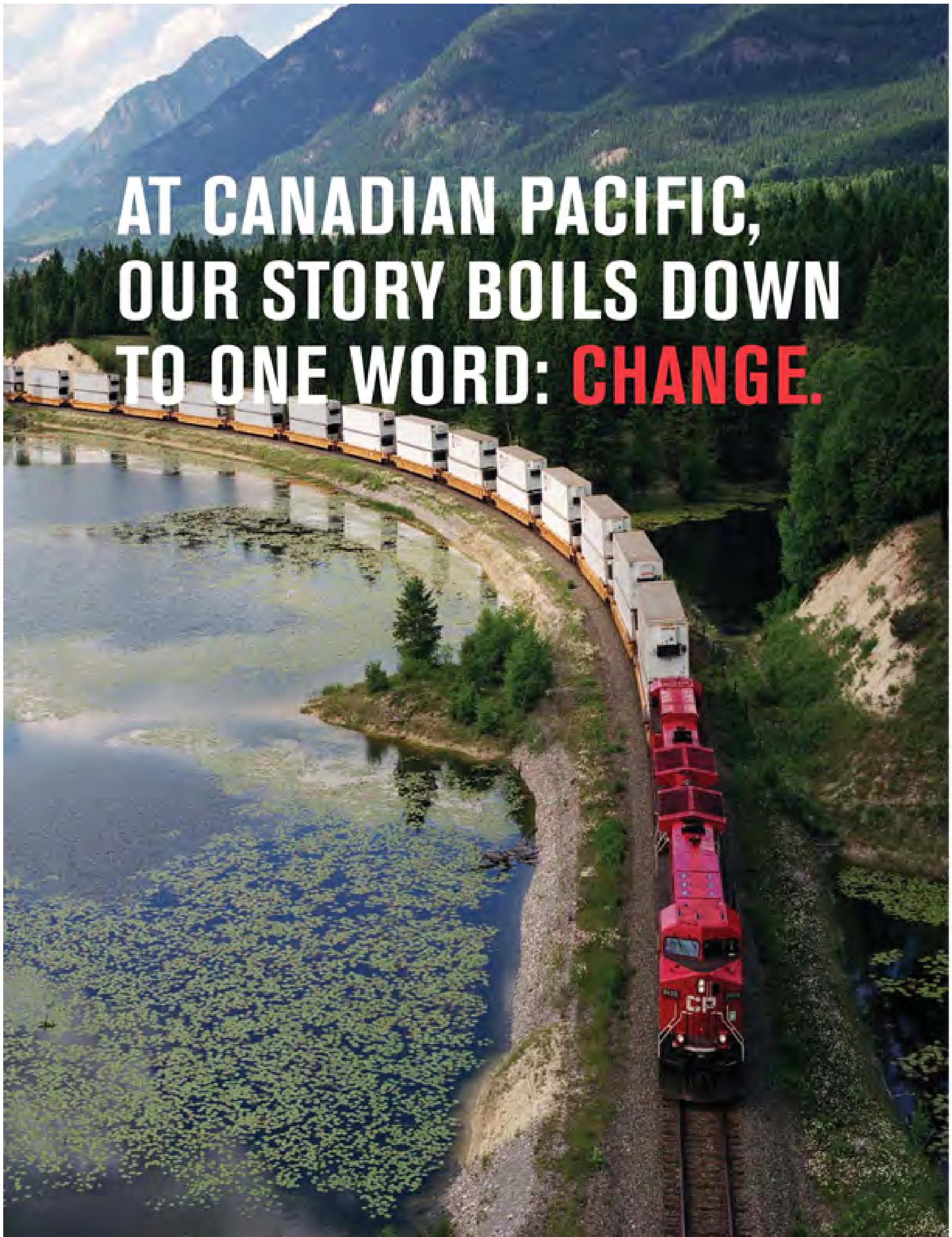
Canadian Pacific
Gulf Canada Square
Suite 500
401 – 9th Avenue SW
Calgary AB T2P 4Z4
Canada

Table of Contents



CANADIAN PACIFIC
CANADIAN PACIFIC 2012 ANNUAL REPORT

Table of Contents



AT CANADIAN PACIFIC, OUR STORY BOILS DOWN TO ONE WORD: CHANGE.

Table of Contents

Deep, fundamental, rapid change. Positive change.

We're changing how we look at things. We're changing how we do things. Most important, we now see change as an ongoing process. Change as something that drives continuous improvement. Change as something that creates opportunity.

We're already making progress, driving change where our customers and shareholders want to see it most:

In our service and our results.

Deep, fundamental, rapid change. Positive change.
We're changing how we look at things. We're changing how we do things. Most important, we now see change as an ongoing process. Change as something that drives continuous improvement.
Change as something that creates opportunity.
We're already making progress, driving change where our customers and shareholders want to see it most:
In our service and our results.

Table of Contents

FINANCIAL HIGHLIGHTS

Financial summary

$ in millions, except per share data, or unless otherwise indicated	2012	2011	2010
Financial results			
Revenues	**$ 5,695**	$ 5,177	$ 4,981
Operating income, excluding significant items (1)(2)	**1,309**	967	1,116
Operating income	**949**	967	1,116
Income, excluding significant items (1)(2)	**753**	538	651
Net income	**484**	570	651
Diluted earnings per share, excluding significant items (1)(2)	**4.34**	3.15	3.85
Diluted earnings per share	**2.79**	3.34	3.85
Dividend declared per share	**1.3500**	1.1700	1.0575
Additions to properties	**1,148**	1,104	726
Financial position			
Total assets	**14,727**	14,110	13,676
Long-term debt, including current portion	**4,690**	4,745	4,315
Shareholders' equity	**5,097**	4,649	4,824
Financial ratios (%)			
Operating ratio	**83.3**	81.3	77.6
Operating ratio, excluding significant items (1)(2)	**77.0**	81.3	77.6
Debt-to-total capitalization	**47.9**	50.7	47.2

(1) These earnings measures have no standardized meanings prescribed by U.S. GAAP and, therefore, are unlikely to be comparable to similar measures of other companies. These earnings measures are described further and reconciled to the nearest comparable GAAP measure in Section 15 Non-GAAP Measures of our Management's Discussion and Analysis included within this Annual Report. Reconciliations of operating income, excluding significant items, operating ratio, excluding significant items, income, excluding significant items, diluted EPS, excluding significant items, and free cash to operating income, operating ratio, net income, diluted EPS and GAAP cash position, respectively, are provided.

(2) Significant items in 2012 were: an impairment of the Powder River Basin and another investment of $185 million ($111 million after tax), an impairment charge of certain locomotives of $80 million ($59 million after tax), a labour restructuring charge of $53 million ($39 million after tax), management transition costs of $42 million ($29 million after tax), advisory fees related to shareholder matters of $27 million ($20 million after tax) and the $11 million impact of the increase in the Ontario corporate income tax rate. Significant items in 2011 were: advisory fees related to shareholder matters of $6 million ($4 million after tax) and the $37 million income tax benefit from the resolution of certain income tax matters. There were no significant items in 2010. Significant items are discussed further in Section 15 Non-GAAP Measures of our Management's Discussion and Analysis included within this Annual Report.

Table of Contents

E. HUNTER HARRISON
Chief Executive Officer

DEAR SHAREHOLDERS: I was brought to CP to drive change. The company had a tough first half of the year with the proxy contest, but since I got here in July, I've been very pleased with the progress we've made. In fact, I have never been in a company where people were more ready and willing to change. I'm very grateful to the CP Board for this opportunity. Shareholders wanted change—well, they got the right guy.

Change is never easy. It's hard to move away from the way you've always done things, even if you see the need to change. But my sense is that here at CP, people were ready for change. This is an iconic railroad with a proud tradition. There are great people here, and they are tired of being in last place. So on day one, they were ready to go to work.

And that's what we did. In the first six months I've been CEO, we've already gotten a lot done:

- We've closed four out of five of our hump yards and are looking very closely at our network and other rail yards to reduce costs, improve velocity and open up opportunities to monetize large tracts of unneeded land.
- We have attacked bureaucracy and streamlined our organization, evaluating every function to make sure we have the right people, and the right number of people, in the right places to do the job. One example: We streamlined and reconfigured customer service to be closer to the customer.
- We are relearning how to railroad—how to manage our yards, design and run our trains and more, which already has enabled us to launch a new transcontinental intermodal service that not only is faster and more reliable, but also lowers our costs.
- We're strengthening our partnership with our unions, making fundamental changes to our agreements that will serve both CP and its union members in the long term. In the last two months of 2012, we reached five-year agreements, a record duration, with The United Steelworkers, the Canadian Pacific Police Association, the International Brotherhood of Electrical Workers and our Maintenance of Way workers—four long-term agreements in one year is an extraordinary accomplishment. We also reached an arbitrated agreement with the Teamsters representing our locomotive engineers, conductors and traffic controllers.

These are just a few examples. The key is, people are beginning to see change in a new light. It's an ongoing process, and it's not going to end. In fact it's just beginning.

Table of Contents

2012 REVENUE	ACTIVE CARS ONLINE
+10%	-20%
TERMINAL DWELL TIMES	AVERAGE TRAIN SPEED
-12%	+15%

EARLY RESULTS Our numbers are better already. Full-year 2012 revenues were up 10 per cent over 2011. We reduced our operating ratio, excluding significant items, by 430 basis points to 77.0 per cent. We generated free cash flow of $93 million. Across the network, we've increased average train velocity by 15 per cent and reduced dwell time by another 12 per cent, which enabled us to reduce our fleet by over 450 locomotives and more than 5,400 cars by year end. Mostly through attrition, we have reduced our workforce, employees and contractors by 1,800 positions since July 2012.

WE'VE SURPRISED SOME PEOPLE My first six months at CP have surprised a whole lot of people around here. Starting with me. I've been surprised at the willingness to change. I expected some push-back, which would not have been unusual, but there's been next to none. The investment community has been surprised at how quickly the results—and returns— have come. And most important, our employees have been surprised at how much they've been able to accomplish in so short a time. Many I think are amazed to see what they're capable of achieving. There's nothing that motivates more than a little success.

WORKING THE MODEL In 2013, we will keep pushing forward. Our people will continue to learn, improve and look for new opportunities to get better.

And as we make more and more progress, we'll have a better, lower-cost product to sell, which will open new opportunities for us out in the marketplace. We will pursue growth, but not for growth's sake. It will be controlled, thoughtful, *profitable* growth.

THANK YOU I'm very pleased with our progress. I am thankful to our customers for working with us to drive change, and I'm very grateful to our Board for giving me this opportunity.

And to our employees: Thank you for your hard work and faith in the plan. A big part of my role is to teach, and your eagerness to learn has been extremely gratifying. It's your energy and enthusiasm that make me so confident that we're going to reach or surpass all our goals.

I know we can do this. You're not going to want to miss this train.

Sincerely,

E. Hunter Harrison
Chief Executive Officer
Canadian Pacific

Table of Contents

PAUL G. HAGGIS
Chairman of the Board

DEAR FELLOW SHAREHOLDERS:

The first half of 2012 was an unsettled time for CP, its Board of Directors, investors, employees and customers. Proxy contests are painful and often emotional events; however, they serve to remind us of our duty to you, our shareholders. The proxy contest in the beginning of the year was no different and your message was clear. You wanted change.

I was honoured to join the Board of Directors at last year's Annual General Meeting and shortly thereafter become your new chairman.

With the proxy contest now behind us, we are moving forward under the leadership of E. Hunter Harrison, a new management team and a new Board composed of outstanding leaders. The Board is working well together, and we are very pleased with what CP has accomplished in just six months.

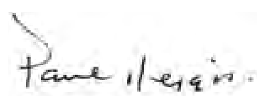
Hunter and his team have presented an ambitious turnaround plan that we believe is achievable. We have full confidence in CP's new leadership, and if 2012 performance is any indication, we expect to continue to see rapid progress in the months and years ahead.

I want to thank those who served on the previous Board with such dedication. We appreciate your service, and we are mindful of the responsibilities that come with the torch you have passed to us. We wish you the best.

I also wish to express the Board's deep sense of loss at the passing in early 2013 of longtime Director Roger Phillips, and our gratitude for Mr. Phillips' many contributions to CP success during his 11 years of service.

I am very proud to serve as chairman of such a distinguished group of directors. It is a great honour to help guide Canadian Pacific, an industry icon with a place among Canadian history's greatest companies. The Board and I are confident that CP is well on its way to achieving its ambitious goals.

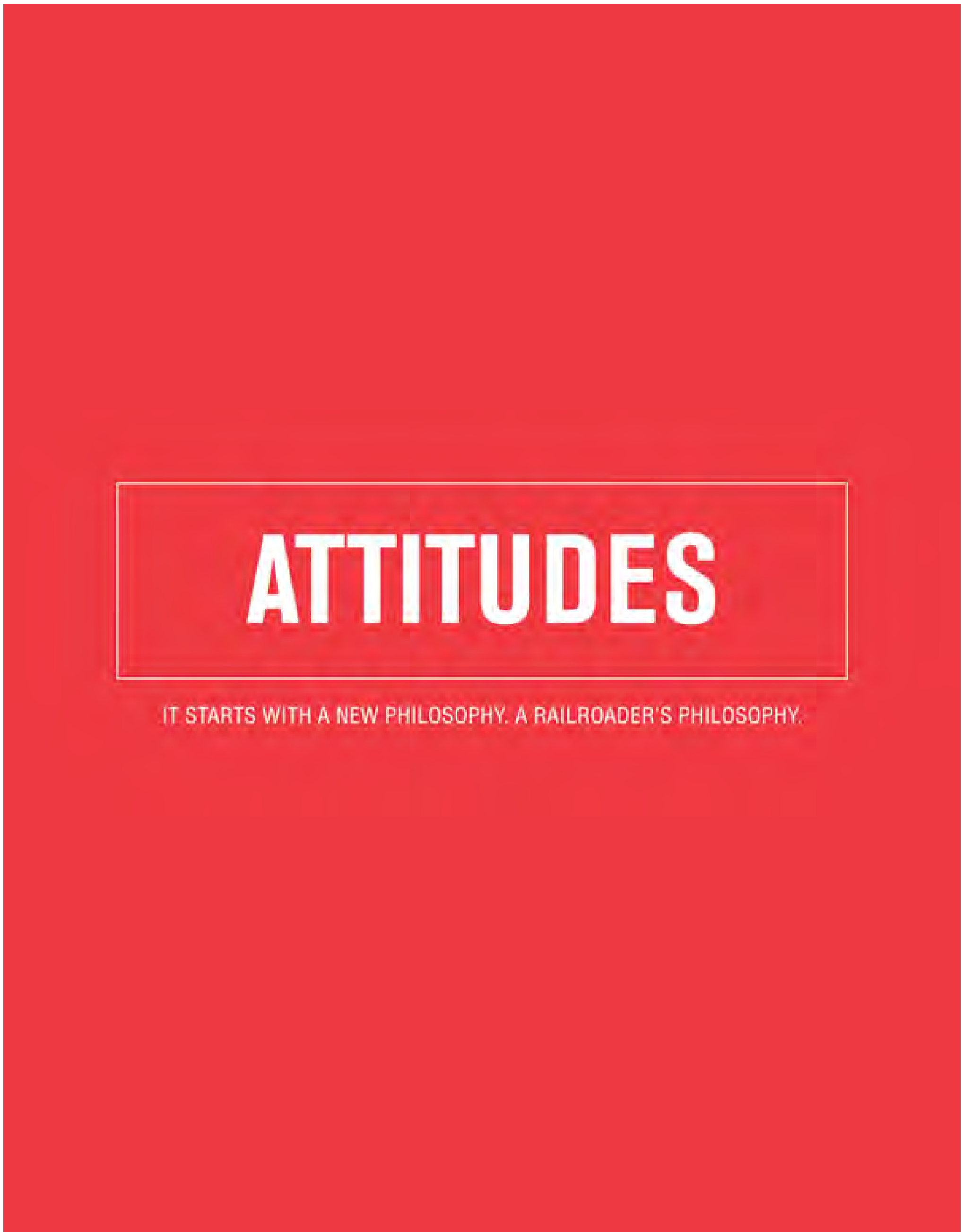
With appreciation,



Paul G. Haggis
Chairman of the Board
Canadian Pacific

Table of Contents

Table of Contents



ATTITUDES
IT STARTS WITH A NEW PHILOSOPHY. A RAILROADER'S PHILOSOPHY.

Table of Contents

CANADIAN PACIFIC

A FOUNDATION BUILT ON RAILROADING FUNDAMENTALS

CP's all-new management team is focused on railroading and operations excellence.

NEW EXECUTIVE TEAM, NEW ATTITUDE

CP has a new CEO, a new executive management team and a new direction. Our company has a new focus and philosophy, based on the view that railroading is an operating business whose success boils down to five basics: delivering good service, controlling costs, getting the most out of our assets, operating safely and developing our people.

This team was built largely from within. The majority of these executives were with CP before Hunter Harrison joined the company, one of the exceptions being Keith Creel, the new president and chief operating officer announced in early 2013. Under Harrison's leadership, these talented individuals are driving a new attitude across the company, a new culture of hard work and passion for customer service, an ethic based on doing exactly what we say we will do, in all we do.

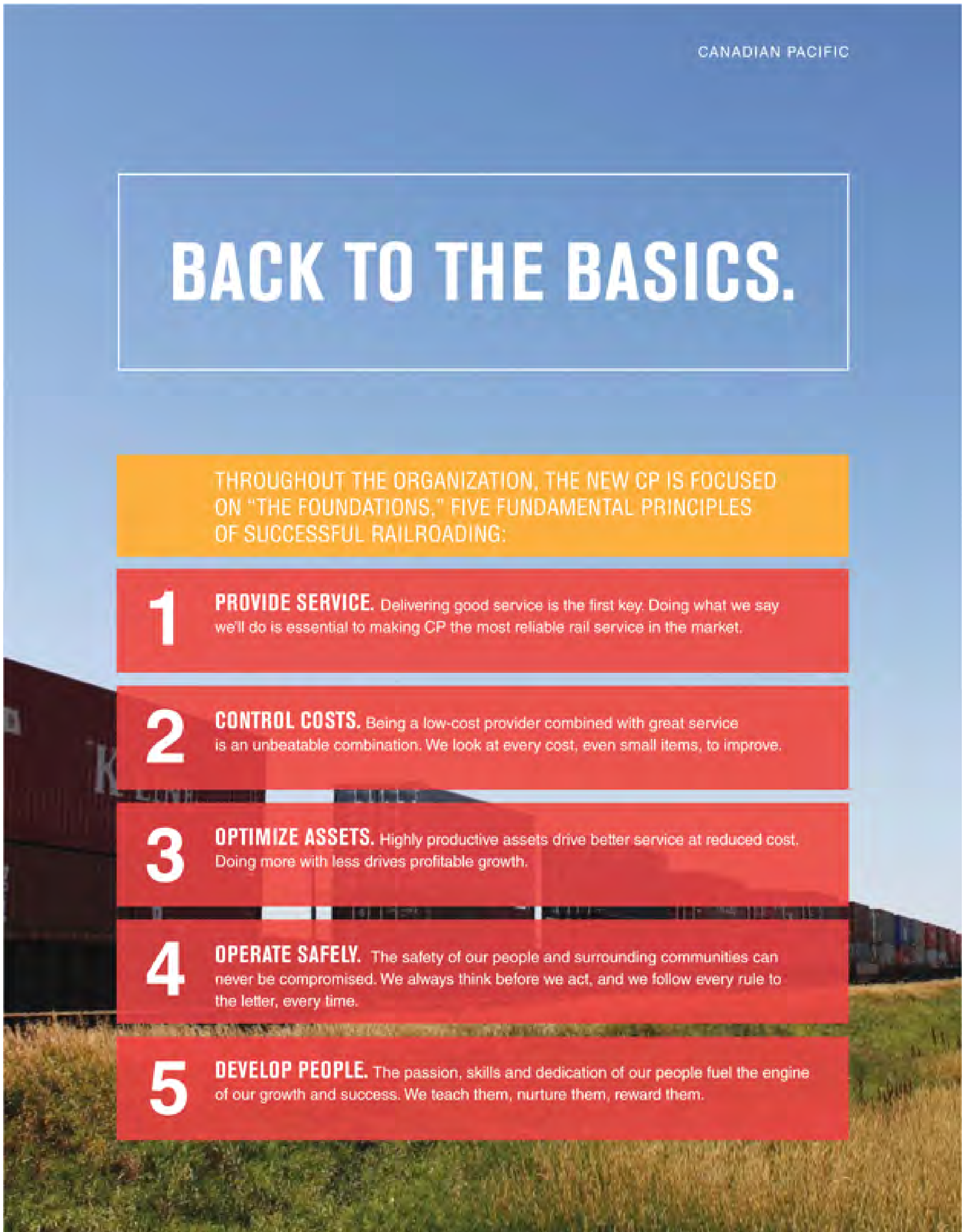
THE POWER OF ASKING, "WHY?"

CP people across the organization are being taught to question how they have always done things. Why do we do it that way? How can we do it better? Wipe the slate clean and look at everything with fresh eyes. We call it the clean sheet approach, and it is already driving innovation and change in how we operate and serve our customers. It is the power of asking, "Why?"

BUILDING A CULTURE OF RAILROADERS

We are strengthening CP as a railroad by spreading a passion for railroading. That is one reason why we are building our new headquarters on our Ogden yard property in Calgary—so our people can look out the window every day and be reminded of the business we're in. It's also one reason why CP will teach 700 managers how to run a locomotive and work in a rail yard in 2013, with plans to train at least 850 more in 2014.

Table of Contents



BACK TO THE BASICS. THROUGHOUT THE ORGANIZATION, THE NEW CP IS FOCUSED ON "THE FOUNDATIONS," FIVE FUNDAMENTAL PRINCIPLES OF SUCCESSFUL RAILROADING:
1 PROVIDE SERVICE: Delivering good service is the first key. Doing what we say we'll do is essential to making CP the most reliable rail service in the market.
2 CONTROL COSTS: Being a low-cost provider combined with great service is an unbeatable combination. We look at every cost, even small items, to improve.
3 OPTIMIZE ASSETS: Highly productive assets drive better service at reduced cost. Doing more with less drives profitable growth.
4 OPERATE SAFELY: The safety of our people and surrounding communities can never be compromised. We always think before we act, and we follow every rule to the letter, every time.
5 DEVELOP PEOPLE: The passion, skills and dedication of our people fuel the engine of our growth and success. We teach them, nurture them, reward them.

Table of Contents

CHANGE

Table of Contents

THE APPROACH

GETTING FASTER. MORE AGILE. CLOSER TO THE CUSTOMER.

THE APPROACH
GETTING FASTER. MORE AGILE. CLOSER TO THE CUSTOMER.

Table of Contents

CANADIAN PACIFIC

A BETTER WAY TO SERVE OUR CUSTOMER

CP's new structure is leaner at the top, with more decision-making power and accountability in the field.

CENTRALIZED PLANNING SETS DIRECTION

Trimming the fat from an inefficient organization starts at headquarters. At CP, it was no different. There were too many committees. Too many decisions were made in silos, too far from the field and the customer. It was a slow, cumbersome, ineffective way to operate, and it's changing. Rapidly.

Centred on operations, CP is now developing strategies and initiatives in small, multidisciplinary teams. The committee is in decline. We're making decisions and plans faster than ever before. A new, more agile CP is emerging.

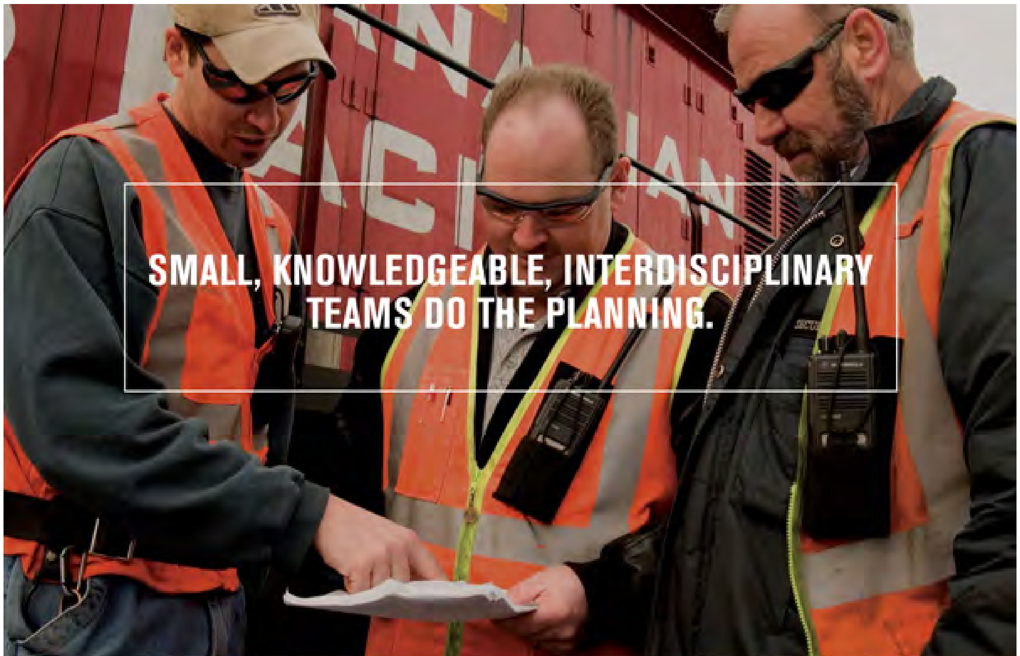
LOCAL EXECUTION GETS IT DONE

We're driving more decision-making power and accountability to the field, where plans are carried out, with fewer organizational layers and more direct lines of communication. When people are individually accountable, it's amazing how fast and well things get done, or how quickly management hears when something is not working. This is driving rapid execution and performance improvement. This is the right kind of change.

FASTER, MORE RESPONSIVE CUSTOMER SERVICE

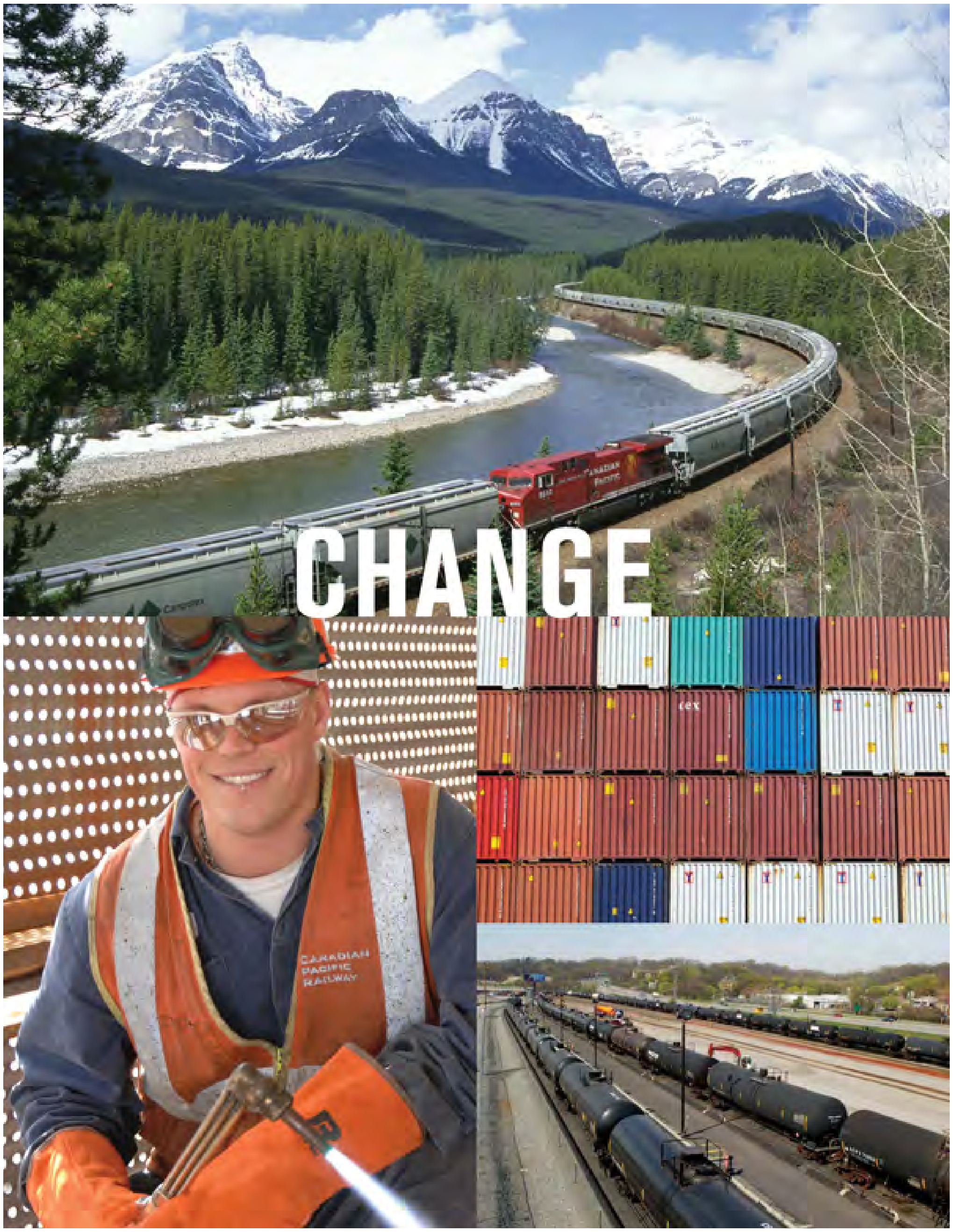
CEO E. Hunter Harrison says, "Show me a company with an 800-plus-person customer service department, and I'll show you a company with bad service". This was CP before, with a large, costly customer service department located far from the field and a complex process designed to direct customer contact away from the providers of the rail service. This is CP today: a new, streamlined customer service organization, a quarter the size of the old one, decentralized and designed to ensure that operations people know both the customer and the product, and respond quickly when problems occur.

Table of Contents



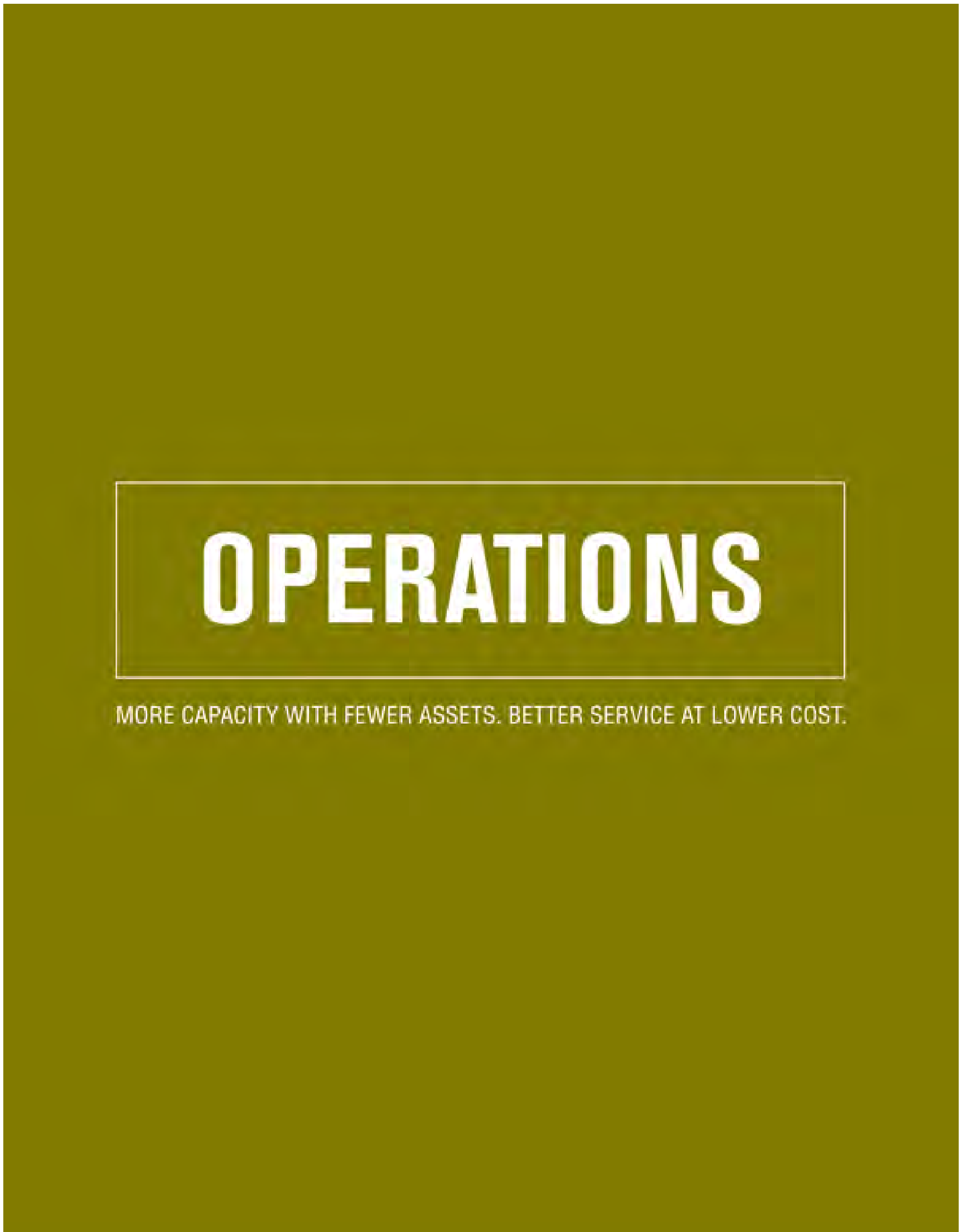
SMALL, KNOWLEDGEABLE, INTERDISCIPLINARY TEAMS DO THE PLANNING.
LOCALIZED DECISION-MAKING AND ACCOUNTABILITY ACCELERATE EXECUTION.

Table of Contents



CHANGE

Table of Contents



OPERATIONS
MORE CAPACITY WITH FEWER ASSETS. BETTER SERVICE AT LOWER COST.

Table of Contents

CANADIAN PACIFIC

OPTIMIZING OUR INFRASTRUCTURE AND ASSETS

CP has moved aggressively to refine its infrastructure and operations for enhanced network velocity, reliability and consistency—at lower cost.

TAKING A HARD LOOK AT OUR NETWORK, YARDS AND TERMINALS

Cost and service are not mutually exclusive. In railroading, increased network efficiency reduces costs and improves service quality. Fewer, better-planned yards and terminals enable our trains to work harder, run faster and operate more predictably. This has been a major focus across the new CP.

We closed four of our five hump yards on the system. In Chicago, we combined two intermodal yards into one. We converted Winnipeg to a local switching yard. We closed the Milwaukee intermodal terminal. And we are continuing to evaluate other opportunities to improve.

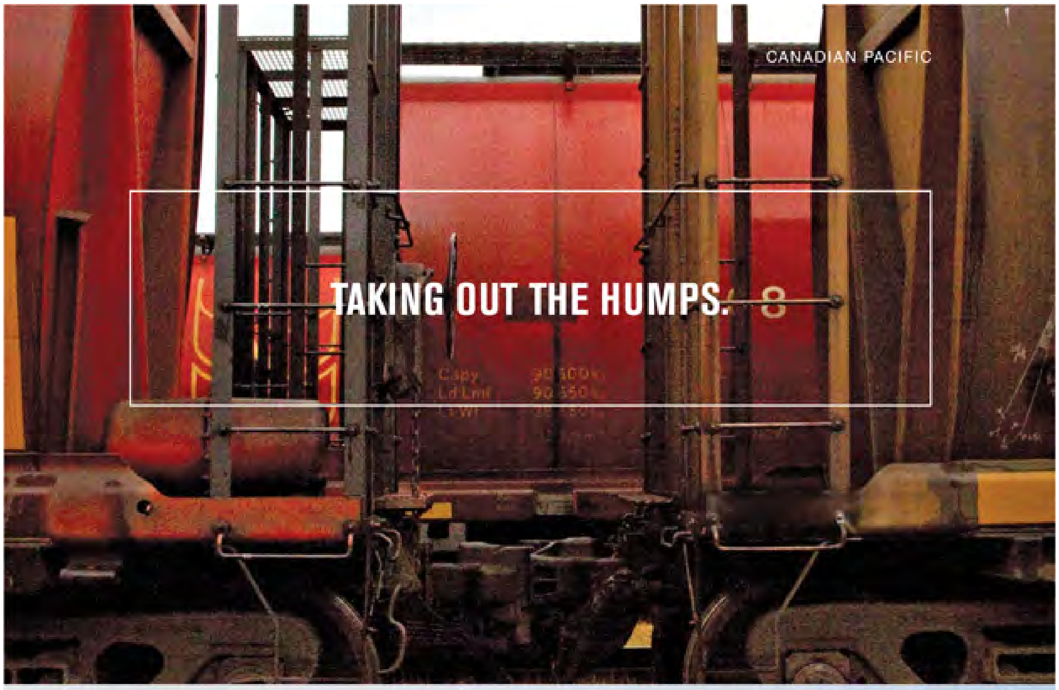
POWERFUL RESULTS

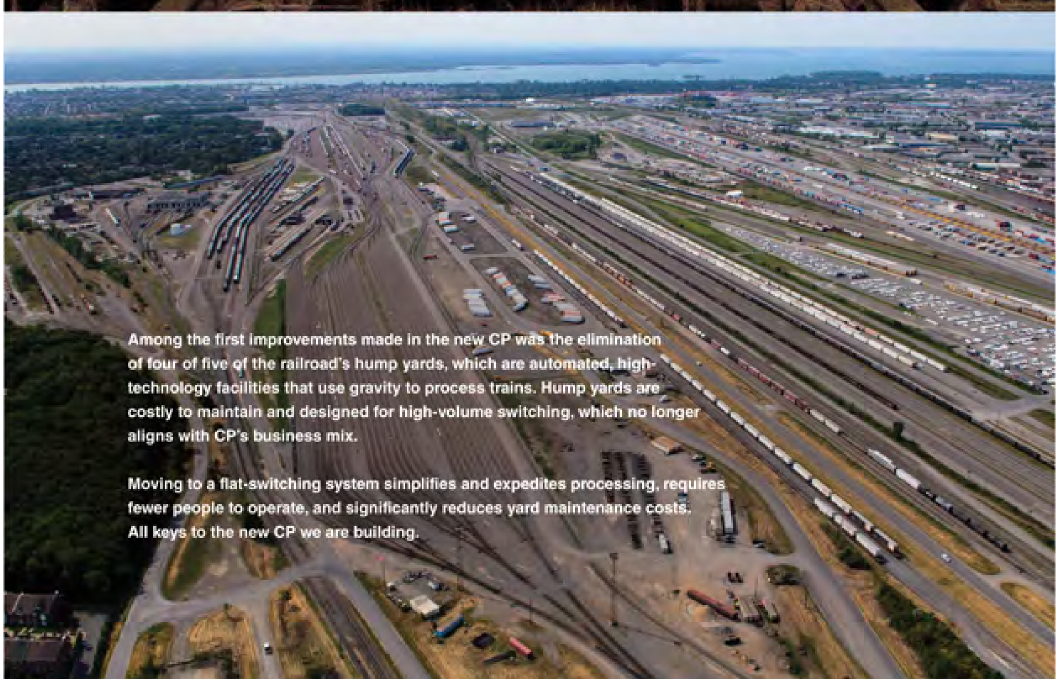
With our network design changes made after July 2012, we have reduced operating plan train miles by 39,000 per week, a 7 per cent improvement, and crew starts by approximately 30 per day, a 5 per cent improvement over previous designs from the first half of the year.

A more efficient network requires fewer moving assets to operate. CP reduced its active locomotive fleet by more than 195 engines in the second half of 2012, with more than 450 locomotives now stored, returned or declared surplus year-to-date. Over the course of 2012, we have provided return notification on approximately 5,400 rail cars. Faster cycle times are enabling us to actually improve car availability and fulfilment performance with a smaller fleet.

Rationalizing our fleet also has the effect of modernizing it. Older and damaged railcars come out. Newer-technology, higher-performing, more fuel-efficient locomotives remain, while less-reliable, less-efficient locomotives are removed. The result: better equipment performance with lower fuel and maintenance costs.

Table of Contents



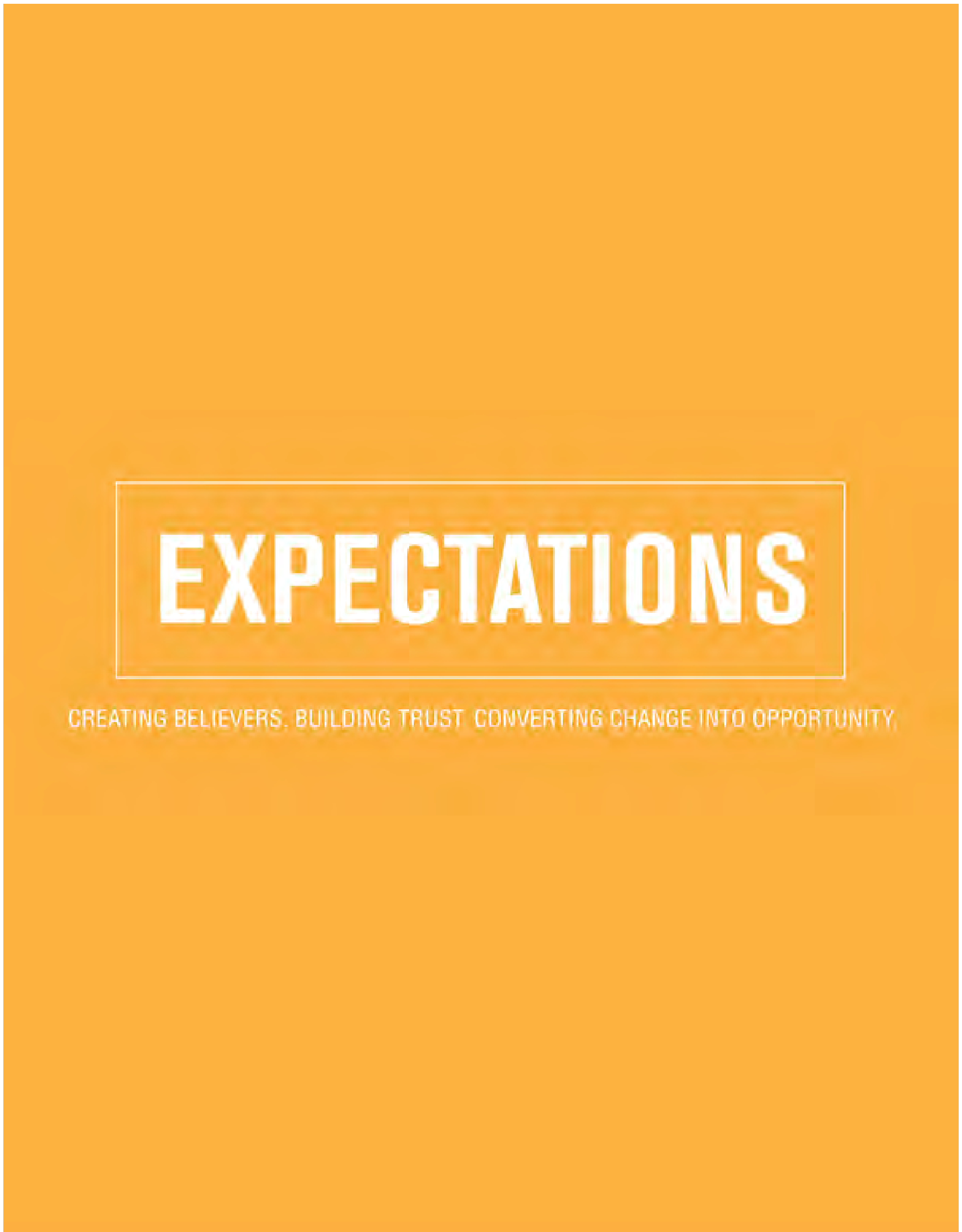


TAKING OUT THE HUMPS. Among the first improvements made in the new CP was the elimination of four of five of the railroad's hump yards, which are automated, high-technology facilities that use gravity to process trains. Hump yards are costly to maintain and designed for high-volume switching, which no longer aligns with CP's business mix. Moving to a flat-switching system simplifies and expedites processing, requires fewer people to operate, and significantly reduces yard maintenance costs. All keys to the new CP we are building.

Table of Contents

CHANGE

Table of Contents



EXPECTATIONS
CREATING BELIEVERS. BUILDING TRUST. CONVERTING CHANGE INTO OPPORTUNITY.

Table of Contents

IMPROVED CAPABILITIES OPEN NEW DOORS

Our customers—and our people—are beginning to see what can be done at CP, creating a new sense of possibility.

MAKING BELIEVERS OUT OF SKEPTICS

As change spreads across the organization, the resulting improvements in operating performance are creating believers among CP employees. They saw similar changes happening at rival railroads, but couldn't imagine how it was being accomplished. Their skepticism is changing rapidly to amazement, and then enthusiasm. This is the engine of culture change.

Equally important is creating believers out in the marketplace. As we gain our customers' confidence, we can gain a greater share of their business. We're communicating and collaborating with shippers to pursue change that develops our shared best interests and creates mutual benefit. We're then establishing a track record of consistent performance. This is the engine of profitable growth.

CONVERTING CHANGE INTO NEW OPPORTUNITIES

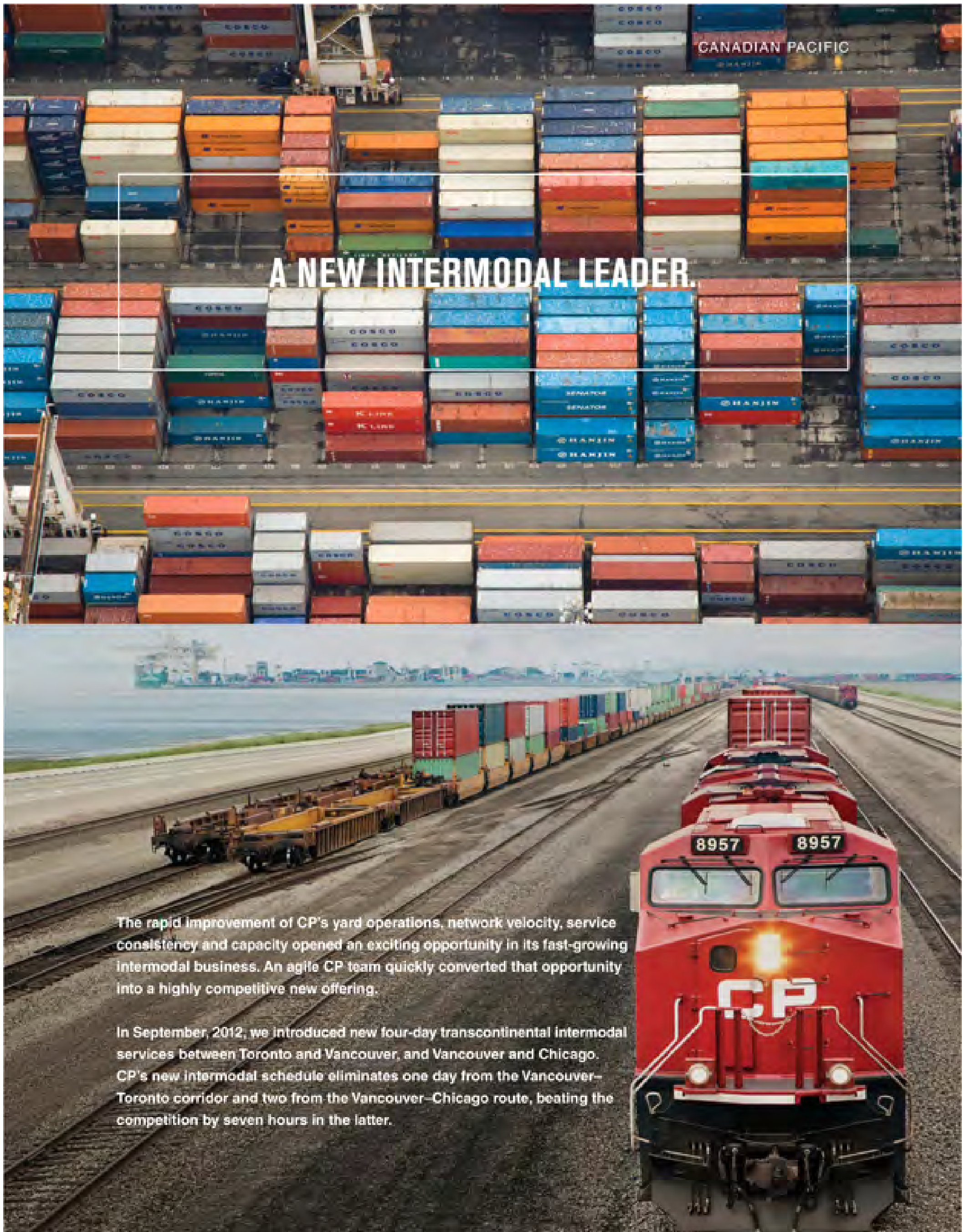
The ultimate objective of what we're doing at CP is to create a top-quality transportation product. A product that delivers highly competitive value at a fair price. A product we are proud of.

Improved speed and reliability of service combined with a lower cost basis opens a new world of possibility for this railroad. With a smart and dedicated marketing and sales team—skilled people who know their market, know the CP product and are passionate about putting the two together—we are converting change into broader field of growth opportunities. Business that was marginal in the past becomes more attractive to the efficient, low-cost operator CP is becoming.

BUILDING SHAREHOLDER VALUE

We are changing the expectations of our employees and customers. We're also changing them among our investors. The changes we are making reflect our commitment to driving results that translate into long-term value for CP shareholders—a solid balance sheet; strong, sustained top-line, earnings and free cash flow growth; steady improvement in operating ratio—and we are convinced this journey is just beginning.

Table of Contents



A NEW INTERMODAL LEADER. The rapid improvement of CP's yard operations, network velocity, service consistency and capacity opened an exciting opportunity in its fast-growing intermodal business. An agile CP team quickly converted that opportunity into a highly competitive new offering. In September, 2012, we introduced new four-day transcontinental intermodal services between Toronto and Vancouver, and Vancouver and Chicago. CP's new intermodal schedule eliminates one day from the Vancouver–Toronto corridor and two from the Vancouver–Chicago route, beating the competition by seven hours in the latter.

Table of Contents

Table of Contents

CP AT A GLANCE

The CP franchise: a powerful base from which to drive sustained growth and value.

GRAIN

Grain transported by CP consists of both whole grains, such as wheat, corn, soybeans and canola, and processed products such as meals, oils, and flour. Canadian grain products are primarily transported to ports for export and to Canadian and U.S. markets for domestic consumption. U.S. grain products are shipped from the Midwestern U.S. to other points in the Midwest, the Pacific Northwest and north-eastern U.S.

COAL

Our Canadian coal business consists primarily of metallurgical coal transported from southeastern B.C. to the ports of Vancouver, B.C. and Thunder Bay, Ontario, and to the U.S. Midwest. Our U.S. coal business consists primarily of the transportation of thermal coal and petroleum coke within the U.S. Midwest or for export through West Coast ports.

SULPHUR & FERTILIZERS

Sulphur and fertilizers include potash, chemical fertilizers and sulphur shipped mainly from western Canada to the ports of Vancouver, B.C., and Portland, Oregon, and to other Canadian and U.S. destinations.

FOREST PRODUCTS

Forest products include lumber, wood pulp, paper products and panel transported from key producing areas in western Canada, Ontario and Quebec to various destinations in North America.

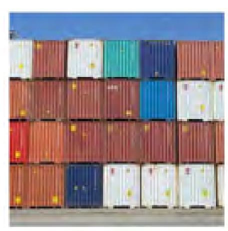
INDUSTRIAL & CONSUMER PRODUCTS

Industrial and consumer products include chemicals, plastics, aggregates, steel, mine, ethanol and other energy-related products, other than coal, shipped throughout North America.

AUTOMOTIVE

Automotive consists primarily of three core finished vehicle traffic segments: import vehicles, Canadian-produced and U.S.-produced vehicles. These segments move through Port Metro Vancouver to eastern Canadian markets; to the U.S. from Ontario production facilities;

INTERMODAL



CP's intermodal portfolio consists of domestic and international services. Our domestic business consists primarily of the movement of manufactured consumer products in containers within North America. The international business handles the movement of marine containers and to Canadian markets, respectively.

between ports and North American inland markets.

Table of Contents

THE BEGINNING CHANGE AT CP HAS BEEN RAPID, FAR REACHING AND PROFOUND. IT IS ALSO ONGOING. WE ARE JUST BEGINNING TO TRANSFORM OUR COMPANY INTO THE INDUSTRY LEADER IT CAN BE. THE DESTINATION AND ROUTE PLAN ARE CLEAR. AND THE TRAIN IS JUST PULLING OUT OF THE TERMINAL, WITH AN EXCITING JOURNEY AHEAD.

Table of Contents

Table of Contents

TABLE OF CONTENTS

CANADIAN PACIFIC

This Management's Discussion and Analysis ("MD&A") is provided in conjunction with the Consolidated Financial Statements and related notes for the year ended December 31, 2012 prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All information has been prepared in accordance with GAAP, except as described in Section 15, Non-GAAP Measures of this MD&A. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars.

March 12, 2013

In this MD&A, "our", "us", "we", "CP" and "the Company" refer to Canadian Pacific Railway Limited ("CPRL"), CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL's subsidiaries, as the context may require. Other terms not defined in the body of this MD&A are defined in Section 25, Glossary of Terms.

Unless otherwise indicated, all comparisons of results for 2012 and 2011 are against the results for 2011 and 2010, respectively. Unless otherwise indicated, all comparisons of results for the fourth quarter of 2012 are against the results for the fourth quarter of 2011.

1. BUSINESS PROFILE

Canadian Pacific Railway Limited, through its subsidiaries, operates a transcontinental railway in Canada and the United States ("U.S.") and provides logistics and supply chain expertise. We provide rail and intermodal transportation services over a network of approximately 14,400 miles, serving the principal business centres of Canada from Montreal, Quebec, to Vancouver, British Columbia ("B.C."), and the U.S. Northeast and Midwest regions. Our railway feeds directly into the U.S. heartland from the East and West coasts. Agreements with other carriers extend our market reach east of Montreal in Canada, throughout the U.S. and into Mexico. We transport bulk commodities, merchandise freight and intermodal traffic. Bulk commodities include grain, coal, sulphur and fertilizers. Merchandise freight consists of finished vehicles and automotive parts, as well as forest and industrial and consumer products. Intermodal traffic consists largely of high-value, time-sensitive retail goods in overseas containers that can be transported by train, ship and truck, and in domestic containers and trailers that can be moved by train and truck.

2. STRATEGY

Canadian Pacific is driving change as it moves through its transformational journey to become the best railroad in North America, while creating long-term value for shareholders. The Company is focused on providing customers with industry leading rail service; driving sustainable, profitable growth; optimizing our assets; and reducing costs, while remaining a leader in rail safety.

Looking forward, CP is executing its strategic plan while aggressively targeting a mid-60s operating ratio by 2016. The plan is centered on five key foundations, which are the Company's performance drivers.

Provide Service: Providing efficient and consistent transportation solutions for our customers. "Doing what we say we are going to do" is what drives CP by providing a reliable product with a lower cost operating model. Centralized planning aligned with local execution is bringing the company closer to the customer and accelerating decision-making.

Control Costs: Controlling and removing unnecessary costs from the organization, eliminating bureaucracy and continuing to identify productivity enhancements are the keys to success.

Optimize Assets: Through longer sidings, improved asset utilization, and increased train lengths, the Company will move increased volumes with fewer locomotives and cars while unlocking capacity for future growth potential.

Operate Safely: Each year, CP safely moves millions of carloads of freight across North America while ensuring the safety of our people and the communities through which we operate. Safety is never to be compromised. Continuous research and development in state-of-the-art safety technology and highly focused employees ensure our trains are built for safe, efficient operations across our network.

Table of Contents

Develop People: CP recognizes none of the other foundations can be achieved without its people. Every CP employee is a railroader and the Company is shaping a new culture focused on a passion for service with integrity in everything it does. Coaching and mentoring managers into becoming leaders will help drive CP forward.

At Canadian Pacific's Investor Conference in New York on December 4-5, 2012, the company outlined plans it will execute to continue to improve service reliability, increase the railway's efficiency, and grow the business in 2013 and beyond. Key highlights include:

- the reduction of approximately 4,500 employee and/or contractor positions by 2016 through job reductions, natural attrition and fewer contractors;
- the installation of longer sidings that will improve asset utilization and increase train length and velocity. The plan will allow CP to move the same or increased volumes with fewer trains, and is expected to reduce crew starts by over 14,500, or 4%, crew starts;
- exploring options to maximize full value of existing and anticipated surplus real estate holdings;
- the relocation of CP's current corporate headquarters in downtown Calgary to new office space at the Company owned Ogden Yard by 2014;
- the review of options for the Delaware & Hudson (D&H) in the U.S. Northeast, while maintaining options for continued growth in the energy business; and
- assessing the opportunities that will come from an expression of interest issued in December 2012 for the 660-mile portion of the Dakota, Minnesota & Eastern (DM&E), west of Tracy, Minnesota.

2012 Summary

During 2012, the Company experienced a number of other noteworthy events summarized below:

Proxy Contest

In January 2012, Pershing Square Capital Management, L.P. ("Pershing Square") launched a proxy contest in order to replace a minority of the Board of Directors of the Company (the "Board") and to advocate for management change (the "Proxy Contest"). As a result of this contest, the Company incurred $27 million in advisory costs ("advisory costs associated with shareholder matters") in the first six months of 2012 with a further $6 million incurred in the fourth quarter of 2011. The proxy contest was settled in May 2012 with changes described below in "Change in Board of Directors" and "Management transition".

Change in Board of Directors

On May 17, 2012, following the Proxy Contest Messrs. John Cleghorn, Tim Faithfull, Fred Green, Edmond Harris, Michael Phelps and Roger Phillips advised the Company that they did not intend to stand for re-election to the Board.

At the Company's annual shareholders meeting held on May 17, 2012, seven new directors were elected to the Board, namely Messrs. William Ackman, Gary Colter, Paul Haggis and Paul Hilal, Ms. Rebecca MacDonald, and Messrs. Anthony Melman and Stephen Tobias. In addition, Mr. Richard George, Ms. Krystyna Hoeg, Messrs. Tony Ingram and Richard Kelly, the Hon. John Manley, Mesdames Linda Morgan and Madeleine Paquin, and Messrs. David Raisbeck and Hartley Richardson were all re-elected to the Board at the May 17, 2012 meeting. Following the meeting, the new Board selected Ms. Paquin to serve as acting Chair of the Company. On June 4, 2012, Mr. Haggis was appointed Chairman of the Company's Board.

Subsequent to the May 17, 2012 shareholders meeting, Messrs. Raisbeck, George and Ingram resigned from the Board on June 11, June 26 and July 5, 2012, respectively. In addition, effective July 6, 2012, Mr. E. Hunter Harrison was appointed to the Board.

As a result of the aforementioned changes to the composition of the Board, certain accelerated vesting provisions for certain grants under the Company's management stock option incentive plan, performance share unit plan and deferred share unit plan were triggered effective June 26, 2012. The effect of such accelerated vesting on the Company's second quarter financial statements was a credit to Compensation and benefits of $8 million and the recognition of a related liability under the accelerated vesting provisions of these plans of $31 million, which liability was settled in full in the third quarter of 2012.

Management Transition

On May 17, 2012, following the Proxy Contest, Mr. Fred Green left his position as President and Chief Executive Officer of the Company. That same day, Mr. Stephen Tobias, a new Board member elected at the Company's annual shareholders meeting held on May 17, 2012, was appointed by the Board as Interim Chief Executive Officer and served in that role until June 28, 2012. On June 28, 2012, Mr. E. Hunter Harrison was appointed by the Board as President and Chief Executive Officer. As a result of the appointment of Mr. Harrison, the Company recorded a charge of $38 million with respect to compensation and other transition costs, including $2 million of associated costs, in the second quarter of 2012. This charge was recorded in the Company's financial statements in Compensation and benefits and Purchased services and other, in the amounts of $16 million and $22 million respectively.

Table of Contents

Included in this charge were amounts totaling $16 million in respect of deferred retirement compensation for Mr. Harrison and $20 million to Pershing Square and related entities. Pershing Square and related entities own or control approximately 14% of the Company's outstanding shares and two Board members, Mr. William Ackman and Mr. Paul Hilal, are partners of Pershing Square. The amount paid to Pershing Square and related entities was to reimburse them, on behalf of Mr. Harrison, for certain amounts they had previously paid to, or incurred on behalf of, Mr. Harrison pursuant to an indemnity in favour of Mr. Harrison in connection with losses suffered in legal proceedings commenced against Mr. Harrison by his former employer. The terms of Pershing Square's indemnity required Mr. Harrison to return any funds advanced under the indemnity in the event he accepted employment at CP. As a result, Mr. Harrison made it a precondition of accepting the Company's offer of employment that CP assume the indemnity obligations and return the funds advanced by Pershing Square. As a result of the payment, the Company would have been entitled to enforce Mr. Harrison's rights in the aforementioned legal proceedings, allowing the Company to recover to the extent of Mr. Harrison's success in those proceedings; however, on February 3, 2013, the Company and Mr. Harrison settled the legal proceedings with Mr. Harrison's former employer, providing the Company with partial recovery (US$9 million) of the amounts in dispute. The Company may receive repayment in other circumstances in the event of certain breaches by Mr. Harrison of his obligations under an employment agreement with the Company. In addition, the Company agreed to indemnify Mr. Harrison for certain other amounts sought for repayment by Mr. Harrison's former employer, to a maximum of $3 million plus legal fees, but as a result of the settlement of the aforementioned legal proceedings, such indemnity is no longer applicable.

The Company also recorded a charge of $4 million in the second quarter of 2012 with respect to a retirement allowance for Mr. Green.

On February 5, 2013, as part of its long-term succession plan, the Company appointed Mr. Keith Creel as President and Chief Operating Officer. In connection with this appointment, Mr. Harrison's title changed to Chief Executive Officer.

Strike

On May 23, 2012, the Teamsters Canada Rail Conference Running Trade Employees ("TCRC-RTE") and the Rail Canada Traffic Controllers ("TCRC-RCTC"), representing 4,800 engineers, conductors and rail traffic controllers in Canada, commenced a strike that caused a nine-day Canadian work stoppage ("the strike"). Bill C-39, the Restoring Rail Service Act, was passed by the Parliament of Canada on May 31, 2012 and employees returned to work on June 1, 2012. The strike is discussed further in Section 21, Business Risks.

The strike caused a significant loss of revenue during the second quarter. Partly offsetting this revenue loss were cost savings in Compensation and benefits, Fuel, and Equipment rents. During the strike, we took the opportunity to advance track and other maintenance including mechanical and engineering work.

Once the unions returned to work, the Company quickly re-established service and reset the network.

Investor Conference

At Canadian Pacific's Investor Conference in New York on December 4-5, 2012, CP's Chief Executive Officer E. Hunter Harrison outlined the Company's plan for change to improve service, increase the railway's efficiency, lower cost and grow the business.

Under the leadership of new management, the second half of 2012 included a rapid change agenda where progress was made on this plan. Highlights of CP's evolution to a more competitive railway include:

- a new executive leadership team in place, including a new Senior Operations lead team, with a mandate for centralized planning and decentralized execution, that eliminates bureaucracy to make service decisions faster and closer to the customer;
- revamped intermodal and merchandise train services which provide faster transit times for customers, such as the new intermodal services connecting Vancouver to Chicago or Toronto;
- the closure of hump-switching yards in Toronto, Winnipeg, Calgary and Chicago which provides significant cost savings and more efficient operating practices;
- the closure of intermodal terminals in Milwaukee, Obico (Toronto), and Schiller Park (Chicago) which reduces CP's footprint and operating expenses while also facilitating efficient operating practices and reduced end-to-end transit times;
- network design changes made after July 2012 allowed CP to reduce operating plan train miles by 39,000 per week, a 7 per cent improvement, and crew starts by approximately 30 per day, a 5 per cent improvement over previous designs from the first half of the year. Together, these design changes reduced annual operating costs, while increasing capacity; and
- a reduction of the Company's active locomotive fleet by more than 195 engines in the second half of 2012, with more than 460 locomotives now stored, returned or declared surplus year-to-date. Over the course of 2012, CP has provided return notification on 5,400 rail cars.

Table of Contents

Asset impairment and labour restructuring charges

During the fourth quarter of 2012, the Company recorded a number of significant charges in part due to on-going efforts to improve the efficiency of the company. These significant charges, discussed further in Section 9, Operating Expenses, included:

- $53 million labour restructuring charge ($39 million after tax), which unfavourably impacted diluted earnings per share ("EPS") by 22 cents;
- $185 million impairment of Powder River Basin ("PRB") and other investment ($111 million after tax), which unfavourably impacted diluted EPS by 64 cents; and
- $80 million asset impairment of certain locomotives ($59 million after tax), which unfavourably impacted diluted EPS by 34 cents.

3. FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking statements within the meaning of the *United States Private Securities Litigation Reform Act of 1995* and other relevant securities legislation. These forward-looking statements include, but are not limited to statements concerning our operations, anticipated financial performance, business prospects and strategies as well as statements concerning the anticipation that cash flow from operations and various sources of financing will be sufficient to meet debt repayments and future obligations in the foreseeable future, statements regarding future payments including income taxes and pension contributions, and capital expenditures. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan" or similar words suggesting future outcomes.

Readers are cautioned not to place undue reliance on forward-looking information because it is possible that we will not achieve predictions, forecasts, projections and other forms of forward-looking information. Current economic conditions render assumptions, although reasonable when made, subject to greater uncertainty. In addition, except as required by law, we undertake no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

By its nature, our forward-looking information involves numerous assumptions, inherent risks and uncertainties, including but not limited to the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks in agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demand; inflation; changes in laws and regulations, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions on the financial position of pension plans and investments; and various events that could disrupt operations, including severe weather, droughts, floods, avalanches and earthquakes as well as security threats and governmental response to them, and technological changes.

There are more specific factors that could cause actual results to differ materially from those described in the forward-looking statements contained in this MD&A. These more specific factors are identified and discussed in Section 21, Business Risks and elsewhere in this MD&A. Other risks are detailed from time to time in reports filed by CP with securities regulators in Canada and the United States.

Financial Assumptions

Defined benefit pension expectations for 2013 to 2016

Defined benefit pension contributions are currently estimated to be between $100 million and $125 million in each of the years to 2016. These contribution levels reflect the Company's intentions with respect to the rate at which we apply the voluntary prepayments to reduce contribution requirements. Defined benefit pension expense for 2013 and 2014 is expected to be in the range of $50 million to $60 million per year, increasing to be in the range of $90 million to $110 million in 2015 and 2016. These pension contributions and pension expense estimates assume normal equity market returns and modest increases in bond yields over this period. In addition, there are a number of other economic and demographic assumptions on which these estimates are based. Adverse experience with respect to equity returns, bond yields or other factors may put upward pressure on pension expense and contributions in later years. We continue to monitor these factors. Pensions are discussed further in Section 22, Critical Accounting Estimates.

Financial expectations for 2013

The Company expects revenue growth to be in the high single digits; operating ratio to be in the low 70's; and diluted earnings per share ("EPS") to be up in excess of 40% from 2012 diluted EPS, excluding significant items, discussed further in Section 15, Non-GAAP Measures, of $4.34. CP plans to spend in the range of $1.0 billion to $1.1 billion on capital programs in 2013, discussed further in Section 14, Liquidity and Capital Resources. Key assumptions for full year 2013 financial expectations include:

- an average fuel cost per gallon of $3.45 U.S. per U.S. gallon;
- Canadian and U.S. dollar exchange rate being at par; and
- an income tax rate in the range of 25% to 27%, discussed further in Section 10, Other Income Statement Items.

Table of Contents

Financial expectations for 2016

CP is aiming for a full-year operating ratio in the mid-sixties and cash flow before dividends, discussed further in Section 15, Non-GAAP Measures, of $900 million to $1,400 million in 2016. CP is also planning on annual capital spending in the range of $1.0 billion to $1.1 billion over this period. Key assumptions to reaching these goals include:

- an average fuel cost per gallon of $3.45 U.S. per U.S. gallon;
- Canadian and U.S dollar exchange rate being at par;
- an income tax rate in the range of 25% to 27%;
- CP becoming fully cash taxable during the four year period; and
- compound annual revenue growth of 4%-7% off the 2012 base.

Undue reliance should not be placed on these assumptions and other forward-looking information.

4. ADDITIONAL INFORMATION

Additional information, including our Consolidated Financial Statements, Annual Information Form, press releases and other required filing documents, are available on SEDAR at www.sedar.com in Canada, on EDGAR at www.sec.gov in the U.S. and on our website at www.cpr.ca. The aforementioned documents are issued and made available in accordance with legal requirements and are not incorporated by reference into this MD&A.

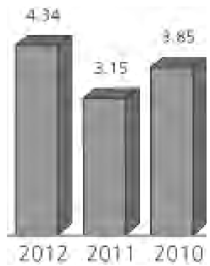
5. FINANCIAL HIGHLIGHTS

For the year ended December 31 (in millions, except percentages and per share data)	**2012**	2011[1]	2010
Revenues	**$ 5,695**	$ 5,177	$ 4,981
Operating income	**949**	967	1,116
Operating income, excluding significant items[2][6]	**1,309**	967	1,116
Net income	**484**	570	651
Basic earnings per share (“EPS”)	**2.82**	3.37	3.86
Diluted earnings per share	**2.79**	3.34	3.85
Diluted earnings per share, excluding significant items[2][6]	**4.34**	3.15	3.85
Dividends declared per share	**1.3500**	1.1700	1.0575
Return on capital employed (“ROCE”)[3]	**6.9%**	7.4%	8.7%
Operating ratio	**83.3%**	81.3%	77.6%
Operating ratio, excluding significant items[2][6]	**77.0%**	81.3%	77.6%
Free cash[2][4]	**93**	(724)	(324)
Voluntary prepayments to the main Canadian defined benefit pension plan (included in Free cash above)	**–**	(600)	(650)
Total assets at December 31	**14,727**	14,110	13,676
Total long-term financial liabilities at December 31[5]	**4,735**	4,812	4,170

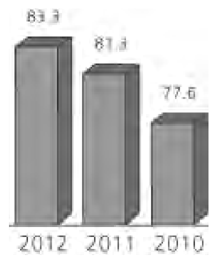
Table of Contents

Diluted EPS ($)

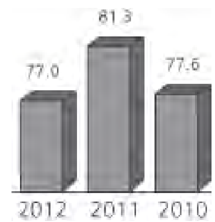
Diluted EPS, excluding significant items ($)[2]



Operating ratio (%)



Operating ratio, excluding significant items (%)[2]



(1) The 2011 figures include a $37 million tax benefit resulting from the resolution of certain income tax matters related to previous-year tax filings and estimates.

(2) This measure has no standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures of other companies. This earnings measure and significant items are discussed further in Section 15, Non-GAAP Measures. A reconciliation of operating income, operating ratio, and diluted earnings per share, excluding significant items to operating income, operating ratio and diluted earnings per share as reported in the financial statements is provided in Section 15, Non-GAAP Measures. A reconciliation of free cash to GAAP cash position is included in Section 14, Liquidity and Capital Resources.

(3) ROCE is defined as earnings before interest and taxes (“EBIT”) (on a rolling 12 month basis), divided by the average for the year of total assets, less current liabilities, excluding current portion of long-term debt, as measured under GAAP, and it is discussed further in Section 15, Non-GAAP Measures.

(4) Includes $nil, $600 million and $650 million voluntary prepayments to the Company’s main Canadian defined benefit pension plan in 2012, 2011 and 2010, respectively, discussed further in Section 22, Critical Accounting Estimates.

(5) Total long-term financial liabilities excludes: deferred taxes of $2,092 million, $1,819 million and $1,945 million, and other non-financial long-term liabilities of $1,573 million, $1,620 million and $1,447 million for the years 2012, 2011 and 2010, respectively.

(6) Significant items are discussed further in Section 15, Non-GAAP Measures.

Table of Contents

6. OPERATING RESULTS

Income

Operating income was $949 million in 2012, a decrease of $18 million, or 2%, from $967 million in 2011.

This decrease was primarily due to:

- asset impairment and labour restructuring charges of $318 million;
- higher volume variable expenses;
- higher incentive and stock-based compensation expenses;
- the net impact of the strike in the second quarter;
- higher depreciation and amortization expenses; and
- management transition costs of $42 million, reflected in Compensation and benefits and Purchased services and other.

This decrease was partially offset by:

- increased volumes of traffic, generating higher freight revenue;
- efficiency savings derived from improved operating performance, asset utilization and improved operating conditions;
- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes with full margin coverage;
- higher freight rates; and
- the favourable impact of the change in foreign exchange (“FX”).

Operating income was $967 million in 2011, a decrease of $149 million, or 13%, from $1,116 million in 2010.

This decrease was primarily due to:

- significant disruptions to train operations across the network in the first half of the year due to unusually severe winter weather and subsequent flooding;
- the net unfavourable impact of higher fuel costs;
- increased IT costs associated with outsourced infrastructure and maintenance services and planning expenses with respect to new applications in support of future growth;
- higher crew training expenses to meet business demand and attrition; and
- the net unfavourable impact of the change in FX.

This decrease was partially offset by lower incentive and stock-based compensation expenses.

Net income was $484 million in 2012, a decrease of $86 million, or 15%, from $570 million in 2011. This decrease was primarily due to:

- an increase in income tax expense primarily due to the impact of a tax recovery in the fourth quarter of 2011 of $37 million from the resolution of certain income tax items;
- an increase in net interest expense due to new debt issuances in 2011;
- an increase in Other income and charges due to advisory fees related to shareholder matters; and
- lower operating income.

Net income was $570 million in 2011, a decrease of $81 million, or 12%, from $651 million in 2010. This decrease was primarily due to:

- lower operating income and the unfavourable impact of expenses associated with the early redemption of the 2013 debt;
- the unfavourable impact of FX losses on working capital; and
- increased advisory fees related to shareholder matters in Other income and charges.

This decrease was partially offset by lower income tax expense, driven primarily by the resolution of certain income tax matters and lower taxable income.

Diluted Earnings per Share

Diluted EPS was $2.79 in 2012, a decrease of $0.55, or 16% from $3.34 in 2011. This decrease was primarily due to lower net income. Diluted EPS for 2012 includes a $1.55 per share charge in labour restructuring and asset impairment, discussed further in Section 9, Operating Expenses,

Table of Contents

advisory costs due to shareholder matters, management transition costs and Ontario corporate tax rate change, discussed further in Section 15, Non-GAAP Measures. Diluted EPS, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was $4.34 in 2012, an increase of $1.19, or 38%, from $3.15 in 2011. This increase was primarily due to higher operating income, excluding significant items, discussed further in Section 15, Non-GAAP Measures.

Diluted EPS, excluding significant items, and operating income, excluding significant items, have no standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures of other companies.

Diluted EPS was $3.34 in 2011, a decrease of $0.51, or 13%, from $3.85 in 2010. This decrease was primarily due to lower net income. Diluted EPS for 2011 includes a $0.22 per share income tax benefit, discussed further in Section 10, Other Income Statement Items.

Diluted EPS, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was $3.15 in 2011, a decrease of $0.70, or 18%, from $3.85 in 2010. This decrease was primarily due to lower operating income, excluding significant items, discussed further in Section 15, Non-GAAP Measures.

Operating Ratio

The operating ratio provides the percentage of revenues used to operate the railway, and is calculated as operating expenses divided by revenues. A lower percentage normally indicates higher efficiency in the operation of the railway. Our operating ratio was 83.3% in 2012, an increase from 81.3% in 2011. The increase was primarily due to asset impairment and labour restructuring charges and management transition costs, which negatively impacted operating ratio by 630 basis points.

The operating ratio, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was 77.0% in 2012, a decrease from 81.3% in 2011. This improvement was primarily due to an increase in freight revenues and efficiency savings derived from improved operating performance, asset utilization and improved operating conditions. Operating ratio, excluding significant items, has no standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures of other companies.

Our operating ratio was 81.3% in 2011, an increase from 77.6% in 2010. This increase was primarily due to higher weather related costs and inefficiencies, higher fuel costs, increased IT costs and increased crew training costs.

Return on Capital Employed

Return on capital employed at December 31, 2012 was 6.9% compared with 7.4% in 2011 and 8.7% in 2010. The decrease in 2012 and 2011 was due to lower earnings.

Impact of Foreign Exchange on Earnings

Fluctuations in FX affect our results because U.S. dollar-denominated revenues and expenses are translated into Canadian dollars. U.S. dollar-denominated revenues and expenses decrease when the Canadian dollar strengthens in relation to the U.S. dollar.

Canadian to U.S. dollar Average exchange rates	**2012**	2011	2010
Year ended – December 31	**$ 1.00**	$ 0.99	$ 1.03
For the three months ended – December 31	**$ 0.99**	$ 1.02	$ 1.02

Canadian to U.S. dollar Exchange rates	**2012**	2011	2010
Beginning of year – January 1	**$ 1.02**	$ 0.99	$ 1.05
Beginning of quarter – April 1	**$ 1.00**	$ 0.97	$ 1.02
Beginning of quarter – July 1	**$ 1.02**	$ 0.96	$ 1.06
Beginning of quarter – October 1	**$ 0.98**	$ 1.05	$ 1.03
End of quarter – December 31	**$ 0.99**	$ 1.02	$ 0.99

Average Fuel Price (U.S. dollars per U.S. gallon)	**2012**	2011	2010
Year ended – December 31	**$ 3.45**	$ 3.38	$ 2.50
For the three months ended – December 31	**$ 3.47**	$ 3.45	$ 2.68

Table of Contents

7. PERFORMANCE INDICATORS

For the year ended December 31	2012	2011	2010	% Change 2012 vs. 2011	% Change 2011 vs. 2010
Operations performance					
Freight gross ton-miles (millions)	**254,354**	247,955	242,757	3	2
Train miles (thousands)	**40,270**	40,145	39,576	–	1
Average train weight – excluding local traffic (tons)	**6,709**	6,593	6,519	2	1
Average train length – excluding local traffic (feet)	**5,838**	5,665	5,660	3	–
Average train speed – AAR definition (mph)	**24.4**	21.3	22.7	15	(6)
Average terminal dwell – AAR definition (hours)	**17.6**	19.9	21.4	(12)	(7)
Car miles per car day	**202.3**	160.1	159.4	26	–
Locomotive productivity (daily average GTMs/active horsepower ("HP"))	**179.8**	166.7	176.6	8	(6)
Employee productivity (million GTMs/expense employee)[2]	**17.4**	17.5	17.5	(1)	–
Fuel efficiency[1]	**1.15**	1.18	1.17	(3)	1
Average number of active employees – expense[2]	**14,594**	14,169	13,879	3	2
Average daily active cars on-line (thousands)	**40.9**	51.4	50.9	(20)	1
Average daily active road locomotives on-line	**1,007**	1,085	1,016	(7)	7
Safety indicators[3]					
FRA personal injuries per 200,000 employee-hours	**1.46**	1.85	1.67	(21)	11
FRA train accidents per million train-miles	**1.67**	1.88	1.67	(11)	13

[1] Fuel efficiency is defined as U.S. gallons of locomotive fuel consumed per 1,000 Gross ton-miles ("GTMs") – freight and yard.

[2] An employee is defined as an individual who has worked more than 40 hours in a standard biweekly pay period. This excludes part time employees, contractors, consultants, and trainees.

[3] Certain prior period figures have been revised to conform with current presentation or have been updated to reflect new information.

The indicators listed in this table are key measures of our operating performance. Definitions of these performance indicators are provided in Section 25, Glossary of Terms.

Operations Performance

During 2012, the Company's continued focus on service resulted in improvements in many key operational performance indicators, discussed below. The Company's fourth quarter operational performance indicators demonstrate that these improvements are continuing, as discussed in Section 12, Fourth-Quarter Summary.

GTMs for 2012 were 254,354 million, which increased by 3% compared with 247,955 million in 2011. This increase was primarily due to higher traffic volumes in the Company's Intermodal and Merchandise franchises. This increase was offset by a reduction in bulk shipments, and the impact of volumes lost during the strike in the second quarter.

GTMs for 2011 were 247,955 million, which increased by 2% compared with 242,757 million in 2010. This increase was primarily due to traffic mix changes.

Train miles for 2012 were relatively flat compared with 2011, with higher workload offset by an increase in train weights. Train miles for 2011 were also relatively flat compared with 2010. Train miles in the first half of 2012 increased 6% compared to the same period in 2011. Train miles in the second half of 2012 decreased by 3%, largely attributable to compressed train service transit schedules.

Average train weight increased in 2012 by 116 tons or 2% from 2011. Average train weight in the first half of 2012 was relatively flat compared to the same period in 2011. Average train weight in the second half of 2012 increased by 4%. Average train length increased in 2012 by 173 feet or 3% from 2011. Average train length in the first half of 2012 was relatively flat compared to the same period in 2011. Average train length in the second half of 2012 increased by 6%. Average train weight and length benefited from increased Merchandise and Intermodal workload moving in existing train service and the successful execution of the Company's operating plan. Improvements to average train weight and length were further enabled by the siding extension strategy, which allowed for the operation of longer and heavier trains.

Average train weight increased in 2011 by 74 tons or 1% from 2010. This increase was primarily due to our continued implementation of the long-train strategy in the bulk franchise.

Table of Contents

Average train length increased in 2011 by 5 feet from 2010. This was relatively flat year over year.

Average train speed was 24.4 miles per hour in 2012, an increase of 15%, from 21.3 miles per hour in 2011. This increase was primarily due to ongoing capacity investments, improved operating conditions and the successful execution of the Company's operating plan.

Average train speed was 21.3 miles per hour in 2011, a decrease of 6%, from 22.7 miles per hour in 2010. This decrease was primarily due to increased volumes, traffic mix and significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year of 2011.

Average terminal dwell, the average time a freight car resides in a terminal, decreased by 12% in 2012 to 17.6 hours from 19.9 hours in 2011. This decrease was primarily due to a focus on maintaining yard fluidity and the successful execution of our operating plan. Decreases in average terminal dwell were also impacted by the decommissioning of hump operations yards in Toronto, Winnipeg, Chicago and Calgary, and intermodal terminal consolidations in Toronto and Chicago.

Average terminal dwell, decreased by 7% in 2011 to 19.9 hours when compared to 21.4 hours in 2010. This decrease was primarily due to programs supporting the execution of our operating plan designed to improve asset velocity and a continued focus on the storage of surplus cars.

Car miles per car day were 202.3 in 2012, an increase of 26% from 160.1 in 2011. This increase was primarily due to the successful execution of the operating plan, improved operating conditions and the removal of 10,500 active cars from the network over the full year.

Car miles per car day were 160.1 in 2011, relatively flat compared to 159.4 in 2010. This was primarily due to poor operating fluidity as a result of significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year and was partially offset by various initiatives in the design and execution of our operating plan focused on improving asset velocity.

Locomotive productivity, which is daily average GTMs/active HP, increased in 2012 by 8% from 2011. Locomotive productivity in the first half of 2012 increased 6% compared to the same period in 2011. Locomotive productivity in the second half of 2012 increased by 11%. This increase was primarily due to improvements in network fluidity and the successful execution of the Company's operating plan.

Locomotive productivity decreased in 2011 by 6% from 2010. The decrease was primarily due to significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year.

Employee productivity, which is million GTMs/expense employee, was relatively flat in 2012 compared to 2011. Benefits realized through the successful execution of the Company's operating plan were offset by the Company's hiring plan in advance of anticipated attrition in the first half of 2012.

Employee productivity in 2011 was relatively flat from 2010.

Fuel efficiency improved by 3% in 2012 compared to 2011. This improvement was primarily due to improved operating conditions and the advancement of the Company's fuel conservation strategies including replacement of older units with new more fuel efficient locomotives.

Fuel efficiency declined by 1% in 2011 compared with 2010. This decline was primarily due to significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year.

The average number of active expense employees for 2012 increased by 425, or 3%, compared with 2011. This increase was primarily due to additional hiring early in the year to address volume growth projections and anticipated attrition over future quarters, partially offset by improvements in labour productivity and the impact of the strike, including temporary layoffs. During the first half of 2012, the average number of active expense employees increased, however labour productivity improvements allowed for a decrease in active expense employees by the end of the year, as discussed in Section 12, Fourth-Quarter Summary.

The average number of active expense employees for 2011 increased by 290, or 2%, compared with 2010. This increase was primarily due to additional hiring to address volume growth projections and attrition.

The average daily active cars on-line for 2012 decreased by 10,500 cars, or 20%, compared with 2011. This decrease was primarily due to improved network fluidity, our successful execution of our operating plan and a focus on the storage, disposal and return to lessors of surplus cars.

The average daily active cars on-line for 2011 was relatively flat compared with 2010.

The average daily active road locomotives on-line for 2012 decreased by 78 units, or 7%, compared with 2011. This improvement was primarily due to more efficient and fluid operations, driving improved asset velocity, improved fleet reliability, and the successful execution of the operating plan, offset in part by higher traffic volumes.

The average daily active road locomotives on-line for 2011 increased by 69 units, or 7%, compared with 2010. This increase was primarily due to significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year which reduced network speed and added train miles for rerouting of traffic.

Safety Indicators

Safety is a key priority for our management and Board of Directors. Our two main safety indicators – personal injuries and train accidents – follow strict U.S. Federal Railroad Administration ("FRA") reporting guidelines.

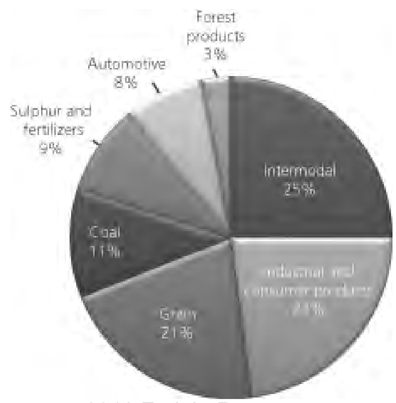
Table of Contents

The FRA personal injury rate per 200,000 employee-hours for CP was 1.46 in 2012, 1.85 in 2011 and 1.67 in 2010. The personal injury rate of 1.46 represents a 21% performance improvement compared to 2011.

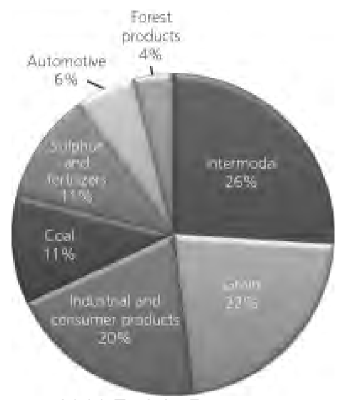
The FRA train accident rate for CP in 2012 was 1.67 accidents per million train-miles, compared with 1.88 in 2011 and 1.67 in 2010. CP's 2012 train accident rate of 1.67 is 11% lower than 2011.

8. LINES OF BUSINESS

Revenues



2012 Freight Revenues



2011 Freight Revenues

For the year ended December 31 (in millions)	2012	2011	2010	% Change 2012 vs. 2011	% Change 2011 vs. 2010
Freight revenues					
Grain	**$ 1,172**	$ 1,100	$ 1,135	7	(3)
Coal	**602**	556	491	8	13
Sulphur and fertilizers	**520**	549	475	(5)	16
Industrial and consumer products	**1,268**	1,017	903	25	13
Automotive	**425**	338	316	26	7
Forest products	**193**	189	185	2	2
Intermodal	**1,370**	1,303	1,348	5	(3)
Total freight revenues	**5,550**	5,052	4,853	10	4
Other revenues	**145**	125	128	16	(2)
Total revenues	**$ 5,695**	$ 5,177	$ 4,981	10	4

Our revenues are primarily derived from transporting freight. Other revenues are generated primarily from the leasing of certain assets, switching fees, contracts with passenger service operators, and logistical services.

In 2012, 2011 and 2010 no one customer comprised more than 10% of total revenues and accounts receivable.

2012 TO 2011 COMPARATIVES

Freight Revenues

Freight revenues are earned from transporting bulk, merchandise and intermodal goods, and include fuel recoveries billed to our customers. Freight revenues were $5,550 million in 2012, an increase of $498 million, or 10% from $5,052 million in 2011.

This increase was primarily due to higher:

- volumes in Industrial and consumer products, Coal and Automotive;
- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes with full margin coverage;

Table of Contents

- freight rates for all lines of business; and
- the favourable impact of the change in FX.

This increase was partially offset by lower shipments in Sulphur and fertilizers and the strike impacting Canadian originating shipments in the second quarter of 2012.

Fuel Cost Recovery Program

The short term volatility in fuel prices may adversely or positively impact expenses and revenues. CP employs a fuel cost recovery program designed to automatically respond to fluctuations in fuel prices and help mitigate the financial impact of rising fuel prices.

Grain

Grain transported by CP consists of both whole grains, such as wheat, corn, soybeans and canola, and processed products such as meals, oils, and flour. Canadian grain products are primarily transported to ports for export and to Canadian and U.S. markets for domestic consumption. U.S. grain products are shipped from the Midwestern U.S. to other points in the Midwest, the Pacific Northwest and Northeastern U.S. Grain revenue was $1,172 million in 2012, an increase of $72 million, or 7%, from $1,100 million in 2011.

This increase was primarily due to:

- increased Canadian originating traffic volumes, as measured in carloads, in the first half of 2012 due to strong demand;
- increased U.S. originating traffic volumes, in the second half of 2012 due to higher overall production in CP's draw territory;
- increased freight rates;
- higher fuel surcharge revenues due to the change in fuel price; and
- the favourable impact of the change in FX.

This increase was partially offset by lower U.S. originated shipments in the first half of the year due to a poor 2011 harvest in CP's draw territory and the strike impacting Canadian originating shipments in the second quarter of 2012.

Coal

Our Canadian coal business consists primarily of metallurgical coal transported from southeastern B.C. to the ports of Vancouver, B.C. and Thunder Bay, Ontario, and to the U.S. Midwest. Our U.S. coal business consists primarily of the transportation of thermal coal and petroleum coke within the U.S. Midwest or for export through west coast ports. Coal revenue was $602 million in 2012, an increase of $46 million, or 8%, from $556 million in 2011.

This increase was primarily due to higher:

- Canadian metallurgical coal shipments due to strong overall demand;
- U.S. thermal coal volumes to Midwestern U.S. markets;
- interline shipments of thermal coal from the PRB through Canadian west coast ports; and
- fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes.

This increase was partially offset by the strike impacting Canadian originating shipments in the second quarter of 2012.

Sulphur and Fertilizers

Sulphur and fertilizers include potash, chemical fertilizers and sulphur shipped mainly from western Canada to the ports of Vancouver, B.C. and Portland, Oregon, and to other Canadian and U.S. destinations. Sulphur and fertilizers revenue was $520 million in 2012, a decrease of $29 million, or 5%, from $549 million in 2011.

This decrease was primarily due to lower export potash shipments reflecting weaker export market demand and was partially offset by higher:

- dry and wet fertilizer shipments in the second half of the year due to increased demand;
- domestic potash shipments due to strong domestic demand;
- fuel surcharge revenues due to the change in fuel price; and
- freight rates.

Industrial and Consumer Products

Industrial and consumer products include chemicals, plastics, aggregates, steel, minerals, ethanol and other energy-related products, other than coal, shipped throughout North America. Industrial and consumer products revenue was $1,268 million in 2012, an increase of $251 million, or 25%, from $1,017 million in 2011.

Table of Contents

This increase was primarily due to:

- higher volumes due to strong market demand and growth in the Bakken Oil Formation, the Alberta Industrial Heartland and the Marcellus Gas Formation and for energy related inputs;
- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes;
- increased freight rates; and
- the favourable impact of the change in FX.

Automotive

Automotive consists primarily of three core finished vehicle traffic segments: import vehicles, Canadian produced and U.S. produced vehicles. These segments move through Port Metro Vancouver to eastern Canadian markets; to the U.S. from Ontario production facilities; and to Canadian markets, respectively. Automotive revenue was $425 million in 2012, an increase of $87 million, or 26%, from $338 million in 2011.

This increase was primarily due to:

- increased shipments as a result of higher North American automotive production and consumption;
- recovery of production by Japanese manufacturers from the impacts of the 2011 tsunami;
- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes; and
- increased freight rates.

Forest Products

Forest products include lumber, wood pulp, paper products and panel transported from key producing areas in western Canada, Ontario and Quebec to various destinations in North America. Forest products revenue was $193 million in 2012, an increase of $4 million, or 2%, from $189 million in 2011.

This increase was primarily due to higher:

- shipments of lumber and panel products due to improving market conditions;
- freight rates; and
- fuel surcharge revenues due to the change in fuel price.

This increase was partially offset by the strike impacting Canadian shipments in the second quarter and weaker market conditions for pulp and paper products.

Intermodal

CP's intermodal portfolio consists of domestic and international services. Our domestic business consists primarily of the movement of manufactured consumer products in containers within North America. The international business handles the movement of marine containers between ports and North American inland markets. Intermodal revenue was $1,370 million in 2012, an increase of $67 million, or 5%, from $1,303 million in 2011.

This increase was primarily due to:

- higher shipments driven by increased consumer demand;
- improved service and operating performance;
- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes; and
- increased freight rates.

This increase was partially offset by lower shipments through the Port of Montreal as a result of softness in the European economy and the strike impacting Canadian shipments in the second quarter.

Other Revenue

Other revenue was $145 million in 2012, an increase of $20 million, or 16%, from $125 million in 2011. This increase was primarily due to higher leasing and passenger revenues.

2011 TO 2010 COMPARATIVES

Revenue variances below compare 2011 to 2010 figures.

Freight Revenues

Freight revenues were $5,052 million in 2011, an increase of $199 million, or 4%, from $4,853 million in 2010.

Table of Contents

This increase was primarily due to higher:

- shipments in Industrial and consumer products, Automotive, and potash;
- fuel surcharge revenues due to the change in fuel price; and
- freight rates for all lines of business.

This increase was partially offset by:

- lower volumes of import/export intermodal traffic;
- lower U.S. originating coal shipments;
- lower U.S. originating grain shipments; and
- the unfavourable impact of the change in FX.

Grain

Grain revenue was $1,100 million in 2011, a decrease of $35 million, or 3%, from $1,135 million in 2010.

This decrease was primarily due to:

- lower U.S. originated shipments driven by reduced wheat production and export demand for feed grains;
- lower Canadian grain shipments in the first half of the year due to unusually difficult weather and other supply chain issues; and
- the unfavourable impact of the change in FX.

This decrease was partially offset by:

- increased Canadian grain shipments resulting from the introduction of our scheduled grain program enabling us to recapture market share in the second half of the year;
- higher fuel surcharge revenues due to the change in fuel price; and
- increased freight rates.

Coal

Coal revenue was $556 million in 2011, an increase of $65 million, or 13% from $491 million in 2010.

This increase was primarily due to an increase in long-haul metallurgical coal shipments due to strong overall demand and increased freight rates for U.S. originated traffic. This increase was partially offset by lower U.S. originating volumes as certain short haul U.S. thermal coal contracts were not renewed, as well as the unfavourable impact of the change in FX.

Sulphur and Fertilizers

Sulphur and fertilizers revenue was $549 million in 2011, an increase of $74 million, or 16% from $475 million in 2010.

This increase was primarily due to higher:

- export potash shipments as volumes fully recovered to pre-recession levels;
- domestic potash and fertilizer shipments due to an increased overall demand;
- fuel surcharge revenues due to the change in fuel price; and
- freight rates.

This increase was partially offset by the unfavourable impact of the change in FX.

Forest Products

Forest products revenue was $189 million in 2011, an increase of $4 million, or 2%, from $185 million in 2010.

This increase was primarily due to higher:

- shipments of pulp and paper products for the first three quarters of the year due to a re-opening of a mill on our line in 2010;
- fuel surcharge revenues due to the change in fuel price; and
- freight rates.

This increase was partially offset by the unfavourable impact of the change in FX.

Industrial and Consumer Products

Industrial and consumer products revenue was $1,017 million in 2011, an increase of $114 million, or 13% from $903 million from 2010.

Table of Contents

This increase was primarily due to higher:

- overall industrial products volumes due to strong market demand and growth in the Bakken Oil Formation, the Alberta Industrial Heartland and the Marcellus Gas Formation and for energy related inputs;
- fuel surcharge revenues due to the change in fuel price; and
- freight rates.

This increase was partially offset by the unfavourable impact of the change in FX.

Automotive

Automotive revenue was $338 million in 2011, an increase of $22 million, or 7%, from $316 million in 2010.

This increase was primarily due to higher:

- shipments as a result of higher North American auto sales and higher overall auto production by domestic producers;
- fuel surcharge revenues due to the change in fuel price; and
- freight rates.

This increase was partially offset by reduced import volumes through the Port Metro Vancouver and production at certain North American plants which suffered from component delivery disruptions following the earthquake and tsunami in Japan, and the unfavourable impact of the change in FX.

Intermodal

Intermodal revenue was $1,303 million in 2011, a decrease of $45 million, or 3%, from $1,348 million in 2010.

This decrease was primarily due to:

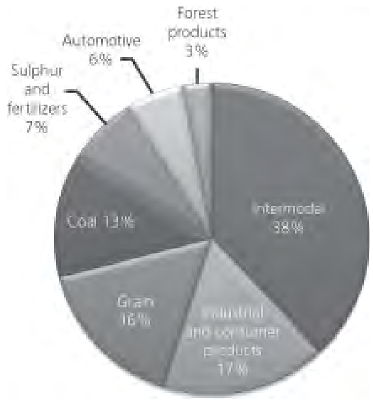
- lower overall volumes due to the loss of market share as a result of significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year;
- lower shipments through the Port Metro Vancouver; and
- the unfavourable impact of the change in FX.

This decrease was partially offset by increased freight rates and higher fuel cost recovery revenues due to the increase in fuel price.

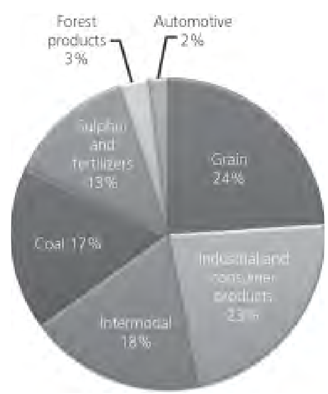
Other Revenue

Other revenue was $125 million in 2011, a decrease of $3 million, or 2%, from $128 million in 2010. This decrease was primarily due to lower passenger revenues and the unfavourable impact of the change in FX, partially offset by higher leasing and switching revenues.

Volumes



2012 Carloads



2012 Revenue ton-miles

Table of Contents

For the year ended December 31	**2012**	2011	2010	% Change 2012 vs. 2011	% Change 2011 vs. 2010
Carloads (in thousands)					
Grain	**433**	450	467	(4)	(4)
Coal	**337**	313	341	8	(8)
Sulphur and fertilizers	**177**	199	177	(11)	12
Industrial and consumer products	**469**	421	397	11	6
Automotive	**162**	145	137	12	6
Forest products	**67**	72	72	(7)	–
Intermodal	**1,024**	997	1,070	3	(7)
Total carloads	**2,669**	2,597	2,661	3	(2)
Revenue ton-miles (in millions)					
Grain	**33,082**	32,481	34,556	2	(6)
Coal	**22,375**	21,041	19,021	6	11
Sulphur and fertilizers	**17,058**	20,468	17,687	(17)	16
Industrial and consumer products	**30,469**	24,122	22,143	26	9
Automotive	**2,482**	2,080	2,067	19	1
Forest products	**4,713**	4,960	5,091	(5)	(3)
Intermodal	**24,853**	23,907	25,863	4	(8)
Total revenue ton-miles	**135,032**	129,059	126,428	5	2

Changes in freight volumes generally contribute to corresponding changes in freight revenues and certain variable expenses, such as fuel, equipment rents and crew costs.

Volumes in 2012, as measured by total carloads, increased by approximately 72,000 units, or 3% compared to the same period of 2011.

This increase in carloads was primarily due to higher:

- volumes due to strong market demand and growth in the Bakken Oil Formation, the Alberta Industrial Heartland and the Marcellus Gas Formation and for energy related inputs;
- intermodal traffic volumes driven by increased consumer demand;
- volumes of Canadian metallurgical coal shipments, U.S. thermal coal volumes to Midwestern U.S. markets and from the PRB through Canadian west coast ports; and
- automotive shipments as a result of higher North American automotive production and consumption.

This increase in carloads was partially offset by lower:

- export potash shipments reflecting weaker export market demand;
- lower U.S. originated grain shipments in the first half of the year due to a poor 2011 harvest in CP's draw territory; and
- weaker market conditions for pulp and paper in Forest products.

Volumes in 2011, as measured by total carloads, decreased by approximately 64,000 units, or 2% compared to the same period of 2010.

This decrease in carloads was primarily due to lower volumes of:

- import/export intermodal traffic;
- U.S. originating coal; and
- U.S. originating grain shipments.

This decrease in carloads was partially offset by increased:

- volumes of Industrial and consumer products traffic;
- volumes of export and domestic potash; and

Table of Contents

- export coal shipments.

Revenue ton-miles ("RTMs") in 2012 increased by approximately 5,973 million, or 5%, compared to the same period of 2011.

This increase was primarily due to higher:

- shipments of energy related commodities which have an above average length of haul;
- Canadian originating shipments of metallurgical coal volumes through Port Metro Vancouver; and
- intermodal shipments through Port Metro Vancouver.

This increase in RTMs was partially offset by lower export potash shipments in Sulphur and fertilizers and lower pulp and paper volumes in Forest products.

RTMs in 2011 increased by approximately 2,631 million, or 2%, compared to the same period of 2010. This increase was primarily due to higher:

- volumes in Industrial and consumer products;
- volumes of export and domestic potash; and
- long-haul metallurgical coal shipments.

This increase in RTMs was partially offset by lower U.S. originating grain shipments and lower volumes of import/export intermodal traffic.

Freight Revenue per Carload

For the year ended December 31 (dollars)	2012	2011	2010	% Change 2012 vs. 2011	% Change 2011 vs. 2010
Freight revenue per carload					
Grain	**$ 2,707**	$ 2,444	$ 2,430	11	1
Coal	**1,786**	1,776	1,440	1	23
Sulphur and fertilizers	**2,938**	2,759	2,684	6	3
Industrial and consumer products	**2,704**	2,416	2,275	12	6
Automotive	**2,623**	2,331	2,307	13	1
Forest products	**2,881**	2,625	2,569	10	2
Intermodal	**1,338**	1,307	1,260	2	4
Total freight revenue per carload	**$ 2,079**	$ 1,945	$ 1,824	7	7

Total freight revenue per carload in 2012 increased by 7% compared to 2011.

This increase was primarily due to:

- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes with full margin coverage;
- increased freight rates; and
- the favourable impact of the change in FX.

Total freight revenue per carload in 2011 increased by 7% compared to the same period of 2010. This increase was due to:

- higher fuel cost recovery revenues;
- overall increased length of haul reflecting traffic mix changes; and
- increased freight rates.

This increase was partially offset by the unfavourable impact of the change in FX.

Table of Contents

Freight Revenue per Revenue Ton-Mile

For the year ended December 31 (cents)	**2012**	2011	2010	% Change 2012 vs. 2011	% Change 2011 vs. 2010
Freight revenue per revenue ton-mile					
Grain	**3.54**	3.39	3.28	4	3
Coal	**2.69**	2.64	2.58	2	2
Sulphur and fertilizers	**3.05**	2.68	2.69	14	–
Industrial and consumer products	**4.16**	4.22	4.08	(1)	3
Automotive	**17.12**	16.25	15.29	5	6
Forest products	**4.10**	3.81	3.63	8	5
Intermodal	**5.51**	5.45	5.21	1	5
Total freight revenue per revenue ton-mile	**4.11**	3.91	3.84	5	2

Freight revenue per RTM increased by 5% in 2012 compared to 2011.

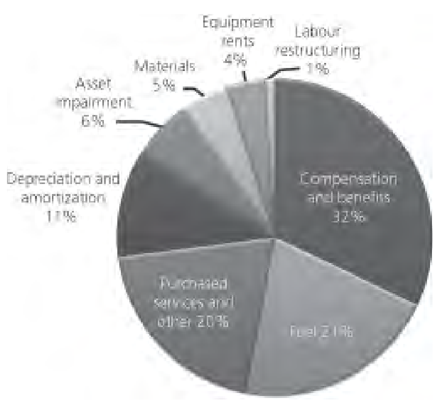
This increase was primarily due to:

- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes with full margin coverage;
- increased freight rates;
- a decrease in export shipments of potash which generate a lower freight revenue per RTM; and
- the favourable impact of the change in FX.

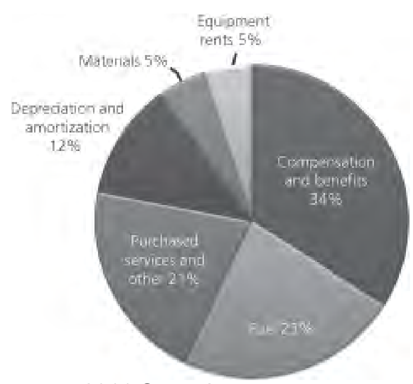
This increase was partially offset by traffic mix changes due to strong growth in energy related inputs and outputs, which generate lower revenue per RTM.

Freight revenue per RTM increased by 2% in 2011 compared to 2010. This increase was primarily due to increased fuel surcharge revenues and increased freight rates. This increase was partially offset by traffic mix changes including strong growth in the Sulphur and fertilizers line of business, which generates lower revenue per RTM, and the unfavourable impact of the change in FX.

9. OPERATING EXPENSES



2012 Operating expenses



2011 Operating expenses

Table of Contents

For the year ended December 31 (in millions)	2012	2011	2010	% Change 2012 vs. 2011	% Change 2011 vs. 2010
Operating expenses					
Compensation and benefits[(1)]	**$ 1,506**	$ 1,426	$ 1,431	6	–
Fuel	**999**	968	728	3	33
Materials	**238**	243	214	(2)	14
Equipment rents	**206**	209	206	(1)	1
Depreciation and amortization	**539**	490	489	10	–
Purchased services and other[(1)]	**940**	874	797	8	10
Asset impairment	**265**	–	–	–	–
Labour restructuring	**53**	–	–	–	–
Total operating expenses	**$ 4,746**	$ 4,210	$ 3,865	13	9

(1) As a result of the management transition, a charge of $20 million and $22 million were charged in Compensation and benefits and Purchased services and other, respectively.

Operating expenses were $4,746 million in 2012, an increase of $536 million, or 13%, from $4,210 million in 2011.

This increase was primarily due to:

- asset impairment and labour restructuring charges;
- higher volume variable expenses, such as fuel, crews and intermodal operations, as a result of an increase in workload;
- higher incentive and stock-based compensation expenses driven by improved operating and stock performance as compared to 2011;
- higher depreciation and amortization expenses;
- management transition costs, reflected in Compensation and benefits and Purchased services and other;
- higher IT costs associated with infrastructure and maintenance services;
- the unfavourable impact of the change in FX; and
- higher fuel prices.

This increase was partially offset by:

- improved operating performance, asset utilization and operating conditions;
- certain volume variable expenses saved as a result of the strike in the second quarter of 2012; and
- an insurance recovery recognized in the first quarter of 2012, related to flooding in southern Alberta and Saskatchewan in 2010.

2012 TO 2011 COMPARATIVES

Compensation and Benefits

Compensation and benefits expense includes employee wages, salaries and fringe benefits. Compensation and benefits expense was $1,506 million in 2012, an increase of $80 million, or 6%, from $1,426 million in 2011.

This increase was primarily due to:

- increased incentive and stock-based compensation expenses driven by improved operating and stock performance as compared to 2011;
- higher crew costs as a result of an increase in workload, measured by GTMs;
- an increase in the number of employees in the first half of 2012, to meet business demand and anticipated attrition;
- charges associated with management transition;
- labour and benefits inflation; and
- the unfavourable impact of the change in FX.

Table of Contents

This increase was partially offset by:

- operational efficiencies which favourably impacted yard and road crew costs;
- savings from reduced overtime hours;
- crew and dispatching costs saved as a result of the strike;
- a reduction in training costs for running trade employees relative to 2011, due to fewer new hires; and
- a reduction in pension expense.

Fuel

Fuel expense consists of fuel used by locomotives and includes provincial, state and federal fuel taxes and the impact of our hedging program. Fuel expense was $999 million in 2012, an increase of $31 million, or 3%, from $968 million in 2011.

This increase was primarily due to:

- increased traffic volumes, as measured by GTMs;
- higher fuel prices;
- the unfavourable impact of the change in FX; and
- the gain on settled diesel futures contracts recorded in 2011.

This increase was partially offset by a favourable change in fuel efficiency, reflecting improved operational fluidity, storage of older less fuel efficient locomotives, and a continued focus on the Company's fuel conservation strategies.

Materials

Materials expense includes the cost of material used for track, locomotive, freight car, building maintenance, and software. Materials expense was $238 million in 2012, a decrease of $5 million, or 2%, from $243 million in 2011.

Improved operating conditions as compared to 2011 reduced the need for freight car repairs, and increased locomotive availability combined with the storage of less reliable and less efficient locomotives reduced locomotive repair costs.

This decrease was partially offset by additional licensing, maintenance and support costs associated with software.

Equipment Rents

Equipment rents expense includes the cost to lease freight cars, intermodal equipment, and locomotives from other companies including railways, net of rental income received from other railways for the use of our equipment. Equipment rents expense was $206 million in 2012, a decrease of $3 million, or 1%, from $209 million in 2011.

This decrease reflects freight car and locomotive operating efficiencies and improved operating conditions which have contributed to improved asset velocity. As a result, the Company has required fewer freight cars and locomotives, reducing the payments made to foreign railways for the use of their freight cars and permitting the return of certain leased freight cars.

These benefits were partially offset by:

- lower receipts, reflecting reduced usage of CP owned freight cars by foreign railways;
- higher freight car lease costs due to higher rates; and
- the unfavourable impact of the change in FX.

Depreciation and Amortization

Depreciation and amortization expense represents the charge associated with the use of track and roadway, buildings, rolling stock, information systems and other depreciable assets. Depreciation and amortization expense was $539 million in 2012, an increase of $49 million, or 10%, from $490 million in 2011. This increase was primarily due to higher depreciable assets as a result of our capital program and the acceleration of depreciation on certain legacy IT assets as we invest and renew our IT infrastructure.

Table of Contents

Purchased Services and Other

For the year ended December 31 (in millions)	2012	2011	2010	% Change 2012 vs. 2011	% Change 2011 vs. 2010
Purchased services and other					
Support and facilities	**$ 420**	$ 382	$ 345	10	11
Track and operations	**192**	191	164	1	16
Intermodal	**153**	147	141	4	4
Equipment	**89**	75	83	19	(10)
Casualty	**80**	80	64	–	25
Other	**29**	24	28	21	(14)
Land sales	**(23)**	(25)	(28)	(8)	(11)
Total Purchased services and other	**$ 940**	$ 874	$ 797	8	10

Purchased services and other expense encompasses a wide range of costs, including expenses for joint facilities, personal injuries and damage, environmental remediation, property and other taxes, contractor and consulting fees, insurance, gains on land sales and equity earnings. Purchased services and other expense was $940 million in 2012, an increase of $66 million, or 8%, from $874 million in 2011.

The increase was primarily due to:

- management transition costs of $22 million, included in Other;
- higher IT costs associated with infrastructure and maintenance services, reported in Support and facilities;
- increased third party repair costs for freight cars being returned to lessors and a higher number of overhauls performed on locomotives, included in Equipment;
- increased expenses related to higher workload, included in Track and operations, Intermodal and Equipment;
- termination costs of a warranty service agreement as part of our insourcing strategy, included in Equipment; and
- the unfavourable impact of the change in FX.

The increase was partially offset by:

- the favourable impact of improved operating conditions, impacting Support and facilities and Track and operations;
- an insurance recovery recognized in the first quarter of 2012, related to flooding in southern Alberta and Saskatchewan in 2010, included in Other; and
- lower relocation expenses, included in Track and operations.

Asset Impairment

During the fourth quarter of 2012, the Company recorded an asset impairment charge related to its investment in the Powder River Basin ("PRB") and another investment of $185 million ($111 million after tax) and an impairment loss on a certain series of locomotives of $80 million ($59 million after tax).

Powder River Basin impairment

As part of the acquisition of Dakota, Minnesota & Eastern Railroad Corporation ("DM&E") in 2007, CP acquired the option to build a 260 mile extension of its network into coal mines in the PRB.

Due to continued deterioration in the market for domestic thermal coal, including a sharp deterioration in 2012, in the fourth quarter of 2012 CP deferred plans to extend its rail network into the PRB coal mines indefinitely. The amount of the impairment was $180 million ($107 million after tax). The impairment was comprised of:

- construction plans, including capitalized interest: $134 million ($80 million after tax);
- option impairment: $26 million ($15 million after tax); and
- land, land option appraisals, including capitalized interest: $20 million ($12 million after tax).

Table of Contents

Impairment loss on locomotives

In the fourth quarter of 2012, CP reached a decision to dispose of a certain series of locomotives to improve operating efficiencies, and accordingly performed an impairment test on these assets. The impairment test determined that the net book value of these locomotives at the date of the impairment test was $80 million higher than their estimated fair value. The impairment charge of $80 million ($59 million after tax) was recorded as an “Asset impairment” and charged against income.

Labour Restructuring

In the fourth quarter of 2012, CP recorded a charge of $53 million ($39 million after tax) for a labour restructuring initiative. The resulting position reductions are expected to be completed by the end of 2014, with the majority of management and union positions to be eliminated by the end of 2013.

2011 TO 2010 COMPARATIVES

Operating Expenses

Operating expenses were $4,210 million in 2011, an increase of $345 million, or 9%, from $3,865 million in 2010.

This increase was primarily due to higher:

- fuel prices;
- costs such as additional crew costs, wheel replacements and increased servicing of locomotives required to restore fluidity across our network due to significant disruptions to train operations across the network in the first half of the year due to unusually severe winter weather and subsequent flooding;
- volume-related expenses;
- IT costs associated with outsourced infrastructure and maintenance services and planning expenses with respect to new applications in support of future growth;
- wages and benefits inflation;
- crew training expenses due to increased hiring to meet business demand and attrition; and
- casualty costs.

This increase was partially offset by lower incentive and stock-based compensation expense and the favourable impact of the change in FX.

Compensation and Benefits

Compensation and benefits expense was $1,426 million in 2011, a decrease of $5 million from $1,431 million in 2010. This decrease was primarily due to lower incentive and stock-based compensation and the favourable impact of the change in FX.

This decrease was partially offset by higher:

- crew costs driven by increased workload and less efficient operations due to significant disruptions to train operations across the network in the first half of the year due to unusually severe winter weather and subsequent flooding;
- wages and benefits inflation;
- crew training expenses as a result of increased hires to meet business demand and attrition; and
- pension expense.

Fuel

Fuel expense was $968 million in 2011, an increase of $240 million, or 33%, from $728 million in 2010. This increase was primarily due to higher fuel prices and increased consumption as a result of higher workload as measured by GTMs. This increase was partially offset by the favourable impact of the change in FX and hedging gains.

Materials

Materials expense was $243 million in 2011, an increase of $29 million, or 14%, from $214 million in 2010.

Table of Contents

This increase was primarily due to higher:

- number of wheels replaced for freight cars and higher servicing and repair costs for additional locomotives needed to assist in restoring fluidity across our entire network as a result of significant disruptions to train operations across the network in the first half of the year due to unusually severe winter weather and subsequent flooding;
- non-locomotive fuel costs; and
- workload as measured by GTMs, resulting in increased locomotive and freight car repair and servicing costs.

This increase was partially offset by the favourable impact of the change in FX.

Equipment Rents

Equipment rents expense was $209 million in 2011, an increase of $3 million, or 1%, from $206 million in 2010. This increase was primarily due to higher workload as measured by GTMs, resulting in increased freight car and locomotive leasing costs including higher lease rates.

Depreciation and Amortization

Depreciation and amortization expense was $490 million in 2011, an increase of $1 million, from $489 million in 2010. This increase was primarily due to higher depreciable assets. This increase was partially offset by the favourable impact of updated depreciation rates implemented in 2011 combined with the favourable impact of the change in FX.

Purchased Services and Other

Purchased services and other expense was $874 million in 2011, an increase of $77 million, or 10%, from $797 million in 2010.

This increase was primarily due to higher:

- IT costs associated with outsourced infrastructure and maintenance services and planning expenses with respect to new applications in support of future growth;
- Casualty expenses due to more costly mishaps and increased claims;
- workload affecting Track and operations expenses;
- locomotive overhaul costs performed by third parties affecting Equipment expenses; and
- costs as a result of inefficient operations due to significant disruptions to train operations across the network in the first half of the year due to unusually severe winter weather and subsequent flooding.

This increase was partially offset by the favourable impact of the change in FX and lower consulting costs.

10. OTHER INCOME STATEMENT ITEMS

Other Income and Charges

Other income and charges consists of gains and losses from the change in foreign exchange on long-term debt (“FX on LTD”) and working capital, various costs related to financing, shareholder costs, gains and losses associated with changes in the fair value of non-hedging derivative instruments and other non-operating expenditures. Other income and charges was an expense of $37 million in 2012, compared to $18 million in 2011. This increase was primarily due to higher advisory fees related to shareholder matters in 2012 and lower gains on long-term floating rate notes. This increase was partially offset by FX gains on LTD and working capital compared to FX losses in 2011.

Other income and charges was an expense of $18 million in 2011, compared to income of $12 million in 2010. This expense was primarily due to:

- a net loss on the early redemption of 5.75% Notes due in May 2013;
- advisory fees related to shareholder matters; and
- FX losses on working capital and long-term debt.

This expense was partially offset by a gain on the sale of long-term floating rate notes.

Net Interest Expense

Net interest expense includes interest on long-term debt and capital leases. Net interest expense was $276 million in 2012, an increase of $24 million, or 10%, from $252 million in 2011. This increase was primarily due to new debt issuances in 2011 as well as the unfavourable impact in the

Table of Contents

change in FX rates on U.S. dollar-denominated interest expense. This was partially offset by the retirement of debt securities in 2011 and higher interest capitalized on capital projects in 2012. Debt issuances and retirements are discussed further in Section 14, Liquidity and Capital Resources.

Net interest expense was $252 million in 2011, a decrease of $5 million, or 2%, from $257 million in 2010.

This decrease was primarily due to the retirement of debt securities and the favourable impact of the change in FX on U.S. dollar-denominated interest expense. This decrease was partially offset by:

- interest on new debt issuances;
- lower interest capitalized on capital projects in 2011; and
- lower interest income resulting from the collection of an interest bearing receivable during the second quarter of 2010.

Debt issuances and retirements are discussed further in Section 14, Liquidity and Capital Resources.

Income Taxes

Income tax expense was $152 million in 2012, an increase of $25 million, or 20%, from $127 million in 2011. This increase was primarily due to the impact of a tax recovery in the fourth quarter of 2011 of $37 million from the resolution of certain income tax matters and the impact of the province of Ontario's corporate income tax rate change in 2012. This was partially offset by lower income before tax.

Income tax expense was $127 million in 2011, a decrease of $93 million, or 42%, from $220 million in 2010. This decrease was primarily due to lower earnings and the resolution of certain income tax matters.

The effective income tax rate for 2012 was 24%, compared with 18%, and 25% for 2011 and 2010 respectively.

We expect a normalized 2013 income tax rate of between 25% and 27%. The 2013 outlook on our normalized income tax rate is based on certain assumptions about events and developments that may or may not materialize or that may be offset entirely or partially by other events and developments (discussed further in Section 21, Business Risks and Section 22, Critical Accounting Estimates). We expect to have an increase in our cash tax payments in future years.

11. QUARTERLY FINANCIAL DATA

For the quarter ended (in millions, except per share data)	2012				2011			
	Dec. 31[1]	**Sept. 30**	**Jun. 30[2]**	**Mar. 31[3]**	Dec. 31[4]	Sept. 30	Jun. 30	Mar. 31
Total revenue	**$ 1,502**	**$ 1,451**	**$ 1,366**	**$ 1,376**	$ 1,408	$ 1,341	$ 1,265	$ 1,163
Operating income	**60**	**376**	**239**	**274**	303	324	231	109
Net income	**15**	**224**	**103**	**142**	221	187	128	34
Basic earnings per share	**$ 0.08**	**$ 1.31**	**$ 0.60**	**$ 0.83**	$ 1.31	$ 1.10	$ 0.76	$ 0.20
Diluted earnings per share	**0.08**	**1.30**	**0.60**	**0.82**	1.30	1.10	0.75	0.20

[1] Significant items included in the fourth quarter of 2012 were: an impairment of the PRB and other investment of $185 million ($111 million after tax), an asset impairment of certain locomotives of $80 million ($59 million after tax), and a labour restructuring charge of $53 million ($39 million after tax).

[2] Significant items included in the second quarter of 2012 were: management transition costs of $42 million ($29 million after tax), advisory fees related to shareholder matters of $13 million ($10 million after tax) and the $11 million impact of the increase in the Ontario corporate income tax rate.

[3] Significant items in the first quarter of 2012 were: advisory fees related to shareholder matters of $14 million ($10 million after tax).

[4] Significant items in the fourth quarter of 2011 were: advisory fees related to shareholder matters of $6 million ($5 million after tax) and the $37 million income tax benefit from the resolution of certain income tax matters related to previous year tax filings and estimates. Significant items are discussed further in Section 15, Non-GAAP Measures.

Quarterly Trends

Volumes of and, therefore, revenues from certain goods are stronger during different periods of the year. First-quarter revenues can be lower mainly due to winter weather conditions, closure of the Great Lakes ports and reduced transportation of retail goods. Second and third-quarter revenues generally improve over the first quarter as fertilizer volumes are typically highest during the second quarter and demand for construction-related goods is generally highest in the third quarter. Revenues are typically strongest in the fourth quarter, primarily as a result of the transportation of grain after the harvest, fall fertilizer programs and increased demand for retail goods moved by rail. Operating income is also affected by seasonal fluctuations. Operating income is typically lowest in the first quarter due to higher operating costs associated with winter conditions. Net income is also influenced by seasonal fluctuations in customer demand and weather-related issues.

Table of Contents

12. FOURTH-QUARTER SUMMARY

For the three months ended December 31 (in millions)	**2012**	2011	% Change
Revenues			
Grain	**$ 355**	$ 323	10
Coal	**156**	158	(1)
Sulphur and fertilizers	**133**	133	–
Industrial and consumer products	**335**	288	16
Automotive	**99**	94	5
Forest products	**46**	47	(2)
Intermodal	**340**	332	2
Total freight revenues	**1,464**	1,375	6
Other revenues	**38**	33	15
Total revenues	**1,502**	1,408	7
Operating expenses			
Compensation and benefits	**378**	389	(3)
Fuel	**256**	267	(4)
Materials	**60**	58	3
Equipment rents	**48**	51	(6)
Depreciation and amortization	**140**	123	14
Purchased services and other	**242**	217	12
Asset impairment	**265**	–	–
Labour restructuring	**53**	–	–
Total operating expenses	**1,442**	1,105	30
Operating income	**$ 60**	$ 303	(80)

Operating Results

Operating income was $60 million in the fourth quarter of 2012, a decrease of $243 million, or 80%, from $303 million in the same period of 2011.

This decrease was primarily due to:

- asset impairment and labour restructuring charges;
- higher incentive and stock-based compensation expenses driven by improved operating and stock performance as compared to 2011;
- lower land sales; and
- higher depreciation and amortization expenses.

This decrease was partially offset by:

- increased volumes of traffic, generating higher freight revenue;
- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes with full margin coverage;
- efficiencies generated from improved operating performance and asset utilization; and
- higher freight rates.

Net income was $15 million in the fourth quarter of 2012, a decrease of $206 million, or 93%, from $221 million in the same period of 2011. This decrease was primarily due to lower operating income and higher net interest expense, partially offset by a decrease in income taxes.

Diluted Earnings per Share

Diluted EPS was $0.08 in the fourth quarter of 2012, a decrease of $1.22, or 94%, from $1.30 in the same period of 2011. This decrease was primarily due to lower net income.

Table of Contents

Diluted EPS, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was $1.28 in the fourth quarter 2012, an increase of $0.17, or 15%, from $1.11 in the same period of 2011. This increase was primarily due to higher operating income, excluding significant items, discussed further in Section 15, Non-GAAP Measures. Diluted EPS, excluding significant items and operating income, excluding significant items have no standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures of other companies.

Operating Ratio

Our operating ratio was 96.0% in the fourth quarter of 2012, compared with 78.5% in the same period of 2011. This increase of 1,750 basis points was primarily due to asset impairment and labour restructuring charges.

The operating ratio, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was 74.8% in the fourth quarter 2012, a decrease from 78.5% in the same period of 2011. This improvement was primarily due to higher freight revenue at lower incremental costs, primarily offset by higher incentive and stock-based compensation expenses. Operating ratio excluding significant items, has no standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures of other companies.

Impact of Foreign Exchange on Earnings

Fluctuations in foreign exchange affect our results because U.S. dollar-denominated revenues and expenses are translated into Canadian dollars. U.S. dollar-denominated revenues and expenses decrease when the Canadian dollar strengthens in relation to the U.S. dollar. Our FX rates are disclosed in Section 6, Operating Results.

PERFORMANCE INDICATORS

For the three months ended December 31	**2012**	2011	% Change 2012 vs. 2011
Operations Performance			
Freight gross ton-miles (millions)	**66,204**	65,472	1
Train miles (thousands)	**10,046**	10,611	(5)
Average train weight – excluding local traffic (tons)	**7,014**	6,587	6
Average train length – excluding local traffic (feet)	**6,132**	5,654	8
Average train speed – AAR definition (mph)	**24.0**	23.4	3
Average terminal dwell – AAR definition (hours)	**17.3**	17.7	(2)
Car miles per car day	**201.7**	183.5	10
Locomotive productivity (daily average GTMs/active HP)	**197.1**	175.1	13
Employee productivity (million GTMs/expense employee)[2]	**4.7**	4.5	4
Fuel efficiency[1]	**1.14**	1.17	(3)
Average number of active employees – expense[2]	**14,108**	14,459	(2)
Average daily active cars on-line (thousands)	**42.2**	46.7	(10)
Average daily active road locomotives on-line	**952**	1,085	(12)
Safety indicators[3]			
FRA personal injuries per 200,000 employee-hours	**1.89**	1.70	11
FRA train accidents per million train-miles	**1.68**	1.40	20

(1) Fuel efficiency is defined as U.S. gallons of locomotive fuel consumed per 1,000 Gross ton-miles ("GTMs") – freight and yard.

(2) An employee is defined as an individual who worked more than 40 hours in a standard biweekly pay period. This excludes part time employees, contractors, consultants and trainees.

(3) Certain prior period figures have been revised to conform with current presentation or have been updated to reflect new information.

Operations Performance

GTMs for the fourth quarter of 2012 were 66,204 million, which increased by 1% compared with 65,472 million in the same period of 2011. This increase was primarily due to higher traffic volumes in the Company's intermodal and merchandise franchises partially offset by a reduction in bulk shipments.

Train miles for the fourth quarter of 2012 were 10,046 miles, which decreased by 5% compared with 10,611 miles in the same period of 2011. This decrease was primarily due to increases in both train weights and lengths, partially offset by increased workload.

Table of Contents

In the fourth quarter of 2012, average train weight increased by 427 tons or 6% and average train length increased by 478 feet or 8% from the same period of 2011.

Average train weight and length benefited from increased workload in Merchandise and Intermodal being moved in existing train services and the operation of longer and heavier Bulk trains as a result of the successful execution of the Company's siding extension strategy.

Average train speed was 24.0 miles per hour in the fourth quarter 2012, an increase of 3%, from 23.4 miles per hour in the same period of 2011. This increase was primarily due to ongoing capacity investments and the successful execution of the Company's operating plan.

Average terminal dwell, the average time a freight car resides in a terminal, decreased by 2% in the fourth quarter of 2012 to 17.3 hours from 17.7 hours in the same period of 2011. This decrease was primarily due to a focus on maintaining yard fluidity and the successful execution of our operating plan.

Car miles per car day were 201.7 in the fourth quarter of 2012, an increase of 10%, from 183.5 in the same period of 2011. This increase was primarily due to the successful execution of the operating plan and the removal of 10,500 active cars from the network over the full year.

Locomotive productivity, which is daily average GTMs/active HP, increased in the fourth quarter of 2012 by 13% from the same period of 2011. This increase was primarily due to improved fluidity resulting from the successful execution of the Company's operating plan.

Employee productivity, measured as million GTMs/expense employee, increased by 4% in the fourth quarter of 2012 compared to the same period of 2011. This increase was due to the successful execution of the Company's operating plan leveraging increases in both workload and employee attrition during the quarter.

Fuel efficiency improved by 3% in the fourth quarter of 2012 compared to the same period of 2011. This improvement was primarily due to the advancement of the Company's fuel conservation strategies including replacement of older units with new more fuel efficient locomotives and the successful execution of the Company's operating plan.

The average number of active expense employees for the fourth quarter of 2012 of 14,108 decreased by 351, or 2%, compared with 14,459 in the same period of 2011. This decrease was primarily due to improved labour productivity.

The average daily active cars on-line for the fourth quarter of 2012 decreased by 4,500 cars, or 10%, compared with the same period of 2011. This decrease was primarily due to improved network fluidity, the successful execution of our operating plan and a focus on the storage, disposal and return to lessors of surplus cars.

The average daily active road locomotives on-line for the fourth quarter of 2012 decreased by 133 units, or 12%, compared with the same period of 2011. This decrease was primarily the result of improved asset velocity due to more efficient and fluid operations, improved fleet reliability, and the successful execution of the operating plan, partially offset by higher traffic volumes.

Safety Indicators

Safety is a key priority for our management and Board of Directors. Our two main safety indicators – personal injuries and train accidents – follow strict U.S. Federal Railroad Administration ("FRA") reporting guidelines.

The FRA personal injury rate per 200,000 employee-hours for CP was 1.89 in the fourth quarter of 2012, compared with 1.70 in 2011.

The FRA train accident rate for CP in the fourth quarter of 2012 was 1.68 accidents per million train-miles, compared with 1.40 in 2011.

Freight Revenues

Freight revenues were $1,464 million in the fourth quarter of 2012, an increase of $89 million, or 6%, from $1,375 million in the same period of 2011.

This increase was primarily due to higher:

- volumes in Industrial and consumer products, Grain, and Intermodal;
- fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes with full margin coverage; and
- freight rates across all lines of business.

This increase was partially offset by the unfavourable impact of the change in FX.

Grain

Grain revenue was $355 million in the fourth quarter of 2012, an increase of $32 million, or 10%, from $323 million in the same period of 2011.

This increase was primarily due to higher:

- U.S. originating traffic volumes due to strong demand and production recovery in CP's draw territory;

Table of Contents

- freight rates; and
- fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes.

This increase was partially offset by the unfavourable impact of the change in FX.

Coal

Coal revenue was $156 million in the fourth quarter of 2012, a decrease of $2 million, or 1%, from $158 million in the same period of 2011.

This decrease was primarily due to lower overall Canadian originating traffic volumes due to reduced eastern North American demand and was partially offset by higher:

- interline shipments of thermal coal from the Powder River Basin through Canadian west coast ports;
- fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes; and
- freight rates.

Sulphur and Fertilizers

Sulphur and fertilizers revenue was $133 million in the fourth quarter of 2012, unchanged from the same period of 2011. Lower export potash shipments reflecting weaker export market demand and the unfavourable impact of the change in FX was primarily offset by higher volumes of domestic potash and fertilizer.

Industrial and Consumer Products

Industrial and consumer products revenue was $335 million in the fourth quarter of 2012, an increase of $47 million, or 16%, from $288 million in the same period of 2011.

This increase was primarily due to increased:

- volumes due to strong market demand and growth in the Bakken Oil Formation, the Alberta Industrial Heartland and the Marcellus Gas Formation and for energy related inputs;
- fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes; and
- freight rates.

This increase was partially offset by the unfavourable impact of the change in FX.

Automotive

Automotive revenue was $99 million in the fourth quarter of 2012, an increase of $5 million, or 5%, from $94 million in the same period of 2011.

This increase was driven by higher North American automotive production and consumption and an increase in freight rates and was partially offset by the permanent closure of a plant on our line by a domestic producer and the unfavourable impact of the change in FX.

Forest Products

Forest products revenue was $46 million in the fourth quarter of 2012, a decrease of $1 million, or 2%, from $47 million in the same period of 2011.

This decrease was primarily due to lower pulp and paper volumes as a result of reduced production and soft market demand and was partially offset by increased volumes of lumber and panel shipments and increased freight rates.

Intermodal

Intermodal revenue was $340 million in the fourth quarter of 2012, an increase of $8 million, or 2%, from $332 million in the same period of 2011.

This increase was primarily due to higher:

- fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes;
- shipments through the Port Metro Vancouver; and
- freight rates.

This increase was partially offset by lower shipments through the Port of Montreal as a result of the softness in the European economy and the unfavourable impact of the change in FX.

Table of Contents

Other Revenue

Other revenue was $38 million in the fourth quarter of 2012, an increase of $5 million or 15%, from $33 million in the same period of 2011. This increase was primarily due to higher leasing and passenger revenues.

Operating Expenses

Operating expenses were $1,442 million in the fourth quarter of 2012, an increase of $337 million, or 30%, from $1,105 million in the same period of 2011.

This increase was primarily due to:

- asset impairment and labour restructuring charges, discussed further in Section 9, Operating Expenses;
- higher incentive based compensation expenses driven by improved operating performance as compared to 2011;
- lower land sales;
- higher depreciation and amortization expenses; and
- higher IT costs associated with infrastructure and maintenance services.

This increase was partially offset by:

- efficiencies generated from improved operating performance and asset utilization;
- the favourable impact of the change in FX; and
- lower training costs.

Compensation and Benefits

Compensation and benefits expense was $378 million in the fourth quarter of 2012, a decrease of $11 million, or 3%, from $389 million in the same period of 2011.

This decrease was primarily due to:

- operational efficiencies which favourably impacted yard and road crew costs;
- a reduction in training costs for running trade employees relative to 2011;
- savings from reduced overtime hours;
- the favourable impact of the change in FX; and
- a reduction in pension expense.

This decrease was partially offset by higher incentive based compensation expense driven by improved operating performance as compared to 2011 and labour and benefits inflation.

Fuel

Fuel expense was $256 million in the fourth quarter of 2012, a decrease of $11 million, or 4%, from $267 million in the same period of 2011. This decrease was primarily due to improved fuel efficiency, reflecting improved operational fluidity, storage of older, less fuel efficient locomotives, continued focus on the Company's fuel conservation strategies, and a favourable impact of the change in FX. This decrease was partially offset by increased traffic volumes, as measured by GTMs.

Materials

Materials expense was $60 million in the fourth quarter of 2012, an increase of $2 million, or 3%, from $58 million in the same period of 2011.

This increase was primarily due to freight car repair and servicing costs resulting from higher traffic volumes and additional licensing, maintenance and support costs associated with software.

This increase was partially offset by reduced repair and servicing costs for locomotives as higher locomotive availability combined with the storage of less reliable and less efficient locomotives lowered costs.

Table of Contents

Equipment Rents

Equipment rents expense was $48 million in the fourth quarter of 2012, a decrease of $3 million, or 6%, from $51 million in the same period of 2011.

This decrease was primarily due to freight car and locomotive operating efficiencies which have contributed to improved asset velocity. As a result, the Company has required fewer freight cars and locomotives reducing the payments made to foreign railways for the use of their freight cars and permitting the return of certain leased freight cars.

This decrease was partially offset by lower receipts, reflecting reduced usage of CP owned cars by foreign railways, and higher lease rates.

Depreciation and Amortization

Depreciation and amortization expense was $140 million in the fourth quarter of 2012, an increase of $17 million, or 14%, from $123 million in the same period of 2011. This increase was primarily due to higher depreciable assets as a result of our capital program and the acceleration of depreciation on certain legacy IT assets as we invest in and renew our IT infrastructure.

Purchased Services and Other

For the three months ended December 31 (in millions)	**2012**	2011	% Change
Purchased services and other			
Support and facilities	**$ 109**	$ 102	7
Track and operations	**54**	50	8
Intermodal	**40**	39	3
Equipment	**19**	23	(17)
Casualty	**19**	18	6
Other	**2**	5	(60)
Land sales	**(1)**	(20)	(95)
Total purchased services and other	**$ 242**	$ 217	12

Purchased services and other expense was $242 million in the fourth quarter of 2012, an increase of $25 million, or 12%, from $217 million in the same period of 2011.

This increase was primarily due to reduced land sales and higher IT costs associated with infrastructure and maintenance services, reported in Support and facilities. This increase was partially offset by benefits derived through improved operational performance reported in Track and operations and the favourable impact of the change in FX.

Other Income Statement Items

Other Income and Charges

Other income and charges was an expense of $3 million in the fourth quarter of 2012, compared with an expense of $10 million in the same period of 2011. The decrease was primarily due to advisory costs related to shareholder matters incurred in the fourth quarter of 2011.

Net Interest Expense

Net interest expense was $69 million in the fourth quarter of 2012, an increase of $8 million, or 13%, from $61 million in the same period of 2011.

This increase was primarily due to new debt issuances during the fourth quarter of 2011, discussed further in Section 14, Liquidity and Capital Resources.

Income Taxes

Income tax expense was a recovery of $27 million in the fourth quarter of 2012, compared to an expense of $11 million in the same period of 2011. This change was primarily due to the asset impairment charges incurred in the fourth quarter of 2012.

The effective income tax recovery rate for fourth quarter 2012 was a recovery of 227% compared with an effective tax rate of 5% in the same period of 2011. This change in tax rates was primarily due to the asset impairment charges incurred in the fourth quarter of 2012.

Table of Contents

Liquidity and Capital Resources

During the fourth quarter of 2012, the Company generated cash and cash equivalents of $126 million, compared with $50 million used in the same period of 2011.

This increase in cash and cash equivalents was primarily due to:

- significantly lower pension contributions, as 2011 included a $600 million voluntary prepayment to the Company's main Canadian defined benefit pension plan, discussed further in Section 22, Critical Accounting Estimates;
- lower long-term debt payments as 2011 included the redemption of US$246 million 6.25% 10-year Notes for a total cost of $251 million;
- lower additions to properties in 2012; and
- higher proceeds from the issuance of common shares in 2012 resulting from the exercising of options.

This increase in cash and cash equivalents was partially offset by:

- no issuance of long-term debt whereas 2011 included the issuance of $125 million 5.10% 10-year Notes, US$250 million 4.50% 10-year Notes and US$250 million 5.75% 30-year Notes for net proceeds of $618 million and the issuance of US$139 million 3.88% Series A and B Senior Secured Notes due in 2026 for net proceeds of $139 million; and
- a decrease in short-term borrowings in 2012.

13. CHANGES IN ACCOUNTING POLICY

2012 Accounting Changes

Fair Value Measurement and Disclosure

In May 2011, the Financial Accounting Standards Board ("FASB") issued amended guidance on fair value measurement which updates some of the measurement guidance and includes enhanced disclosure requirements. The amended guidance is effective for interim and annual periods beginning after December 15, 2011. The adoption did not impact the results of operations or financial position, but resulted in increased disclosure in the financial statements.

Other Comprehensive Income

In June 2011, the FASB issued an accounting standard update on the Presentation of Comprehensive Income, which eliminated the option to report other comprehensive income and its components in the Consolidated Statement of Changes in Shareholders' Equity. The Company elected to present items of net income and other comprehensive income in two separate, but consecutive, statements as opposed to one continuous statement. With FASB's deferral of certain aspects of this accounting standard update in December 2011 and as the new guidance does not change those components that are recognized in net income or those components that are recognized in other comprehensive income, adoption did not impact the results of operations and financial position.

Intangibles – Goodwill and Other

In September 2011, the FASB issued amended guidance on the testing of goodwill for impairment. The amendments allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. For 2012, the Company has not elected this option for the test of goodwill for impairment. As it does not change how a goodwill impairment loss is measured, the adoption of this guidance would not impact the results of operations or financial position.

14. LIQUIDITY AND CAPITAL RESOURCES

We believe adequate amounts of cash and cash equivalents are available in the normal course of business to provide for ongoing operations, including the obligations identified in the tables in Section 19, Contractual Commitments and Section 20, Future Trends and Commitments. We are not aware of any trends or expected fluctuations in our liquidity that would create any deficiencies. Liquidity risk is discussed in Section 21, Business Risks. The following discussion of operating, investing and financing activities describes our indicators of liquidity and capital resources.

Operating Activities

Cash provided by operating activities was $1,328 million in 2012, an increase of $816 million from cash provided by operating activities of $512 million in 2011.

Table of Contents

This increase was primarily due to:

- significantly lower pension contributions compared with 2011, which included $600 million of solvency deficit contributions all of which were represented by a voluntary prepayment to the Company's main Canadian defined benefit pension plan, discussed further in Section 22, Critical Accounting Estimates; and
- higher cash generating earnings: the labour restructuring and asset impairment charges in the fourth quarter did not result in any significant cash outflows, discussed further in Section 9, Operating Expenses.

Cash provided by operating activities was $512 million in 2011, an increase of $10 million from cash provided by operating activities of $502 million in 2010.

This increase was primarily due to:

- lower pension contributions in 2011, which included $600 million of solvency deficit contributions all of which were represented by a voluntary prepayment to the Company's main Canadian defined benefit pension plan. In 2010, solvency deficit contributions were $750 million, of which $650 million was a voluntary prepayment to the Company's main Canadian defined benefit pension plan. In addition, the Company made scheduled contributions of approximately $100 million towards the main Canadian defined benefit pension plan's deficit. The Company did not make a similar payment in 2011; and
- the favourable impact of the change in working capital balances in 2011 stemming from higher trade payables.

This increase was largely offset by lower earnings in 2011.

Investing Activities

Cash used in investing activities was $1,011 million in 2012, a decrease of $33 million from cash used in investing activities of $1,044 million in 2011. This decrease was primarily due to higher proceeds from the sale of long-term floating rate notes, discussed further in Section 22, Critical Accounting Estimates, offset in part by higher additions to properties associated with our capital program.

Cash used in investing activities was $1,044 million in 2011, an increase of $409 million from cash used in investing activities of $635 million in 2010. This increase was primarily due to higher additions to properties associated with our capital program.

Additions to properties ("capital programs") in 2013 are expected to be in the range of $1.0 billion to $1.1 billion. Planned capital programs include approximately $865 million to preserve existing capacities through replacement or renewal of depleted assets, $175 million for network capacity expansions, business development projects and productivity initiatives and $60 million to address capital regulated by governments, principally positive train control.

Capital Programs

For the year ended December 31 (in millions, except for miles and crossties)	**2012**	2011	2010
Additions to properties			
Track and roadway	**$ 744**	$ 756	$ 589
Buildings	**38**	47	19
Rolling stock	**155**	179	26
Information systems	**105**	99	54
Other	**110**	72	55
Total – accrued additions to properties	**1,152**	1,153	743
Less:			
Assets acquired through capital leases	**–**	–	1
Other non-cash transactions	**4**	49	16
Cash invested in additions to properties (as per Consolidated Statements of Cash Flows)	**$ 1,148**	$ 1,104	$ 726
Track installation capital programs			
Track miles of rail laid (miles)	**470**	532	416
Track miles of rail capacity expansion (miles)	**32**	31	3
Crossties installed (thousands)	**794**	885	872

Of the total capital additions to properties noted in the table above, costs of approximately $708 million for 2012 (2011 – $680 million, 2010 – $588 million) were for the renewal of the railway, including track and roadway, buildings and rolling stock. Costs of approximately $830 million during the year ended December 31, 2012 (2011 – $836 million, 2010 – $790 million) related to normal repairs and maintenance of the

Table of Contents

railroad have been expensed and presented within operating expenses for the year. Repairs and maintenance does not have a standardized definition and, therefore is unlikely to be comparable to similar measures of other companies and definitions applied by regulators.

We intend to finance capital expenditures with available cash from operations, but may partially finance these expenditures with new debt, capital leases and temporary draws on our credit facility. Our decisions on funding equipment acquisitions will be influenced by such factors as optimizing our capital structure and maintaining our debt covenants and investment grade rating, as well as the amount of cash flow we believe can be generated from operations and the prevailing capital market conditions.

Financing Activities

Cash used in financing activities was $30 million in 2012, as compared to cash provided by financing activities of $217 million in 2011 and cash used in financing activities of $168 million in 2010.

Cash used in financing activities in 2012 was primarily for the payment of dividends, the repayment of long-term debt and short-term borrowings. These uses of cash were largely offset by proceeds from the issuance of common shares resulting from the exercising of options and from the issuance of US$71 million 4.28% Senior Secured Notes due in 2027 for net proceeds of $71 million.

Cash provided by financing activities in 2011 was primarily from:

- the issuance of CDN$125 million 5.10% 10-year Medium Term Notes, US$250 million 4.50% 10-year Notes and US$250 million 5.75% 30-year Notes for net proceeds of $618 million. These proceeds were largely used to make a $600 million voluntary prepayment to the Company's main Canadian defined benefit pension;
- the issuance of US$139 million 3.88% Series A and B Senior Secured Notes due in 2026 for net proceeds of $139 million; and
- $28 million in short-term borrowings.

These proceeds were partially offset by:

- the redemption of US$246 million 6.25% 10-year Notes for a total cost of $251 million;
- the redemption of US$101 million 5.75% 5-year Notes pursuant to a call offer for a total cost of $113 million, which included a redemption premium paid to note holders to redeem the Notes; and
- the payments of dividends.

Cash used in financing activities in 2010 was mainly for the redemption of $350 million 4.9% seven-year Medium Term Notes; $226 million bank loan, including $72 million in interest; which was offset in part by the collection of a related $220 million receivable, including $70 million in interest, from a financial institution; and the payment of dividends. These uses of cash were also partly offset by the issuance of US$350 million 4.45% 12.5-year Notes for net proceeds of $355 million.

The Company has available, as sources of financing, unused facilities of up to $605 million.

Debt to Total Capitalization

Debt to total capitalization is the sum of long-term debt, long-term debt maturing within one year and short-term borrowing, divided by debt plus total Shareholders' equity as presented on our Consolidated Balance Sheets. At December 31, 2012, our debt to total capitalization decreased to 47.9%, compared with 50.7% at December 31, 2011. This decrease was largely due to an increase in equity driven by earnings and an increase in share capital resulting from the exercise of options.

At December 31, 2011, our debt to total capitalization increased to 50.7%, compared with 47.2% at December 31, 2010. This increase was primarily due to the issuance of long-term debt and an increase in the accumulated losses recorded from the Canadian defined benefit pension plan. This increase was partially offset by the redemption of long-term debt and an increase in equity driven by earnings.

Interest Coverage Ratio

Interest coverage ratio is measured, on a rolling twelve month basis, as earnings before interest and taxes ("EBIT") divided by Net interest expense, discussed further in Section 15, Non-GAAP Measures. At December 31, 2012, our interest coverage ratio was 3.3, compared with 3.8 at December 31, 2011. This reduction was primarily due to a year-over-year increase in Net interest expense and a reduction in EBIT which was negatively impacted by the $318 million of labour restructuring and asset impairment charges as discussed further in Section 9, Operating Expenses.

Adjusted interest coverage ratio, discussed further in Section 15, Non-GAAP Measures, was 4.7 compared with 3.8 at December 31, 2011. This increase was due to an increase in Adjusted EBIT, discussed further in Section 15, Non-GAAP Measures.

At December 31, 2011, our interest coverage ratio was 3.8 compared with 4.4 at December 31, 2010. This decrease was primarily due to a year-over-year reduction in EBIT.

Table of Contents

Calculation of Free Cash[(1)]

(Reconciliation of free cash to GAAP cash position) For the year ended December 31 (in millions)	**2012**	2011	2010
Voluntary prepayments to the main Canadian defined benefit pension plan	**$ –**	$ (600)	$ (650)
Other operating cash flows	**1,328**	1,112	1,152
Cash provided by operating activities	**1,328**	512	502
Cash used in investing activities	**(1,011)**	(1,044)	(635)
Dividends paid	**(223)**	(193)	(174)
Foreign exchange effect on cash and cash equivalents	**(1)**	1	(17)
Free cash[(1)]	**93**	(724)	(324)
Cash provided by financing activities, excluding dividend payment[(1)]	**193**	410	6
Increase (decrease) in cash and cash equivalents, as shown on the Consolidated Statements of Cash Flows	**286**	(314)	(318)
Cash and cash equivalents at beginning of year	**47**	361	679
Cash and cash equivalents at end of year	**$ 333**	$ 47	$ 361

(1) Free cash and cash provided by financing activities, excluding dividend payment have no standardized meaning prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures of other companies. Free cash is discussed further in Section 15, Non-GAAP Measures.

There was positive free cash of $93 million in 2012, and negative free cash of $724 million in 2011.

This increase was primarily due to:

- lower pension contributions compared with 2011, which included a $600 million voluntary prepayment to the Company's main Canadian defined benefit pension plan;
- higher cash generating earnings: the labour restructuring and asset impairment charges in the fourth quarter did not result in any significant cash outflows; and
- higher proceeds from the sale of long-term floating rate notes.

This increase was partially offset by higher additions to properties associated with our capital program.

There was negative free cash of $724 million in 2011, and negative free cash of $324 million in 2010.

This decrease in cash flow was primarily due to higher additions to properties and lower earnings. This decrease was partially offset by lower pension contributions, as 2011 included a $600 million voluntary prepayment to the Company's main Canadian defined benefit pension plan compared with $650 million in 2010, discussed further in Section 22, Critical Accounting Estimates. In addition, in 2010 the Company made scheduled contributions of approximately $100 million towards the main Canadian defined benefit pension plan's deficit. The Company did not make a similar payment in 2011.

15. NON-GAAP MEASURES

We present non-GAAP measures and cash flow information to provide a basis for evaluating underlying earnings and liquidity trends in our business that can be compared with the results of our operations in prior periods. These non-GAAP measures exclude other significant items that are not among our normal ongoing revenues and operating expenses. These non-GAAP measures have no standardized meaning and are not defined by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies.

Income, excluding significant items provides management with a measure of income that allows a multi-period assessment of long-term profitability and also allows management and other external users of our consolidated financial statements to compare our profitability on a long-term basis with that of our peers. Diluted earnings per share, excluding significant items provides the same information on a per share basis.

Operating income, excluding significant items provides a measure of the profitability of the railway on an ongoing basis. Operating ratio, excluding significant items, calculated as operating expenses, excluding significant items divided by revenues, provides the percentage of revenues used to operate the railway on an ongoing basis.

The following tables provide a reconciliation of operating income, excluding significant items and income, excluding significant items to operating income and net income, respectively, and diluted earnings per share, excluding significant items and operating ratio, excluding significant items to diluted earnings per share and operating ratio.

Table of Contents

RECONCILIATION OF NON-GAAP MEASURES TO GAAP MEASURES

(in millions, except diluted EPS)	For the year ended December 31			For the three months ended December 31	
	2012	**2011**	**2010**	**2012**	**2011**
Adjusted EBIT[1]	**$ 1,299**	$ 955	$ 1,116		
Add:					
Other income and charges	**37**	18	–		
Advisory costs related to shareholder matters	**(27)**	(6)	–		
Operating Income, excluding significant items[1]	**$ 1,309**	$ 967	$ 1,116	**$ 378**	$ 303
Less:					
Significant items:					
Labour restructuring	**53**	–	–	**53**	–
Impairment of Powder River Basin and other investment	**185**	–	–	**185**	–
Impairment of certain locomotives	**80**	–	–	**80**	–
Management transition costs	**42**	–	–	**–**	–
Operating Income	**$ 949**	$ 967	$ 1,116	**$ 60**	$ 303

	For the year ended December 31			For the three months ended December 31	
	2012	**2011**	**2010**	**2012**	**2011**
Income, excluding significant items[1]	**$ 753**	$ 538	$ 651	**$ 224**	$ 189
Less:					
Significant items (net of tax):					
Labour restructuring	**39**	–	–	**39**	–
Impairment of Powder River Basin and other investment	**111**	–	–	**111**	–
Impairment of certain locomotives	**59**	–	–	**59**	–
Management transition costs	**29**	–	–	**–**	–
Advisory fees related to shareholder matters	**20**	5	–	**–**	5
Resolution of certain tax matters	**–**	(37)	–	**–**	(37)
Ontario income tax rate change	**11**	–	–	**–**	–
Net Income	**$ 484**	$ 570	$ 651	**$ 15**	$ 221

[1] These earnings measures have no standardized meanings prescribed by U.S. GAAP and, therefore, are unlikely to be comparable to similar measures of other companies. These earnings measures and other specified items are described in this section.

	Diluted earnings per share				Operating ratio			
	For the year ended December 31		For the three months ended December 31		For the year ended December 31		For the three months ended December 31	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Excluding significant items	**$ 4.34**	$ 3.15	**$ 1.28**	$ 1.11	**77.0%**	81.3%	**74.8%**	78.5%
Significant items:								
Labour restructuring	**0.22**	–	**0.22**	–	**0.9%**	–	**3.5%**	–
Impairment of Powder River Basin and other investment	**0.64**	–	**0.64**	–	**3.3%**	–	**12.4%**	–
Impairment of certain locomotives	**0.34**	–	**0.34**	–	**1.4%**	–	**5.3%**	–
Management transition costs	**0.17**	–	–	–	**0.7%**	–	–	–
Advisory fees related to shareholder matters	**0.12**	0.03	**–**	0.03	–	–	–	–
Income tax benefit/expense	**0.06**	(0.22)	**–**	(0.22)	–	–	–	–
	1.55	(0.19)	**1.20**	(0.19)	**6.3%**	–	**21.2%**	–
As reported	**$ 2.79**	$ 3.34	**$ 0.08**	$ 1.30	**83.3%**	81.3%	**96.0%**	78.5%

Table of Contents

Free cash and cash flow before dividends are non-GAAP measures that management considers to be indicators of liquidity. These measures are used by management to provide information with respect to the relationship between cash provided by operating activities and investment decisions and provide comparable measures for period to period changes. Free cash is calculated as cash provided by operating activities, less cash used in investing activities and dividends paid, adjusted for changes in cash and cash equivalent balances resulting from FX fluctuations. Free cash is discussed further and is reconciled to the change in cash and cash equivalents as presented in the financial statements in Section 14, Liquidity and Capital Resources. Cash provided by financing activities, excluding dividend payment, reflects financing activities cash flows not included in the computation of free cash. Cash flow before dividends is calculated as cash provided by operating activities less cash used in investing activities.

Interest coverage ratio is used in assessing the Company's debt servicing capabilities. This ratio provides an indicator of our debt servicing capabilities, and how these have changed, period over period and in comparison to our peers. The ratio, measured as EBIT divided by Net interest expense, is reported quarterly and is measured on a twelve month rolling basis. Interest coverage ratio is discussed further in Section 14, Liquidity and Capital Resources.

The interest coverage ratio, excluding significant items, also referred to as adjusted interest coverage ratio is calculated as Adjusted EBIT divided by Net interest expense. By excluding significant items which affect EBIT, adjusted interest coverage ratio provides a metric that is more comparable on a period to period basis. Interest coverage ratio and adjusted interest coverage ratio are discussed further in Section 14, Liquidity and Capital Resources.

ROCE is an all-encompassing measure of performance which measures how productively the Company uses its assets. ROCE is defined as EBIT (on a rolling 12 month basis), divided by the average for the year of total assets, less current liabilities excluding current portion of long-term debt. ROCE is discussed further in Section 6, Operating Results.

Interest coverage ratio and ROCE include EBIT, a non-GAAP measure, which can be calculated as Operating income less Other income and charges. Adjusted EBIT is calculated as operating income, excluding significant items less other income and charges and significant items that are reported in Other income and charges on our income statement.

Significant Items

Significant items are material transactions that may include, but are not limited to, restructuring and asset impairment charges, gains and losses on non-routine sales of assets, and other items that are not normal course business activities.

In 2012, there were six significant items included in net income as follows:

- in the fourth quarter we recorded an asset impairment charge of $185 million ($111 million after tax) with respect to the option to build into the PRB and another investment, discussed further in Section 2, Strategy;
- in the fourth quarter we recorded an asset impairment charge of $80 million ($59 million after tax) related to a certain series of locomotives, discussed further in Section 2, Strategy;
- in the fourth quarter we recorded a labour restructuring charge of $53 million ($39 million after tax) as part of a restructuring initiative, discussed further in Section 2, Strategy;
- in the second quarter we recorded a charge of $42 million ($29 million after tax) with respect to compensation and other management transition costs, discussed further in Section 2, Strategy;
- during the first and second quarters of 2012, we incurred advisory fees of $27 million ($20 million after tax) related to shareholder matters, discussed further in Section 10, Other Income Statement Items; and
- in the second quarter we recorded an income tax expense of $11 million as a result of the change in the province of Ontario's corporate income tax rate, discussed further in Section 10, Other Income Statement Items.

In 2011, there were two significant items as follows:

- in the fourth quarter we incurred advisory fees of $6 million ($5 million after tax) related to shareholder matters, discussed further in Section 10, Other Income Statement Items.
- in the fourth quarter we recorded the $37 million benefit resulting from the resolution of certain tax matters, discussed further in Section 10, Other Income Statement Items.

In 2010 we had no significant items.

16. BALANCE SHEET

Total Assets

Total assets were $14,727 million at December 31, 2012, compared with $14,110 million at December 31, 2011.

This increase was primarily due to an increase in:

- Cash and cash equivalents, discussed further in Section 14, Liquidity and Capital Resources;

Table of Contents

- Properties due to our 2012 capital plan additions in excess of depreciation, which was partially offset by the impairment charge on the PRB land and construction plans and certain locomotives, discussed further in Section 9, Operating Expenses;
- Deferred income taxes reflecting our current estimate of loss carry forward amounts expected to be utilized in 2013; and
- Accounts Receivable, net, primarily reflecting an increase in customer billings.

This increase was partially offset by the reduction in Investments as a result of the sale of our long-term floating rate notes, and the impairment of the PRB option, which reduced Goodwill and intangible assets.

Total Liabilities

Total liabilities were $9,630 million at December 31, 2012, compared with $9,461 million at December 31, 2011.

This increase was primarily due to higher Deferred income tax liabilities as a result of deferred income taxes on 2012 earnings, and the reclassification of a greater portion of deferred income tax assets as a result of a higher expected use of tax loss carry forwards. In addition, this increase reflected higher Accounts payable and accrued liabilities, primarily driven by an increase in incentive compensation accruals, reflecting improved operating performance, and higher restructuring accruals as a result of the fourth quarter labour restructuring charge, discussed further in Section 9, Operating Expenses.

This increase was partially offset by a decrease in:

- Long-term debt, due to repayments as debts matured and a weakening U.S. dollar, which was partially offset by the issuance of US$71 million 4.28% Senior Secured Notes during the first quarter of 2012;
- Other long-term liabilities, in part as a result of the vesting and payment of performance share units; and
- Short-term borrowing amounts, as a result of repayment.

Shareholders' Equity

At December 31, 2012, our Consolidated Balance Sheet reflected $5,097 million in equity, compared with $4,649 million at December 31, 2011. This increase was primarily due to Net income in excess of dividends, and the issuance of shares as options were exercised.

Share Capital

At March 4, 2013, 174,497,360 common shares and no preferred shares were issued and outstanding. In addition, CP has a Management Stock Option Incentive Plan ("MSOIP") under which key officers and employees are granted options to purchase CP shares. Each option granted can be exercised for one Common Share. At March 4, 2013, 4.9 million options were outstanding under our MSOIP and Directors' Stock Option Plan, as well as stand-alone option agreements entered into with Messrs. Harrison and Creel. 3.1 million additional options may be issued in the future under the MSOIP and Directors' Stock Option Plan.

Dividends

Dividends declared by the Board of Directors in the last three years are as follows:

Dividend amount	Record date	Payment date
$0.3500	March 29, 2013	April 29, 2013
$0.3500	December 28, 2012	January 28, 2013
$0.3500	September 28, 2012	October 29, 2012
$0.3500	June 22, 2012	July 30, 2012
$0.3000	March 30, 2012	April 30, 2012
$0.3000	December 30, 2011	January 30, 2012
$0.3000	September 30, 2011	October 31, 2011
$0.3000	June 24, 2011	July 25, 2011
$0.2700	March 25, 2011	April 25, 2011
$0.2700	December 31, 2010	January 31, 2011
$0.2700	September 24, 2010	October 25, 2010
$0.2700	June 25, 2010	July 26, 2010
$0.2475	March 26, 2010	April 26, 2010

Table of Contents

17. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The Company categorizes its financial assets and liabilities measured at fair value in line with the fair value hierarchy established by GAAP that prioritizes, with respect to reliability, the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of quoted prices (unadjusted) in active markets for identical assets and liabilities and have the highest priority. Level 2 and 3 inputs are based on significant other observable inputs and significant unobservable inputs, respectively, and have lower priorities.

When possible, the estimated fair value is based on quoted market prices and, if not available, estimates from third party brokers. For non-exchange traded derivatives classified in Level 2, the Company uses standard valuation techniques to calculate fair value. Primary inputs to these techniques include observable market prices (interest, foreign exchange and commodity) and volatility, depending on the type of derivative and nature of the underlying risk. The Company uses inputs and data used by willing market participants when valuing derivatives and considers its own credit default swap spread as well as those of its counterparties in its determination of fair value.

The techniques used to value the Company's long-term floating rate notes, which were classified as Level 3, are discussed further in Section 22, Critical Accounting Estimates.

Carrying Value and Fair Value of Financial Instruments

The carrying values of financial instruments equal or approximate their fair values with the exception of long-term debt which has a fair value of approximately $5,688 million and a carrying value of $4,690 million at December 31, 2012. At December 31, 2011, long-term debt had a fair value of approximately $5,314 million and carrying value of $4,745 million. The estimated fair value of current and long-term borrowings has been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Company at period end. All derivatives and long-term debt are classified as Level 2.

Derivative Financial Instruments

The Company's policy with respect to using derivative financial instruments is to selectively reduce volatility associated with fluctuations in interest rates, foreign exchange ("FX") rates, the price of fuel and stock-based compensation expense. Where derivatives are designated as hedging instruments, the relationship between the hedging instruments and their associated hedged items is documented, as well as the risk management objective and strategy for the use of the hedging instruments. This documentation includes linking the derivatives that are designated as fair value or cash flow hedges to specific assets or liabilities on the Consolidated Balance Sheet, commitments or forecasted transactions. At the time a derivative contract is entered into, and at least quarterly thereafter, an assessment is made whether the derivative item is effective in offsetting the changes in fair value or cash flows of the hedged items. The derivative qualifies for hedge accounting treatment if it is effective in substantially mitigating the risk it was designed to address.

It is not the Company's intent to use financial derivatives or commodity instruments for trading or speculative purposes.

Credit Risk Management

Credit risk refers to the possibility that a customer or counterparty will fail to fulfill its obligations under a contract and as a result create a financial loss for the Company.

The railway industry predominantly serves financially established customers and the Company has experienced limited financial losses with respect to credit risk. The credit worthiness of customers is assessed using credit scores supplied by a third party, and through direct monitoring of their financial well-being on a continual basis. The Company establishes guidelines for customer credit limits and should thresholds in these areas be reached, appropriate precautions are taken to improve collectability.

Counterparties to financial instruments expose the Company to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an on-going basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. The Company does not anticipate non-performance that would materially impact the Company's financial statements. In addition, the Company believes there are no significant concentrations of credit risk.

Foreign Exchange Management

The Company is exposed to fluctuations in value of financial commitments, assets, liabilities, income or cash flows due to changes in FX rates. The Company conducts business transactions and owns assets in both Canada and the United States; as a result, revenues and expenses are incurred in both Canadian and U.S. dollars. The Company enters into foreign exchange risk management transactions primarily to manage fluctuations in the exchange rate between Canadian and U.S. currencies. In terms of net income, excluding FX on long-term debt, mitigation of U.S. dollar FX exposure is provided primarily through offsets created by revenues and expenses incurred in the same currency. Where appropriate, the Company negotiates with customers and suppliers to reduce the net exposure.

Table of Contents

Occasionally the Company will enter into short-term FX forward contracts as part of its cash management strategy.

Net Investment Hedge

The FX gains and losses on long-term debt are mainly unrealized and can only be realized when U.S. dollar denominated long-term debt matures or is settled. The Company also has long-term FX exposure on its investment in U.S. affiliates. The majority of the Company's U.S. dollar denominated long-term debt has been designated as a hedge of the net investment in foreign subsidiaries. This designation has the effect of mitigating volatility on net income by offsetting long-term FX gains and losses on U.S. dollar denominated long-term debt and gains and losses on its net investment.

Foreign Exchange Forward Contracts

The Company may enter into FX forward contracts to lock-in the amount of Canadian dollars it has to pay on U.S. denominated debt maturities.

At December 31, 2012, the Company had FX forward contracts to fix the exchange rate on US$100 million of principal outstanding on a capital lease due in January 2014, US$175 million of its 6.50% Notes due in May 2018, and US$100 million of its 7.25% Notes due in May 2019. At December 31, 2011, the Company had FX forward contracts to fix the exchange rate on US$175 million of its 6.50% Notes due in May 2018, and US$100 million of its 7.25% Notes due in May 2019. These derivatives, which are accounted for as cash flow hedges, guarantee the amount of Canadian dollars that the Company will repay when these obligations mature.

During 2012, an unrealized foreign exchange loss of $4 million was recorded in Other income and charges in relation to these derivatives compared to a realized and unrealized gain of $8 million in 2011 and an unrealized loss of $1 million in 2010. The losses in 2012 and 2010 recorded in Other income and charges were largely offset by the unrealized foreign exchange gains on the underlying debt which the derivatives were designated to hedge. Similarly, the gains in 2011 were largely offset by the unrealized losses on the underlying debt.

At December 31, 2012, the unrealized gain derived from these FX forwards was $8 million which was included in Other assets with the offset reflected as an unrealized gain of $6 million in Accumulated other comprehensive loss and as an unrealized gain of $2 million in Retained earnings. At December 31, 2011, the unrealized gain derived from these FX forwards was $6 million which was included in Other assets with the offset reflected as an unrealized loss of $1 million in Accumulated other comprehensive loss and as an unrealized gain of $7 million in Retained earnings.

During 2011, in anticipation of a cash tender to offer to redeem the Company's US$101 million 5.75% May 2013 Notes, the Company unwound a similar amount of FX forward contracts to fix the exchange rate on these Notes for total proceeds of $2 million, discussed further in Section 14, Liquidity and Capital Resources.

Interest Rate Management

The Company is exposed to interest rate risk, which is the risk that the fair value or future cash flows of a financial instrument will vary as a result of changes in market interest rates. In order to manage funding needs or capital structure goals, the Company enters into debt or capital lease agreements that are subject to either fixed market interest rates set at the time of issue or floating rates determined by on-going market conditions. Debt subject to variable interest rates exposes the Company to variability in interest expense, while debt subject to fixed interest rates exposes the Company to variability in the fair value of debt.

To manage interest rate exposure, the Company accesses diverse sources of financing and manages borrowings in line with a targeted range of capital structure, debt ratings, liquidity needs, maturity schedule, and currency and interest rate profiles. In anticipation of future debt issuances, the Company may enter into forward rate agreements such as treasury rate locks, bond forwards or forward starting swaps, designated as cash flow hedges, to substantially lock in all or a portion of the effective future interest expense. The Company may also enter into swap agreements, designated as fair value hedges, to manage the mix of fixed and floating rate debt.

Interest Rate Swaps

At December 31, 2012 and December 31, 2011, the Company had no outstanding interest rate swaps, nor did it enter into or unwind any such transactions during 2012.

During 2011, the Company amortized $5 million of deferred gains to Net interest expense compared to $4 million in 2010 relating to interest rate swaps previously unwound in 2010 and 2009. In addition, during 2011, the Company amortized $2 million of deferred gains to Other income and charges as a result of the redemption of 5.75% 2013 Notes, discussed further in Section 14, Liquidity and Capital Resources. These gains were deferred as a fair value adjustment to the underlying debts that were hedged and were amortized to Net interest expense until the debts were redeemed in 2011.

Treasury Rate Locks

At December 31, 2012, the Company had net unamortized losses related to interest rate locks, which are accounted for as cash flow hedges, settled in previous years totalling $22 million, relatively flat from December 31, 2011. This amount is composed of various unamortized gains and losses related to specific debts which are reflected in Accumulated other comprehensive loss and are amortized to Net interest expense in the period that interest on the related debt is charged. The amortization of these gains and losses resulted in a negligible increase to Net interest expense and Other comprehensive loss in 2012 and 2011 compared to $2 million in 2010.

Table of Contents

Fuel Price Management

The Company is exposed to commodity risk related to purchases of diesel fuel and the potential reduction in net income due to increases in the price of diesel. Fuel expense constitutes a large portion of the Company's operating costs and volatility in diesel fuel prices can have a significant impact on the Company's income. Items affecting volatility in diesel prices include, but are not limited to, fluctuations in world markets for crude oil and distillate fuels, which can be affected by supply disruptions and geopolitical events.

The impact of variable fuel expense is mitigated substantially through fuel cost recovery programs which apportion incremental changes in fuel prices to shippers through price indices, tariffs, and by contract, within agreed upon guidelines. While these programs provide effective and meaningful coverage, residual exposure remains as the fuel expense risk cannot be completely recovered from shippers due to timing and volatility in the market. The Company continually monitors residual exposure, and where appropriate, may enter into derivative instruments.

Derivative instruments used by the Company to manage fuel expense risk may include, but are not limited to, swaps and options for crude oil, diesel and crack spreads.

Energy Futures

At December 31, 2012, the Company had diesel futures contracts, which are accounted for as cash flow hedges, to purchase approximately 20 million U.S. gallons during the period January to December 2013 at an average price of $2.98 per U.S. gallon. This represents approximately 7% of estimated fuel purchases for this period. At December 31, 2012, the unrealized loss on these futures contracts was negligible compared to $3 million at December 31, 2011 and was reflected in Accounts payable and accrued liabilities with the offset, net of tax, reflected in Accumulated other comprehensive loss on the Consolidated Balance Sheets.

The impact of settled commodity swaps decreased Fuel in 2012 by $1 million as a result of realized gains on diesel swaps compared to $8 million in 2011 and $3 million in 2010.

For every one cent increase in the price of a U.S. gallon of diesel, fuel expense before tax and hedging will increase by approximately $3 million on an annual basis, assuming current FX rates and fuel consumption levels. We have a fuel risk mitigation program to moderate the impact of increases in fuel prices, which includes these swaps and our fuel cost recovery program.

Stock-based compensation expense management

Total Return Swaps ("TRS")

The Company is exposed to stock-based compensation risk, which is the probability of increased compensation expense when the Company's share price rises.

The TRS was a derivative that provided a gain to offset increased compensation expense as the share price increased and a loss to offset reduced compensation expense when the share price declined. If stock-based compensation share units fall out of the money after entering the program, the loss associated with the swap would no longer be fully offset by the compensation expense reductions, which would reduce the effectiveness of the swap. This derivative was not designated as a hedge and changes in fair value were recognized in net income in the period in which the change occurred.

During 2012, the Company exited the TRS program and unwound 0.6 million of its remaining share units for proceeds of $3 million. During the same period of 2011, the program was reduced by 0.5 million share units at minimal cost.

At December 31, 2012, the Company had no share units remaining in the TRS. At December 31, 2011, the Company had 0.6 million remaining in the TRS with an unrealized loss of $3 million which was included in Accounts payable and accrued liabilities on the Consolidated Balance Sheets.

Compensation and benefits expense on the Company's Consolidated Statements of Income included a net gain on these swaps of $6 million in 2012 compared to $3 million in 2011 and $12 million in 2010.

18. OFF-BALANCE SHEET ARRANGEMENTS

Guarantees

At December 31, 2012, the Company had residual value guarantees on operating lease commitments of $155 million. The maximum amount that could be payable under these and all of the Company's other guarantees cannot be reasonably estimated due to the nature of certain of the guarantees. All or a portion of amounts paid under certain guarantees could be recoverable from other parties or through insurance. The Company has accrued for all guarantees that it expects to pay. As at December 31, 2012, these accruals amounted to $6 million (December 31, 2011 – $8 million).

Table of Contents

19. CONTRACTUAL COMMITMENTS

The accompanying table indicates our obligations and commitments to make future payments for contracts, such as debt, capital lease and commercial arrangements. See Section 20, Future Trends and Commitments, for additional commitments in the periods indicated.

Contractual Commitments

At December 31, 2012

Payments due by period (in millions)	Total	2013	2014 & 2015	2016 & 2017	2018 & beyond
Contractual commitments					
Long-term debt	**$ 4,447**	$ 46	$ 172	$ 57	$ 4,172
Capital lease	**274**	8	136	8	122
Operating lease[(1)]	**682**	127	191	121	243
Supplier purchase	**1,637**	239	307	228	862
Other long-term liabilities[(2)]	**706**	121	142	117	327
Total contractual commitments	**$ 7,746**	$ 541	$ 948	$ 531	$ 5,726

(1) Residual value guarantees on certain leased equipment with a maximum exposure of $155 million, discussed further in Section 18, Off-Balance Sheet Arrangements, are not included in the minimum payments shown above; as management believes that we will not be required to make payments under these residual guarantees.

(2) Includes expected cash payments for restructuring, environmental remediation, asset retirement obligations, post-retirement benefits, workers' compensation benefits, long-term disability benefits, pension benefit payments for our non-registered supplemental pension plan, deferred income tax liabilities and certain other long-term liabilities. Projected payments for post-retirement benefits, workers' compensation benefits and long-term disability benefits include the anticipated payments for years 2013 to 2022. Pension contributions for our registered pension plans are not included due to the volatility in calculating them. Pension payments are discussed further in Section 22, Critical Accounting Estimates. Deferred income tax liabilities may vary according to changes in tax rates, tax regulations and the operating results of the Company. As the cash impact in any particular year cannot be reasonably determined, all long-term deferred tax liabilities have been reflected in the "2018 & beyond" category in this table. Deferred income taxes are discussed further in Section 22, Critical Accounting Estimates.

20. FUTURE TRENDS AND COMMITMENTS

Agreements and Recent Developments

On December 4, 2012, CP announced its intention to explore strategic options for its main line track from Tracy, MN west into South Dakota, Nebraska and Wyoming and invited expressions of interest from prospective partners.

The line includes approximately 660 miles of track which encompasses CP's current operations between Tracy, MN and Rapid City, SD, north of Rapid City to Colony, WY, south of Rapid City to Dakota Jct., NE and connecting branchlines. CP has operated the rail line in this area since it assumed operational control of the DM&E railroad in 2008. A number of grain, ethanol, clay and merchandise customers are served in the area.

Change in Board of Directors

On May 17, 2012, following the Proxy Contest Messrs. John Cleghorn, Tim Faithfull, Fred Green, Edmond Harris, Michael Phelps and Roger Phillips advised the Company that they did not intend to stand for re-election to the Board.

At the Company's annual shareholders meeting held on May 17, 2012, seven new directors were elected to the Board, namely Messrs. William Ackman, Gary Colter, Paul Haggis and Paul Hilal, Ms. Rebecca MacDonald, and Messrs. Anthony Melman and Stephen Tobias. In addition, Mr. Richard George, Ms. Krystyna Hoeg, Messrs. Tony Ingram and Richard Kelly, the Hon. John Manley, Mesdames Linda Morgan and Madeleine Paquin, and Messrs. David Raisbeck and Hartley Richardson were all re-elected to the Board at the May 17, 2012 meeting. Following the meeting, the new Board selected Ms. Paquin to serve as acting Chair of the Company. On June 4, 2012, Mr. Haggis was appointed Chairman of the Company's Board.

Subsequent to the May 17, 2012 shareholders meeting, Messrs. Raisbeck, George and Ingram resigned from the Board on June 11, June 26 and July 5, 2012, respectively. In addition, effective July 6, 2012, Mr. E. Hunter Harrison was appointed to the Board.

As a result of the aforementioned changes to the composition of the Board, certain accelerated vesting provisions for certain grants under the Company's management stock option incentive plan, performance share unit plan and deferred share unit plan were triggered effective June 26, 2012. The effect of such accelerated vesting on the Company's second quarter financial statements was a credit to Compensation and benefits of $8 million and the recognition of a related liability under the accelerated vesting provisions of these plans of $31 million, which liability was settled in full in the third quarter of 2012.

Table of Contents

Management Transition

On May 17, 2012, following the Proxy Contest, Mr. Fred Green left his position as President and Chief Executive Officer of the Company. That same day, Mr. Stephen Tobias, a new Board member elected at the Company's annual shareholders meeting held on May 17, 2012, was appointed by the Board as Interim Chief Executive Officer and served in that role until June 28, 2012. On June 28, 2012, Mr. E. Hunter Harrison was appointed by the Board as President and Chief Executive Officer. As a result of the appointment of Mr. Harrison, the Company recorded a charge of $38 million with respect to compensation and other transition costs, including $2 million of associated costs, in the second quarter of 2012. This charge was recorded in the Company's financial statements in Compensation and benefits and Purchased services and other, in the amounts of $16 million and $22 million respectively.

Included in this charge were amounts totaling $16 million in respect of deferred retirement compensation for Mr. Harrison and $20 million to Pershing Square and related entities. Pershing Square and related entities own or control approximately 14% of the Company's outstanding shares and two Board members, Mr. William Ackman and Mr. Paul Hilal, are partners of Pershing Square. The amount paid to Pershing Square and related entities was to reimburse them, on behalf of Mr. Harrison, for certain amounts they had previously paid to, or incurred on behalf of, Mr. Harrison pursuant to an indemnity in favour of Mr. Harrison in connection with losses suffered in legal proceedings commenced against Mr. Harrison by his former employer. The terms of Pershing Square's indemnity required Mr. Harrison to return any funds advanced under the indemnity in the event he accepted employment at CP. As a result, Mr. Harrison made it a precondition of accepting the Company's offer of employment that CP assume the indemnity obligations and return the funds advanced by Pershing Square. As a result of the payment, the Company would have been entitled to enforce Mr. Harrison's rights in the aforementioned legal proceedings, allowing the Company to recover to the extent of Mr. Harrison's success in those proceedings; however, on February 3, 2013, the Company and Mr. Harrison settled the legal proceedings with Mr. Harrison's former employer, providing the Company with partial recovery (US$9 million) of the amounts in dispute. The Company may receive repayment in other circumstances in the event of certain breaches by Mr. Harrison of his obligations under an employment agreement with the Company. In addition, the Company agreed to indemnify Mr. Harrison for certain other amounts sought for repayment by Mr. Harrison's former employer, to a maximum of $3 million plus legal fees, but as a result of the settlement of the aforementioned legal proceedings, such indemnity is no longer applicable.

The Company also recorded a charge of $4 million in the second quarter of 2012 with respect to a retirement allowance for Mr. Green.

On February 5, 2013, as part of its long-term succession plan, the Company appointed Mr. Keith Creel as President and Chief Operating Officer. In connection with this appointment, Mr. Harrison's title changed to Chief Executive Officer.

Changes in Executive Officers

On May 17, 2012, Mr. Fred Green resigned as a director from the Board and left his position as President and Chief Executive Officer of the Company. That same day, Mr. Stephen Tobias, a new Board member elected at the Company's annual shareholders meeting held on May 17, 2012, was appointed by the Board as Interim Chief Executive Officer. On June 28, 2012, Mr. E. Hunter Harrison was appointed by the Board as President and Chief Executive Officer.

On October 1, 2012, Mr. Mike Franczak resigned as Executive Vice President and Chief Operations Officer. Effective February 5, 2013, Mr. Keith Creel was appointed as President and Chief Operating Officer. Mr. E. Hunter Harrison will remain as Chief Executive Officer of the company.

Effective November 1, 2012, Ms. Kathryn McQuade retired from her role as Executive Vice President and Chief Financial Officer. Also effective November 1, 2012, Mr. Brian Grassby was appointed Senior Vice President and Chief Financial Officer. Ms. McQuade will remain as a Senior Advisor to Mr. Grassby until the end of her contract in May 2013 to ensure a successful transition.

Stock Price

The market value per CP common share, as listed on the Toronto Stock Exchange was $100.90 at December 31, 2012, an increase of $31.89 per share from $69.01 at December 31, 2011.

The market value per CP common share, as listed on the Toronto Stock Exchange was $69.01 at December 31, 2011, an increase of $4.39 per share from $64.62 at December 31, 2010.

Environmental

Cash payments related to our environmental remediation program, described in Section 22, Critical Accounting Estimates, totalled $11 million in 2012, compared with $15 million in 2011 and $13 million in 2010. Cash payments for environmental initiatives are estimated to be approximately $12 million in 2013, $11 million in 2014, $10 million in 2015 and a total of approximately $56 million over the remaining years through 2022, which will be paid in decreasing amounts. All payments will be funded from general operations.

We continue to be responsible for remediation work on portions of a property in the State of Minnesota and continue to retain liability accruals for remaining future expected costs. The costs are expected to be incurred over approximately 10 years.

Table of Contents

Certain Other Financial Commitments

In addition to the financial commitments mentioned previously in Section 18, Off-Balance Sheet Arrangements and Section 19, Contractual Commitments, we are party to certain other financial commitments set forth in the table and discussed below.

At December 31, 2012

Amount of commitments per period (in millions)	Total	2013	2014 & 2015	2016 & 2017	2018 & beyond
Commitments					
Letters of credit	**$ 395**	$ 395	$ –	$ –	$ –
Capital commitments	**331**	284	43	1	3
Total commitments	**$ 726**	$ 679	$ 43	$ 1	$ 3

Letters of Credit

Letters of credit are obtained mainly to provide security to third parties under the terms of various agreements, including workers' compensation and supplemental pension. We are liable for these contractual amounts in the case of non-performance under these agreements. As a result, our available line of credit is adjusted for contractual amounts obtained through letters of credit currently included within our revolving credit facility.

Capital Commitments

We remain committed to maintaining our current high level of plant quality and renewing our franchise. As part of this commitment, we have entered into contracts with suppliers to make various capital purchases related to track programs. Payments for these commitments are due in 2013 through 2030. These expenditures are expected to be financed by cash generated from operations or by issuing new debt.

Pension Plan Deficit

A description of our future expectations related to the Company's pension plans are included in Section 22, Critical Accounting Estimates.

Restructuring

Cash payments related to severance under all restructuring initiatives totalled $22 million in 2012, compared with $27 million in 2011 and $20 million in 2010. Cash payments for restructuring initiatives are estimated to be approximately $63 million in 2013, $15 million in 2014, $8 million in 2015, and a total of approximately $6 million over the remaining years through 2025. These amounts include residual payments to protected employees for previous restructuring plans that have been completed.

21. BUSINESS RISKS

In the normal course of our operations, we are exposed to various business risks and uncertainties that can have an effect on our financial condition. While some financial exposures are reduced through risk management strategies including the insurance and hedging programs we have in place, there are certain cases where the financial risks are not fully insurable or are driven by external factors beyond our influence or control.

As part of the preservation and delivery of value to our shareholders, we have developed an integrated Enterprise Risk Management framework to support consistent achievement of key business objectives through daily pro-active management of risk. The objective of the program is to identify events that result from risks, thereby requiring active management. Each event identified is assessed based on the potential impact and likelihood, taking account of financial, environmental, reputation impacts, and existing management control. Risk mitigation strategies are formulated to accept, treat, transfer, or eliminate the exposure to the identified events. Readers are cautioned that the following is not an exhaustive list of all the risks to which we are exposed, nor will our mitigation strategies eliminate all risks listed.

Competition

We face significant competition for freight transportation in Canada and the U.S., including competition from other railways and trucking and barge companies. Competition is based mainly on price, quality of service and access to markets. Competition with the trucking industry is generally based on freight rates, flexibility of service and transit time performance. The cost structure and service of our competitors could impact our competitiveness and have a materially adverse impact on our business or operating results. Certain aspects of competition in Canada are also subject to regulation and are discussed further in Regulatory Authorities below.

To mitigate competition risk, our strategies include:

- creating long-term value for customers and shareholders by profitably growing through collaborative supply chain solutions and aligned investments with our customers, delivering competitive and reliable service, developing markets that are consistent with our network's strengths and enhancing our network capability, and selective use of long-term contracts;

Table of Contents

- renewing and maintaining infrastructure to enable safe and fluid operations;
- improving handling through our operating plan to reduce costs and enhance quality and reliability of service; and
- exercising a disciplined yield approach to competitive contract renewals and bids.

Liquidity

On October 31, 2011, CP completed arrangements with 12 highly rated financial institutions for a committed $1.0 billion four year revolving credit agreement. This agreement incorporates a revolving facility limit of $600 million and a separate letter of credit facility limit of $400 million at pre-agreed pricing and has the ability to annually extend the term for an additional year with the consent of the lenders. The $1.0 billion revolving credit agreement also contains an accordion feature to accommodate up to an additional $300 million. At December 31, 2012, CP had available $460 million under the revolving facility limit and $145 million available under the letter of credit facility limit, of which the Company had utilized $395 million solely for letters of credit under both facilities. The weighted average annualized interest rate for drawn funds during 2012 was 2.94% compared to 1.98% in 2011 (2010 – not applicable). The agreement requires the Company not to exceed a maximum debt to total capitalization ratio. At December 31, 2012, the Company satisfied this threshold stipulated in the financial covenant. In addition, should our senior unsecured debt not be rated at least investment grade by Moody's and S&P, the Company's credit agreement will also require it to maintain a minimum fixed charge coverage ratio.

It is CP's intention to manage its long-term financing structure to maintain its investment grade rating.

The Company's cash balances are invested in a range of short dated money market instruments meeting or exceeding the parameters of our investment policy.

Regulatory Authorities

Regulatory Change

Our railway operations are subject to extensive federal laws, regulations and rules in both Canada and the U.S. which directly affect how we manage many aspects of our railway operations and business activities. Our operations are primarily regulated by the Canadian Transportation Agency ("the Agency") and Transport Canada in Canada and the FRA and the STB in the U.S. Various other federal regulators directly and indirectly affect our operations in areas such as health, safety, security and environmental and other matters.

The Canada Transportation Act ("CTA") provides shipper rate and service remedies, including Final Offer Arbitration ("FOA"), competitive line rates and compulsory inter-switching in Canada. The Agency regulates the grain revenue cap, commuter and passenger access, FOA, and charges for ancillary services and railway noise. No assurance can be given to the content, timing or effect on CP of any anticipated additional legislation or future legislative action. For the grain crop year beginning August 1, 2012 the Agency announced a 9.5% increase in the Volume-Related Composite Price Index ("VRCPI"), a cost inflator used in calculating the grain maximum revenue entitlement for CP and Canadian National Railway. Grain revenues are impacted by several factors including volumes and VRCPI. Transport Canada regulates safety-related aspects of our railway operations in Canada through the *Railway Safety Act ("RSA")*. On October 7, 2011, the Government introduced amendments to the RSA. The Bill received Royal Assent on May 17, 2012. The amendments to the RSA do not have a material impact on CP's operating practices.

On August 12, 2008, the Minister of Transport, Infrastructure and Communities (the "Minister") announced the Terms of Reference for the Rail Freight Service Review ("RFSR"). The review focused on understanding the nature and extent of problems and best practices within the logistics chain, with a focus on railway performance in Canada. On March 18, 2011 the RFSR Panel released its final report and the Government of Canada announced its response to the RFSR. On the same day, the federal government announced a series of supply chain initiatives to take place over the next several months further to the release of the RFSR final report, including the intention to table a bill to give shippers the right to a service agreement. Prior to tabling legislation on rail service, the Minister appointed Mr. Jim Dinning to lead a six-month facilitation between railways and shippers to develop a service agreement template and a commercial dispute resolution. Mr. Dinning's report was issued by Transport Canada on June 22, 2012. The report provides guidance on how rail service can be negotiated between a shipper and a railway, through a service agreement template, and a process for commercial dispute resolution.

On December 11, 2012 the Minister introduced, for first reading in the House of Commons, Bill C-52 *An Act to Amend the Canada Transportation Act (administration, air and railway transportation and arbitration)*. Over the next few months it is anticipated that the Bill will progress through the parliamentary process. Bill C-52 amends the Canada Transportation Act to require a railway company, on a shipper's request, to make the shipper an offer to enter into a contract respecting the manner in which the railway company must fulfill its service obligations to the shipper. To exercise the new right to a service contract, a shipper will first have to request one from the railway. The railway will then be obligated to respond within 30 days. If an agreement cannot be reached through commercial negotiations, service arbitration would be available to a shipper to establish the terms of service. To access the remedy, a shipper would have to satisfy the Agency that an attempt was made to resolve the matter with the railway. It is too soon to determine if these initiatives will have a material impact on the Company's financial condition and results of operations.

The FRA regulates safety-related aspects of our railway operations in the U.S. State and local regulatory agencies may also exercise limited jurisdiction over certain safety and operational matters of local significance. The Railway Safety Improvement Act ("RSIA") requires, among other things, the introduction of Positive Train Control ("PTC") by the end of 2015; limits freight rail crews' duty time; and requires development of a crew

Table of Contents

fatigue management plan. The requirements imposed by this legislation could have an adverse impact on the Company's financial condition and results of operations. Congress is scheduled to reauthorize both the Railway Safety Improvement Act and the Passenger Rail Investment and Improvement Act ("PRIIA") during 2013.

The STB regulates commercial aspects of CP's railway operations in the U.S. The STB is an economic regulatory agency that Congress charged with the fundamental mandate of resolving railroad rate and service disputes and reviewing proposed railroad mergers. The STB serves as both an adjudicatory and a regulatory body.

In July 2011, the STB revised rules relating to railway rate cases to address, among other things, concerns raised by small and medium sized shippers that the previous rules resulted in costly and lengthy proceedings. Few cases have been filed, and no case has been filed against the Company, under the new rules. It is too soon to assess the possible impact on CP of such new rules.

The STB held a hearing to review existing exemptions from railroad-transportation regulations for certain commodities, boxcar and intermodal freight in February 2011 and a hearing on rail competition in June 2011. The industry and CP participated. In July 2012, the STB announced proposed rules to address its rate case processes. It also requested interested parties to respond to the National Industrial Transportation League's petition asking the STB to promulgate new rules for competitive switching. Both of these matters carry over into 2013.

Senator Jay Rockefeller (Democrat-West Virginia) continues as Chairman of the Senate Commerce Committee. The Committee's top Republican is now Senator John Thune (Republican-South Dakota). Chairman Rockefeller pursued regulatory legislation relating to railways over the past four years with the general support of the then top Republican. It is unclear what Chairman Rockefeller might seek to do in 2013 and what Senator Thune's response will be. Over the past several years, the industry was also confronted with the proposed Railroad Antitrust Enforcement Act, which would eliminate the industry's limited antitrust exemptions. The bill's sponsor has retired from the Senate. The bill's House sponsor was elected to that Senate seat but was not named to the Judiciary Committee and has not indicated whether this issue remains a priority for her.

Congress failed to pass a farm bill in 2012 and is under pressure to do so in 2013. Legislation pending at the end of the last Congress included a provision requiring the Departments of Transportation and Agriculture to update a study of rural transportation networks and their impact on the agricultural sector. It would also require the Secretary of Agriculture to "participate on behalf of the interests of agriculture" in STB proceedings "that may establish freight rail transportation policy affecting agriculture and rural America."

One or more of the foregoing proposals, if implemented, could have a materially adverse effect on our business or operating results.

To mitigate statutory and regulatory impacts, we are actively and extensively engaged throughout the different levels of government and regulators, both directly and indirectly through industry associations, including the Association of American Railroads ("AAR") and the Railway Association of Canada ("RAC").

Security

We are subject to statutory and regulatory directives in Canada and the U.S. that address security concerns. CP plays a critical role in the North American transportation system. Our rail lines, facilities, and equipment, including rail cars carrying hazardous materials, could be direct targets or indirect casualties of terrorist attacks. Regulations by the Department of Transportation and the Department of Homeland Security in the U.S. include speed restrictions, chain of custody and security measures which can impact service and increase costs for the transportation of hazardous materials, especially toxic inhalation materials. Legislative changes in Canada to the Transportation of Dangerous Goods Act are expected to add new security regulatory requirements similar to those in the U.S. In addition, insurance premiums for some or all of our current coverage could increase significantly, or certain coverage may not be available to us in the future. While CP will continue to work closely with Canadian and U.S. government agencies, future decisions by these agencies on security matters or decisions by the industry in response to security threats to the North American rail network could have a materially adverse effect on our business or operating results.

As we strive to ensure our customers have unlimited access to North American markets, we have taken the following steps to provide enhanced security and reduce the risks associated with the cross-border transportation of goods:

- to strengthen the overall supply chain and border security, we are a certified carrier in voluntary security programs, such as the Customs-Trade Partnership Against Terrorism and Partners in Protection;
- to streamline clearances at the border, we have implemented several regulatory security frameworks that focus on the provision of advanced electronic cargo information and improved security technology at border crossings, including the implementation of the Vehicle and Cargo Inspection System at five of our border crossings;
- to strengthen railway security in North America, we signed a revised voluntary Memorandum of Understanding with Transport Canada and worked with the AAR to develop and put in place an extensive industry-wide security plan to address terrorism and security-driven efforts seeking to restrict the routings and operational handlings of certain hazardous materials;
- to reduce toxic inhalation risk in high threat urban areas, we work with the Transportation Security Administration; and
- to comply with U.S. regulations for rail security sensitive materials, we have implemented procedures to maintain positive chain of custody and are performing annual route assessments to select and use the route posing the least overall safety and security risk.

Table of Contents

Positive Train Control

In the U.S., the Rail Safety Improvement Act requires Class I railroads to implement by December 31, 2015, interoperable PTC on main track in the U.S. that has passenger rail traffic or toxic inhalant hazard commodity traffic. The legislation defines PTC as a system designed to prevent train-to-train collisions, over-speed derailments, incursions into established work zone limits, and the movement of a train through a switch left in the wrong position. The FRA has issued rules and regulations for the implementation of PTC, and CP filed its PTC Implementation Plans in April 2010, which outlined the Company's solution for interoperability as well as its consideration of relative risk in the deployment plan. The Company is participating in industry and government working groups to evaluate the scope of effort that will be required to comply with these regulatory requirements, and to further the development of an industry standard interoperable solution that can be supplied in time to complete deployment. At this time CP estimates the cost to implement PTC as required for railway operations in the U.S. to be up to US$325 million. As at December 31, 2012, total expenditures related to PTC were approximately $95 million, including approximately $20 million and $53 million for the fourth quarter and full year of 2012, respectively, discussed further in Section 14, Liquidity and Capital Resources.

Labour Relations

Currently none of our union agreements are under renegotiation. All of the Canadian bargaining agreements are in place through at least December 31, 2014. All of our U.S. collective bargaining agreements are in place until the end of 2014, with the exception of two agreements on the DM&E which are amendable at the end of 2013.

At December 31, 2012, approximately 78% of our workforce was unionized and approximately 75% of our workforce was located in Canada. Unionized employees are represented by a total of 39 bargaining units. Agreements are in place with seven of seven bargaining units that represent our employees in Canada and 32 of 32 bargaining units that represent employees in our U.S. operations.

Canada

We are party to collective agreements with seven bargaining units in our Canadian operations.

As of December 31, 2012, agreements were in place with all seven bargaining units.

Of the collective agreements that are in effect, four expire at the end of 2013 (Canadian Pacific Police Association ("CPPA") – representing CP police employees, United Steelworkers("USW") – representing clerical workers, Teamster Canada Rail Conference ("TCRC") – Maintenance of Way Employees Division ("MWED") – representing track maintenance employees and the International Brotherhood of Electrical Workers ("IBEW") – representing signals employees). Agreements with the TCRC, representing running trade employees ("TCRC-RTE"), the TCRC-RCTC, representing rail traffic controllers, and the Canadian Auto Workers ("CAW") expire at the end of 2014.

On February 17, 2012, we requested the Federal Minister of Labour appoint a conciliator to assist in progressing discussions on a new labour agreement with the TCRC-RTE and TCRC-RCTC unions. After several bargaining sessions, the parties were unable to come to a settlement. The TCRC – RTE and TCRC-RCTC commenced a strike on Canadian Pacific on May 23, 2012, which lasted for nine days. Bill C-39, the Restoring Rail Service Act, was passed on May 31, 2012 and employees returned to work on June 1, 2012. Bill C-39 mandated the two parties to present to a government appointed arbitrator, who had 90 days to impose an agreement on the two sides once appointed.

On July 19, 2012, Mr. William Kaplan was appointed as the arbitrator to assist the parties in reaching a collective agreement through mediation. The parties were unable to reach an agreement through this process. The parties presented to Arbitrator Kaplan on December 8 and 9, 2012 and his award was received December 19, 2012 covering 2012, 2013, and 2014.

A tentative 5-year settlement was reached with the USW on September 22, 2012. This agreement was ratified on November 9, 2012 and came into effect on January 1, 2013.

A tentative 5-year settlement was reached with the IBEW on November 9, 2012. This agreement was ratified on December 18, 2012 and came into effect on January 1, 2013.

A tentative 5-year settlement was reached with the CPPA on November 29, 2012. This agreement was ratified on December 7, 2012 and came into effect on January 1, 2013.

A tentative 5-year settlement was reached with the MWED on December 8, 2012. This agreement was ratified on January 25, 2013 and came into effect on January 1, 2013.

U.S.

We are party to collective agreements with fourteen bargaining units of our Soo Line subsidiary, thirteen bargaining units of our D&H subsidiary, and five bargaining units of our DM&E subsidiary, including the first contract negotiated with a bargaining unit certified to represent DM&E track maintainers.

Table of Contents

Soo Line has settled contracts with all fourteen bargaining units representing train service employees, car repair employees, locomotive engineers, yard supervisors, clerks, machinists, boilermakers and blacksmiths, electricians, sheet metal workers, and mechanical labourers as a result of national bargaining with the other U.S. Class 1 railroads.

D&H has settled contracts for all thirteen bargaining units, including locomotive engineers, train service employees, car repair employees, signal maintainers, yardmasters, electricians, machinists, mechanical labourers, track maintainers, clerks, police, engineering supervisors and mechanical supervisors, as a result of stand-by agreements on wage, benefits, and rules negotiations at the national table.

DM&E has agreements in place with five bargaining units which cover all DM&E engineers and conductors, signal and communication workers, mechanics and maintenance of way workers. The agreement with the fifth bargaining unit covering track maintainers was ratified November 27, 2012, and was fully effective January 1, 2013.

All collective bargaining agreements on the three U.S. subsidiary properties become amendable December 31, 2014, except the locomotive engineers and conductors agreements on the DM&E which become amendable December 31, 2013.

Environmental Laws and Regulations

Our operations and real estate assets are subject to extensive federal, provincial, state and local environmental laws and regulations governing emissions to the air, discharges to waters and the handling, storage, transportation and disposal of waste and other materials. If we are found to have violated such laws or regulations it could materially affect our business or operating results. In addition, in operating a railway, it is possible that releases of hazardous materials during derailments or other accidents may occur that could cause harm to human health or to the environment. Costs of remediation, damages and changes in regulations could materially affect our operating results and reputation.

We have implemented a comprehensive Environmental Management System, to facilitate the reduction of environmental risk. CP's annual Corporate and Operations Environmental Plans state our current environmental goals, objectives and strategies.

Specific environmental programs are in place to address areas such as air emissions, wastewater, management of vegetation, chemicals and waste, storage tanks and fuelling facilities. We also undertake environmental impact assessments. There is continued focus on preventing spills and other incidents that have a negative impact on the environment. There is an established Strategic Emergency Response Contractor network and spill equipment kits located across Canada and the U.S. to ensure a rapid and efficient response in the event of an environmental incident. In addition, emergency preparedness and response plans are regularly updated and tested.

We have developed an environmental audit program that comprehensively, systematically and regularly assesses our facilities for compliance with legal requirements and our policies for conformance to accepted industry standards. Included in this is a corrective action follow-up process and semi-annual review by the Safety Operations, and Environment Committee established by the Board of Directors.

We focus on key strategies, identifying tactics and actions to support commitments to the community. Our strategies include:

- protecting the environment;
- ensuring compliance with applicable environmental laws and regulations;
- promoting awareness and training;
- managing emergencies through preparedness; and
- encouraging involvement, consultation and dialogue with communities along our lines.

Climate Change

In both Canada and the U.S., the federal governments have not designated railway transportation as a large final emitter with respect to greenhouse gas ("GHG") emissions. The railway transportation industry is currently not regulated with respect to GHG emissions, nor do we operate under a regulated cap of GHG emissions. Growing support for climate change legislation is likely to result in changes to the regulatory framework in Canada and the U.S. However, the timing and specific nature of those changes are difficult to predict. Specific instruments such as carbon taxes, and technical and fuel standards have the ability to significantly affect the Company's capital and operating costs. Restrictions, caps and/or taxes on the emissions of GHG could also affect the markets for, or the volume of, the goods the Company transports.

The fuel efficiency of railways creates a significant advantage over trucking, which currently handles a majority of the market share of ground transportation. Although trains are already three times more fuel efficient than trucks on a per ton-mile basis, we continue to adopt new technologies to minimize our fuel consumption and GHG emissions.

Potential physical risks associated with climate change include damage to railway infrastructure due to extreme weather effects, (e.g. increased flooding, winter storms). Improvements to infrastructure design and planning are used to mitigate the potential risks posed by weather events. The Company maintains flood plans, winter operating plans, an avalanche risk management program and geotechnical monitoring of slope stability.

Table of Contents

Financial Risks

Pension Funding Volatility

A description of our pension funding volatility related to the Company's pension plans are included in Section 22, Critical Accounting Estimates.

Fuel Cost Volatility

Fuel expense constitutes a significant portion of CP's operating costs and can be influenced by a number of factors, including, without limitation, worldwide oil demand, international politics, weather, refinery capacity, unplanned infrastructure failures, labour and political instability and the ability of certain countries to comply with agreed upon production quotas.

Our mitigation strategy includes a fuel cost recovery program and from time to time derivative instruments. The fuel cost recovery program reflects changes in fuel costs, which are included in freight rates. Freight rates will increase when fuel prices rise and will decrease when fuel costs decrease. While fluctuations in fuel cost are mitigated, the risk cannot be completely eliminated due to timing and the volatility in the market.

To address the residual portion of our fuel costs not mitigated by our fuel recovery programs, CP has a systematic hedge program with monthly rolling hedges of 10 – 12% of our fuel requirements. Using this approach CP will, at any point in time, have 5 – 7% of the next 12 months' fuel consumption and 8 – 10% of the next quarter's fuel consumption hedged. Fuel price management is discussed further in Section 17, Financial Instruments.

Foreign Exchange Risk

Although we conduct our business primarily in Canada, a significant portion of our revenues, expenses, assets and liabilities including debt are denominated in U.S. dollars. Consequently, our results are affected by fluctuations in the exchange rate between these currencies. The value of the Canadian dollar is affected by a number of domestic and international factors, including, without limitation, economic performance, Canadian, U.S. and international monetary policies and U.S. debt levels. Changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by us more or less competitive in the world marketplace and, in turn, positively or negatively affect our revenues and expenses. To manage this exposure to fluctuations in exchange rates between Canadian and U.S. dollars, we may sell or purchase U.S. dollar forwards at fixed rates in future periods. Foreign exchange management is discussed further in Section 17, Financial Instruments.

Interest Rate Risk

In order to meet our capital structure requirements, we may enter into long-term debt agreements. These debt agreements expose us to increased interest costs on future fixed debt instruments and existing variable rate debt instruments should market rates increase. In addition, the present value of our assets and liabilities will also vary with interest rate changes. To manage our interest rate exposure, we may enter into forward rate agreements such as treasury rate locks or bond forwards that lock in rates for a future date, thereby protecting ourselves against interest rate increases. We may also enter into swap agreements whereby one party agrees to pay a fixed rate of interest while the other party pays a floating rate. Contingent on the direction of interest rates, we may incur higher costs depending on our contracted rate. Interest rate management is discussed further in Section 17, Financial Instruments.

General and Other Risks

Transportation of Hazardous Materials

Railways, including CP, are legally required to transport hazardous materials as part of their common carrier obligations regardless of risk or potential exposure of loss. A train accident involving hazardous materials, including toxic inhalation hazard commodities such as chlorine and anhydrous ammonia could result in catastrophic losses from personal injury and property damage, which could have a material adverse effect on CP's operations, financial condition and liquidity.

Supply Chain Disruptions

The North American transportation system is integrated. CP's operations and service may be negatively impacted by service disruptions of other transportation links such as ports, handling facilities, customer facilities, and other railways. A prolonged service disruption at one of these entities could have a material adverse effect on CP's operations, financial condition and liquidity.

Reliance on Technology and Technological Improvements

Information technology is critical to all aspects of our business. While we have business continuity and disaster recovery plans in place, a significant disruption or failure of one or more of our information technology or communications systems could result in service interruptions or other failures and deficiencies which could have a material adverse effect on our results of operations, financial condition and liquidity. If we are unable to acquire or implement new technology, we may suffer a competitive disadvantage, which could also have an adverse effect on our results of operations, financial condition and liquidity.

Table of Contents

Qualified Personnel

Changes in employee demographics, training requirements, and the availability of qualified personnel, particularly locomotive engineers and train-persons, could negatively impact the Company's ability to meet demand for rail service. We have workforce planning tools and programs in place and are undertaking technological improvements to assist with manual tasks. Unpredictable increases in the demand for rail services may increase the risk of having insufficient numbers of trained personnel, which could have a material adverse effect on our results of operations, financial condition and liquidity. In addition, changes in operations and other technology improvements may significantly impact the number of employees.

Severe Weather

We are exposed to severe weather conditions including floods, avalanches, mudslides, extreme temperatures and significant precipitation that may cause business interruptions that can adversely affect our entire rail network and result in increased costs, increased liabilities, and decreased revenue, which could have a material adverse effect on CP's operations, financial condition and liquidity.

Supplier Concentration

Due to the complexity and specialized nature of rail equipment and infrastructure, there can be a limited number of suppliers of this equipment and material available. Should these specialized suppliers cease production or experience capacity or supply shortages, this concentration of suppliers could result in CP experiencing cost increases or difficulty in obtaining rail equipment and materials. While CP manages this risk by sourcing key products and services from multiple suppliers whenever possible, widespread business failures of suppliers could have a material adverse effect on CP's operations, financial condition and liquidity.

General Risks

There are factors and developments that are beyond the influence or control of the railway industry generally and CP specifically which may have a material adverse effect on our business or operating results. Our freight volumes and revenues are largely dependent upon the performance of the North American and global economies, which remains uncertain, and other factors affecting the volumes and patterns of international trade. CP's bulk traffic is dominated by grain, metallurgical coal, fertilizers and sulphur. Factors outside of CP's control which affect bulk traffic include:

- with respect to grain volumes, domestic production-related factors such as weather conditions, acreage plantings, yields and insect populations;
- with respect to coal volumes, global steel production;
- with respect to fertilizer volumes, grain and other crop markets, with both production levels and prices being important factors; and
- with respect to sulphur volumes, gas production levels in southern Alberta, industrial production and fertilizer production, both in North America and abroad.

The merchandise commodities transported by the Company include those relating to the forestry, energy, industrial, automotive and other consumer spending sectors. Factors outside of CP's control which affect this portion of CP's business include the general state of the North American economy, with North American industrial production, business investment and consumer spending being the general sources of economic demand. Housing, auto production and energy development are also specific sectors of importance. Factors outside of CP's control which affect the Company's intermodal traffic volumes include North American consumer spending and a technological shift toward containerization in the transportation industry that has expanded the range of goods moving by this means.

Adverse changes to any of the factors outside of CP's control which affect CP's bulk traffic, the merchandise commodities transported by CP or CP's intermodal traffic volumes or adverse changes to fuel prices could have a material adverse effect on CP's operations, financial condition and liquidity.

We are also sensitive to factors including, but not limited to, natural disasters, security threats, commodity pricing, global supply and demand, and supply chain efficiency. Other business risks include: potential increase in maintenance and operational costs, uncertainties of litigation, risks and liabilities arising from derailments and technological changes.

22. CRITICAL ACCOUNTING ESTIMATES

To prepare consolidated financial statements that conform with GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Using the most current information available, we review our estimates on an ongoing basis, including those related to environmental liabilities, pensions and other benefits, property, plant and equipment, deferred income taxes, legal and personal injury liabilities, long-term floating rate notes and goodwill and intangible assets.

The development, selection and disclosure of these estimates, and this MD&A, have been reviewed by the Board of Directors' Audit Committee, which is comprised entirely of independent directors.

Table of Contents

Environmental Liabilities

We estimate the probable cost to be incurred in the remediation of property contaminated by past railway use. We screen and classify sites according to typical activities and scale of operations conducted, and we develop remediation strategies for each property based on the nature and extent of the contamination, as well as the location of the property and surrounding areas that may be adversely affected by the presence of contaminants. We also consider available technologies, treatment and disposal facilities and the acceptability of site-specific plans based on the local regulatory environment. Site-specific plans range from containment and risk management of the contaminants through to the removal and treatment of the contaminants and affected soils and ground water. The details of the estimates reflect the environmental liability at each property. We are committed to fully meeting our regulatory and legal obligations with respect to environmental matters.

Liabilities for environmental remediation may change from time to time as new information about previously untested sites becomes known. The net liability may also vary as the courts decide legal proceedings against outside parties responsible for contamination. These potential charges, which cannot be quantified at this time, are not expected to be material to our financial position, but may materially affect income in the period in which a charge is recognized. Material increases to costs would be reflected as increases to Other long-term liabilities on our Consolidated Balance Sheet and to Purchased Services and Other within operating expenses on our Consolidated Statement of Income.

At December 31, 2012, the accrual for environmental remediation on our Consolidated Balance Sheet amounted to $89 million (2011 – $97 million), of which the long-term portion amounting to $77 million (2011 – $82 million) was included in Other long-term liabilities and the short-term portion amounting to $12 million (2011 – $15 million) was included in Accounts payable and accrued liabilities. Total payments were $11 million in 2012 and $15 million in 2011. The U.S. dollar-denominated portion of the liability was affected by the change in FX, resulting in a decrease in environmental liabilities of $1 million in 2012 and an increase of $2 million in 2011.

Pensions and Other Benefits

We have defined benefit and defined contribution pension plans. Other benefits include post-retirement medical and life insurance for pensioners, and some post-employment workers' compensation and long-term disability benefits in Canada. Workers' compensation and long-term disability benefits are discussed in the Legal and Personal Injury Liabilities section below. Pension and post-retirement benefits liabilities are subject to various external influences and uncertainties.

Pension costs are actuarially determined using the projected-benefit method prorated over the credited service periods of employees. This method incorporates our best estimates of expected plan investment performance, salary escalation and retirement ages of employees. The expected return on fund assets is calculated using market-related asset values developed from a five-year average of market values for the fund's public equity securities (with each prior year's market value adjusted to the current date for assumed investment income during the intervening period) plus the market value of the fund's fixed income, real estate and infrastructure securities, subject to the market-related asset value not being greater than 120% of the market value nor being less than 80% of the market value.

The discount rate we use to determine the benefit obligation is based on market interest rates on high-quality corporate debt instruments with matching cash flows. Unrecognized actuarial gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of plan assets are amortized over the expected average remaining service period of active employees expected to receive benefits under the plan (approximately 10 years). Prior service costs arising from collectively bargained amendments to pension plan benefit provisions are amortized over the term of the applicable union agreement. Prior service costs arising from all other sources are amortized over the expected average remaining service period of active employees who were expected to receive benefits under the plan at the date of amendment.

The obligations with respect to post-retirement benefits, including health care and life insurance, are actuarially determined and are accrued using the projected-benefit method prorated over the credited service periods of employees. The obligations with respect to post-employment benefits, including some workers' compensation and long-term disability benefits in Canada, are the actuarial present value of benefits payable to employees on disability.

We included pension benefit liabilities of $876 million in Pension and other benefit liabilities and $8 million in Accounts payable and accrued liabilities on our December 31, 2012 Consolidated Balance Sheet. We also included post-retirement benefits accruals of $385 million in Pension and other benefit liabilities and post-retirement benefits accruals of $21 million in Accounts payable and accrued liabilities on our December 31, 2012 Consolidated Balance Sheet. Accruals for self-insured workers' compensation and long-term disability benefit plans are discussed in the Legal and Personal Injury Liabilities section below.

During the first quarter of 2013, the Board of Directors of the Company approved certain changes to the Canadian defined benefit pension plan which, if implemented as proposed, are expected to take effect in 2013 and will reduce the Canadian defined benefit pension's liability by approximately $127 million.

Fluctuations in the post-retirement benefit obligation can result from changes in the discount rate used. A 1.0 percentage point increase (decrease) in the discount rate would decrease (increase) the liability by approximately $55 million.

Net periodic benefit costs for pensions and post-retirement benefits were included in Compensation and benefits on our December 31, 2012 Statement of Consolidated Income. Combined net periodic benefit costs for pensions and post-retirement benefits (excluding self-insured workers' compensation and long-term disability benefits) were $76 million in 2012, compared with $79 million in 2011.

Table of Contents

Net periodic benefit costs for pensions were $46 million in 2012, compared with $51 million in 2011. The portion of this related to defined benefit pensions was $41 million in 2012, compared with $46 million in 2011, and the portion related to defined contribution pensions (equal to contributions) was $5 million for 2012, compared with $5 million for 2011. We estimate net periodic benefit costs for defined benefit pensions to be in the range of $50 million to $60 million in each of 2013 and 2014 and in the range of $90 million to $110 million in each of 2015 and 2016. We estimate net periodic benefit costs for defined contribution pensions to be approximately $6 million in each year from 2013 to 2016. Net periodic benefit costs for post-retirement benefits were $30 million in 2012, compared with $28 million in 2011. Net periodic benefit costs for post-retirement benefits in 2013 are not expected to differ materially from the 2012 costs.

Fluctuations in net periodic benefit costs for pensions can result from favourable or unfavourable investment returns and changes in long-term interest rates. The impact of favourable or unfavourable investment returns is moderated by the use of a market-related asset value for the main Canadian defined benefit pension plan's public equity securities. The impact of changes in long-term rates on pension obligations is partially offset by their impact on the pension funds' investments in fixed income assets.

If the rate of investment return on the plans' public equity securities in 2012 had been 10 percentage points higher (or lower) than the actual 2012 rate of investment return on such securities, 2013 net periodic benefit costs for pensions would be lower (or higher) by $14 million. If the discount rate as at December 31, 2012 had been higher (or lower) by 0.1% with no related changes in the value of the pension funds' investment in fixed income assets, 2013 net periodic benefit costs for pensions would be lower (or higher) by $14 million.

Pension Plan Deficit

We made contributions of $102 million to the defined benefit pension plans in 2012, compared with $693 million in 2011. Our 2011, 2010 and 2009 contributions included voluntary prepayments of $600 million in December 2011, $650 million in September 2010 and $500 million in December 2009 to our main Canadian defined benefit pension plan. We have significant flexibility with respect to the rate at which we apply these voluntary prepayments to reduce future years' pension contribution requirements, which allows us to manage the volatility of future pension funding requirements.

We estimate our aggregate pension contributions to be in the range of $100 million to $125 million per year from 2013 to 2016. These estimates reflect our current intentions with respect to the rate at which we will apply the December 2009, September 2010 and December 2011 voluntary prepayments against contribution requirements in the next few years.

Future pension contributions will be highly dependent on our actual experience with such variables as investment returns, interest rate fluctuations and demographic changes, on the rate at which the voluntary prepayments are applied against pension contribution requirements, and on any changes in the regulatory environment.

We estimate that a 1.0 percentage point increase (or decrease) in the discount rate would decrease (or increase) our defined benefit pension plans' projected benefit obligations approximately $1,500 million. Similarly, for every 1.0 percentage point the actual return on assets varies above (or below) the estimated return for the year, the value of the defined benefit pension plans assets would increase (or decrease) by approximately $100 million. Adverse experience with respect to these factors could eventually increase funding and pension expense significantly, while favourable experience with respect to these factors could eventually decrease funding and pension expense significantly.

The plans' investment policies provide a target allocation of approximately 46% of the plans' assets to be invested in public equity securities. As a result, stock market performance is the key driver in determining the pension funds' asset performance. Most of the plans' remaining assets are invested in debt securities which, as mentioned above, provide a partial offset to the increase (or decrease) in our pension deficit caused by decreases (or increases) in the discount rate.

The deficit will fluctuate according to future market conditions and funding will be revised as necessary to reflect such fluctuations. We will continue to make contributions to the pension plans that, at a minimum, meet pension legislative requirements.

Pension Funding Volatility

Our main Canadian defined benefit pension plan accounts for 97% of CP's pension obligation and can produce significant volatility in pension funding requirements, given the pension fund's size, the many factors that drive the pension plan's funded status, and Canadian statutory pension funding requirements. CP has made voluntary prepayments to our main Canadian defined benefit pension plan of $600 million in December 2011, $650 million in September 2010, and $500 million in December 2009 which will reduce pension funding volatility, since we have significant flexibility with respect to the rate at which we apply these voluntary prepayments to reduce future years' pension funding requirements.

Property, Plant and Equipment

CP performs depreciation studies of each property group approximately every three years to update depreciation rates. The depreciation studies are based on statistical analysis of historical retirements of properties in the group and incorporate engineering estimates of changes in current operations and of technological advances. We depreciate the cost of properties, net of salvage, on a straight-line basis over the estimated useful life of the property group. We follow the group depreciation method under which a single depreciation rate is applied to the total cost in a particular class of property, despite differences in the service life or salvage value of individual properties within the same class. The estimates of economic

Table of Contents

lives are uncertain and can vary due to technological changes or in the rate of wear. Additionally, the depreciation rates are updated to reflect the change in residual values of the assets in the class. Under the group depreciation method, retirements or disposals of properties in the normal course of business are accounted for by charging the cost of the property less any net salvage to accumulated depreciation. For the sale or retirement of larger groups of depreciable assets that are unusual and were not included in our depreciation studies, CP records a gain or loss for the difference between net proceeds and net book value of the assets sold or retired.

Due to the capital intensive nature of the railway industry, depreciation represents a significant part of our operating expenses. The estimated useful lives of properties have a direct impact on the amount of depreciation recorded as a component of Properties on our Consolidated Balance Sheet. At December 31, 2012, accumulated depreciation was $6,268 million and $5,970 million at December 31, 2011.

Revisions to the estimated useful lives and net salvage projections for properties constitute a change in accounting estimate and we address these prospectively by amending depreciation rates. It is anticipated that there will be changes in the estimates of weighted average useful lives and net salvage for each property group as assets are acquired, used and retired. Substantial changes in either the useful lives of properties or the salvage assumptions could result in significant changes to depreciation expense. For example, if the estimated average life of road locomotives, our largest asset group, increased (or decreased) by 5%, annual depreciation expense would decrease (or increase) by approximately $3 million.

We review the carrying amounts of our properties when circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows. When such properties are determined to be impaired, recorded asset values are revised to their fair values and an impairment loss is recognized. See Section 9, Operating Expenses for details of the impairment on locomotives and the PRB.

Deferred Income Taxes

We account for deferred income taxes based on the liability method. This method focuses on a Company’s balance sheet and the temporary differences otherwise calculated from the comparison of book versus tax values. It is assumed that such temporary differences will be settled in the deferred income tax assets and liabilities at the balance sheet date.

In determining deferred income taxes, we make estimates and assumptions regarding deferred tax matters, including estimating the timing of the realization and settlement of deferred income tax assets (including the benefit of tax losses) and liabilities. Deferred income taxes are calculated using enacted federal, provincial, and state future income tax rates, which may differ in future periods.

Deferred income tax expense totalling $140 million was included in income tax for 2012 and $187 million was included in income tax in 2011. The change in deferred income tax in 2012 was primarily due to the impairment of various assets. At December 31, 2012 and 2011, deferred income tax liabilities of $2,092 million and $1,819 million, respectively, were recorded as a long-term liability and comprised largely of temporary differences related to accounting for properties. Deferred income tax benefits of $254 million realizable within one year were recorded as a current asset compared to $101 million at December 31, 2011.

Legal and Personal Injury Liabilities

We are involved in litigation in Canada and the U.S. related to our business. Management is required to establish estimates of the potential liability arising from incidents, claims and pending litigation, including personal injury claims and certain occupation-related and property damage claims.

These estimates are determined on a case-by-case basis. They are based on an assessment of the actual damages incurred and current legal advice with respect to settlements in other similar cases. We employ experienced claims adjusters who investigate and assess the validity of individual claims made against us and estimate the damages incurred.

A provision for incidents, claims or litigation is recorded based on the facts and circumstances known at the time. We accrue for likely claims when the facts of an incident become known and investigation results provide a reasonable basis for estimating the liability. The lower end of the range is accrued if the facts and circumstances permit only a range of reasonable estimates and no single amount in that range is a better estimate than any other. Additionally, for administrative expediency, we keep a general provision for lesser value injury cases. Facts and circumstances related to asserted claims can change, and a process is in place to monitor accruals for changes in accounting estimates.

With respect to claims related to occupational health and safety in the provinces of Quebec, Ontario, Manitoba and B.C., claims administered through the Workers’ Compensation Board (“WCB”) are actuarially determined. In the provinces of Saskatchewan and Alberta, we are assessed for an annual WCB contribution. As a result, this amount is not subject to estimation by management.

Railway employees in the U.S. are not covered by a workers’ compensation program, but are covered by U.S. federal law for railway employees. Although we manage in the U.S. using a case-by-case comprehensive approach, for accrual purposes, a combination of case-by-case analysis and statistical analysis is utilized.

Provisions for incidents, claims and litigation charged to income, which are included in Purchased services and other on our Consolidated Statement of Income, amounted to $60 million in 2012 (2011 – $74 million; 2010 – $50 million).

Accruals for incidents, claims and litigation, including WCB accruals, totaled $172 million, net of insurance recoveries, at December 31, 2012 and $172 million at December 31, 2011. At December 31, 2012 and 2011 respectively, the total accrual included $105 million and $106 million in Pension and other benefit liabilities, $13 million and $14 million in Other long-term liabilities and $55 million and $53 million in Accounts payable and accrued liabilities, offset by $1 million and $1 million in Other assets.

Table of Contents

Long-term Floating Rate Notes

During 2012, the Company sold its remaining investment in long-term floating rate notes (Master Asset Vehicle ("MAV") 2 Class A-1 and A-2 Notes) which had a carrying value of $81 million for proceeds of $81 million. These notes had an original cost of $105 million.

At December 31, 2012, the Company had no remaining investment in long-term floating rate notes compared to December 31, 2011 where the Company had a carrying value $79 million, being the estimated fair value of the notes, reported in Investments.

Accretion, redemption of notes and other minor changes in market assumptions resulted in a net gain of $2 million in 2012 compared to $15 million in 2011 and $9 million in 2010, which were reported in Other income and charges.

The valuation technique and assumptions used by the Company to estimate the fair value of its investment in long-term floating rate notes during 2012 were similar to those used at December 31, 2011, and incorporated probability weighted discounted cash flows considered the best available public information regarding market conditions and other factors that a market participant would have considered for such investments.

Goodwill and Intangible Assets

As part of the acquisition of DM&E in 2007, CP recognized goodwill of US$147 million on the allocation of the purchase price, determined as the excess of the purchase price over the fair value of the net assets acquired. Since the acquisition, the operations of DM&E have been integrated with CP's U.S. operations and the related goodwill is now allocated to CP's U.S. reporting unit. Goodwill is tested for impairment at least once per year as at October 1st. The goodwill impairment test determines if the fair value of the reporting unit continues to exceed its net book value, or whether an impairment charge is required. The fair value of the reporting unit is affected by projections of its profitability including estimates of revenue growth, which are inherently uncertain. The 2012 annual test for impairment determined that the fair value of CP's U.S. reporting unit exceeded the carrying value of the allocated goodwill by approximately 46% (2011 – 42%).

The impairment test was performed primarily using an income approach based on discounted cash flows. A discount rate of 10.5% (2011 – 9.5%) was used, based on the weighted average cost of capital. A change in discount rates of 0.25% would change the valuation by 4.0% to 5.0%. The valuation used revenue growth projections ranging from 3.0% to 16.5% (2011 – 4.5% to 11.2%) annually. A change in the long term growth rate of 0.25% would change the valuation by 3.0% to 4.0%. These sensitivities indicate that a prolonged recession or increased borrowing rates could result in an impairment to the carrying value of goodwill in future periods. A secondary approach used in the valuation was a market approach which included a comparison of implied earnings multiples of CP U.S. to trading earnings multiples of comparable companies, adjusted for the inherent minority discount. The derived value of CP U.S. using the income approach fell within the range of the observable trading multiples. The income approach was chosen over the market approach as it takes into consideration the particular characteristics attributable to CP U.S.

Decreases to the profit projections, which could be caused by a prolonged economic recession, or increases to the discount rate used in the valuation could require an impairment in future periods. The carrying value of CP's goodwill changes from period to period due to changes in the exchange rate. As at December 31, 2012 goodwill was $146 million (2011 – $150 million). See Section 9, Operating Expenses for further details on the PRB impairment.

23. SYSTEMS, PROCEDURES AND CONTROLS

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the U.S. Securities Exchange Act of 1934 (as amended)) to ensure that material information relating to the Company is made known to them. The Chief Executive Officer and Chief Financial Officer have a process to evaluate these disclosure controls and are satisfied that they are effective for ensuring that such material information is made known to them.

24. 2012 GUIDANCE UPDATES

2012 Financial Assumptions

In the 2011 annual MD&A, CP previously provided assumptions for 2012 which included capital expenditures estimated to range from $1.1 billion to $1.2 billion, discussed further in Section 14, Liquidity and Capital Resources. CP expected its tax rate to be in the 25% to 27% range, discussed further in Section 10, Other Income Statement Items. The 2012 pension contributions were estimated to be between $100 million and $125 million, discussed further in Section 22, Critical Accounting Estimates. Undue reliance should not be placed on these assumptions and other forward-looking information.

2012 Third-Quarter Guidance Update

CP has updated the following assumptions: We estimate our aggregate defined benefit pension contributions to be between $100 million and $125 million in each of the years through 2016, discussed further in Section 22, Critical Accounting Estimates. These contribution levels reflect the Company's intentions with respect to the rate at which we apply the voluntary prepayments to reduce requirements.

Table of Contents

Variance from 2012 Guidance

CP's capital expenditures for 2012 came in at $1.15 billion, discussed further in Section 14, Liquidity and Capital Resources. The effective tax rate for 2012 was 24%, discussed further in Section 10, Other Income Statement Items. Our 2012 pension contributions to the defined benefit pension plan was $102 million in 2012, discussed further in Section 22, Critical Accounting Estimates.

25. GLOSSARY OF TERMS

Agency: The Canadian Transportation Agency, a regulatory agency under the Canada Transportation Act ("CTA"). The Agency regulates the grain revenue cap, commuter and passenger access, Final Offer Arbitration, and charges for ancillary services and railway noise.

Average active employees – expense: The average number of actively employed workers during the period whose compensation costs are included in Compensation and benefits on the Consolidated Statement of Income. This includes individuals who have worked more than 40 hours in a standard biweekly pay period. This also includes employees who are taking vacation and statutory holidays and other forms of short-term paid leave, and excludes individuals who have a continuing employment relationship with us but are not currently working or who have not worked a minimum number of hours, part time employees, contractors, consultants and trainees.

Average daily active cars on-line: The average number of freight cars that are in active status on CP's network. This includes cars that are in need of light repairs. This excludes freight cars that require significant repairs, are in storage and cars spotted at customer facilities.

Average daily active road locomotives on-line: The average number of road locomotives that are in active status on CP's network. This excludes locomotives in yard and short haul service, in repair status, in storage and in use on other railways.

Average terminal dwell: The average time a freight car resides at a specified terminal location. The timing starts with a train arriving in the terminal, a customer releasing the car to us, or a car arriving that is to be transferred to another railway. The timing ends when the train leaves, a customer receives the car from us or the freight car is transferred to another railway. Freight cars are excluded if: i) a train is moving through the terminal without stopping; ii) they are being stored at the terminal; iii) they are in need of repair; or iv) they are used in track repairs.

Average train length – excluding local traffic: The average length of CP trains, both loaded and empty. This excludes trains in short haul service, work trains used to move CP's track equipment and materials and the haulage of other railways' trains on CP's network.

Average train speed: The average speed attained as a train travels between terminals, calculated by dividing the total train miles traveled by the total hours operated. This calculation does not include the travel time or the distance traveled by: i) trains used in or around CP's yards; ii) passenger trains; and iii) trains used for repairing track. The calculation also does not include the time trains spend waiting in terminals.

Average train weight – excluding local traffic: The average gross weight of CP trains, both loaded and empty. This excludes trains in short haul service, work trains used to move CP's track equipment and materials and the haulage of other railways' trains on CP's network.

Car miles per car day: The total car-miles for a period divided by the total number of active cars. Total car-miles include the distance travelled by every car on a revenue-producing train and a train used in or around our yards. A car-day is assumed to equal one active car-day. An active car is a revenue-producing car that is generating costs to CP on an hourly or mileage basis. Excluded from this count are i) cars that are not on the track or are being stored; ii) cars that are in need of repair; iii) cars that are used to carry materials for track repair; iv) cars owned by customers that are on the customer's tracks; and v) cars that are idle and waiting to be reclaimed by CP.

Carloads: Revenue-generating shipments of containers, trailers and freight cars.

Casualty expenses: Includes costs associated with personal injuries, freight and property damages, and environmental mishaps.

CP, the Company: CPRL, CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL's subsidiaries.

CPRL: Canadian Pacific Railway Limited.

D&H: Delaware and Hudson Railway Company, Inc., a wholly owned indirect U.S. subsidiary of CPRL.

DM&E: Dakota, Minnesota & Eastern Railroad Corporation, a wholly owned indirect U.S. Subsidiary of CPRL.

Employee productivity: The total freight gross ton-miles divided by the average number of active expense employees.

FRA: U.S. Federal Railroad Administration, a regulatory agency whose purpose is to promulgate and enforce rail safety regulations; administer railroad assistance programs; conduct research and development in support of improved railroad safety and national rail transportation policy; provide for the rehabilitation of Northeast Corridor rail passenger service; and consolidate government support of rail transportation activities.

FRA personal injury rate per 200,000 employee-hours: The number of personal injuries multiplied by 200,000 and divided by total employee hours. Personal injuries are defined as injuries that require employees to lose time away from work, modify their normal duties or obtain medical treatment beyond minor first aid. Employee-hours are the total hours worked, excluding vacation and sick time, by all employees, excluding contractors.

Table of Contents

FRA train accidents rate: The number of train accidents, multiplied by 1,000,000 and divided by total train-miles. Train accidents included in this metric meet or exceed the FRA reporting threshold of US$9,400 in the U.S. or $9,800 in Canada in damage.

Freight revenue per carload: The amount of freight revenue earned for every carload moved, calculated by dividing the freight revenue for a commodity by the number of carloads of the commodity transported in the period.

Freight revenue per RTM: The amount of freight revenue earned for every RTM moved, calculated by dividing the total freight revenue by the total RTMs in the period.

FX or Foreign Exchange: The value of the Canadian dollar relative to the U.S. dollar (exclusive of any impact on market demand).

GAAP: Accounting principles generally accepted in the United States of America.

GTMs or gross ton-miles: The movement of total train weight over a distance of one mile. Total train weight is comprised of the weight of the freight cars, their contents and any inactive locomotives. An increase in GTMs indicates additional workload.

Locomotive productivity: The daily average GTMs divided by the active road horse power. Active road horse power excludes locomotives in yard and short haul service, in repair status, in storage and in use on other railways.

Operating income: Calculated as total revenues less total operating expenses and is a common measure of profitability used by management.

Operating ratio: The ratio of total operating expenses to total revenues. A lower percentage normally indicates higher efficiency.

RTMs or revenue ton-miles: The movement of one revenue-producing ton of freight over a distance of one mile.

Soo Line: Soo Line Railroad Company, a wholly owned indirect U.S. subsidiary of CPRL.

STB: U.S. Surface Transportation Board, a regulatory agency with jurisdiction over railway rate and service issues and rail restructuring, including mergers and sales.

U.S. gallons of locomotive fuel consumed per 1,000 GTMs: The total fuel consumed in freight and yard operations for every 1,000 GTMs traveled. This is calculated by dividing the total amount of fuel issued to our locomotives, excluding commuter and non-freight activities, by the total freight-related GTMs. The result indicates how efficiently we are using fuel.

Table of Contents

Canadian Pacific Railway Limited
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars

Table of Contents

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The information in this report is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include some amounts based on management's best estimates and careful judgment. The consolidated financial statements include the accounts of Canadian Pacific Railway Limited, Canadian Pacific Railway Company and all of its subsidiaries (the "Company"). The financial information of the Company included in the Company's Annual Report is consistent with that in the consolidated financial statements. The consolidated financial statements have been approved by the Board of Directors.

Our Board of Directors is responsible for reviewing and approving the consolidated financial statements and for overseeing management's performance of its financial reporting responsibilities. The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee (the "Audit Committee"), consisting of five members, all of whom are independent directors. The Audit Committee reviews the consolidated financial statements with management and the Independent Registered Chartered Accountants prior to submission to the Board for approval. The Audit Committee meets regularly with management, internal auditors, and the Independent Registered Chartered Accountants to review accounting policies and financial reporting. The Audit Committee also reviews the recommendations of both the Independent Registered Chartered Accountants and internal auditors for improvements to internal controls, as well as the actions of management to implement such recommendations. The internal auditors and Independent Registered Chartered Accountants have full access to the Audit Committee, with or without the presence of management.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the Company's internal control over financial reporting in accordance with the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2012.

The effectiveness of the Company's internal control over financial reporting as at December 31, 2012 has been audited by Deloitte LLP, Independent Registered Chartered Accountants, as stated in their report, which is included herein.

/s/ Brian Grassby
Brian Grassby
Senior Vice-President,
Chief Financial Officer, and Treasurer

/s/ E. Hunter Harrison
E. Hunter Harrison
Chief Executive Officer

March 12, 2013

Table of Contents

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Board of Directors and the Shareholders of Canadian Pacific Railway Limited:

We have audited the accompanying consolidated financial statements of Canadian Pacific Railway Limited and subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2012 and 2011 and the consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canadian Pacific Railway Limited and subsidiaries as at December 31, 2012 and 2011 and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 12, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte LLP
Independent Registered Chartered Accountants
March 12, 2013
Calgary, Canada

Table of Contents

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Board of Directors and the Shareholders of Canadian Pacific Railway Limited:

We have audited the internal control over financial reporting of Canadian Pacific Railway Limited and subsidiaries (the "Company") as of December 31, 2012, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2012 of the Company and our report dated March 12, 2013 expressed an unqualified opinion on those financial statements.

/s/ Deloitte LLP
Independent Registered Chartered Accountants
March 12, 2013
Calgary, Canada

Table of Contents

Independent Auditor's Report

To the Shareholders of Canadian Pacific Railway Limited

We have audited the consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity of Canadian Pacific Railway Limited for the year ended December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, Canadian Pacific Railway Limited's results of operations and cash flows for the year ended December 31, 2010 in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP
Chartered Accountants
February 24, 2011
Calgary, Alberta

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME

Year ended December 31 (in millions of Canadian dollars, except per share data)	2012	2011	2010
Revenues			
Freight	$ 5,550	$ 5,052	$ 4,853
Other	145	125	128
Total revenues	5,695	5,177	4,981
Operating expenses			
Compensation and benefits (Note 28)	1,506	1,426	1,431
Fuel	999	968	728
Materials	238	243	214
Equipment rents	206	209	206
Depreciation and amortization	539	490	489
Purchased services and other (Note 28)	940	874	797
Asset impairment (Note 3)	265	–	–
Labour restructuring (Note 4)	53	–	–
Total operating expenses	4,746	4,210	3,865
Operating income	949	967	1,116
Less:			
Other income and charges (Note 5)	37	18	(12)
Net interest expense (Note 6)	276	252	257
Income before income tax expense	636	697	871
Income tax expense (Note 7)	152	127	220
Net income	$ 484	$ 570	$ 651
Earnings per share (Note 8)			
Basic earnings per share	$ 2.82	$ 3.37	$ 3.86
Diluted earnings per share	$ 2.79	$ 3.34	$ 3.85
Weighted-average number of shares (millions)			
Basic	171.8	169.5	168.8
Diluted	173.2	170.6	169.2
Dividends declared per share	$ 1.3500	$ 1.1700	$ 1.0575

See Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year ended December 31 (in millions of Canadian dollars)	**2012**	2011	2010
Net income	**$ 484**	$ 570	$ 651
Net gain in foreign currency translation adjustments, net of hedging activities	**11**	–	18
Change in derivatives designated as cash flow hedges	**9**	(7)	2
Change in pension and post-retirement defined benefit plans	**(50)**	(883)	(460)
Other comprehensive loss before income taxes	**(30)**	(890)	(440)
Income tax recovery on above items (Note 9)	**–**	240	99
Equity accounted investments	**(2)**	–	–
Other comprehensive loss (Note 9)	**(32)**	(650)	(341)
Comprehensive income (loss)	**$ 452**	$ (80)	$ 310

See Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED BALANCE SHEETS

As at December 31 (in millions of Canadian dollars)	2012	2011
Assets		
Current assets		
Cash and cash equivalents (Note 11)	**$ 333**	$ 47
Accounts receivable, net (Note 12)	**546**	518
Materials and supplies	**136**	138
Deferred income taxes (Note 7)	**254**	101
Other current assets	**60**	52
	1,329	856
Investments (Note 13)	**83**	167
Properties (Note 14)	**13,013**	12,752
Goodwill and intangible assets (Note 15)	**161**	192
Other assets (Note 16)	**141**	143
Total assets	**$ 14,727**	$ 14,110
Liabilities and shareholders' equity		
Current liabilities		
Short-term borrowing (Note 18)	**$ –**	$ 27
Accounts payable and accrued liabilities (Note 17)	**1,176**	1,133
Long-term debt maturing within one year (Note 18)	**54**	50
	1,230	1,210
Pension and other benefit liabilities (Note 23)	**1,366**	1,372
Other long-term liabilities (Note 20)	**306**	365
Long-term debt (Note 18)	**4,636**	4,695
Deferred income taxes (Note 7)	**2,092**	1,819
Total liabilities	**9,630**	9,461
Shareholders' equity		
Share capital (Note 22)	**2,127**	1,854
Authorized unlimited common shares without par value. Issued and outstanding are 173.9 million and 170.0 million at December 31, 2012 and 2011, respectively.		
Authorized unlimited number of first and second preferred shares; none outstanding.		
Additional paid-in capital	**41**	86
Accumulated other comprehensive loss (Note 9)	**(2,768)**	(2,736)
Retained earnings	**5,697**	5,445
	5,097	4,649
Total liabilities and shareholders' equity	**$ 14,727**	$ 14,110

Commitments and contingencies (Note 26)

See Notes to Consolidated Financial Statements.

Approved on behalf of the Board:

/s/ Paul G. Haggis
Paul G. Haggis, Director,
Chairman of the Board

/s/ Richard C. Kelly
Richard C. Kelly, Director,
Chairman of the Audit Committee

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 (in millions of Canadian dollars)	2012	2011	2010
Operating activities			
Net income	**$ 484**	$ 570	$ 651
Reconciliation of net income to cash provided by operating activities:			
Depreciation and amortization	**539**	490	489
Deferred income taxes (Note 7)	**140**	187	211
Pension funding in excess of expense (Note 23)	**(61)**	(647)	(801)
Asset impairment (Note 3)	**265**	–	–
Labour restructuring, net (Note 4)	**50**	–	–
Other operating activities, net	**(84)**	(112)	(32)
Change in non-cash working capital balances related to operations (Note 10)	**(5)**	24	(16)
Cash provided by operating activities	**1,328**	512	502
Investing activities			
Additions to properties (Note 14)	**(1,148)**	(1,104)	(726)
Proceeds from sale of properties and other assets	**145**	71	89
Other	**(8)**	(11)	2
Cash used in investing activities	**(1,011)**	(1,044)	(635)
Financing activities			
Dividends paid	**(223)**	(193)	(174)
Issuance of common shares (Note 22)	**198**	29	32
Collection of receivable from financial institution (Note 12)	**–**	–	220
Issuance of long-term debt (Note 18)	**71**	757	355
Repayment of long-term debt (Note 18)	**(50)**	(401)	(613)
Net (decrease) increase in short-term borrowing (Note 18)	**(27)**	28	9
Other	**1**	(3)	3
Cash (used in) provided by financing activities	**(30)**	217	(168)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	**(1)**	1	(17)
Cash position			
Increase (decrease) in cash and cash equivalents	**286**	(314)	(318)
Cash and cash equivalents at beginning of year	**47**	361	679
Cash and cash equivalents at end of year (Note 11)	**$ 333**	$ 47	$ 361

Supplemental disclosures of cash flow information:

Income taxes (refunded) paid	**$ (3)**	$ 4	$ 8
Interest paid	**$ 278**	$ 271	$ 347

See Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in millions of Canadian dollars)	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at December 31, 2009	$ 1,771	$ 31	$ (1,745)	$ 4,601	$ 4,658
Net income	–	–	–	651	651
Other comprehensive loss (Note 9)	–	–	(341)	–	(341)
Dividends declared	–	–	–	(179)	(179)
Effect of stock-based compensation expense	–	1	–	–	1
Shares issued under stock option plans (Note 22)	42	(8)	–	–	34
Balance at December 31, 2010	1,813	24	(2,086)	5,073	4,824
Net income	–	–	–	570	570
Other comprehensive loss (Note 9)	–	–	(650)	–	(650)
Dividends declared	–	–	–	(198)	(198)
Effect of stock-based compensation expense	–	16	–	–	16
Change to stock compensation awards (Note 24)	–	57	–	–	57
Shares issued under stock option plans (Note 22)	41	(11)	–	–	30
Balance at December 31, 2011	1,854	86	(2,736)	5,445	4,649
Net income	–	–	–	484	484
Other comprehensive loss (Note 9)	–	–	(32)	–	(32)
Dividends declared	–	–	–	(232)	(232)
Effect of stock-based compensation expense	–	25	–	–	25
Shares issued under stock option plans (Note 22)	273	(70)	–	–	203
Balance at December 31, 2012	**$ 2,127**	**$ 41**	**$ (2,768)**	**$ 5,697**	**$ 5,097**

See Notes to Consolidated Financial Statements.

Table of Contents

CANADIAN PACIFIC RAILWAY LIMITED
Notes to Consolidated Financial Statements
December 31, 2012

Canadian Pacific Railway Limited ("CPRL"), through its subsidiaries (collectively referred to as "CP" or "the Company"), operates a transcontinental railway in Canada and the United States. CP provides rail and intermodal transportation services over a network of approximately 14,400 miles, serving the principal business centres of Canada from Montreal, Quebec, to Vancouver, British Columbia, and the U.S. Northeast and Midwest regions. CP's railway network feeds directly into the U.S. heartland from the East and West coasts. Agreements with other carriers extend the Company's market reach east of Montreal in Canada, throughout the U.S. and into Mexico. CP transports bulk commodities, merchandise freight and intermodal traffic. Bulk commodities include grain, coal, sulphur and fertilizers. Merchandise freight consists of finished vehicles and automotive parts, as well as forest and industrial and consumer products. Intermodal traffic consists largely of retail goods in overseas containers that can be transported by train, ship and truck, and in domestic containers and trailers that can be moved by train and truck.

1 Summary of significant accounting policies

Generally accepted accounting principles in the United States of America ("GAAP")

These consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with GAAP as codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification.

Principles of consolidation

These consolidated financial statements include the accounts of CP and all of its subsidiaries. The Company's investments in which it has significant influence are accounted for using the equity method. All intercompany accounts and transactions have been eliminated.

Use of estimates

The preparation of these consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Management regularly reviews its estimates, including those related to investments, restructuring and environmental liabilities, pensions and other benefits, depreciable lives and carrying values of properties and intangible assets, goodwill, stock-based compensation, deferred income tax assets and liabilities, as well as legal and personal injury liabilities based upon currently available information. Actual results could differ from these estimates.

Principal subsidiaries

The following list sets out CPRL's principal railway operating subsidiaries, including the jurisdiction of incorporation. All of these subsidiaries are wholly owned, directly or indirectly, by CPRL as of December 31, 2012.

Principal subsidiary	Incorporated under the laws of
Canadian Pacific Railway Company	Canada
Soo Line Railroad Company ("Soo Line")	Minnesota
Delaware and Hudson Railway Company, Inc. ("D&H")	Delaware
Dakota, Minnesota & Eastern Railroad Corporation ("DM&E")	Delaware
Mount Stephen Properties Inc. ("MSP")	Canada

Revenue recognition

Railway freight revenues are recognized based on the percentage of completed service method. The allocation of revenue between reporting periods is based on the relative transit time in each reporting period with expenses recognized as incurred. Volume rebates to customers are accrued as a reduction of freight revenues based on estimated volume and contract terms as freight service is provided. Other revenue, including passenger revenue, revenue from leasing certain assets and switching fees, is recognized as service is performed or contractual obligations are met. Revenues are presented net of taxes collected from customers and remitted to government authorities.

Cash and cash equivalents

Cash and cash equivalents includes highly-liquid short-term investments that are readily convertible to cash with original maturities of three months or less.

Table of Contents

Foreign currency translation

Assets and liabilities denominated in foreign currencies, other than those held through foreign subsidiaries, are translated into Canadian dollars at the year-end exchange rate for monetary items and at the historical exchange rates for non-monetary items. Foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions. Foreign currency gains and losses, other than those arising from the translation of the Company's net investment in foreign subsidiaries, are included in income.

The accounts of the Company's foreign subsidiaries are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average exchange rates during the year for revenues, expenses, gains and losses. Exchange gains and losses arising from translation of these foreign subsidiaries' accounts are included in "Other comprehensive loss". The majority of U.S. dollar-denominated long-term debt has been designated as a hedge of the net investment in foreign subsidiaries. As a result, unrealized foreign exchange ("FX") gains and losses on this U.S. dollar-denominated long-term debt are offset against foreign exchange gains and losses arising from translation of foreign subsidiaries' accounts in "Other comprehensive loss".

Pensions and other benefits

Pension costs are actuarially determined using the projected-benefit method prorated over the credited service periods of employees. This method incorporates management's best estimates of expected plan investment performance, salary escalation and retirement ages of employees. The expected return on fund assets is calculated using market-related asset values developed from a five-year average of market values for the fund's public equity securities (with each prior year's market value adjusted to the current date for assumed investment income during the intervening period) plus the market value of the fund's fixed income, real estate and infrastructure securities, subject to the market-related asset value not being greater than 120% of the market value nor being less than 80% of the market value. The discount rate used to determine the projected benefit obligation is based on blended market interest rates on high-quality corporate debt instruments with matching cash flows. Unrecognized actuarial gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of plan assets are amortized over the expected average remaining service period of active employees expected to receive benefits under the plan (approximately 10 years). Prior service costs arising from collectively bargained amendments to pension plan benefit provisions are amortized over the term of the applicable union agreement. Prior service costs arising from all other sources are amortized over the expected average remaining service period of active employees who are expected to receive benefits under the plan at the date of amendment.

Costs for post-retirement and post-employment benefits other than pensions, including post-retirement health care and life insurance and some workers' compensation and long-term disability benefits in Canada, are actuarially determined and accrued on a basis similar to pension costs.

The over or under funded status of defined benefit pension and other post-retirement benefit plans are recognized on the balance sheet. The over or under funded status is measured as the difference between the fair value of the plan assets and the benefit obligation. In addition, any unrecognized actuarial gains and losses and prior service costs and credits that arise during the period are recognized as a component of "Other comprehensive loss", net of tax.

Gains and losses on post-employment benefits that do not vest or accumulate, including some workers' compensation and long-term disability benefits in Canada, are included immediately in income as "Compensation and benefits".

Materials and supplies

Materials and supplies are carried at the lower of average cost or market.

Properties

Fixed asset additions and major renewals are recorded at cost, including direct costs, attributable indirect costs and carrying costs, less accumulated depreciation and any impairments. When there is a legal obligation associated with the retirement of property, plant and equipment, a liability is initially recognized at its fair value and a corresponding asset retirement cost is added to the gross book value of the related asset and amortized to expense over the estimated term to retirement. The Company reviews the carrying amounts of its properties whenever changes in circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows. When such properties are determined to be impaired, recorded asset values are revised to fair value.

The Company recognizes expenditures as additions to properties or operating expenses based on whether the expenditures increase the output or service capacity, lower the associated operating costs or extend the useful life of the properties and whether the expenditures exceed minimum physical and financial thresholds.

Much of the additions to properties, both new and replacement properties, are self-constructed. These are initially recorded at cost, including direct costs and attributable indirect costs, overheads and carrying costs. Direct costs include, among other things, labour costs, purchased services, equipment costs and material costs. Attributable indirect costs and overheads include incremental long-term variable costs resulting from the execution of capital projects. Indirect costs include largely local crew facilities, highway vehicles, work trains and area management costs. Overheads primarily include a portion of the cost of the Company's engineering department which plans, designs and administers these capital projects. These costs are allocated to projects by applying a measure consistent with the nature of the cost based on cost studies. For replacement properties, the project costs are allocated to dismantling and installation based on cost studies. Dismantling work is performed concurrently with the installation.

Table of Contents

Ballast programs including undercutting, shoulder ballasting and renewal programs which form part of the annual track program are capitalized as this work, and the related added ballast material, significantly improves drainage which in turn extends the life of ties and other track materials. These costs are tracked separately from the underlying assets and depreciated over the period to the next estimated similar ballast program. Spot replacement of ballast is considered a repair which is expensed as incurred.

The cost of large refurbishments are capitalized and locomotive overhauls are expensed as incurred.

The Company capitalizes development costs for major new computer systems.

The Company follows group depreciation which groups assets which are similar in nature and have similar economic lives. The property groups are depreciated based on their expected economic lives determined by studies of historical retirements of properties in the group and engineering estimates of changes in current operations and of technological advances. Actual use and retirement of assets may vary from current estimates, which would impact the amount of depreciation expense recognized in future periods.

When depreciable property is retired or otherwise disposed of in the normal course of business, the book value, less net salvage proceeds, is charged to accumulated depreciation and if different than the assumptions under the depreciation study could potentially result in adjusted depreciation expense over a period of years. However, when removal costs exceed the salvage value on assets and the Company had no legal obligation to remove the assets, the removal costs incurred are charged to income in the period in which the assets are removed and are not charged to accumulated depreciation.

For the sale or retirement of larger groups of depreciable assets that are unusual and were not considered in depreciation studies, CP records a gain or loss for the difference between net proceeds and net book value of the assets sold or retired.

Depreciation is calculated on the straight-line basis at rates based on the estimated service life, taking into consideration the projected annual usage of depreciable property, except for rail and other track material in the U.S., which is based directly on usage.

Equipment under capital lease is included in Properties and depreciated over the period of expected use.

Assets held for sale

Assets to be disposed that meet the held for sale criteria are reported at the lower of their carrying amount and fair value, less costs to sell, and are no longer depreciated.

Goodwill and intangible assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets upon acquisition of a business. Goodwill is assigned to the reporting units that are expected to benefit from the business acquisition which, after integration of operations with the railway network, may be different than the acquired business.

The carrying value of goodwill, which is not amortized, is assessed for impairment annually in the fourth quarter of each year, or more frequently as economic events dictate. The fair value of the reporting unit is compared to its carrying value, including goodwill. If the fair value of the reporting unit is less than its carrying value goodwill is potentially impaired. The impairment charge that would be recognized is the excess of the carrying value of the goodwill over the fair value of the goodwill, determined in the same manner as in a business combination.

Intangible assets with finite lives are amortized on a straight-line basis over the estimated useful lives of the respective assets. Favourable leases, customer relationships and interline contracts have amortization periods ranging from 15 to 20 years. When there is a change in the estimated useful life of an intangible asset with a finite life, amortization is adjusted prospectively.

Financial instruments

Financial instruments are contracts that give rise to a financial asset of one party and a financial liability or equity instrument of another party.

Financial instruments are recognized initially at fair value, which is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

Subsequent measurement depends on how the financial instrument has been classified. Accounts receivable and investments, classified as loans and receivables, are measured at amortized cost, using the effective interest method. Certain equity investments, classified as available for sale, are recognized at cost as fair value cannot be reliably established. Cash and cash equivalents are classified as held for trading and are measured at fair value. Accounts payable, accrued liabilities, short-term borrowings, dividends payable, other long-term liabilities and long-term debt, classified as financial liabilities, are also measured at amortized cost.

Derivative financial instruments

Derivative financial and commodity instruments may be used from time to time by the Company to manage its exposure to risks relating to foreign currency exchange rates, stock-based compensation, interest rates and fuel prices. When CP utilizes derivative instruments in hedging relationships, CP identifies, designates and documents those hedging transactions and regularly tests the transactions to demonstrate effectiveness in order to continue hedge accounting.

Table of Contents

All derivative instruments are classified as held for trading and recorded at their fair value. Any change in the fair value of derivatives not designated as hedges is recognized in the period in which the change occurs in the Consolidated Statement of Income in the line item to which the derivative instrument is related. On the Consolidated Balance Sheet they are classified in “Other assets”, “Other long-term liabilities”, “Other current assets” or “Accounts payable and accrued liabilities” as applicable. Gains and losses arising from derivative instruments affect the following income statement lines: “Revenues”, “Compensation and benefits”, “Fuel”, “Other income and charges”, and “Net interest expense”.

For fair value hedges, the periodic change in value is recognized in income, on the same line as the changes in values of the hedged items are also recorded. For a cash flow hedge, the change in value of the effective portion is recognized in “Other comprehensive loss”. Any ineffectiveness within an effective cash flow hedge is recognized in income as it arises in the same income account as the hedged item. Should a cash flow hedging relationship become ineffective, previously unrealized gains and losses remain within “Accumulated other comprehensive loss” until the hedged item is settled and, prospectively, future changes in value of the derivative are recognized in income. The change in value of the effective portion of a cash flow hedge remains in “Accumulated other comprehensive loss” until the related hedged item settles, at which time amounts recognized in “Accumulated other comprehensive loss” are reclassified to the same income or balance sheet account that records the hedged item.

In the Consolidated Statement of Cash Flows, cash flows relating to derivative instruments designated as hedges are included in the same line as the related hedged item.

The Company from time to time enters into foreign exchange forward contracts to hedge anticipated sales in U.S. dollars, the related accounts receivable and future capital acquisitions. Foreign exchange translation gains and losses on foreign currency-denominated derivative financial instruments used to hedge anticipated U.S. dollar-denominated sales are recognized as an adjustment of the revenues when the sale is recorded. Those used to hedge future capital acquisitions are recognized as an adjustment of the property amount when the acquisition is recorded.

The Company also occasionally enters into foreign exchange forward contracts as part of its short-term cash management strategy. These contracts are not designated as hedges due to their short-term nature and are carried on the Consolidated Balance Sheet at fair value. Changes in fair value are recognized in income in the period in which the change occurs.

The Company enters into interest rate swaps to manage the risk related to interest rate fluctuations. These swap agreements require the periodic exchange of payments without the exchange of the principal amount on which the payments are based. Interest expense on the debt is adjusted to include the payments owing or receivable under the interest rate swaps.

The Company from time to time enters into bond forwards to fix interest rates for anticipated issuances of debt. These agreements are usually accounted for as cash flow hedges with gains and losses recorded in “Accumulated other comprehensive loss” and amortized to “Net interest expense” in the period that interest on the related debt is charged.

The Company has a fuel-hedging program under which CP acquires crude oil and / or diesel future contracts for a portion of its diesel fuel purchases to reduce the risk of price volatility affecting future cash flows. These agreements are usually accounted for as cash flow hedges, however, on occasion derivatives of a short-term duration may not be designated as a hedge for accounting purposes. The gains or losses on the hedge contracts are applied against the corresponding fuel purchases in the period during which the hedging contracts mature.

The Company entered into derivatives called Total Return Swaps (“TRS”) to mitigate fluctuations in tandem share appreciation rights (“TSAR”), deferred share units (“DSU”) and restricted share units (“RSU”). These were not designated as hedges and were recorded at market value with the offsetting gain or loss reflected in “Compensation and benefits”.

Restructuring accrual

Restructuring liabilities are recorded at their present value. The discount related to liabilities is amortized to “Compensation and benefits” over the payment period. Provisions for labour restructuring are recorded in “Other long-term liabilities”, except for the current portion, which is recorded in “Accounts payable and accrued liabilities”.

Environmental remediation

Environmental remediation accruals, recorded on an undiscounted basis, cover site-specific remediation programs. Provisions for environmental remediation costs are recorded in “Other long-term liabilities”, except for the current portion, which is recorded in “Accounts payable and accrued liabilities”.

Income taxes

The Company follows the liability method of accounting for income taxes. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in income tax rates on deferred income tax assets and liabilities is recognized in income in the period during which the change occurs.

When appropriate, the Company records a valuation allowance against deferred tax assets to reflect that these tax assets may not be realized. In determining whether a valuation allowance is appropriate, CP considers whether it is more likely than not that all or some portion of CP’s deferred tax assets will not be realized, based on management’s judgments using available evidence about future events.

Table of Contents

At times, tax benefit claims may be challenged by a tax authority. Tax benefits are recognized only for tax positions that are more likely than not sustainable upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely to be realized upon settlement. A liability for "unrecognized tax benefits" is recorded for any tax benefits claimed in CP's tax returns that do not meet these recognition and measurement standards.

Investment and other similar tax credits are deferred on the Consolidated Balance Sheet and amortized to "Income tax expense" as the related asset is recognized in income.

Earnings per share

Basic earnings per share are calculated using the weighted average number of Common Shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method for determining the dilutive effect of options.

Stock-based compensation

CP follows the fair value based approach to account for stock options. Compensation expense and an increase in additional paid-in capital are recognized for stock options over their vesting period, or over the period from the grant date to the date employees become eligible to retire when this is shorter than the vesting period, based on their estimated fair values on the grant date, as determined using the Black-Scholes option-pricing model.

With the granting of regular stock options, some employees have been simultaneously granted share appreciation rights, which provide the employee the choice to either exercise the stock option for shares, or to exercise the TSAR and thereby receive the intrinsic value of the stock option in cash. Options with TSARs are awards that may call for settlement in cash and, therefore, are recorded as liabilities. CP follows the fair value based approach, as determined by the Black-Scholes option pricing model, to account for the TSAR liability. The liability is fair valued and changes in the liability are recorded in "Compensation and benefits" over the vesting period, or over the period from the grant date to the date employees become eligible to retire when this is shorter than the vesting period, until exercised. If an employee chooses to exercise the option, thereby cancelling the TSAR, both the exercise price and the liability are settled to "Share capital".

Forfeitures of options and tandem options are estimated at issuance and subsequently at the balance sheet date.

Any consideration paid by employees on exercise of stock options is credited to share capital when the option is exercised and the recorded fair value of the option is removed from additional paid-in capital and credited to share capital.

Compensation expense is also recognized for TSARs, DSUs, performance share units ("PSUs") and RSUs using the fair value method. Forfeitures of TSARs, DSUs, PSUs and RSUs are estimated at issuance and subsequently at the balance sheet date.

The employee share purchase plan ("ESPP") gives rise to compensation expense that is recognized using the issue price by amortizing the cost over the vesting period or over the period from the grant date to the date employees become eligible to retire when this is shorter than the vesting period.

2 Accounting changes

Fair value measurement and disclosure

In May 2011, the Financial Accounting Standards Board ("FASB") issued amended guidance on fair value measurement which updates some of the measurement guidance and includes enhanced disclosure requirements. The amended guidance is effective for interim and annual periods beginning after December 15, 2011. The adoption did not impact the results of operations or financial position but resulted in increased note disclosure (see Note 19).

Other comprehensive income

In June 2011, the FASB issued an accounting standard update on the *Presentation of Comprehensive Income*, which eliminates the current option to report other comprehensive income and its components in the Consolidated Statement of Changes in Shareholders' Equity. The Company has elected to present items of net income and other comprehensive income in two separate, but consecutive, statements as opposed to one continuous statement. With FASB's deferral of certain aspects of this accounting standard update in December 2011 and as the new guidance does not change those components that are recognized in net income or those components that are recognized in other comprehensive income, adoption did not impact the results of operations, financial position, or financial statement presentation included in these financial statements.

Intangibles – goodwill and other

In September 2011, the FASB issued amended guidance on the testing of goodwill for impairment. The amendments allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. For 2012, the Company has not elected this option for the test of goodwill for impairment. As it does not change how a goodwill impairment loss is measured, the adoption of the guidance would not impact the results of operations or financial position included in these financial statements.

Table of Contents

3 Asset impairment

(in millions of Canadian dollars)		2012
Powder River Basin impairment and other investment[1]	(a)	$ 185
Impairment loss on locomotives	(b)	80
Asset impairment, before tax		**$ 265**

[1] Includes impairment of other investment of $5 million.

(a) Powder River Basin impairment

As part of the acquisition of DM&E in 2007, CP acquired the option to build a 260 mile extension of its network into coal mines in the Powder River Basin ("PRB").

Due to continued deterioration in the market for domestic thermal coal, including a sharp deterioration in 2012, in the fourth quarter of 2012 CP deferred plans to extend its rail network into the PRB coal mines indefinitely. As a result of this decision and in light of the declined market conditions, CP has evaluated the recoverability of the carrying amount of PRB assets and determined that this exceeded the estimated fair value by $180 million. The estimated fair value represents the expected proceeds from the sale of the acquired land, as determined by a comparable market assessment. Other costs associated with the acquisition of DM&E and accumulated by CP since acquisition have been written down to $nil. The amount of the impairment associated with this indefinite deferral was $180 million ($107 million after-tax). The components of the PRB impairment that were charged against income as an "Asset impairment" are as follows:

(in millions of Canadian dollars)	2012
Option impairment (Note 15)	$ 26
Construction plans, including capitalized interest	134
Land, land option appraisals, including capitalized interest	20
Total impairment	**$ 180**

(b) Impairment loss on locomotives

In the fourth quarter of 2012, CP reached a decision to dispose of a certain series of locomotives to improve operating efficiencies, and accordingly performed an impairment test on these assets. The impairment test determined that the net book value of these locomotives exceeded their estimated fair value by $80 million. The estimated fair value represents the expected future cashflows from the disposal of these locomotives. The impairment charge of $80 million ($59 million after-tax) was recorded in "Asset impairment" and charged against income.

4 Labour restructuring

In the fourth quarter of 2012, CP recorded a charge of $53 million ($39 million after-tax) for a labour restructuring initiative which was included in "Labour restructuring" in the Consolidated Statements of Income, and "Accounts payable and accrued liabilities" and "Other long-term liabilities" in the Consolidated Balance Sheets. The resulting position reductions are expected to be completed by the end of 2014, with the majority to be achieved in 2013.

At December 31, 2012, the provision for restructuring was $89 million (2011 – $55 million). The restructuring accrual is primarily for labour liabilities arising for restructuring plans, including those from prior year initiatives. Payments are expected to continue in diminishing amounts until 2025.

Set out below is a reconciliation of CP's liabilities associated with its restructuring accrual:

(in millions of Canadian dollars)	**2012**	2011
Opening balance, January 1	**$ 55**	$ 72
Accrued[1]	**54**	8
Payments	**(22)**	(27)
Amortization of discount[2]	**2**	2
Closing balance, December 31	**$ 89**	$ 55

[1] Includes fourth quarter charge of $53 million.
[2] Amortization of discount is charged to income as "Compensation and benefits".

Table of Contents

5 Other income and charges

(in millions of Canadian dollars)	2012	2011	2010
Accretion income on long-term floating rate notes (Note 19)	**$ (3)**	$ (5)	$ (6)
Loss (gain) in fair value of long-term floating rate notes (Note 19)	**1**	(10)	(3)
Net loss on repurchase of debt (Note 18)	**–**	10	–
Other foreign exchange (gains) losses	**(1)**	3	(10)
Foreign exchange (gain) loss on long-term debt	**(2)**	3	(2)
Advisory fees (related to shareholder matters)	**27**	6	–
Other	**15**	11	9
Total other income and charges	**$ 37**	$ 18	$ (12)

6 Net interest expense

(in millions of Canadian dollars)	2012	2011	2010
Interest cost	**$ 294**	$ 266	$ 288
Interest capitalized to Properties	**(15)**	(11)	(20)
Interest expense	**279**	255	268
Interest income	**(3)**	(3)	(11)
Net interest expense	**$ 276**	$ 252	$ 257

Interest expense includes interest on capital leases of $19 million for the year ended December 31, 2012 (2011 – $19 million; 2010 – $22 million).

7 Income taxes

The following is a summary of the major components of the Company's income tax expense:

(in millions of Canadian dollars)	2012	2011	2010
Current income tax expense (recovery)	**$ 12**	$ (60)	$ 9
Deferred income tax expense			
Origination and reversal of temporary differences	**144**	194	244
Effect of tax rate increases	**11**	–	–
Effect of hedge of net investment in foreign subsidiaries	**(9)**	8	(18)
Tax credits	**(4)**	(15)	(16)
Other	**(2)**	–	1
Total deferred income tax expense	**140**	187	211
Total income taxes	**$ 152**	$ 127	$ 220

Table of Contents

Income before income tax expense			
Canada	**$ 464**	$ 430	$ 577
Foreign	**172**	267	294
Total income before income tax expense	**$ 636**	$ 697	$ 871
Income tax expense (recovery)			
Current			
Canada	**$ 6**	$ (59)	$ (1)
Foreign	**6**	(1)	10
Total current income tax expense (recovery)	**12**	(60)	9
Deferred			
Canada	**120**	115	122
Foreign	**20**	72	89
Total deferred income tax expense	**140**	187	211
Total income taxes	**$ 152**	$ 127	$ 220

The provision for deferred income taxes arises from temporary differences in the carrying values of assets and liabilities for financial statement and income tax purposes and the effect of loss carry forwards. The items comprising the deferred income tax assets and liabilities are as follows:

(in millions of Canadian dollars)	**2012**	2011
Deferred income tax assets		
Restructuring liability	**$ 24**	$ 16
Amount related to tax losses carried forward	**322**	377
Liabilities carrying value in excess of tax basis	**295**	327
Future environmental remediation costs	**31**	34
Tax credits carried forward including minimum tax	**122**	116
Other	**71**	57
Total deferred income tax assets	**865**	927
Deferred income tax liabilities		
Properties carrying value in excess of tax basis	**2,676**	2,608
Other long-term assets carrying value in excess of tax basis	**7**	18
Other	**20**	19
Total deferred income tax liabilities	**2,703**	2,645
Total net deferred income tax liabilities	**1,838**	1,718
Current deferred income tax assets	**254**	101
Long-term deferred income tax liabilities	**$ 2,092**	$ 1,819

Table of Contents

The Company's consolidated effective income tax rate differs from the expected statutory tax rates. Expected income tax expense at statutory rates is reconciled to income tax expense as follows:

(in millions of Canadian dollars, except percentage)	**2012**	2011	2010
Statutory federal and provincial income tax rate	**26.09%**	28.75%	29.15%
Expected income tax expense at Canadian enacted statutory tax rates	**$ 166**	$ 200	$ 254
Increase (decrease) in taxes resulting from:			
Items not subject to tax	**(4)**	(3)	(3)
Canadian tax rate differentials	**(1)**	(8)	(10)
Foreign tax rate differentials	**(17)**	(4)	—
Effect of tax rate increases	**11**	—	—
Tax credits	**(4)**	(15)	(16)
Other[(1)]	**1**	(43)	(5)
Income tax expense	**$ 152**	$ 127	$ 220

[(1)] Substantially all amounts in 2011 relate to uncertain tax positions.

The Company has no unrecognized tax benefits from capital losses at December 31, 2012 and 2011.

The Company has not provided a deferred liability for the income taxes, if any, which might become payable on any temporary difference associated with its foreign investments because the Company intends to indefinitely reinvest in its foreign investments and has no intention to realize this difference by a sale of its interest in foreign investments.

During the second quarter of 2012, legislation was enacted to cancel the previously planned province of Ontario's corporate income tax rate reductions. As a result of these changes, the Company recorded an income tax expense of $11 million in the second quarter of 2012, based on its deferred income tax balances as at December 31, 2011.

At December 31, 2012, the Company has income tax operating losses carried forward of $1,195 million, which have been recognized as a deferred tax asset. Certain of these losses carried forward will begin to expire in 2015, with the majority expiring between 2022 and 2031. The Company also has minimum tax credits of approximately $40 million that will begin to expire in 2016 as well as investment tax credits of $35 million, certain of which will begin to expire in 2018, and track maintenance credits of $47 million which will begin to expire in 2025.

It is more likely than not that the Company will realize the majority of its deferred income tax assets from the generation of future taxable income, as the payments for provisions, reserves and accruals are made and losses and tax credits carried forward are utilized.

The following table provides a reconciliation of uncertain tax positions in relation to unrecognized tax benefits for Canada and the United States for the year ended December 31, 2012:

(in millions of Canadian dollars)	**2012**	2011	2010
Unrecognized tax benefits at January 1	**$ 19**	$ 60	$ 61
Increase in unrecognized:			
Tax benefits related to the current year	**2**	3	5
Gross uncertain tax benefits related to prior years	**—**	1	2
Dispositions:			
Gross uncertain tax benefits related to prior years	**(2)**	(45)	(5)
Settlements with tax authorities	**—**	—	(3)
Unrecognized tax benefits as at December 31	**$ 19**	$ 19	$ 60

If these uncertain tax positions were recognized, all of the amount of unrecognized tax positions as at December 31, 2012 would impact the Company's effective tax rate.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense in the Company's Consolidated Statement of Income. The total amount of accrued interest and penalties in 2012 was $nil (2011 – credit $15 million; 2010 — credit $7 million). The total amount of accrued interest and penalties associated with the unrecognized tax benefit at December 31, 2012 was $5 million (2011 – $5 million; 2010 – $20 million).

The Company and its subsidiaries are subject to either Canadian federal and provincial income tax, U.S. federal, state and local income tax, or the relevant income tax in other international jurisdictions. The Company has substantially concluded all Canadian federal and provincial income tax matters for the years through 2008. The federal and provincial income tax returns filed for 2009 and subsequent years remain subject to examination by the taxation authorities.

Table of Contents

All U.S. federal income tax returns and generally all U.S. state and local income tax returns are closed to 2006. The income tax returns for 2007 and subsequent years continue to remain subject to examination by the taxation authorities.

The Company does not anticipate any material changes to the unrecognized tax benefits previously disclosed within the next 12 months as at December 31, 2012.

8 Earnings per share

Basic earnings per share have been calculated using net income for the year divided by the weighted average number of shares outstanding during the year.

Diluted earnings per share have been calculated using the treasury stock method, which assumes that any proceeds received from the exercise of in-the-money options would be used to purchase Common Shares at the average market price for the period. For purposes of this calculation, at December 31, 2012, there were 4.2 million dilutive options outstanding (2011 – 4.7 million; 2010 – 2.7 million). These option totals at December 31, 2012 exclude 0.2 million options (2011 – 0.3 million; 2010 – 3.6 million) for which there are TSARs outstanding (Note 24), as these are not included in the dilution calculation.

The number of shares used in the earnings per share calculations is reconciled as follows:

(in millions)	**2012**	2011	2010
Weighted average shares outstanding	**171.8**	169.5	168.8
Dilutive effect of weighted average number of stock options	**1.4**	1.1	0.4
Weighted average diluted shares outstanding	**173.2**	170.6	169.2

In 2012, the number of options excluded from the computation of diluted earnings per share because their effect was not dilutive was 0.2 million (2011 – 1.4 million; 2010 – 0.9 million).

9 Other comprehensive loss and accumulated other comprehensive loss

The components of "Accumulated other comprehensive loss", net of tax, are as follows:

(in millions of Canadian dollars)	**2012**	2011
Unrealized foreign exchange loss on translation of the net investment in U.S. subsidiaries	**$ (308)**	$ (250)
Unrealized foreign exchange gain on translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	**382**	322
Deferred loss on settled hedge instruments	**(1)**	(17)
Unrealized effective (losses) on cash flow hedges	**(11)**	(3)
Amounts for defined benefit pension and other post-retirement plans not recognized in income	**(2,828)**	(2,788)
Equity accounted investments	**(2)**	—
Accumulated other comprehensive loss	**$ (2,768)**	$ (2,736)

Table of Contents

Components of other comprehensive loss and the related tax effects are as follows:

(in millions of Canadian dollars)	Before tax amount	Income tax recovery (expense)	Net of tax amount
For the year ended December 31, 2012			
Unrealized foreign exchange (loss) gain on:			
Translation of the net investment in U.S. subsidiaries	**$ (58)**	**$ –**	**$ (58)**
Translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	**69**	**(9)**	**60**
Change in derivatives designated as cash flow hedges:			
Realized gain on cash flow hedges recognized in income	**6**	**(1)**	**5**
Unrealized gain on cash flow hedges	**3**	**–**	**3**
Change in pension and other benefits actuarial gains and losses	**(62)**	**12**	**(50)**
Change in prior service pension and other benefit costs	**12**	**(2)**	**10**
Equity accounted investments	**(2)**	**–**	**(2)**
Other comprehensive loss	**$ (32)**	**$ –**	**$ (32)**
For the year ended December 31, 2011			
Unrealized foreign exchange gain (loss) on:			
Translation of the net investment in U.S. subsidiaries	$ 59	$ –	$ 59
Translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	(59)	8	(51)
Change in derivatives designated as cash flow hedges:			
Realized gain on cash flow hedges	(17)	3	(14)
Unrealized gain on cash flow hedges	10	(1)	9
Change in pension and other benefits actuarial gains and losses	(892)	232	(660)
Change in prior service pension and other benefit costs	9	(2)	7
Other comprehensive loss	$ (890)	$ 240	$ (650)
For the year ended December 31, 2010			
Unrealized foreign exchange (loss) gain on:			
Translation of the net investment in U.S. subsidiaries	$ (124)	$ –	$ (124)
Translation of the U.S dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	142	(18)	124
Change in derivatives designated as cash flow hedges:			
Unrealized gain on cash flow hedges	2	(1)	1
Change in pension and other benefits actuarial gains and losses	(472)	121	(351)
Change in prior service pension and other benefit costs	12	(3)	9
Other comprehensive loss	$ (440)	$ 99	$ (341)

10 Change in non-cash working capital balances related to operations

(in millions of Canadian dollars)	**2012**	2011	2010
(Use) source of cash:			
Accounts receivable, net	**$ (40)**	$ (69)	$ (9)
Materials and supplies	**7**	(15)	23
Other current assets	**15**	(8)	(1)
Accounts payable and accrued liabilities	**13**	116	(29)
Change in non-cash working capital	**$ (5)**	$ 24	$ (16)

Table of Contents

11 Cash and cash equivalents

(in millions of Canadian dollars)	2012	2011
Cash	**$ 24**	$ 17
Short-term investments:		
Deposits with financial institutions	**309**	30
Total cash and cash equivalents	**$ 333**	$ 47

12 Accounts receivable, net

(in millions of Canadian dollars)	2012	2011
Freight	**$ 410**	$ 380
Non-freight	**155**	172
	565	552
Allowance for doubtful accounts	**(19)**	(34)
Total accounts receivable, net	**$ 546**	$ 518

The Company maintains an allowance for doubtful accounts based on expected collectability of accounts receivable. Credit losses are based on specific identification of uncollectible accounts, the application of historical percentages by aging category and an assessment of the current economic environment. At December 31, 2012, allowances of $19 million (2011 – $34 million; 2010 – $30 million) were recorded in “Accounts receivable, net”. During 2012, $3 million of doubtful accounts (2011 – $2 million; 2010 – $5 million) were expensed within “Purchased services and other”.

In 2010, the Company collected a $220 million settlement, including accrued interest, of a receivable from a major Canadian bank which carried an effective interest rate of 5.883%.

13 Investments

(in millions of Canadian dollars)	2012	2011
Rail investments accounted for on an equity basis	**$ 61**	$ 65
Long-term floating rate notes (Note 19)	**–**	79
Other investments	**22**	23
Total investments	**$ 83**	$ 167

14 Properties

(in millions of Canadian dollars)	2012 Average annual depreciation rate	2012 Cost	2012 Accumulated depreciation	2012 Net book value	2011 Cost	2011 Accumulated depreciation	2011 Net book value
Track and roadway	2.7%	**$ 13,273**	**$ 3,845**	**$ 9,428**	$ 12,778	$ 3,552	$ 9,226
Buildings	3.4%	**476**	**244**	**232**	453	255	198
Rolling stock	2.5%	**3,320**	**1,318**	**2,002**	3,390	1,362	2,028
Information Systems[(1)]	12.3%	**746**	**389**	**357**	665	338	327
Other	4.6%	**1,466**	**472**	**994**	1,436	463	973
Total		**$ 19,281**	**$ 6,268**	**$ 13,013**	$ 18,722	$ 5,970	$ 12,752

[(1)] During 2012 CP capitalized costs attributable to the design and development of internal-use software in the amount of $105 million (2011 – $91 million; 2010 –$54 million). Current year depreciation expense related to internal use software was $78 million (2011 – $56 million; 2010 – $54 million).

Table of Contents

Capital leases included in properties

(in millions of Canadian dollars)	2012 Cost	2012 Accumulated depreciation	2012 Net book value	2011 Cost	2011 Accumulated depreciation	2011 Net book value
Buildings	**$ 1**	**$ –**	**$ 1**	$ 1	$ –	$ 1
Rolling stock	**510**	**179**	**331**	515	165	350
Other	**2**	**2**	**–**	2	2	–
Total assets held under capital lease	**$ 513**	**$ 181**	**$ 332**	$ 518	$ 167	$ 351

15 Goodwill and intangible assets

(in millions of Canadian dollars)	Goodwill	Intangible assets Cost	Intangible assets Accumulated amortization	Net carrying amount
Balance at December 31, 2010	$ 147	$ 49	$ (6)	$ 43
Amortization	–	–	(2)	(2)
Foreign exchange impact	3	1	–	1
Balance at December 31, 2011	$ 150	$ 50	$ (8)	$ 42
Amortization	–	–	(1)	(1)
Foreign exchange impact	(4)	–	–	–
PRB option impairment (Note 3)	–	(26)	–	(26)
Balance at December 31, 2012	**$ 146**	**$ 24**	**$ (9)**	**$ 15**

As part of the acquisition of DM&E in 2007, CP recognized goodwill of US$147 million on the allocation of the purchase price, determined as the excess of the purchase price over the fair value of the net assets acquired. Since the acquisition, the operations of DM&E have been integrated with CP's U.S. operations and the related goodwill is allocated to CP's U.S. reporting unit. Goodwill is tested for impairment at least once per year as at October 1st. The goodwill impairment test determines if the fair value of the reporting unit continues to exceed its net book value, or whether an impairment charge is required. The fair value of the reporting unit is affected by projections of its profitability including estimates of revenue growth, which are inherently uncertain.

Intangible assets of $15 million (2011 – $42 million), acquired in the acquisition of DM&E, includes favourable leases, customer relationships and interline contracts.

Due to continued deterioration in the market for domestic thermal coal, including a sharp deterioration in 2012, in the fourth quarter CP deferred plans to extend its rail network into the PRB coal mines indefinitely. The amount of the impairment associated with the option to expand the track network, previously included in intangible assets, was $26 million (Note 3).

The estimated amortization expense for intangible assets for 2013 to 2017 is insignificant each year.

16 Other assets

(in millions of Canadian dollars)	2012	2011
Unamortized fees on long-term debt	**$ 45**	$ 47
Contracted customer incentives	**8**	11
Long-term materials	**18**	11
Prepaid leases	**9**	10
Other	**61**	64
Total other assets	**$ 141**	$ 143

Fees on long-term debt and contracted customer incentives are amortized to income over the term of the related debt and over the term of the related revenue contract, respectively.

Table of Contents

17 Accounts payable and accrued liabilities

(in millions of Canadian dollars)	2012	2011
Trade payables	$ 321	$ 387
Accrued charges	325	245
Payroll-related accruals	95	103
Accrued interest	75	64
Accrued vacation	74	76
Dividends payable	61	51
Provision for restructuring (Note 4)	59	20
Personal injury and other claims provision	54	53
Income and other taxes payable	36	39
Stock-based compensation liabilities	21	32
Provision for environmental remediation (Note 20)	12	15
Total return swap	–	3
Other	43	45
Total accounts payable and accrued liabilities	$ 1,176	$ 1,133

18 Long-term debt

(in millions of Canadian dollars)		Maturity	Currency in which payable	2012	2011
6.500%	10-year Notes (A)	May 2018	US$	$ 273	$ 279
6.250%	10-year Medium Term Notes (A)	June 2018	CDN$	374	373
7.250%	10-year Notes (A)	May 2019	US$	347	355
9.450%	30-year Debentures (A)	Aug. 2021	US$	249	254
5.100%	10-year Medium Term Notes (A)	Jan. 2022	CDN$	125	125
4.500%	10-year Notes (A)	Jan. 2022	US$	244	250
4.450%	12.5-year Notes (A)	Mar. 2023	US$	347	354
7.125%	30-year Debentures (A)	Oct. 2031	US$	348	356
5.750%	30-year Debentures (A)	Mar. 2033	US$	241	246
5.950%	30-year Notes (A)	May 2037	US$	440	450
6.450%	30-year Notes (A)	Nov. 2039	CDN$	400	400
5.750%	30-year Notes (A)	Jan. 2042	US$	243	248
Secured Equipment Loan (B)		Aug. 2015	CDN$	98	116
5.41%	Senior Secured Notes (C)	Mar. 2024	US$	113	120
6.91%	Secured Equipment Notes (D)	Oct. 2024	CDN$	176	186
5.57%	Senior Secured Notes (E)	Dec. 2024	US$	60	63
7.49%	Equipment Trust Certificates (F)	Jan. 2021	US$	96	102
3.88%	Senior Secured Notes Series A & B (G)	Oct./Dec. 2026	US$	134	141
4.28%	Senior Secured Notes (H)	Mar. 2027	US$	70	–
Other long-term loans (nil% – 5.50%)		2014 - 2025	US$	2	2
Obligations under capital leases (4.90% – 6.99%) (I)		2013 - 2026	US$	271	285
Obligations under capital leases (12.77%) (I)		Jan. 2031	CDN$	3	3
				4,654	4,708
Perpetual 4% Consolidated Debenture Stock (J)			US$	30	31
Perpetual 4% Consolidated Debenture Stock (J)			GB£	6	6
				4,690	4,745
Less: Long-term debt maturing within one year				54	50
				$ 4,636	$ 4,695

Table of Contents

At December 31, 2012, the gross amount of long-term debt denominated in U.S. dollars was US$3,538 million (2011 – US$3,508 million).

Annual maturities and principal repayments requirements, excluding those pertaining to capital leases, for each of the five years following 2012 are (in millions): 2013 – $46; 2014 – $49; 2015 – $123; 2016 – $30; 2017 – $27.

A. These debentures and notes pay interest semi-annually and are unsecured, but carry a negative pledge.

On September 30, 2011, the Company redeemed US$101 million 5.75% Notes due in May 2013 with a carrying amount of $107 million pursuant to a call offer for a total cost of $113 million. Upon redemption of the Notes a net loss of $9 million was recognized to "Other income and charges". The loss consisted largely of a redemption premium paid to note holders to redeem the Notes.

On September 13, 2011, the Company announced a cash tender offer and consent solicitation for any or all its outstanding US$246 million 6.25% Notes due October 15, 2011. Notes tendered with a principal value of US$204 million were redeemed on October 12, 2011, and the remaining US$42 million Notes not tendered were redeemed on October 17, 2011. Upon redemption of the Notes a net loss of $1 million was recognized to "Other income and charges".

During December 2011, the Company issued $125 million 5.10% 10-year Medium Term Notes, US$250 million 4.50% 10-year Notes and US$250 million 5.75% 30-year Notes. Net proceeds from these offerings were $618 million and were largely used to make a $600 million voluntary prepayment to the Company's main Canadian defined benefit pension plan.

During 2010, the Company issued US$350 million of 4.45% Notes due March 15, 2023. Net proceeds from this offering were $355 million and were used to make a voluntary prepayment to the Company's main Canadian defined benefit pension plan.

B. The Secured Equipment Loan is collateralized by specific locomotive units with a carrying value of $29 million at December 31, 2012, which reflects an asset impairment charge taken in the fourth quarter of 2012 (Note 3). The floating interest rate is calculated based on a six-month average Canadian Dollar Offered Rate (calculated based on an average of Bankers' Acceptance rates) plus 53 basis points (2012 – 1.97%; 2011 – 1.94%; 2010 – 1.39%). The Company makes blended payments of principal and interest semi-annually. Final repayment of the remaining principal balance of $53 million is due in August 2015.

C. The 5.41% Senior Secured Notes are collateralized by specific locomotive units with a carrying value of $147 million at December 31, 2012. The Company pays equal blended semi-annual payments of principal and interest. Final repayment of the remaining principal of US$44 million is due in March 2024.

D. The 6.91% Secured Equipment Notes are full recourse obligations of the Company collateralized by a first charge on specific locomotive units with a carrying value of $146 million at December 31, 2012. The Company pays equal blended semi-annual payments of principal and interest up to and including October 2024.

E. The 5.57% Senior Secured Notes are secured by specific locomotive units and other rolling stock with a combined carrying value of $67 million at December 31, 2012. The Company pays equal blended semi-annual payments of principal and interest up to and including December 2024. Final repayment of the remaining principal of US$31 million is due in December 2024.

F. The 7.49% Equipment Trust Certificates are secured by specific locomotive units with a carrying value of $101 million at December 31, 2012. The Company makes semi-annual payments that vary in amount and are interest-only payments or blended principal and interest payments. Final repayment of the remaining principal of US$11 million is due in January 2021.

G. During 2011, the Company issued US$139 million 3.88% Series A and B Senior Secured Notes due in 2026 for net proceeds of $139 million. These Notes are secured by locomotives previously acquired by the Company with a carrying value of $135 million at December 31, 2012. The Company pays equal blended semi-annual payments of principal and interest up to and including December 2026. Final repayment of the remaining principal of US$69 million is due in the fourth quarter of 2026.

H. During 2012, the Company issued US$71 million 4.28% Senior Secured Notes due in 2027 for net proceeds of $71 million. These Notes are secured by locomotives previously acquired by the Company with a carrying value of $70 million at December 31, 2012. The Company pays equal blended semi-annual payments of principal and interest up to and including March 2027. Final repayment of the remaining principal of US$35 million is due in March 2027.

Table of Contents

I. At December 31, 2012, capital lease obligations included in long-term debt were as follows:

(in millions of Canadian dollars)	Year	Capital leases
Minimum lease payments in:		
	2013	$ 27
	2014	160
	2015	13
	2016	14
	2017	12
	Thereafter	164
Total minimum lease payments		390
Less: Imputed interest		(116)
Present value of minimum lease payments		274
Less: Current portion		(8)
Long-term portion of capital lease obligations		$ 266

During the year, the Company had no additions to property, plant and equipment under capital lease obligations (2011 – $nil; 2010 – $1 million).

The carrying value of the assets collateralizing the capital lease obligations was $332 million at December 31, 2012.

J. The Consolidated Debenture Stock, authorized by an Act of Parliament of 1889, constitutes a first charge upon and over the whole of the undertaking, railways, works, rolling stock, plant, property and effects of the Company, with certain exceptions.

On October 31, 2011, CP completed arrangements with 12 highly rated financial institutions for a committed $1.0 billion four year revolving credit agreement. This agreement incorporates a revolving facility limit of $600 million and a separate letter of credit facility limit of $400 million at pre-agreed pricing and has the ability to annually extend the term for an additional year with the consent of the lenders. The $1.0 billion revolving credit agreement also contains an accordion feature to accommodate up to an additional $300 million. At December 31, 2012, CP had available $460 million under the revolving facility limit and $145 million available under the letter of credit facility limit, of which the Company had utilized $395 million solely for letters of credit under both facilities. The weighted average annualized interest rate for drawn funds during 2012 was 2.94% (2011 – 1.98%; 2010 – not applicable). The agreement requires the Company not to exceed a maximum debt to total capitalization ratio. At December 31, 2012, the Company satisfied this threshold stipulated in the financial covenant. In addition, should CP's senior unsecured debt not be rated at least investment grade by Moody's and S&P, the Company's credit agreement will also require it to maintain a minimum fixed charge coverage ratio.

19 Financial instruments

A. Fair values of financial instruments

The Company categorizes its financial assets and liabilities measured at fair value in line with the fair value hierarchy established by GAAP, that prioritizes, with respect to reliability, the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of quoted prices (unadjusted) in active markets for identical assets and liabilities and have the highest priority. Level 2 and 3 inputs are based on significant other observable inputs and significant unobservable inputs, respectively, and have lower priorities.

When possible, the estimated fair value is based on quoted market prices and, if not available, estimates from third party brokers. For non-exchange traded derivatives classified in Level 2, the Company uses standard valuation techniques to calculate fair value. Primary inputs to these techniques include observable market prices (interest, foreign exchange and commodity) and volatility, depending on the type of derivative and nature of the underlying risk. The Company uses inputs and data used by willing market participants when valuing derivatives and considers its own credit default swap spread as well as those of its counterparties in its determination of fair value.

The carrying values of financial instruments equal or approximate their fair values with the exception of long-term debt which has a fair value of approximately $5,688 million at December 31, 2012 (December 31, 2011 – $5,314 million) with a carrying value of $4,690 million (December 31, 2011 – $4,745 million). The estimated fair value of current and long-term borrowings has been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Company at period end. All derivatives and long-term debt are classified as Level 2.

B. Fair values of non-financial assets

During 2012, CP reviewed certain properties and certain related intangible assets for impairment as explained in Note 3 and estimated the fair values of those properties. The estimated fair value was based on measurements classified as Level 3 which resulted in the recording of a total impairment charge in 2012 of $265 million (Note 3). CP used third party information that was corroborated with other internal information to estimate the fair value of those properties.

Table of Contents

The techniques used to value long-term floating rate notes, which were classified as Level 3, is discussed below:

Long-term floating rate notes

During 2012, the Company sold its remaining investment in long-term floating rate notes (Master Asset Vehicle ("MAV") 2 Class A-1 and A-2 Notes) which had a carrying value of $81 million (original cost – $105 million) for proceeds of $81 million.

At December 31, 2012, the Company had no remaining investment in long-term floating rate notes (December 31, 2011 – carrying value $79 million, being the estimated fair value of the notes, reported in "Investments").

Accretion, redemption of notes and other minor changes in market assumptions resulted in a net gain of $2 million in 2012 (2011 – $15 million; 2010 – $9 million), which was reported in "Other income and charges".

The valuation technique and assumptions used by the Company to estimate the fair value of its investment in long-term floating rate notes during 2012 were similar to those used at December 31, 2011, and incorporated probability weighted discounted cash flows considered the best available public information regarding market conditions and other factors that a market participant would have considered for such investments.

C. Financial risk management

The Company's policy with respect to using derivative financial instruments is to selectively reduce volatility associated with fluctuations in interest rates, foreign exchange ("FX") rates, the price of fuel and stock-based compensation expense. Where derivatives are designated as hedging instruments, the relationship between the hedging instruments and their associated hedged items is documented, as well as the risk management objective and strategy for the use of the hedging instruments. This documentation includes linking the derivatives that are designated as fair value or cash flow hedges to specific assets or liabilities on the Consolidated Balance Sheet, commitments or forecasted transactions. At the time a derivative contract is entered into, and at least quarterly thereafter, an assessment is made whether the derivative item is effective in offsetting the changes in fair value or cash flows of the hedged items. The derivative qualifies for hedge accounting treatment if it is effective in substantially mitigating the risk it was designed to address.

It is not the Company's intent to use financial derivatives or commodity instruments for trading or speculative purposes.

Credit risk management

Credit risk refers to the possibility that a customer or counterparty will fail to fulfil its obligations under a contract and as a result create a financial loss for the Company.

The railway industry predominantly serves financially established customers and the Company has experienced limited financial losses with respect to credit risk. The credit worthiness of customers is assessed using credit scores supplied by a third party, and through direct monitoring of their financial well-being on a continual basis. The Company establishes guidelines for customer credit limits and should thresholds in these areas be reached, appropriate precautions are taken to improve collectability.

Counterparties to financial instruments expose the Company to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an on-going basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. The Company does not anticipate non-performance that would materially impact the Company's financial statements. In addition, the Company believes there are no significant concentrations of credit risk.

Foreign exchange management

The Company is exposed to fluctuations in value of financial commitments, assets, liabilities, income or cash flows due to changes in FX rates. The Company conducts business transactions and owns assets in both Canada and the United States; as a result, revenues and expenses are incurred in both Canadian and U.S. dollars. The Company enters into foreign exchange risk management transactions primarily to manage fluctuations in the exchange rate between Canadian and U.S. currencies. In terms of net income, excluding FX on long-term debt, mitigation of U.S. dollar FX exposure is provided primarily through offsets created by revenues and expenses incurred in the same currency. Where appropriate, the Company negotiates with customers and suppliers to reduce the net exposure.

Occasionally the Company will enter into short-term FX forward contracts as part of its cash management strategy.

Net investment hedge

The FX gains and losses on long-term debt are mainly unrealized and can only be realized when U.S. dollar denominated long-term debt matures or is settled. The Company also has long-term FX exposure on its investment in U.S. affiliates. The majority of the Company's U.S. dollar denominated long-term debt has been designated as a hedge of the net investment in foreign subsidiaries. This designation has the effect of mitigating volatility on net income by offsetting long-term FX gains and losses on U.S. dollar denominated long-term debt and gains and losses on its net investment. The effective portion recognized in "Other comprehensive loss" in 2012 was an unrealized foreign exchange gain of $69 million (2011 – unrealized loss of $59 million; 2010 – unrealized gain of $142 million). There was no ineffectiveness during 2012 (2011 – $nil; 2010 – gain of $3 million).

Table of Contents

Foreign exchange forward contracts

The Company may enter into FX forward contracts to lock-in the amount of Canadian dollars it has to pay on U.S. denominated debt maturities.

At December 31, 2012, the Company had FX forward contracts to fix the exchange rate on US$100 million of principal outstanding on a capital lease due in January 2014, US$175 million of its 6.50% Notes due in May 2018, and US$100 million of its 7.25% Notes due in May 2019. At December 31, 2011, the Company had FX forward contracts to fix the exchange rate on US$175 million of its 6.50% Notes due in May 2018, and US$100 million of its 7.25% Notes due in May 2019. These derivatives, which are accounted for as cash flow hedges, guarantee the amount of Canadian dollars that the Company will repay when these obligations mature.

During 2012, an unrealized foreign exchange loss of $4 million (2011 – realized and unrealized gain of $8 million; 2010 – unrealized loss of $1 million) was recorded in "Other income and charges" in relation to these derivatives. The losses in 2012 and 2010 recorded in "Other income and charges" were largely offset by the unrealized foreign exchange gains on the underlying debt which the derivatives were designated to hedge. Similarly, the gains in 2011 were largely offset by the unrealized losses on the underlying debt.

At December 31, 2012, the unrealized gain derived from these FX forwards was $8 million which was included in "Other assets" with the offset reflected as an unrealized gain of $6 million in "Accumulated other comprehensive loss" and as an unrealized gain of $2 million in "Retained earnings". At December 31, 2011, the unrealized gain derived from these FX forwards was $6 million which was included in "Other assets" with the offset reflected as an unrealized loss of $1 million in "Accumulated other comprehensive loss" and as an unrealized gain of $7 million in "Retained earnings".

During 2011, in anticipation of a cash tender to offer to redeem the Company's US$101 million 5.75% May 2013 Notes, the Company unwound a similar amount of FX forward contracts to fix the exchange rate on these Notes for total proceeds of $2 million (Note 18).

At December 31, 2012, the Company expected that, during the next twelve months, unrealized pre-tax losses of $3 million would be reclassified to "Other income and charges".

Interest rate management

The Company is exposed to interest rate risk, which is the risk that the fair value or future cash flows of a financial instrument will vary as a result of changes in market interest rates. In order to manage funding needs or capital structure goals, the Company enters into debt or capital lease agreements that are subject to either fixed market interest rates set at the time of issue or floating rates determined by on-going market conditions. Debt subject to variable interest rates exposes the Company to variability in interest expense, while debt subject to fixed interest rates exposes the Company to variability in the fair value of debt.

To manage interest rate exposure, the Company accesses diverse sources of financing and manages borrowings in line with a targeted range of capital structure, debt ratings, liquidity needs, maturity schedule, and currency and interest rate profiles. In anticipation of future debt issuances, the Company may enter into forward rate agreements such as treasury rate locks, bond forwards or forward starting swaps, designated as cash flow hedges, to substantially lock in all or a portion of the effective future interest expense. The Company may also enter into swap agreements, designated as fair value hedges, to manage the mix of fixed and floating rate debt.

Interest rate swaps

At December 31, 2012 and December 31, 2011, the Company had no outstanding interest rate swaps, nor did it enter into or unwind any such transactions during 2012.

During 2011, the Company amortized $5 million (2010 – $4 million) of deferred gains to "Net interest expense" relating to interest rate swaps previously unwound in 2010 and 2009. In addition, during 2011, the Company amortized $2 million of deferred gains to "Other income and charges" as a result of the redemption of 5.75% 2013 Notes (Note 18). These gains were deferred as a fair value adjustment to the underlying debts that were hedged and were amortized to "Net interest expense" until the debts were redeemed in 2011.

Treasury rate locks

At December 31, 2012, the Company had net unamortized losses related to interest rate locks, which are accounted for as cash flow hedges, settled in previous years totalling $22 million (December 31, 2011 – $22 million). This amount is composed of various unamortized gains and losses related to specific debts which are reflected in "Accumulated other comprehensive loss" and are amortized to "Net interest expense" in the period that interest on the related debt is charged. The amortization of these gains and losses resulted in a negligible increase to "Net interest expense" and "Other comprehensive loss" in 2012 (2011 – negligible; 2010 – $2 million).

At December 31, 2012, the Company expected that, during the next twelve months, a negligible amount of loss related to these previously settled derivatives would be reclassified to "Net interest expense".

Table of Contents

Fuel price management

The Company is exposed to commodity risk related to purchases of diesel fuel and the potential reduction in net income due to increases in the price of diesel. Fuel expense constitutes a large portion of the Company's operating costs and volatility in diesel fuel prices can have a significant impact on the Company's income. Items affecting volatility in diesel prices include, but are not limited to, fluctuations in world markets for crude oil and distillate fuels, which can be affected by supply disruptions and geopolitical events.

The impact of variable fuel expense is mitigated substantially through fuel cost recovery programs which apportion incremental changes in fuel prices to shippers through price indices, tariffs, and by contract, within agreed upon guidelines. While these programs provide effective and meaningful coverage, residual exposure remains as the fuel expense risk cannot be completely recovered from shippers due to timing and volatility in the market. The Company continually monitors residual exposure, and where appropriate, may enter into derivative instruments.

Derivative instruments used by the Company to manage fuel expense risk may include, but are not limited to, swaps and options for crude oil, diesel and crack spreads.

Energy futures

At December 31, 2012, the Company had diesel futures contracts, which are accounted for as cash flow hedges, to purchase approximately 20 million U.S. gallons during the period January to December 2013 at an average price of $2.98 per U.S. gallon. This represents approximately 7% of estimated fuel purchases for this period. At December 31, 2012, the unrealized loss on these futures contracts was negligible (December 31, 2011 – unrealized loss $3 million) and was reflected in "Accounts payable and accrued liabilities" with the offset, net of tax, reflected in "Accumulated other comprehensive loss" on the Consolidated Balance Sheets.

The impact of settled commodity swaps decreased "Fuel" in 2012 by $1 million as a result of realized gains on diesel swaps (2011 – realized gains $8 million; 2010 – realized gains $3 million).

At December 31, 2012, the Company expected that, during the next twelve months, a negligible amount of pre-tax holding losses on diesel future contracts would be realized and recognized in "Fuel" as a result of these derivatives being settled.

Stock-based compensation expense management

Total return swaps ("TRS")

The Company is exposed to stock-based compensation risk, which is the probability of increased compensation expense when the Company's share price rises.

The TRS was a derivative that provided a gain to offset increased compensation expense as the share price increased and a loss to offset reduced compensation expense when the share price declined. If stock-based compensation share units fall out of the money after entering the program, the loss associated with the swap would no longer be fully offset by the compensation expense reductions, which would reduce the effectiveness of the swap. This derivative was not designated as a hedge and changes in fair value were recognized in net income in the period in which the change occurred.

During 2012, the Company exited the TRS program and unwound 0.6 million of its remaining share units for proceeds of $3 million. During the same period of 2011, the program was reduced by 0.5 million share units at minimal cost.

At December 31, 2012, the Company had no share units remaining in the TRS. At December 31, 2011, the Company had 0.6 million remaining in the TRS with an unrealized loss of $3 million which was included in "Accounts payable and accrued liabilities" on the Consolidated Balance Sheets.

"Compensation and benefits" expense on the Company's Consolidated Statements of Income included a net gain on these swaps of $6 million in 2012 (2011 – $3 million; 2010 – $12 million).

20 Other long-term liabilities

(in millions of Canadian dollars)	**2012**	2011
Provision for environmental remediation, net of current portion[1]	**$ 77**	$ 82
Provision for restructuring, net of current portion[2] (Note 4)	**27**	35
Deferred gains on sale leaseback transactions	**34**	38
Deferred revenue on rights-of-way license agreements, net of current portion	**33**	34
Stock-based compensation liabilities, net of current portion	**26**	61
Asset retirement obligations (Note 21)	**23**	23
Deferred retirement compensation (Note 28)	**16**	–
Other, net of current portion	**70**	92
Total other long-term liabilities	**$ 306**	$ 365

Table of Contents

(1) As at December 31, 2012, the aggregate provision for environmental remediation, including the current portion was $89 million (2011 – $97 million).
(2) As at December 31, 2012, the aggregate provision for restructuring, including the current portion was $89 million (2011 – $55 million).

The deferred revenue on rights-of-way license agreements, and deferred gains on sale leaseback transactions are being amortized to income on a straight-line basis over the related lease terms. Deferred income credits are being amortized over the life of the related asset.

Environmental remediation accruals

Environmental remediation accruals cover site-specific remediation programs. Environmental remediation accruals are measured on an undiscounted basis and are recorded when the costs to remediate are probable and reasonably estimable. The estimate of the probable costs to be incurred in the remediation of properties contaminated by past railway use reflects the nature of contamination at individual sites according to typical activities and scale of operations conducted. CP has developed remediation strategies for each property based on the nature and extent of the contamination, as well as the location of the property and surrounding areas that may be adversely affected by the presence of contaminants, considering available technologies, treatment and disposal facilities and the acceptability of site-specific plans based on the local regulatory environment. Site-specific plans range from containment and risk management of the contaminants through to the removal and treatment of the contaminants and affected soils and ground water. The details of the estimates reflect the environmental liability at each property. Provisions for environmental remediation costs are recorded in “Other long-term liabilities”, except for the current portion which is recorded in “Accounts payable and accrued liabilities”. Payments are expected to be made over 10 years to 2022.

The accruals for environmental remediation represent CP’s best estimate of its probable future obligation and includes both asserted and unasserted claims, without reduction for anticipated recoveries from third parties. Although the recorded accruals include CP’s best estimate of all probable costs, CP’s total environmental remediation costs cannot be predicted with certainty. Accruals for environmental remediation may change from time to time as new information about previously untested sites becomes known, environmental laws and regulations evolve and advances are made in environmental remediation technology. The accruals may also vary as the courts decide legal proceedings against outside parties responsible for contamination. These potential charges, which cannot be quantified at this time, may materially affect income in the particular period in which a charge is recognized. Costs related to existing, but as yet unknown, or future contamination will be accrued in the period in which they become probable and reasonably estimable. Changes to costs are reflected as changes to “Other long-term liabilities” or “Accounts payable and accrued liabilities” on the Consolidated Balance Sheets and to “Purchased services and other” within operating expenses on the Consolidated Statements of Income. The amount charged to income in 2012 was $4 million (2011 – $3 million; 2010 – $4 million).

21 Asset retirement obligations

Asset retirement obligations are recorded in “Other long-term liabilities”. The majority of these liabilities are discounted at 6.25%. Accretion expense is included in “Depreciation and amortization” on the Consolidated Statements of Income.

(in millions of Canadian dollars)	**2012**	2011
Opening balance, January 1	**$ 23**	$ 22
Accretion	**1**	1
Liabilities settled	**(1)**	–
Closing balance, December 31	**$ 23**	$ 23

Upon the ultimate retirement of grain-dependent branch lines, the Company has to pay a fee, levied under the *Canada Transportation Act*, of $30,000 per mile of abandoned track. The undiscounted amount of the liability was $39 million at December 31, 2012 (2011 – $41 million), which, when present valued, was $20 million at December 31, 2012 (2011 – $21 million). The payments are expected to be made in the 2013 – 2044 period.

The Company also has a liability on a joint facility that will have to be settled upon retirement based on a proportion of use during the life of the asset. The estimate of the obligation at December 31, 2012, was $19 million (2011 – $18 million), which, when present valued, was $3 million at December 31, 2012 (2011 – $2 million). For purposes of estimating this liability, the payment related to the retirement of the joint facility is anticipated to be made in 32 years.

22 Shareholders’ equity

Authorized and issued share capital

The Company’s Articles of Incorporation authorize for issuance an unlimited number of Common Shares and an unlimited number of First Preferred Shares and Second Preferred Shares. At December 31, 2012, no Preferred Shares had been issued.

Table of Contents

An analysis of Common Share balances is as follows:

(number of shares in millions)	**2012**	2011	2010
Share capital, January 1	**170.0**	169.2	168.5
Shares issued under stock option plans	**3.9**	0.8	0.7
Share capital, December 31	**173.9**	170.0	169.2

The change in the "Share capital" balances includes $6 million (2011 – $1 million; 2010 – $2 million) related to the cancellation of the TSARs liability on exercise of tandem stock options, and $70 million (2011 – $11 million; 2010 – $8 million) of stock-based compensation transferred from "Additional paid-in capital".

23 Pension and other benefits

The Company has both defined benefit ("DB") and defined contribution ("DC") pension plans. At December 31, 2012, the Canadian pension plans represent approximately 99% of total combined pension plan assets and approximately 98% of total combined pension plan obligations.

The DB plans provide for pensions based principally on years of service and compensation rates near retirement. Pensions for Canadian pensioners are partially indexed to inflation. Annual employer contributions to the DB plans, which are actuarially determined, are made on the basis of being not less than the minimum amounts required by federal pension supervisory authorities.

The Company has other benefit plans including post-retirement health and life insurance for pensioners, and post-employment long-term disability and workers' compensation benefits, which are based on Company-specific claims. At December 31, 2012, the Canadian other benefits plans represent approximately 95% of total combined other plan obligations.

The Finance Committee of the Board of Directors has approved an investment policy that establishes long-term asset mix targets which take into account the Company's expected risk tolerances. Pension plan assets are managed by a suite of independent investment managers, with the allocation by manager reflecting these asset mix targets. Most of the assets are actively managed with the objective of outperforming applicable capital market indices. In accordance with the investment policy, derivative instruments may be used to replicate stock market index returns, to partially hedge foreign currency exposures and to reduce asset/liability interest rate mismatch risk. At December 31, 2012, derivatives were primarily being used to partially hedge foreign currency exposures. The investment policy was revised effective April 1, 2011 to prohibit the managers from investing in securities of the Company or its subsidiaries; they are permitted to retain any such securities acquired prior to such date, subject to statutory requirements.

To develop the expected long-term rate of return assumption used in the calculation of net periodic benefit cost applicable to the market-related value of assets, the Company considers the expected composition of the plans' assets, past experience and future estimates of long-term investment returns. Future estimates of investment returns reflect the expected annual yield on applicable fixed income capital market indices, the long-term expected risk premium (relative to long-term government bond yields) for public equity, real estate and infrastructure securities and the expected added value (relative to applicable capital market indices) from active management of pension fund assets.

The Company has elected to use a market-related value of assets for the purpose of calculating net periodic benefit cost, developed from a five-year average of market values for the plans' public equity securities (with each prior year's market value adjusted to the current date for assumed investment income during the intervening period) plus the market value of the plans' fixed income, real estate and infrastructure securities.

The benefit obligation is discounted using a discount rate that is a blended interest rate for a portfolio of high-quality corporate debt instruments with matching cash flows. The discount rate is determined by management with the aid of third-party actuaries.

The elements of net periodic benefit cost for DB pension plans and other benefits recognized in the year included the following components:

	Pensions			Other benefits		
(in millions of Canadian dollars)	**2012**	2011	2010	**2012**	2011	2010
Current service cost (benefits earned by employees in the year)	**$ 131**	$ 105	$ 86	**$ 19**	$ 17	$ 16
Interest cost on benefit obligation	**452**	460	464	**24**	26	28
Expected return on fund assets	**(752)**	(674)	(598)	**–**	(1)	(1)
Recognized net actuarial loss	**208**	142	71	**3**	8	2
Amortization of prior service costs	**2**	13	13	**–**	(1)	(2)
Net periodic benefit cost	**$ 41**	$ 46	$ 36	**$ 46**	$ 49	$ 43

Table of Contents

Information about the Company's DB pension plans and other benefits, in aggregate, is as follows:

	Pensions		Other benefits	
(in millions of Canadian dollars)	**2012**	2011	**2012**	2011
Change in projected benefit obligation:				
Benefit obligation at January 1	**$ 10,099**	$ 8,984	**$ 536**	$ 494
Current service cost	**131**	105	**19**	17
Interest cost	**452**	460	**24**	26
Employee contributions	**58**	60	**–**	–
Benefits paid	**(525)**	(471)	**(35)**	(35)
Foreign currency changes	**(4)**	3	**(1)**	–
Plan amendments and other	**(11)**	(3)	**–**	7
Actuarial loss	**447**	961	**(8)**	27
Projected benefit obligation at December 31	**$ 10,647**	$ 10,099	**$ 535**	$ 536
Change in fund assets:				
Fair value of fund assets at January 1	**$ 9,215**	$ 8,310	**$ 11**	$ 11
Actual return on fund assets	**916**	621	**(1)**	–
Employer contributions	**102**	693	**34**	35
Employee contributions	**58**	60	**–**	–
Benefits paid	**(525)**	(471)	**(35)**	(35)
Foreign currency changes	**(3)**	2	**–**	–
Fair value of fund assets at December 31	**$ 9,763**	$ 9,215	**$ 9**	$ 11
Funded status – plan deficit	**$ (884)**	$ (884)	**$ (526)**	$ (525)

Amounts recognized in the Company's Consolidated Balance Sheet are as follows:

	Pensions		Other benefits	
(in millions of Canadian dollars)	**2012**	2011	**2012**	2011
Accounts payable and accrued liabilities	**$ 8**	$ –	**$ 36**	$ 37
Pension and other benefit liabilities	**876**	884	**490**	488
Total amount recognized	**$ 884**	$ 884	**$ 526**	$ 525

The defined benefit pension plans' accumulated benefit obligation as at December 31, 2012 was $10,122 million (2011 – $9,618 million). The accumulated benefit obligation is calculated on a basis similar to the projected benefit obligation, except no future salary increases are assumed in the projection of future benefits.

The measurement date used to determine the plan assets and the accrued benefit obligation is December 31st. The most recent actuarial valuation for pension funding purposes for the Company's main Canadian pension plan was performed as at January 1, 2012. During 2013, the Company expects to file a new valuation with the pension regulator.

During the first quarter of 2013, the Board of Directors of the Company approved certain changes to the Canadian defined benefit pension plan which, if implemented as proposed, are expected to take effect in 2013 and will reduce the Canadian defined benefit pension's liability by approximately $127 million.

Amounts recognized in accumulated other comprehensive loss are as follows:

	Pensions		Other benefits	
(in millions of Canadian dollars)	**2012**	2011	**2012**	2011
Net actuarial loss:				
Other than deferred investment losses	**$ 3,761**	$ 3,063	**$ 108**	$ 119
Deferred investment losses	**40**	665	**–**	–
Prior service cost	**(11)**	1	**5**	4
Deferred income tax	**(1,045)**	(1,030)	**(30)**	(34)
Total	**$ 2,745**	$ 2,699	**$ 83**	$ 89

Table of Contents

The unamortized actuarial loss and the unamortized prior service cost included in "Accumulated other comprehensive loss" that is expected to be recognized in net periodic benefit cost during 2013 are $267 million and a recovery of $2 million, respectively, for pensions and $6 million and $nil, respectively, for other post-retirement benefits.

Weighted-average actuarial assumptions used were approximately:

(percentages)	**2012**	2011	2010
Benefit obligation at December 31:			
Discount rate	**4.28**	4.55	5.20
Projected future salary increases	**3.00**	3.00	3.00
Health care cost trend rate	**8.00**(1)	8.00(1)	8.00(2)
Benefit cost for year ended December 31:			
Discount rate	**4.55**	5.20	5.90
Expected rate of return on fund assets	**7.75**	7.75	7.75
Projected future salary increases	**3.00**	3.00	3.00
Health care cost trend rate	**8.00**(1)	8.00(2)	8.50(2)

(1) The health care cost trend rate is assumed to be 8.0% in 2013 (8.0% in 2012), and then decreasing by 0.5% per year to an ultimate rate of 5.0% per year in 2019 and thereafter.
(2) The health care cost trend rate was previously projected to decrease by 0.5% per year to approximately 5.0% per year in 2017.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

(in millions of Canadian dollars) Favourable (unfavourable)	**One percentage point increase**	**One percentage point decrease**
Effect on the total of service and interest costs	(1)	1
Effect on post-retirement benefit obligation	(8)	8

Plan assets

Plan assets are recorded at fair value. The major asset categories are public equity securities, debt securities, and real estate and infrastructure funds. The fair values of the public equity and debt securities are primarily based on quoted market prices. Real estate values are based on annual valuations performed by external parties, taking into account current market conditions and recent sales transactions where practical and appropriate. Infrastructure values are based on the fair value of each fund's assets as calculated by the fund manager, generally using a discounted cash flow analysis that takes into account current market conditions and recent sales transactions where practical and appropriate.

The Company's pension plan asset allocation, the current weighted average asset allocation targets and the current weighted average policy range for each major asset class, were as follows:

	Current asset allocation	**Current policy**	**Percentage of plan assets at December 31**	
Asset allocation (percentage)	**target**	**range**	**2012**	2011
Public equity securities	45.7	30 – 51	45.9	40.1
Debt securities	42.3	39 – 53	42.7	49.2
Real estate and infrastructure	12.0	10 – 17	11.4	10.7
Total			100.0	100.0

Table of Contents

The following is a summary of the assets of the Company's defined benefit pension plans at fair values at December 31, 2012 and a comparative summary at December 31, 2011:

(in millions of Canadian dollars) **December 31, 2012**	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash and cash equivalents	**$ 70**	**$ 7**	**$ –**	**$ 77**
Government bonds[(1)]	**–**	**2,810**	**–**	**2,810**
Corporate bonds[(1)]	**–**	**1,249**	**–**	**1,249**
Mortgages[(1)]	**–**	**34**	**–**	**34**
Public equities				
• Canada	**1,130**	**28**	**–**	**1,158**
• U.S. and international	**3,316**	**13**	**–**	**3,329**
Real estate[(2)]	**–**	**–**	**779**	**779**
Infrastructure[(2)]	**–**	**–**	**333**	**333**
Derivative liabilities[(3)]	**–**	**(6)**	**–**	**(6)**
	$ 4,516	**$ 4,135**	**$ 1,112**	**$ 9,763**
December 31, 2011				
Cash and cash equivalents	$ 48	$ 299	$ –	$ 347
Government bonds[(1)]	–	2,839	–	2,839
Corporate bonds[(1)]	–	1,264	–	1,264
Mortgages[(1)]	–	18	4	22
Public equities				
• Canada	882	81	–	963
• U.S. and international	2,310	30	–	2,340
Real estate[(2)]	–	–	691	691
Infrastructure[(2)]	–	–	294	294
Derivative assets[(3)]	–	455	–	455
	$ 3,240	$ 4,986	$ 989	$ 9,215

(1) Government & Corporate Bonds:
Fair values for bonds are based on market prices supplied by external vendors. When a market price is not available from independent sources, the bonds are valued at the last available price.

Mortgages: The fair value measurement of $34 million (2011 – $18 million) of mortgages categorized as Level 2 is based on current market yields of financial instruments of similar maturity, coupon and risk factors.

(2) Real Estate:
The fair value of real estate investments of $779 million (2011 – $691 million) is based on property appraisals which use a number of approaches that typically include a discounted cash flow analysis, a direct capitalization income method and/or a direct comparison approach. Appraisals of real estate investments are generally performed semi-annually by qualified external accredited appraisers.

Infrastructure:
Infrastructure fund values of $333 million (2011 – $294 million) are based on the fair value of the fund assets as calculated by the fund manager, generally using a discounted cash flow analysis that takes into account current market conditions and recent sales transactions where practical and appropriate.

(3) The Company's pension funds may utilize the following derivative instruments: equity futures to replicate equity index returns (Level 2); currency forwards to partially hedge foreign currency exposures (Level 2); bond forwards to reduce asset/liability interest rate risk exposures (Level 2); interest rate swaps to manage duration and interest rate risk (Level 2); credit default swaps to manage credit risk (Level 2); and options to manage interest rate risk and volatility (Level 2). At December 31, 2012 the pension funds' utilization of derivatives was primarily currency forwards.

Table of Contents

During 2011 and 2012 the portion of the assets of the Company's defined benefit pension plans measured at fair value using unobservable inputs (Level 3) changed as follows:

(in millions of Canadian dollars)	Mortgages	Real estate	Infrastructure	Total
As at January 1, 2011	$ 5	$ 620	$ 254	$ 879
Contributions	–	7	17	24
Disbursements	(2)	(10)	–	(12)
Net realized gains	–	4	–	4
Increase in net unrealized gains	1	70	23	94
As at December 31, 2011	$ 4	$ 691	$ 294	$ 989
Contributions	–	39	27	66
Disbursements	(1)	(36)	–	(37)
Net transfer out of Level 3	(3)	–	–	(3)
Net realized gains	–	19	–	19
Increase in net unrealized gains	–	66	12	78
As at December 31, 2012	**$ –**	**$ 779**	**$ 333**	**$ 1,112**

The Company's expected long-term target return is 7.75%, net of all fees and expenses. In identifying the asset allocation ranges, consideration was given to the long-term nature of the underlying plan liabilities, the solvency and going-concern financial position of the plan, long-term return expectations and the risks associated with key asset classes as well as the relationships of returns on key asset classes with each other, inflation and interest rates. When advantageous and with due consideration, derivative instruments may be utilized, provided the total value of the underlying assets represented by financial derivatives, excluding currency forwards, is limited to 30% of the market value of the fund.

When investing in foreign securities, the plans are exposed to foreign currency risk. Most of the plans' non-Canadian public equity and infrastructure foreign currency exposures are 50% hedged. Most of the plans' debt securities and all of the plans' real estate holdings are Canadian-dollar denominated. Net of the above hedging, the plans were 10% exposed to the U.S. dollar, 6% exposed to European currencies, and 6% exposed to various other currencies, as at December 31, 2012.

At December 31, 2012, fund assets consisted primarily of listed stocks and bonds, including 6.91% Secured Equipment Notes issued by the Company at a par value of $2 million (2011 – $2 million) and a market value of $3 million (2011 – $3 million), and 6.25% Unsecured Notes issued by the Company at a par value of $2 million (2011 – $2 million) and a market value of $2 million (2011 – $2 million).

Cash flows

In 2012, the Company contributed $107 million to its pension plans (2011 – $698 million; 2010 – $840 million), including $5 million to the defined contribution plans (2011 – $5 million; 2010 – $3 million), $89 million to the Canadian registered and U.S. qualified defined benefit pension plans (2011 – $696 million; 2010 – $829 million), and $13 million to the Canadian non-registered supplemental pension plan (2011 – $3 million net refund; 2010 – $8 million contribution). Contributions to the Canadian registered defined benefit plan included voluntary prepayments of $600 million in 2011 and $650 million in 2010. In addition, the Company made payments directly to employees, their beneficiaries or estates or to third-party benefit administrators of $35 million in 2012 (2011 – $35 million; 2010 – $34 million) with respect to other benefits.

Total contributions for all of the Company's defined benefit pension plans are expected to be in the range of $100 million to $125 million in 2013.

Estimated future benefit payments

The estimated future defined benefit pension and other benefit payments to be paid by the plans for each of the next five years and the subsequent five-year period are as follows:

(in millions of Canadian dollars)	Pensions	Other benefits
2013	$ 477	$ 38
2014	499	37
2015	517	37
2016	536	37
2017	556	37
2018 – 2022	3,041	178

The benefit payments from the Canadian registered and U.S. qualified defined benefit pension plans are payable from their respective pension funds. Benefit payments from the supplemental pension plan and from the other benefits plans are payable directly from the Company.

Table of Contents

Defined contribution plan

Canadian non-unionized employees hired prior to July 1, 2010 had the option to participate in the Canadian DC plan. All Canadian non-unionized employees hired after such date must participate in this plan. Employee contributions are based on a percentage of salary. The Company matches employee contributions to a maximum percentage each year.

Effective July 1, 2010, a new U.S. DC plan was established. All U.S. non-unionized employees hired after such date must participate in this plan. Employees do not contribute to the plan. The Company annually contributes a percentage of salary.

The DC plans provide a pension based on total employee and employer contributions plus investment income earned on those contributions.

In 2012, the net cost of the DC plans, which generally equals the employer's required contribution, was $5 million (2011 – $5 million; 2010 – $3 million).

Contributions to multi-employer plans

Some of the Company's unionized employees in the U.S. are members of a U.S. national multi-employer benefit plan. Contributions made by the Company to this plan in 2012 in respect of post-retirement medical benefits were $6 million (2011 – $6 million; 2010 – $5 million).

24 Stock-based compensation

At December 31, 2012, the Company had several stock-based compensation plans, including stock option plans, various cash settled liability plans and an employee stock savings plan. These plans resulted in an expense in 2012 of $64 million (2011 – $43 million; 2010 – $71 million).

Accelerated vesting due to changes in the composition of the Board of Directors

Most of the stock-based compensation plans include a provision whereby vesting is accelerated should certain changes in the composition of the Board of Directors occur. These provisions were triggered on June 26, 2012 and the recognition of the revised vesting terms as outlined in the stock-based compensation plans resulted in a credit to "Compensation and benefits" of $8 million in the second quarter of 2012. RSUs and TSARs were not impacted by this change and for DSUs 14,080 units were subject to immediate vesting. The impact discussed above on options and performance share units is outlined in more detail below.

A. Stock Option Plans

Regular options and TSARs

With the granting of regular options, employees may be simultaneously granted TSARs equivalent to the number of regular options granted (stock options granted prior to January 2009 were simultaneously granted TSARs equivalent to one-half the regular options granted). The last issue of TSARs was in April 2010. A TSAR entitles the holder to receive payment of an amount equal to the excess of the market value of a Common Share at the exercise date of the TSAR over the related option exercise price. The liability for TSARs is recognized and measured at its fair value. Pursuant to the employee plans, regular options and TSARs vest between 12 and 48 months after the grant date, and will expire after 10 years. Certain of these options granted are only exercisable after employment is terminated.

Where an option granted is a tandem award, the holder can choose to exercise an option or a TSAR of equal intrinsic value.

As a result of changes to Canadian tax legislation, which eliminated the favourable tax treatment on cash settled compensation awards, the Company offered employees the option of cancelling the outstanding SAR and keeping in place the outstanding option. During 2011, the Company cancelled 3.5 million SARs and reclassified the fair value of the previously recognized liability ($75 million) and the recognized deferred tax asset ($18 million) to "Additional paid-in capital". The terms of the awards were not changed and as a result no incremental cost was recognized. The weighted-average fair value of the units cancelled was $23.75.

The recent changes to the composition of the Board triggered the immediate vesting on June 26, 2012 of all unvested regular options granted prior to 2012 and 4,000 unvested options granted in 2012.

Performance Options

Performance options, granted prior to 2007, vest after 48 months, unless certain performance targets are achieved, in which case vesting is accelerated, and will expire five years after the grant date ("performance-accelerated options"). As at December 31, 2012, no performance-accelerated options were outstanding. Beginning in 2007, performance options granted will only vest when certain performance targets are achieved and will not vest if the performance targets are not achieved within a specific time frame. These options will expire five years and three months after the grant date ("performance-contingent options"). The recent changes to the composition of the Board triggered the immediate vesting on June 26, 2012 of all unvested performance-contingent options that had not previously expired.

Table of Contents

Summary of regular and performance options

The following table summarizes the Company's fixed stock option plans (that do not have a TSAR attached to them) as of December 31:

	Options outstanding		Nonvested options	
	Number of options	Weighted average exercise price	Number of options	Weighted average grant date fair value
Outstanding, January 1, 2012	6,915,323	$ 53.42	2,650,050	$ 16.04
New options granted	1,471,746	78.19	1,471,746	19.04
Exercised	(3,733,028)	50.53	NA	NA
Vested	NA	NA	(2,269,650)	14.69
Forfeited	(39,050)	63.25	(38,450)	17.14
Expired	(388,350)	62.43	(385,100)	12.12
Outstanding at December 31, 2012	4,226,641	63.69	1,428,596	20.70
Vested or expected to vest at[(1)] December 31, 2012	4,149,128	$ 63.35	NA	$ NA
Exercisable at December 31, 2012	2,798,045	$ 56.44	NA	$ NA

(1) As at December 31, 2012, the weighted average remaining term of vested or expected to vest options was 6.4 years with an aggregate intrinsic value of $156 million.

The following table provides the number of stock options outstanding and exercisable as at December 31, 2012 by range of exercise price and their related intrinsic aggregate value, and for options outstanding, the weighted-average years to expiration. The table also provides the aggregate intrinsic value for in-the-money stock options, which represents the amount that would have been received by option holders had they exercised their options on December 31, 2012 at the Company's closing stock price of $100.90.

	Options outstanding				Options exercisable		
Range of exercise prices	Number of options	Weighted average years to expiration	Weighted average exercise price	Aggregate intrinsic value (millions)	Number of options	Weighted average exercise price	Aggregate intrinsic value (millions)
$31.45 – $58.00	1,465,395	3.8	$ 46.30	$ 80	1,465,395	$ 46.30	$ 80
$58.01 – $71.69	1,306,400	5.0	66.78	45	1,306,400	66.78	45
$71.70 – $97.70	1,454,846	9.0	78.22	33	26,250	75.11	1
Total[(1)]	4,226,641	5.9	$ 63.69	$ 158	2,798,045	$ 56.44	$ 126

(1) As at December 31, 2012, the total number of in-the-money stock options outstanding was 4,226,641 with a weighted-average exercise price of $63.69. The weighted-average years to expiration of exercisable stock options is 4.4 years.

Under the fair value method, the fair value of options at the grant date was approximately $28 million for options issued in 2012 (2011 – $12 million; 2010 – $1 million). The weighted average fair value assumptions were approximately:

	2012	2011	2010
Expected option life (years)[(1)]	**6.03**	6.30	6.25
Risk-free interest rate[(2)]	**1.47%**	2.79%	2.78%
Expected stock price volatility[(3)]	**31%**	31%	30%
Expected annual dividends per share[(4)]	**$ 1.40**	$ 1.20	$ 1.08
Estimated forfeiture rate[(5)]	**1.2%**	0.7%	0.7%
Weighted average grant date fair value of options granted during the year	**$ 19.04**	$ 19.44	$ 15.90

(1) Represents the period of time that awards are expected to be outstanding. Historical data on exercise behaviour or when available, specific expectations regarding future exercise behaviour, were used to estimate the expected life of the option.
(2) Based on the implied yield available on zero-coupon government issues with an equivalent remaining term at the time of the grant.
(3) Based on the historical stock price volatility of the Company's stock over a period commensurate with the expected term of the option.
(4) Determined by the current annual dividend at the time of grant. The Company does not employ different dividend yields throughout the contractual term of the option.
(5) The Company estimated forfeitures based on past experience. This rate is monitored on a periodic basis.

Table of Contents

Certain of the Company's stock option plans are subject to post-vesting restrictions prior to expiry. The discount for these restrictions resulted in a reduction of the fair value at grant date of options issued in 2012 of $2 million. This discount was estimated using the fair value of put options that, together with the granted call options, mimicked the characteristics of the post-vesting restriction.

In 2012, the expense for stock options (regular and performance) was $24 million (2011 – $15 million; 2010 – $2 million). At December 31, 2012, there was $15 million of total unrecognized compensation related to stock options which is expected to be recognized over a weighted-average period of approximately 2.0 years.

At December 31, 2012, there were 2,728,685 (2011 – 3,459,831; 2010 – 1,048,531) Common Shares available for the granting of future options under the stock option plans, out of the 18,728,642 (2011 – 15,578,642; 2010 – 15,578,642) Common Shares currently authorized for issuance.

Summary of TSARs

The following table summarizes information related to the Company's TSARs as of December 31:

	TSARs outstanding		**Nonvested TSARs**	
	Number of TSARs	Weighted average exercise price	Number of TSARs	Weighted average grant date fair value
Outstanding, January 1, 2012	383,400	$ 47.97	56,600	$ 11.73
Exercised as Options	(212,925)	43.97	NA	NA
Vested	NA	NA	(56,600)	11.73
Forfeited	(2,400)	30.50	–	–
Outstanding at December 31, 2012	168,075	$ 53.28	–	$ –
Vested at December 31, 2012[(1)]	168,075	$ 53.28	NA	$ NA
Exercisable at December 31, 2012	168,075	$ 53.28	NA	$ NA

(1) As at December 31, 2012, the weighted average remaining term of vested or expected to vest TSARs was 3.4 years with an aggregate intrinsic value of $8 million.

The following table provides the number of TSARs outstanding and exercisable as at December 31, 2012 by range of exercise price and their related intrinsic value, and for TSARs outstanding, the weighted-average years to expiration. The table also provides the aggregate intrinsic value for in-the-money TSARs, which represents the amount that would have been received by TSAR holders had they exercised their TSAR on December 31, 2012 at the Company's closing stock price of $100.90.

	TSARs outstanding				TSARs exercisable		
Range of exercise prices	Number of TSARs	Weighted average years to expiration	Weighted average exercise price	Aggregate intrinsic value (millions)	Number of TSARs	Weighted average exercise price	Aggregate intrinsic value (millions)
$31.45 – $46.61	65,625	2.0	$ 37.80	$ 4	65,625	$ 37.80	$ 4
$46.62 – $60.13	39,000	3.5	56.99	2	39,000	56.99	2
$60.14 – $71.69	63,450	4.5	67.00	2	63,450	67.00	2
Total[(1)]	168,075	3.3	$ 53.28	$ 8	168,075	$ 53.28	$ 8

(1) As at December 31, 2012, the total number of in-the-money TSARs outstanding was 168,075 with a weighted-average exercise price of $53.28. The weighted-average years to expiration of exercisable TSARs is 3.4 years.

In 2012, the expense for TSARs was $7 million (2011 – $4 million; 2010 – $32 million).

Summary of stock option plans

The following table refers to the total fair value of shares vested for all stock option plans (including TSARs) during the years ended December 31:

(in millions of Canadian dollars)	**2012**	2011	2010
Regular stock option plan	**$ 33**	$ 8	$ 6
TSARs	**1**	1	6
Total	**$ 34**	$ 9	$ 12

Table of Contents

The following table provides information related to all options exercised in the stock option plans during the years ended December 31:

(in millions of Canadian dollars)	**2012**	2011	2010
Total intrinsic value	**$ 118**	$ 17	$ 10
Cash received by the Company upon exercise of options	**198**	29	32

B. Other Share-based Plans

Performance share unit ("PSU") plan

During 2012, the Company issued 479,372 PSUs. These units attract dividend equivalents in the form of additional units based on the dividends paid on the Company's Common Shares. PSUs vest and are settled in cash approximately three years after the grant date contingent upon CP's performance (performance factors). The fair value of PSUs is measured, both on the grant date and each subsequent quarter until settlement, using a Monte Carlo simulation model. The model utilizes multiple input variables that determine the probability of satisfying the performance and market conditions stipulated in the grant.

Recent changes to the Board also resulted in the immediate vesting of a pro-rata portion of all unvested PSUs during the second quarter of 2012. The number of units that vested was based on the number of months of the total performance period that had passed and the fair value of the units to be settled was based on the average closing price of the 30 trading days prior to June 26, 2012. The payout of $31 million occurred in the third quarter of 2012.

The performance period for the first grant of PSUs issued in 2009 ended December 31, 2011. These PSUs were earned based on two performance factors: the Total Shareholder Return ("TSR") compared to the S&P/TSX60 index, and Return on Capital Employed ("ROCE"). The TSR for the three-year period exceeded target, while ROCE targets were not met. The TSR component of the plan resulted in a total PSU payout equal to 200% for half of the award, in effect resulting in a target payout. The payout of $24 million occurred in March 2012 and was calculated using the Company's average share price during the last 30 trading days ending on December 31, 2011.

The following table summarizes information related to the Company's PSUs as at December 31:

	2012	2011
Outstanding, January 1	**930,311**	700,468
Granted	**479,372**	269,300
Units, in lieu of dividends	**2,143**	16,487
Vested	**(610,568)**	NA
Forfeited	**(600,556)**	(55,944)
Outstanding at December 31	**200,702**	930,311

Under the fair value method, the fair value of PSUs at the grant date was $38 million for PSUs issued in 2012 (2011 – $16 million; 2010 – $15 million).

In 2012, the recognition of accelerated vesting terms related to the changes in the composition of the Board of Directors resulted in an expense recovery for PSUs of $1 million, as a result of the difference between the required payout and previously accrued amounts. In 2011, the expense for PSUs was $15 million (2010 – expense $29 million). At December 31, 2012, there was $16 million of total unrecognized compensation related to PSUs which is expected to be recognized over a weighted-average period of approximately 3.2 years.

Deferred share unit plan

The Company established the DSU plan as a means to compensate and assist in attaining share ownership targets set for certain key employees and Directors. A DSU entitles the holder to receive, upon redemption, a cash payment equivalent to the market value of a Common Share at the redemption date. DSUs vest over various periods of up to 48 months and are only redeemable for a specified period after employment is terminated.

Executive employees may elect to receive DSUs in lieu of cash payments for certain incentive programs. In addition, when acquiring Common Shares to meet share ownership targets, executive employees will be granted with a 25% company match of the amount elected. The election to receive eligible payments in DSUs is no longer available to a participant when the value of the participant's DSUs is sufficient to meet the Company's stock ownership guidelines. Executive employees have five years to meet their ownership targets.

An expense to income for DSUs is recognized over the vesting period for both the initial subscription price and the change in value between reporting periods.

Table of Contents

The following table summarizes information related to the DSUs as of December 31:

	2012	2011
Outstanding, January 1	**396,306**	388,346
Granted	**167,435**	67,306
Units, in lieu of dividends	**6,821**	7,732
Redeemed	**(212,822)**	(67,078)
Outstanding, December 31	**357,740**	396,306

During 2012, the Company granted 167,435 DSUs with a grant date fair value of $13 million. In 2012, the expense for DSUs was $23 million (2011 – $5 million; 2010 – $6 million). At December 31, 2012, there was $6 million of total unrecognized compensation related to DSUs which is expected to be recognized over a weighted-average period of approximately 0.6 years.

Restricted share unit plan

The Company issued 113,408 RSUs in 2012 (2011 – 64,470; 2010 – 151). The fair value of RSUs at the grant date was $9 million. RSUs are notional full value shares that attract dividend equivalents in the form of additional units based on the dividends paid on the Company's Common Shares. RSUs have no performance factors attached to them and are subject to time vesting over various periods of up to 36 months. RSUs are settled in cash up to three years after the grant date. An expense to income for RSUs is recognized over the vesting period for both the initial subscription price and the change in value between reporting periods. In 2012, the expense for RSUs was $7 million (2011 – $nil; 2010 – $nil). At December 31, 2012, there was $9 million of total unrecognized compensation related to RSUs which is expected to be recognized over a weighted-average period of approximately 1.5 years.

The following table summarizes information related to the Company's RSUs as at December 31:

	2012	2011
Outstanding, January 1	**64,470**	–
Granted	**113,408**	64,470
Units, in lieu of dividends	**1,639**	–
Forfeited	**(6,283)**	–
Outstanding, December 31	**173,234**	64,470

Summary of share based liabilities paid

The following table summarizes the total share based liabilities paid for each of the years ended December 31:

(in millions of Canadian dollars)	**2012**	2011	2010
Plan			
DSUs	**$ 19**	$ 4	$ 2
PSUs	**55**	–	–
Total	**$ 74**	$ 4	$ 2

C. Employee share purchase plan

The Company has an employee share purchase plan whereby both employee and Company contributions are used to purchase shares on the open market for employees. The Company's contributions are expensed over the one-year vesting period. Under the plan, the Company matches $1 for every $3 contributed by employees up to a maximum employee contribution of 6% of annual salary.

The total number of shares purchased in 2012 on behalf of participants, including the Company contribution, was 445,951 (2011 – 630,480; 2010 – 618,272). In 2012, the Company's contributions totalled $4 million (2011 – $4 million; 2010 – $3 million) and the related expense was $4 million (2011 – $4 million; 2010 – $2 million).

25 Variable interest entities

The Company leases equipment from certain trusts, which have been determined to be variable interest entities financed by a combination of debt and equity provided by unrelated third parties. The lease agreements, which are classified as operating leases, have a fixed price purchase option which create the Company's variable interest and result in the trusts being considered variable interest entities.

Table of Contents

Responsibility for maintaining and operating the leased assets according to specific contractual obligations outlined in the terms of the lease agreements and industry standards is the Company's. The rigor of the contractual terms of the lease agreements and industry standards are such that the Company has limited discretion over the maintenance activities associated with these assets. As such the Company concluded these terms do not provide the Company with the power to direct the activities of the variable interest entities in a way that has a significant impact on the entities' economic performance.

The financial exposure to the Company as a result of its involvement with the variable interest entities is equal to the fixed lease payments due to the trusts. In 2012, lease payments after tax were $8 million. Future minimum lease payments, before tax, of $208 million will be payable over the next 18 years (Note 26).

The Company does not guarantee the residual value of the assets to the lessor, however, it must deliver to the lessor the assets in good operating condition, subject to normal wear and tear, at the end of the lease term.

As the Company's actions and decisions do not significantly affect the variable interest entities' performance, and the Company's fixed purchase price option is not considered to be potentially significant to the variable interest entities, the Company is not considered to be the primary beneficiary, and does not consolidate these variable interest entities.

26 Commitments and contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions it considers to be adequate for such actions. While the final outcome with respect to actions outstanding or pending at December 31, 2012, cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

At December 31, 2012, the Company had committed to total future capital expenditures amounting to $331 million and operating expenditures relating to supplier purchase obligations, such as locomotive maintenance and overhaul agreements, as well as agreements to purchase other goods and services amounting to approximately $1.6 billion for the years 2013-2031.

Minimum payments under operating leases were estimated at $682 million in aggregate, with annual payments in each of the five years following 2012 of (in millions): 2013 – $127; 2014 – $103; 2015 – $88; 2016 – $69; 2017 – $52.

Expenses for operating leases for the year ended December 31, 2012 was $182 million (2011 – $161 million; 2010 – $169 million).

27 Guarantees

In the normal course of operating the railway, the Company enters into contractual arrangements that involve providing certain guarantees, which extend over the term of the contracts. These guarantees include, but are not limited to:

- residual value guarantees on operating lease commitments of $155 million at December 31, 2012;
- guarantees to pay other parties in the event of the occurrence of specified events, including damage to equipment, in relation to assets used in the operation of the railway through operating leases, rental agreements, easements, trackage and interline agreements; and
- indemnifications of certain tax-related payments incurred by lessors and lenders.

The maximum amount that could be payable under these guarantees, excluding residual value guarantees, cannot be reasonably estimated due to the nature of certain of these guarantees. All or a portion of amounts paid under guarantees to other parties in the event of the occurrence of specified events could be recoverable from other parties or through insurance. The Company has accrued for all guarantees that it expects to pay. At December 31, 2012, these accruals amounted to $6 million (2011 – $8 million), recorded in "Accounts payable and accrued liabilities".

Indemnifications

Pursuant to a trust and custodial services agreement with the trustee of the Canadian Pacific Railway Company Pension Plan ("fund"), the Company has undertaken to indemnify and save harmless the trustee, to the extent not paid by the fund, from any and all taxes, claims, liabilities, damages, costs and expenses arising out of the performance of the trustee's obligations under the agreement, except as a result of misconduct by the trustee. The indemnity includes liabilities, costs or expenses relating to any legal reporting or notification obligations of the trustee with respect to the defined contribution option of the pension plans or otherwise with respect to the assets of the pension plans that are not part of the fund. The indemnity survives the termination or expiry of the agreement with respect to claims and liabilities arising prior to the termination or expiry. At December 31, 2012, the Company had not recorded a liability associated with this indemnification, as it does not expect to make any payments pertaining to it.

Table of Contents

28 Management transition

On May 17, 2012, following a proxy contest, Mr. Fred Green left his position as President and Chief Executive Officer of the Company. That same day, Mr. Stephen Tobias, a new Board member elected at the Company's annual shareholders meeting held on May 17, 2012, was appointed by the Board as Interim Chief Executive Officer and served in that role until June 28, 2012.

On June 28, 2012, Mr. E. Hunter Harrison was appointed by the Board as President and Chief Executive Officer. As a result of the appointment of Mr. Harrison, the Company recorded a charge of $38 million with respect to compensation and other transition costs, including $2 million of associated costs, in the second quarter of 2012. This charge was recorded in the Company's financial statements in "Compensation and benefits" and "Purchased services and other", in the amounts of $16 million and $22 million, respectively.

Included in this charge were amounts totalling $16 million in respect of deferred retirement compensation for Mr. Harrison and $20 million to Pershing Square Capital Management, L.P. ("Pershing Square") and related entities. Pershing Square and related entities own or control approximately 14% of the Company's outstanding shares, and two Board members, Mr. William Ackman and Mr. Paul Hilal, are partners of Pershing Square. The amount payable to Pershing Square and related entities was to reimburse them, on behalf of Mr. Harrison, for certain amounts they had previously paid to or incurred on behalf of Mr. Harrison pursuant to an indemnity in favour of Mr. Harrison in connection with losses suffered in legal proceedings commenced against Mr. Harrison by his former employer. The terms of Pershing Square's indemnity required Mr. Harrison to return any funds advanced under the indemnity in the event he accepted employment at CP. As a result, Mr. Harrison made it a precondition of accepting the Company's offer of employment that CP assume the indemnity obligations and return the funds advanced by Pershing Square. As a result of the payment, the Company would have been entitled to enforce Mr. Harrison's rights in the aforementioned legal proceedings, allowing it to recover to the extent of Mr. Harrison's success in those proceedings; however on February 3, 2013 the Company and Mr. Harrison settled the legal proceedings with Mr. Harrison's former employer, providing the Company with partial recovery (US$9 million) of the amounts in the dispute. The Company may receive repayment in other circumstances in the event of certain breaches by Mr. Harrison of his obligations under an employment agreement with the Company. Mr. Harrison was also granted stock options and DSUs upon commencing employment that had a grant date fair value of $12 million (see Note 24).

In addition, the Company agreed to indemnify Mr. Harrison for certain other amounts, to a maximum of $3 million plus legal fees, but as a result of the settlement of the aforementioned legal proceedings, such indemnity is no longer applicable. Accordingly, no amount has been accrued at December 31, 2012.

The Company also recorded a charge of $4 million in the second quarter of 2012 with respect to a retirement allowance for Mr. Green.

On February 5, 2013, as part of its long-term succession plan, the Company appointed Mr. Keith Creel as President and Chief Operating Officer. In connection with this appointment, Mr. Harrison's title changed to Chief Executive Officer.

29 Segmented information

Operating segment

The Company operates in only one operating segment: rail transportation. Operating results by geographic areas, railway corridors or other lower level components or units of operation are not reviewed by the Company's chief operating decision maker to make decisions about the allocation of resources to, or the assessment of performance of, such geographic areas, corridors, components or units of operation.

In 2012, 2011 and 2010, no one customer comprised more than 10% of total revenues and accounts receivable.

Geographic information

(in millions of Canadian dollars)	Canada	United States	Total
2012			
Revenues	**$ 4,095**	**$ 1,600**	**$ 5,695**
Long-term assets excluding financial instruments, mortgages receivable and deferred tax assets	**$ 9,138**	**$ 4,249**	**$ 13,387**
2011			
Revenues	$ 3,766	$ 1,411	$ 5,177
Long-term assets excluding financial instruments, mortgages receivable and deferred tax assets	$ 8,854	$ 4,309	$ 13,163
2010			
Revenues	$ 3,635	$ 1,346	$ 4,981
Long-term assets excluding financial instruments, mortgages receivable and deferred tax assets	$ 8,458	$ 4,013	$ 12,471

Table of Contents

FIVE-YEAR SUMMARY

Year ended December 31 (in millions of Canadian dollars, except percentages and per share data)	U.S. GAAP 2012	2011	2010	2009	2008[(1)]
Revenues					
Freight					
Grain	**$ 1,172**	$ 1,100	$ 1,135	$ 1,137	$ 977
Coal	**602**	556	491	444	612
Sulphur and fertilizers	**520**	549	475	309	512
Forest products	**193**	189	185	176	241
Industrial and consumer products	**1,268**	1,017	903	786	772
Automotive	**425**	338	316	230	326
Intermodal	**1,370**	1,303	1,348	1,198	1,482
	5,550	5,052	4,853	4,280	4,922
Other	**145**	125	128	122	127
Total revenues	**5,695**	5,177	4,981	4,402	5,049
Operating expenses					
Compensation and benefits	**1,506**	1,426	1,431	1,307	1,290
Fuel	**999**	968	728	580	1,006
Materials	**238**	243	214	217	258
Equipment rents	**206**	209	206	226	219
Depreciation and amortization	**539**	490	489	483	428
Purchased services and other	**940**	874	797	783	809
Gain on sales of significant properties	**–**	–	–	(79)	–
Loss on termination of lease with shortline railway	**–**	–	–	55	–
Asset impairment	**265**	–	–	–	–
Labour restructuring	**53**	–	–	–	–
Total operating expenses	**4,746**	4,210	3,865	3,572	4,010
Operating income	**949**	967	1,116	830	1,039
Gain on sale of partnership interest	**–**	–	–	81	–
Equity income (net of tax) in Dakota, Minnesota & Eastern Railroad Corporation (DM&E)	**–**	–	–	–	51
Less:					
Other (income) and charges	**37**	18	(12)	12	72
Net interest expense	**276**	252	257	268	240
Income before income tax expense	**636**	697	871	631	778
Income tax expense	**152**	127	220	81	150
Net income	**$ 484**	$ 570	$ 651	$ 550	$ 628
Earnings per share					
Basic earnings per share	**$ 2.82**	$ 3.37	$ 3.86	$ 3.31	$ 4.08
Diluted earnings per share	**$ 2.79**	$ 3.34	$ 3.85	$ 3.30	$ 4.04
Operating ratio	**83.3%**	81.3%	77.6%	81.1%	79.4%

(1) The 2008 figures include the results of the DM&E on an equity accounting basis through October 29, 2008 and on a consolidated basis after that date.

Table of Contents

FIVE-YEAR SUMMARY

Additional information

The following table identifies certain significant items within our income statements in each of the years 2008 to 2012(1).

(in millions of Canadian dollars, except per share data)	2012	2011	2010	2009	2008
Asset impairment	$ (265)	$ –	$ –	$ –	$ –
Tax impact recovery	95	–	–	–	–
Asset impairment (net of tax)	$ (170)	$ –	$ –	$ –	$ –
Impact on diluted earnings per share	$ (0.98)	$ –	$ –	$ –	$ –
Labour restructuring	$ (53)	$ –	$ –	$ –	$ –
Tax impact recovery	14	–	–	–	–
Labour restructuring (net of tax)	$ (39)	$ –	$ –	$ –	$ –
Impact on diluted earnings per share	$ (0.22)	$ –	$ –	$ –	$ –
Management transition costs	$ (42)	$ –	$ –	$ –	$ –
Tax impact recovery	13	–	–	–	–
Management transition costs (net of tax)	$ (29)	$ –	$ –	$ –	$ –
Impact on diluted earnings per share	$ (0.17)	$ –	$ –	$ –	$ –
Gain on sale of partnership interest	$ –	$ –	$ –	$ 81	$ –
Tax impact (expense)	–	–	–	(12)	–
Gain on sale of partnership interest (net of tax)	$ –	$ –	$ –	$ 69	$ –
Impact on diluted earnings per share	$ –	$ –	$ –	$ 0.41	$ –
Gain on sales of significant properties	$ –	$ –	$ –	$ 79	$ –
Tax impact (expense)	–	–	–	(11)	–
Gain on sale of significant properties (net of tax)	$ –	$ –	$ –	$ 68	$ –
Impact on diluted earnings per share	$ –	$ –	$ –	$ 0.41	$ –
Loss on termination of lease with shortline railway	$ –	$ –	$ –	$ (55)	$ –
Tax impact recovery	–	–	–	17	–
Loss on termination of lease with shortline railway (net of tax)	$ –	$ –	$ –	$ (38)	$ –
Impact on diluted earnings per share	$ –	$ –	$ –	$ (0.23)	$ –
Advisory costs related to shareholder matters	$ (27)	$ (6)	$ –	$ –	$ –
Tax impact recovery	7	1	–	–	–
Advisory costs related to shareholder matters (net of tax)	$ (20)	$ (5)	$ –	$ –	$ –
Impact on diluted earnings per share	$ (0.12)	$ (0.03)	$ –	$ –	$ –
Income tax (expense) benefit resulting from rate changes and the resolution and settlement of certain matters related to prior years	$ (11)	$ 37	$ –	$ 56	$ –
Impact on diluted earnings per share	$ (0.06)	$ 0.22	$ –	$ 0.34	$ –
The above items increased (decreased) the following:					
Total operating expenses	$ 360	$ –	$ –	$ –	$ –
Operating income	$ (360)	$ –	$ –	$ –	$ –
Other income and charges	$ (27)	$ (6)	$ –	$ –	$ –
Net income	$ (269)	$ 32	$ –	$ 155	$ –
Diluted earnings per share	$ (1.55)	$ 0.19	$ –	$ 0.93	$ –

(1) Significant items are discussed further in the Management's Discussion and Analysis, Section 15 Non-GAAP Measures.

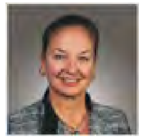
Table of Contents

Guido DeCiccio Senior Vice-President Canadian Operations
Doug McFarlane Senior Vice-President U.S. Operations
E. Hunter Harrison Chief Executive Officer
Keith Creel President and Chief Operating Officer
Scott MacDonald Senior Vice-President System

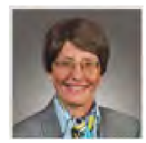
Table of Contents

CANADIAN PACIFIC BOARD OF DIRECTORS

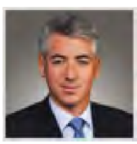
Paul G. Haggis
Chairman
Canadian Pacific Railway Limited
Canmore, Alberta



Krystyna T. Hoeg, C.A. (2)*(4)
Former President
and Chief Executive Officer
Corby Distilleries Limited
Toronto, Ontario

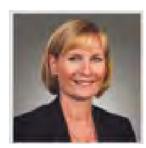


Linda J. Morgan (1)(5)
Partner
Nossaman LLP
Bethesda, Maryland



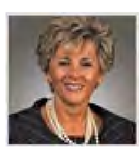
William A. Ackman (2)(3)
Founder, Chief Executive Officer
Pershing Square Capital
Management, L.P.
New York, New York

Richard C. Kelly (1)*(3)
Retired Chairman
and Chief Executive Officer
Xcel Energy, Inc.
Denver, Colorado



Madeleine Paquin (2)(5)
President
and Chief Executive Officer
Logistec Corporation
Montreal, Quebec

Gary F. Colter (1)(4)
President
CRS Inc.
Mississauga, Ontario

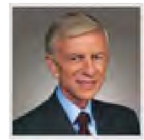


Rebecca MacDonald (2)(4)
Founder, Executive Chair
Just Energy Group Inc.
Toronto, Ontario

Hartley T. Richardson, C.M., O.M. (1)(5)
President and Chief Executive Officer James
Richardson & Sons, Limited
Winnipeg, Manitoba

E. Hunter Harrison (5)
Chief Executive Officer
Canadian Pacific Railway Limited
Wellington, Florida

The Honourable
John P. Manley, O.C. (1)(3)
President and Chief Executive Officer
Canadian Council of Chief Executives Ottawa,
Ontario



Stephen C. Tobias (2)(4)(5)*
Former Vice-Chairman
and Chief Operating Officer
Norfolk Southern Corporation
Garnett, South Carolina

Paul C. Hilal (3)(4)*
Partner
Pershing Square Capital
Management, L.P.
New York, New York

Dr. Anthony R. Melman (3)*(5)
President and Chief Executive Officer Acasta
Capital
Toronto, Ontario

(1) Audit Committee
(2) Corporate Governance and Nominating Committee
(3) Finance Committee
(4) Management Resources and Compensation Committee
(5) Safety, Operations and Environment Committee
* Denotes Chair of the Committee

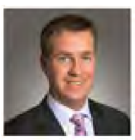
Table of Contents

CANADIAN PACIFIC EXECUTIVE LEADERSHIP

E. Hunter Harrison (1)
Chief Executive Officer
Wellington, Florida

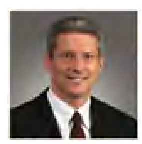
Peter J. Edwards (1)
Vice-President, Human Resources
and Industrial Relations
Calgary, Alberta

Jeffrey D. Kampsen
Vice-President and Comptroller
Calgary, Alberta

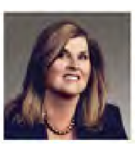


Keith Creel (1)
President and Chief Operating Officer
Chicago, Illinois

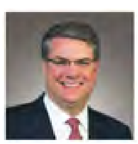
Paul A. Guthrie, Q.C. (1)
Chief Legal Officer
and Corporate Secretary
Municipal District of Rocky View, Alberta



Scott MacDonald (1)
Senior Vice-President System
Calgary, Alberta

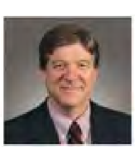


Jane O'Hagan (1)
Executive Vice-President
and Chief Marketing Officer
Calgary, Alberta



Mark Wallace (1)
Vice-President, Corporate Affairs
and Chief of Staff
Calgary, Alberta

Doug McFarlane (1)
Senior Vice-President
U.S. Operations
Minneapolis, Minnesota



Brian W. Grassby (1)
Senior Vice-President,
Chief Financial Officer and Treasurer
Calgary, Alberta

Michael Redeker (1)
Vice-President
and Chief Information Officer
St. Albert, Alberta

Guido De Ciccio (1)
Senior Vice-President
Canadian Operations
Calgary, Alberta

(1) Executive Committee of Canadian Pacific Railway Company

Table of Contents

SHAREHOLDER INFORMATION

Common Share Market Prices

Toronto Stock Exchange

(Canadian dollars)	2012 High	2012 Low	2011 High	2011 Low
First Quarter	**79.29**	**67.99**	69.48	61.04
Second Quarter	**77.89**	**71.61**	63.66	57.09
Third Quarter	**85.66**	**72.66**	61.58	46.01
Fourth Quarter	**101.81**	**81.29**	69.45	47.58
Year	**101.81**	**67.99**	69.48	46.01

New York Stock Exchange

(U.S. dollars)	2012 High	2012 Low	2011 High	2011 Low
First Quarter	**79.91**	**66.23**	69.92	61.97
Second Quarter	**79.00**	**68.69**	66.98	58.13
Third Quarter	**88.23**	**71.22**	64.78	44.76
Fourth Quarter	**102.80**	**82.75**	68.12	44.98
Year	102.80	66.23	69.92	44.76

Number of registered shareholders at year end: 16,033

Closing market prices at year end:

Toronto Stock Exchange:	$100.90 (CDN)
New York Stock Exchange:	$101.62 (US)

Shareholder Administration

Common Shares

Computershare Investor Services Inc., with transfer facilities in Montreal, Toronto, Calgary and Vancouver, serves as transfer agent and registrar for the Common Shares in Canada. Computershare Trust Company NA, Denver, Colorado, serves as co-transfer agent and co-registrar for the Common Shares in the United States.

For information concerning dividends, lost share certificates, estate transfers or for change in share registration or address, please contact the transfer agent and registrar by telephone at 1-877-4-CP-RAIL (1-877-427-7245) toll free North America or International (514) 982-7555, visit their website at www.investorcentre.com/cp; or write to:

Computershare Investor Services Inc.

100 University Avenue, 9th Floor
Toronto, Ontario Canada M5J 2Y1

Information Regarding Direct Registration

The Direct Registration System, or DRS, allows registered holders to hold securities in “book entry” form without having a physical certificate issued as evidence of ownership. Instead, securities are held in the name of the registered holder and registered electronically on the issuer’s records maintained by the issuer’s transfer agent. If you are a registered holder of shares and wish to hold your shares using the DRS, please contact the transfer agent at the phone number or address shown above; or for more information about direct registration, log on to Computershare’s website at www.investorcentre.com/ cp and click on “Got a question? Ask Penny”.

Direct Deposit of Dividends

Registered shareholders are offered the option of having their Canadian and U.S. dollar dividends directly deposited into their personal bank accounts in Canada and the United States on the dividend payment dates. Shareholders can enroll for direct deposit either by phone or by completing a direct deposit enrolment form. For more information about direct deposit, please contact Computershare Investor Services Inc. at 1-877-4-CP-RAIL (1-877-427-7245).

Table of Contents

4% Consolidated Debenture Stock

Inquiries with respect to Canadian Pacific Railway Company's 4% Consolidated Debenture Stock should be directed as follows:

For stock denominated in U.S. currency—

The Bank of New York Mellon at (212) 815-2719 or by email at lesley.daley@bnymellon.com; and

For stock denominated in pounds sterling—

BNY Trust Company of Canada at (416) 933-8504 or by email at marcia.redway@bnymellon.com.

Market for Securities

The Common Shares of Canadian Pacific Railway Limited are listed on the Toronto and New York stock exchanges. The Debenture Stock of Canadian Pacific Railway Company is listed on the London Stock Exchange (UK pounds sterling) and on the New York Stock Exchange (U.S. currency).

Trading Symbol

Common Shares—CP

Duplicate Annual Reports

While every effort is made to avoid duplication, some Canadian Pacific Railway Limited registered shareholders may receive multiple copies of shareholder information mailings such as this Annual Report. Registered shareholders who wish to consolidate any duplicate accounts that are registered in the same name are requested to write to Computershare Investor Services Inc.

Corporate Governance

Canadian Pacific's Board of Directors and its management are committed to a high standard of corporate governance. They believe effective corporate governance calls for the establishment of processes and structures that contribute to the sound direction and management of the Corporation's business, with a view to enhancing shareholder value.

A detailed description of CP's approach to corporate governance is contained in its Management Proxy Circular issued in connection with the 2013 Annual Meeting of Shareholders.

Governance Standards

Any significant differences between the Corporation's corporate governance practices and those set forth in the corporate governance listing standards ("Listing Standards") of the New York Stock Exchange ("NYSE") are set forth on Canadian Pacific Railway Limited's website at www.cpr.ca under "About CP"—"Executive Leadership & Governance".

Chief Executive Officer and Chief Financial Officer Certifications

The certifications (the "302 Certifications") of the Chief Executive Officer and Chief Financial Officer of each of Canadian Pacific Railway Limited and Canadian Pacific Railway Company required by Section 302 of the *Sarbanes-Oxley Act of 2002* and the rules promulgated by the Securities and Exchange Commission ("SEC") thereunder, have been filed with the SEC as an exhibit to the Annual Report of Canadian Pacific Railway Limited and Canadian Pacific Railway Company on Form 40-F. The 302 Certifications have also been filed in fulfillment of the requirements of National Instrument 52-109.

2013 Annual Meeting

The Annual Meeting of Shareholders will be held on Wednesday, May 1, 2013, in Toronto, Ontario.

Shareholder Services

Shareholders having inquiries or wishing to obtain copies of the Corporation's Annual Information Form may contact Shareholder Services at 1-866-861-4289 or (403) 319-7538, or by email at shareholder@cpr.ca, or by writing to:

Shareholder Services, Office of the Corporate Secretary, Canadian Pacific, Suite 920, Gulf Canada Square, 401—9th Avenue S.W., Calgary, Alberta, Canada T2P 4Z4.

Investor Information

Financial information is available under the "Invest in CP" section on CP's website at www.cpr.ca.

Communications and Public Affairs

Contact Communications and Public Affairs, Canadian Pacific, Suite 500, Gulf Canada Square, 401—9th Avenue S.W., Calgary, Alberta, Canada, T2P 4Z4. community_connect@cpr.ca.

Table of Contents

CANADIAN PACIFIC

Canadian Pacific
Gulf Canada Square
401 9 Ave SW—Suite 500
Calgary, AB T2P 4Z4
Canada

EXHIBIT
G

40-F 1 d642275d40f.htm 40-F

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2013

CANADIAN PACIFIC RAILWAY LIMITED
(Commission File No. 1-01342)

CANADIAN PACIFIC RAILWAY COMPANY
(Commission File No. 1-15272)

(Exact name of Registrant as specified in its charter)

CANADA	4011	98-0355078 (Canadian Pacific Railway Limited) 98-0001377 (Canadian Pacific Railway Company)
(Province or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

7550 Ogden Dale Road S.E., Calgary, Alberta, Canada, T2C 4X9
(403) 319-7000
(Address and telephone number of Registrant's principal executive offices)

CT Corporation System, 111 Eighth Avenue, New York, New York 10011, (212) 894-8940
(Name, address (including zip code) and telephone number (including area code) of Agent for Service of Registrant in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, without par value, of Canadian Pacific Railway Limited	**New York Stock Exchange**
Common Share Purchase Rights of Canadian Pacific Railway Limited	**New York Stock Exchange**
Perpetual 4% Consolidated Debenture Stock of Canadian Pacific Railway Company	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Table of Contents

For annual reports, indicate by check mark the information filed with this form:

☒ Annual information form ☒ Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

At December 31, 2013, 175,451,268 Common Shares of Canadian Pacific Railway Limited ("CPRL") were issued and outstanding. At December 31, 2013, 347,170,009 Ordinary Shares of Canadian Pacific Railway Company ("CPRC") were issued and outstanding. All of the ordinary shares of CPRC are held by CPRL.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES ☒ NO ☐

Table of Contents

PRIOR FILINGS MODIFIED AND SUPERSEDED

The Registrants' Annual Report on Form 40-F for the year ended December 31, 2013, at the time of filing with the Securities and Exchange Commission (the "Commission"), modifies and supersedes all prior documents filed pursuant to Sections 13 and 15(d) of the Exchange Act for purposes of any offers or sales of any securities after the date of such filing pursuant to any Registration Statement under the Securities Act of 1933 of either Registrant which incorporates by reference such Annual Report, including without limitation the following: Form S-8 No. 333-13962 (Canadian Pacific Railway Limited); Form S-8 No. 333-127943 (Canadian Pacific Railway Limited); Form S-8 No. 333-140955 (Canadian Pacific Railway Limited); Form S-8 No. 333-183891 (Canadian Pacific Railway Limited); Form S-8 No. 333-183892 (Canadian Pacific Railway Limited); Form S-8 No. 333-183893 (Canadian Pacific Railway Limited); Form S-8 No. 333-188826 (Canadian Pacific Railway Limited); and Form S-8 No. 333-188827 (Canadian Pacific Railway Limited).

In addition, this Annual Report on Form 40-F is incorporated by reference into or as an exhibit to, as applicable, the Registration Statement on Form F-10 No. 333-189815 (Canadian Pacific Railway Company), and the Registration Statement on Form F-10 No. 333-190229 (Canadian Pacific Railway Limited).

ANNUAL INFORMATION FORM, CONSOLIDATED AUDITED ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

A. Annual Information Form

For the Annual Information Form of CPRL for the year ended December 31, 2013, see Table of Contents and pages 1 through 42 of CPRL's 2013 Annual Information Form incorporated by reference and included herein.

B. Audited Annual Financial Statements

For audited consolidated financial statements (U.S. GAAP), including the reports of the independent registered public accounting firm with respect thereto, see pages 78 through 120 of CPRL's 2013 Annual Report incorporated by reference and included herein.

C. Management's Discussion and Analysis

For management's discussion and analysis, see pages 26 through 77 of CPRL's 2013 Annual Report incorporated by reference and included herein.

For the purposes of this Annual Report on Form 40-F, only pages 26 through 120 of CPRL's 2013 Annual Report referred to above shall be deemed filed, and the balance of such 2013 Annual Report, except as it may be otherwise specifically incorporated by reference in CPRL's Annual Information Form, shall be deemed not filed with the Securities and Exchange Commission as part of this Annual Report on Form 40-F under the Exchange Act.

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2013, an evaluation was carried out under the supervision of and with the participation of the Registrants' management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Registrants' disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of December 31, 2013, to ensure that information required to be disclosed by the Registrants in reports that they file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Commission rules and forms and (ii) accumulated and communicated to the Registrants' management, including their Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

It should be noted that while the Registrants' Chief Executive Officer and Chief Financial Officer believe that the Registrants' disclosure controls and procedures and internal control over financial reporting provide

Table of Contents

a reasonable level of assurance that they are effective, they do not expect that the Registrants' disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

For management's report on internal control over financial reporting, see page 79 of the Registrant's 2013 Annual Report, incorporated by reference and included herein.

ATTESTATION REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The effectiveness of the Registrants' internal control over financial reporting as of December 31, 2013 has been audited by Deloitte LLP, Independent Registered Public Accounting Firm, as stated in their report on pages 80 through 81 of the Registrant's 2013 Annual Report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the period covered by this Annual Report on Form 40-F, no changes occurred in the Registrants' internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

NOTICES PURSUANT TO REGULATION BTR

None.

CODE OF ETHICS

The Registrants' Code of Business Ethics specifically addresses, among other things, conflicts of interest, protection and proper use of corporate assets and opportunities, confidentiality of corporate information, fair dealing with third parties, compliance with laws, rules and regulations and reporting of illegal or unethical behavior. The Code applies to all directors, officers and employees, both unionized and non-unionized, of the Registrants and their subsidiaries in Canada, the U.S. and elsewhere, and forms part of the terms and conditions of employment of all such individuals. All members of the board of directors of the Registrants have signed acknowledgements that they have read, understood and agree to comply with the Code, and they annually confirm compliance. Annually, officers and non-union employees are required to acknowledge that they have read, understood and agree to comply with the Code. Contractors engaged on behalf of the Registrants or their subsidiaries must undertake, as a condition of their engagement, to adhere to principles and standards of business conduct consistent with those set forth in the Code. The Code is available on the Registrants' web site at www.cpr.ca and in print to any shareholder who requests it. All amendments to the Code, and all waivers of the Code with respect to any director or executive officer of the Registrants, will be posted on the Registrants' web site and provided in print to any shareholder who requests them.

In addition, the Registrants have adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers. This code applies to the Registrants' Chief Executive Officer, Chief Financial Officer and Comptroller. It is available on the Registrants' web site at www.cpr.ca and in print to any shareholder who requests it. All amendments to the code, and all waivers of the code with respect to any of the officers covered by it, will be posted on the Registrants' web site and provided in print to any shareholder who requests them.

Table of Contents

CORPORATE GOVERNANCE PRINCIPLES AND GUIDELINES

The Registrants have adopted their Corporate Governance Principles and Guidelines which pertain to such matters as, but are not limited to: director qualification standards and responsibilities; election of directors; discretionary term limits for service as board or board committee chairs; access by directors to management and independent advisors; director compensation; director retirement age; director orientation and continuing education; management succession; and annual performance evaluations of the board, including its committees and individual directors, and of the Chief Executive Officer. The Corporate Governance Principles and Guidelines are available on the Registrants' web site at www.cpr.ca and in print to any shareholder who requests them.

COMMITTEE TERMS OF REFERENCE

The terms of reference of each of the following committees of the Registrants are available on the Registrants' web site at www.cpr.ca and in print to any shareholder who requests them: the Audit Committee; the Corporate Governance and Nominating Committee; the Finance Committee; the Management Resources and Compensation Committee; and the Safety, Operations and Environment Committee.

DIRECTOR INDEPENDENCE

The boards of the Registrants have adopted standards for director independence: (a) prescribed by Section 10A(m)(3) of the Exchange Act and Rule 10A-3(b)(1) promulgated thereunder and National Instrument 52-110 for members of public company audit committees; and (b) set forth in the NYSE Listed Company Manual (the "NYSE Standards"), the Canadian corporate governance standards set forth in National Instrument 58-101 and National Instrument 52-110 in respect of public company directors. The boards also conducted a comprehensive assessment of each of their members as against these standards and determined that all current directors, except Mr. Harrison, have no material relationship with the Registrants and are independent. Mr. Harrison is not independent by virtue of the fact that he is the Chief Executive Officer of the Registrants.

EXECUTIVE SESSIONS OF NON-MANAGEMENT DIRECTORS

The independent directors met in executive sessions without management present at the regular and special meetings of the board of directors of CPRL and its standing committees in 2013. In fact, each regularly scheduled meeting's agenda included one or more such sessions at the beginning and end of the meeting.

Interested parties may communicate directly with Mr. P.G. Haggis, the chair of the boards of the Registrants, who presided at such executive sessions, by writing to him at the following address, and all communications received at this address will be forwarded to him:

Office of the Corporate Secretary
Canadian Pacific Railway
7550 Ogden Dale Road S.E., Calgary, Alberta
Canada, T2C 4X9

Table of Contents

IDENTIFICATION OF AUDIT COMMITTEE AND AUDIT COMMITTEE FINANCIAL EXPERT

The following individuals comprise the current membership of the Registrants' Audit Committees ("Audit Committees"), which have been established in accordance with Section 3(a)(58)(A) of the Exchange Act:

Gary F. Colter
Richard C. Kelly
Isabelle Courville
Linda J. Morgan

Each of the aforementioned directors, with the exception of Ms. Morgan, has been determined by the boards of the Registrants to meet the audit committee financial expert criteria prescribed by the Securities and Exchange Commission and has been designated as an audit committee financial expert for the Audit Committees of the boards of both Registrants. Each of the aforementioned directors has been determined by the boards of the Registrants to be independent within the criteria referred to above under the subheading "Director Independence", including the NYSE Standards.

FINANCIAL LITERACY OF AUDIT COMMITTEE MEMBERS

The boards of the Registrants have determined that all members of the Audit Committees have "accounting or related financial management expertise" within the meaning of the NYSE Standards. The boards have determined that all members of the Audit Committees are financially literate within the definition contained in, and as required by, National Instrument 52-110 and the NYSE Standards.

SERVICE ON OTHER PUBLIC COMPANY AUDIT COMMITTEES

Each Registrant's board has determined that no director who serves on more than two public company audit committees in addition to its own Audit Committee shall be eligible to serve as a member of the Audit Committee of that Registrant, unless that Registrant's board determines that such simultaneous service would not impair the ability of such member to effectively serve on that Registrant's Audit Committee. For purposes of calculating the aggregate number of public company audit committees on which a director serves, each Registrant is counted as a separate public company.

Mr. Colter serves on two public company audit committees in addition to CP's Audit Committees. The Corporation's Board has determined that, in light of his background and expertise, the service of Mr. Colter on the audit committees of two public companies in addition to its own Audit Committee (and that of CPRC) does not impair his ability to effectively serve on its own Audit Committee (and that of CPRC). The following factor was also taken into account by the Board in making such determination: CPRC is a wholly-owned subsidiary of the Corporation and the latter carries on no business operations and has no assets or liabilities of more than nominal value beyond its 100% shareholding in CPRC and, as a result, the workload of the Corporation's Audit Committee and that of CPRC is essentially equivalent to the workload of one public company audit committee.

No members of the Audit Committees of the Registrants serve on more than two public company audit committees in addition to the Audit Committee of each Registrant.

Table of Contents

PRINICIPAL ACCOUNTANT FEES AND SERVICES

In accordance with applicable laws and the requirements of stock exchanges and securities regulatory authorities, the Audit Committee must pre-approve all audit and non-audit services to be provided by the independent auditors. Fees payable to Deloitte LLP for the years ended December 31, 2013, and December 31, 2012, totalled $2,213,000 and $2,166,100, respectively, as detailed in the following table:

For the year ended December 31	Total 2013 ($)	Total 2012 ($)
Audit Fees	**1,943,000**	2,090,300
Audit-Related Fees	**228,500**	27,500
Tax Fees	**41,500**	48,300
All Other Fees	**—**	—
TOTAL	**2,213,000**	2,166,100

The nature of the services provided under each of the categories indicated in the table is described below.

Audit Fees

Audit fees were for professional services rendered for the audit and interim reviews of the Registrants' annual and interim financial statements respectively and services provided in connection with statutory and regulatory filings or engagements, including the attestation engagement for the report from the independent registered public accounting firm on the effectiveness of internal controls over financial reporting, the audit or interim reviews of financial statements of certain subsidiaries and of various pension and benefits plans of the Registrants; special attestation services as may be required by various government entities; access fees for technical accounting database resources and general advice and assistance related to accounting and/or disclosure matters with respect to new and proposed U.S. and Canadian accounting standards, securities regulations, and/or laws.

Audit-Related Fees

Audit-related fees were for attestation and related services reasonably related to the performance of the audit or review of the annual financial statements, but which are not reported under "Audit Fees" above. These services consisted of audit work related to securities filings.

Tax Fees

Tax fees were for professional services related to tax compliance, tax planning and tax advice. These services consisted of: tax compliance including the review of tax returns; assistance with questions regarding corporate tax audits; tax planning and advisory services relating to common forms of domestic and international taxation (i.e. income tax, capital tax, goods and services tax, and value added tax); and access fees for taxation database resources.

All Other Fees

Fees disclosed under this category would be for products and services other than those described under "Audit Fees", "Audit-Related Fees" and "Tax Fees" above. There were no such services in 2013 or 2012.

Table of Contents

PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES PROVIDED BY INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of each Registrant has adopted a written policy governing the pre-approval of audit and non-audit services to be provided to the Registrants by their independent registered public accounting firm. The policy is reviewed annually and the audit and non-audit services to be provided by their independent registered public accounting firm, as well as the budgeted amounts for such services, are pre-approved at that time, including by the board of directors of the Registrant in respect of fees for audit services. The Comptroller of the Registrants must submit to the Audit Committee at least quarterly a report of all services performed or to be performed by the independent registered public accounting firm pursuant to the policy. Any additional non-audit services to be provided by the independent registered public accounting firm either not included among the pre-approved services or exceeding the budgeted amount for such pre-approved services by more than 10% must be individually pre-approved by the Audit Committee or its Chairman, who must report all such additional pre-approvals to the Audit Committee at its next meeting following the granting thereof. The independent registered public accounting firm's annual audit services engagement terms are subject to the specific pre-approval of the Audit Committee, with the associated fees being subject to approval by the board of directors of the Registrant. In addition, prior to the granting of any pre-approval, the Audit Committee or its Chairman, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of the independent registered public accounting firm. The Chief Internal Auditor for the Registrants monitors compliance with this policy.

OFF-BALANCE SHEET ARRANGEMENTS

A description of the Registrants' off-balance sheet arrangements is set forth on page 63 of the Registrants' 2013 Annual Report incorporated by reference and included herein.

TABLE OF CONTRACTUAL COMMITMENTS

The table setting forth the Registrants' contractual commitments is set forth on pages 63 through 64 of the Registrants' 2013 Annual Report incorporated by reference and included herein.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

Each Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

B. Consent to Service of Process

Each Registrant has previously filed a Form F-X in connection with the class of securities to which the obligation to file this report arises. Any change to the name or address of the agent for service of process of either Registrant shall be communicated promptly to the Commission by an amendment to the Form F-X referencing the file number of such Registrant.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Exchange Act, each Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this Annual Report on Form 40-F to be signed on its behalf by the undersigned, thereto duly authorized, in the City of Calgary, Province of Alberta, Canada.

CANADIAN PACIFIC RAILWAY LIMITED
CANADIAN PACIFIC RAILWAY COMPANY
(Registrants)

/s/ Paul A. Guthrie
Name: Paul A. Guthrie
Title: Corporate Secretary

Date: March 5, 2014

Table of Contents

EXHIBITS

99.1	Consent of Deloitte LLP, Independent Registered Public Accounting Firm.
99.2	Certification by the Chief Executive Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
99.3	Certification by Chief Financial Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
99.4	Certification by the Chief Executive Officer of the Registrants furnished pursuant to 18 U.S.C. Section 1350.
99.5	Certification by the Chief Financial Officer of the Registrants filed pursuant to 18 U.S.C. Section 1350.
101	Interactive Data File

Table of Contents

CP

ANNUAL INFORMATION FORM 2013

MARCH 5, 2014

Table of Contents

TABLE OF CONTENTS

Table of Contents

1. CORPORATE STRUCTURE

In this Annual Information Form ("AIF"), "our", "us", "we", "CP" and "the Company" refer to Canadian Pacific Railway Limited ("CPRL"), CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL's subsidiaries, as the context may require. All information in this AIF is stated as at December 31, 2013 and all financial statements were prepared in accordance with, United States generally accepted accounting principles ("GAAP") unless otherwise indicated. Except where otherwise indicated, all financial information and references to "dollar" or "$" reflected herein is expressed in Canadian dollars.

1.1 Name, Address and Incorporation Information

Canadian Pacific Railway Limited was incorporated on June 22, 2001, as 3913732 Canada Inc. pursuant to the *Canada Business Corporations Act* ("the CBCA"). On July 20, 2001, CP amended its Articles of Incorporation to change its name to Canadian Pacific Railway Limited. On October 1, 2001, Canadian Pacific Limited ("CPL") completed an arrangement ("the Arrangement") pursuant to 192 of the CBCA whereby it distributed to its common shareholders all of the shares of newly formed corporations holding the assets of four of CPL's five primary operating divisions. The transfer of Canadian Pacific Railway Company ("CPRC"), previously a wholly owned subsidiary of CPL, to CPRL was accomplished as part of a series of steps, pursuant to the terms of the Arrangement.

Our registered, executive and head office is located at 7550 Ogden Dale Road S.E., Calgary, Alberta T2C 4X9.

Table of Contents

2. INTERCORPORATE RELATIONSHIPS

2.1 Principal Subsidiaries

The table below sets out our principal subsidiaries, including the jurisdiction of incorporation and the percentage of voting and non-voting securities we currently own directly or indirectly:

Principal Subsidiary[(1)]	Incorporated under the Laws of	Percentage of Voting Securities Held Directly or Indirectly	Percentage of Non-Voting Securities Beneficially Owned, or over which Control or Direction is Exercised
Canadian Pacific Railway Company	Canada	100%	Not applicable
Soo Line Corporation[(2)]	Minnesota	100%	Not applicable
Soo Line Railroad Company[(3)]	Minnesota	100%	Not applicable
Dakota, Minnesota & Eastern Railroad Corporation[(4)]	Delaware	100%	Not applicable
Delaware and Hudson Railway Company, Inc.[(3)]	Delaware	100%	Not applicable
Mount Stephen Properties Inc.[(5)]	Canada	100%	Not applicable

(1) This table does not include all of our subsidiaries. The assets and revenues of unnamed subsidiaries did not exceed 10% of the total consolidated assets or total consolidated revenues of CP individually, or 20% of the total consolidated assets or total consolidated revenues of CP in aggregate.
(2) Indirect wholly owned subsidiary of Canadian Pacific Railway Company.
(3) Wholly owned subsidiary of Soo Line Corporation.
(4) Indirect wholly owned subsidiary of the Soo Line Corporation.
(5) Wholly owned subsidiary of Canadian Pacific Railway Company.

Table of Contents

3. GENERAL DEVELOPMENTS OF THE BUSINESS

3.1 Recent Developments

2013 Highlights

Effective February 5, 2013, Mr. Keith Creel was appointed as President and Chief Operating Officer as part of the Company's long-term succession plan. In connection to this appointment, Mr. E. Hunter Harrison remains Chief Executive Officer of the company. On November 29, 2013, we further announced the appointment of Mr. Bart W. Demosky as Executive Vice President and Chief Financial Officer effective December 28, 2013. Mr. Demosky replaced Mr. Brian Grassby, who retired from his role as Senior Vice President, Chief Financial Officer and Treasurer as announced on October 23, 2013. Mr. Grassby remained a key part of the senior management team until the end of 2013 to lead a successful transition.

During 2013, our focus to execute our operation plan helped CP make significant progress toward our strategies to continue to improve service reliability, increase the railway's efficiency and grow the business as outlined in our Investor Conference in New York on December 4-5, 2012. As a measurement of our profitable growth and costs control strategies, the Company expected our 2013 revenue growth in the high single digits and operating ratio in the low 70's. Our actual 2013 results were in line with our latest guidance.

At the 2012 Investor Conference noted above, the Company outlined plans to reduce approximately 4,500 employees and/or contractor positions from June 30, 2012 to 2016. The Company met this reduction target by the end of 2013 through job reductions, natural attrition and reducing the number of contractors.

As part of the key initiatives highlighted at the 2012 Investor Conference, we installed longer sidings in strategic locations across the network which helped improve our asset utilization and increase train length, weight and speed. The operational improvements from our longer sidings are evident in the longer train length and higher train weight throughout 2013 compared to the same periods of 2012. We also completed the construction of our new corporate headquarters at the Company owned Ogden Yard and will complete this transition by 2014.

Our year was not without its challenges as the Company experienced extensive network outages in June of this year due to historic flooding in Calgary and Southern Alberta that resulted in more than forty washouts over a four-day period. The significant outage negatively impacted our revenue growth by approximately $25 million.

In the beginning of 2014, the Company executed an agreement with Genesee & Wyoming Inc. for the sale of a portion of the DM&E line between Tracy, Minnesota and Rapid City, South Dakota, Colony, Wyoming and Crawford, Nebraska and connecting branch lines ("DM&E West") as part of our 2012 initiative to assess the opportunities with this 660-mile portion of DM&E. The sale is subject to regulatory approval by the U.S. Surface Transportation Board ("STB") and is expected to generate approximately US$215 million in gross proceeds, subject to closing adjustments. The Company recorded an asset impairment charge and accruals for future associated costs totaling $435 million ($257 million after tax) which impacted diluted earnings per share (“EPS”) by $1.46. For additional information on this sale, refer to Section 9, Operating Expenses of the 2013 Management Discussion and Analysis (“MD&A”) which is available on SEDAR at www.sedar.com in Canada, on EDGAR at www.sec.gov in the U.S. and on our website at www.cpr.ca.

2012 Highlights

During 2012, the Company experienced a number of noteworthy events summarized below:

Proxy Contest

In January 2012, Pershing Square Capital Management, L.P. (“Pershing Square”) launched a proxy contest in order to replace a minority of the Board of Directors of the Company (the “Board”) and to advocate for management change (the “Proxy Contest”). As a result of this contest, the Company incurred $27 million in advisory costs (“advisory costs associated with shareholder matters”) in the first six months of 2012 and a further $6 million was incurred in the fourth quarter of 2011. The proxy contest was settled in May 2012

Table of Contents

with changes described below in “Change in Board of Directors” and “Management transition”.

Change in Board of Directors

On May 17, 2012, following the Proxy Contest Messrs. John Cleghorn, Tim Faithfull, Fred Green, Edmond Harris, Michael Phelps and Roger Phillips advised the Company that they did not intend to stand for re-election to the Board.

At the Company’s annual shareholders meeting held on May 17, 2012, seven new directors were elected to the Board, namely Messrs. William Ackman, Gary Colter, Paul Haggis and Paul Hilal, Ms. Rebecca MacDonald, and Messrs. Anthony Melman and Stephen Tobias. In addition, Mr. Richard George, Ms. Krystyna Hoeg, Messrs. Tony Ingram and Richard Kelly, the Hon. John Manley, Mesdames Linda Morgan and Madeleine Paquin, and Messrs. David Raisbeck and Hartley Richardson were all re-elected to the Board at the May 17, 2012 meeting. Following the meeting, the new Board selected Ms. Paquin to serve as acting Chair of the Company. On June 4, 2012, Mr. Haggis was appointed Chairman of the Company’s Board.

Subsequent to the May 17, 2012 shareholders meeting, Messrs. Raisbeck, George and Ingram resigned from the Board on June 11, June 26 and July 5, 2012, respectively. In addition, effective July 6, 2012, Mr. E. Hunter Harrison was appointed to the Board.

As a result of the aforementioned changes to the composition of the Board, certain accelerated vesting provisions for certain grants under the Company’s management stock option incentive plan, performance share unit plan and deferred share unit plan were triggered effective June 26, 2012. The effect of such accelerated vesting on the Company’s second quarter financial statements was a credit to Compensation and benefits of $8 million and the recognition of a related liability under the accelerated vesting provisions of these plans of $31 million, which liability was settled in full in the third quarter of 2012.

Management transition

On May 17, 2012, following the Proxy Contest, Mr. Fred Green left his position as President and Chief Executive Officer of the Company. That same day, Mr. Stephen Tobias, a new Board member elected at the Company’s annual shareholders meeting held on May 17, 2012, was appointed by the Board as Interim Chief Executive Officer and served in that role until June 28, 2012. On June 28, 2012, Mr. E. Hunter Harrison was appointed by the Board as President and Chief Executive Officer. As a result of the appointment of Mr. Harrison, the Company recorded a charge of $38 million with respect to compensation and other transition costs, including $2 million of associated costs, in the second quarter of 2012. This charge was recorded in the Company’s financial statements in Compensation and benefits and Purchased services and other, in the amounts of $16 million and $22 million respectively.

Included in this charge were amounts totaling $16 million in respect of deferred retirement compensation for Mr. Harrison and $20 million to Pershing Square and related entities. Pershing Square and related entities owned or controlled approximately 14% of the Company’s outstanding shares as at December 31, 2012 and two Board members, Mr. William Ackman and Mr. Paul Hilal, are partners of Pershing Square.

The amount paid to Pershing Square and related entities was to reimburse them, on behalf of Mr. Harrison, for certain amounts they had previously paid to, or incurred on behalf of, Mr. Harrison pursuant to an indemnity in favour of Mr. Harrison in connection with losses suffered in legal proceedings commenced against Mr. Harrison by his former employer. The terms of Pershing Square's indemnity required Mr. Harrison to return any funds advanced under the indemnity in the event he accepted employment at CP. As a result, Mr. Harrison made it a precondition of accepting the Company's offer of employment that CP assumes the indemnity obligations and returns the funds advanced by Pershing Square. As a result of the payment, the Company would have been entitled to enforce Mr. Harrison's rights in the aforementioned legal proceedings, allowing the Company to recover to the extent of Mr. Harrison's success in those proceedings; however, on February 3, 2013, the Company and Mr. Harrison settled the legal proceedings with Mr. Harrison's former employer, providing the Company with partial recovery

4

Table of Contents

(US$9 million) of the amounts in dispute. The Company may receive repayment in other circumstances in the event of certain breaches by Mr. Harrison of his obligations under an employment agreement with the Company. In addition, the Company agreed to indemnify Mr. Harrison for certain other amounts sought for repayment by Mr. Harrison's former employer, to a maximum of $3 million plus legal fees, but as a result of the settlement of the aforementioned legal proceedings, such indemnity is no longer applicable.

The Company also recorded a charge of $4 million in the second quarter of 2012 with respect to a retirement allowance for Mr. Green.

Strike

On May 23, 2012, the Teamsters Canada Rail Conference Running Trade Employees ("TCRC-RTE") and the Rail Canada Traffic Controllers ("TCRC-RCTC"), representing 4,800 engineers, conductors and rail traffic controllers in Canada, commenced a strike that caused a nine-day Canadian work stoppage ("the strike"). Bill C-39, the Restoring Rail Service Act, was passed by the Parliament of Canada on May 31, 2012 and employees returned to work on June 1, 2012.

The strike caused a significant loss of revenue during the second quarter. Partly offsetting this revenue loss were cost savings in Compensation and benefits, Fuel, and Equipment rents. During the strike, we took the opportunity to advance track and other maintenance including mechanical and engineering work.

Once the unions returned to work the Company quickly re-established service and reset the network.

Investor Conference

At Canadian Pacific's Investor conference in New York on December 4-5, 2012, CP's Chief Executive Officer E. Hunter Harrison outlined the Company's plan for change to improve service, increase the railway's efficiency, lower cost and grow the business.

Under the leadership of new management, the second half of 2012 included a rapid change agenda where progress was made on this plan. Highlights of CP's evolution to a more competitive railway include:

- a new executive leadership team in place, including a new Senior Operations lead team, with a mandate for centralized planning and decentralized execution, that eliminates bureaucracy to make service decisions faster and closer to the customer;
- revamped intermodal and merchandise train services which provide faster transit times for customers, such as the new intermodal services connecting Vancouver to Chicago or Toronto;
- the closure of hump-switching yards in Toronto, Winnipeg, Calgary and Chicago which provides significant cost savings and more efficient operating practices;
- the closure of intermodal terminals in Milwaukee, Obico (Toronto), and Schiller Park (Chicago) which reduces CP's footprint and operating expenses while also facilitating

efficient operating practices and reduced end-to-end transit times;

- network design changes made after July 2012 allowed CP to reduce operating plan train miles by 39,000 per week, a 7 per cent improvement, and crew starts by approximately 30 per day, a 5 per cent improvement over previous designs from the first half of the year. Together, these design changes reduced annual operating costs, while increasing capacity; and
- a reduction of the Company's active locomotive fleet by more than 195 engines in the second half of 2012, with more than 460 locomotives now stored, returned or declared surplus year-to-date. Over the course of 2012, CP has provided return notification on 5,400 rail cars.

Asset impairment and labour restructuring charges

During the fourth quarter of 2012, the Company recorded a number of significant charges in part due to on-going efforts to improve the efficiency of the Company. These significant charges, included:

- $53 million labour restructuring charge ($39 million after tax), which unfavourably impacted diluted EPS by 22 cents;

Table of Contents

- $185 million impairment of Powder River Basin (“PRB”) and other investment ($111 million after tax), which unfavourably impacted diluted EPS by 64 cents; and
- $80 million asset impairment of certain locomotives ($59 million after tax), which unfavourably impacted diluted EPS by 34 cents.

2011 Highlights

The first half of 2011 was challenging, as CP experienced significant disruptions to its operations across our network. These disruptions were mainly due to unusually severe winter weather and the impact of subsequent flooding, in one case causing a mainline outage lasting for three weeks. These extraordinary conditions resulted in slower train speeds, reduced productivity and asset velocity and lower than expected volumes in the first half of the year. Our priority was to re-establish our reputation for service which underpins our price and growth plans.

In the second half of the year, we successfully reset our network. There was a strong focus on rebuilding our customer confidence, through improved service reliability. Despite these challenges, we were able to complete our planned capital program in 2011. Our continued work on building new sidings and extending our current ones to support our long-train strategy paid dividends; CP set a new full-year record in train weights in 2011. In addition, we set full year records in both terminal dwell and car miles per car day as a result of implementing our First Mile-Last Mile program in Canada. We expect further improvement as we continue to tighten standards in Canada and roll out the program in the U.S. We completed the second phase of our Locomotive Reliability Centre strategy, which reduced the number of major locomotive repair facilities from eight to four highly efficient super shops with improved repair capabilities. These improved efficiencies allow us to do more with less and to reduce our asset pools and associated costs.

CP has signed several commercial agreements with customers, terminal operators and ports that will drive improvements in supply chain performance. In early 2012, we announced a new five-year agreement with Canadian Tire Corporation, Limited and a ten-year agreement with Canpotex Limited. In addition, CP has worked with its customers, leveraging technology to enhance car request management and implementing new productivity tools. Our scheduled grain program has been successfully implemented in Canada and was further extended to the U.S. in August 2012. We are also developing new volumes of PRB coal for export off the west coast of British Columbia.

During 2011, we continued to strengthen our balance sheet in order to maintain financial flexibility and reduce volatility. We put our surplus cash to work in 2011 on our strategic network enhancements, supporting our capital plans. In addition, we:

- managed our overall indebtedness by repaying US$246 million of maturing 2011 debt and called US$101 million of 2013 debt;
- made a $600 million voluntary prepayment to our main Canadian defined benefit pension plan;
- financed our voluntary pension prepayment and new locomotives at very attractive interest rates; and

- delivered consistent dividend growth by increasing our quarterly dividend to common shareholders by 11%, from $0.27 to $0.30.

Table of Contents

4. DESCRIPTION OF THE BUSINESS

4.1 Our Background and Network

CPRC was incorporated by Letters Patent in 1881 pursuant to an Act of the Parliament of Canada. CPRC is one of Canada's oldest corporations. From our inception 133 years ago, we have developed into a fully integrated and technologically advanced Class I railway (a railroad earning a minimum of US$433.2 million in revenues annually as defined by the Surface Transportation Board in the U.S.) providing rail and intermodal freight transportation services over a 14,400-mile network serving the principal business centres of Canada, from Montreal to Vancouver, British Columbia ("B.C."), and the U.S. Midwest and Northeast regions.

We own approximately 10,600 miles of track. An additional 3,800 miles of track are owned jointly, leased or operated under trackage rights. Of the total mileage operated, approximately 6,000 miles are located in western Canada, 2,200 miles in eastern Canada, 5,100 miles in the U.S. Midwest and 1,100 miles in the U.S. Northeast. Our business is based on funnelling railway traffic from feeder lines and connectors, including secondary and branch lines, onto our high-density mainline railway network. We have extended our network reach by establishing alliances and connections with other major Class I railways in North America, which allow us to provide competitive services and access to markets across North America beyond our own rail network. We also provide service to markets in Europe and the Pacific Rim through direct access to the Port of Montreal and the Port Metro Vancouver in Vancouver, B.C., respectively.

Our network accesses the U.S. market directly through three wholly owned subsidiaries: Soo Line Railroad Company ("Soo Line"), a Class I railway operating in the U.S. Midwest; DM&E, a wholly owned subsidiary of the Soo Line, which operates in the U.S. Midwest; and the Delaware and Hudson Railway Company, Inc. ("D&H"), which operates between eastern Canada and major U.S. Northeast markets, including New York City, New York; Philadelphia, Pennsylvania; and Washington, D.C.

4.2 Strategy

CP is driving change as it moves through its transformational journey to become the best railroad in North America, while creating long-term value for shareholders. The Company is focused on providing customers with industry leading rail service; driving sustainable, profitable growth; optimizing our assets; and reducing costs, while remaining a leader in rail safety.

Looking forward, CP is executing its strategic plan to become the lowest cost rail carrier. This plan is centred on five key foundations, which are the Company's performance drivers.

Provide Service: Providing efficient and consistent transportation solutions for our customers. "Doing what we say we are going to do" is what drives CP by providing a reliable product with a lower cost operating model. Centralized planning aligned with local execution is bringing the Company closer to the customer and accelerating decision-making.

Control Costs: Controlling and removing unnecessary costs from the organization, eliminating bureaucracy and continuing to identify productivity enhancements are the keys to success.

Optimize Assets: Through longer sidings, improved asset utilization, and increased train lengths, the Company is moving increased volumes with fewer locomotives and cars while unlocking capacity for future growth potential.

Operate Safely: Each year, CP safely moves millions of carloads of freight across North America while ensuring the safety of our people and the communities through which we operate. Safety is never to be compromised. Continuous research and development in state-of-the-art safety technology and highly focused employees ensure our trains are built for safe, efficient operations across our network.

Develop People: CP recognizes that none of the other foundations can be achieved without its people. Every CP employee is a railroader and the Company is shaping a new culture focused on a passion for service with integrity in everything it does. Coaching and mentoring managers into becoming leaders will help drive CP forward.

4.3 Partnerships, Alliances and Network Efficiency

Some customers' goods may have to travel on more than one railway to reach their final destination. The transfer of goods between railways can cause delays and service interruptions. Our rail network connects

Table of Contents

to other North American rail carriers and, through partnerships, we continue to co-develop processes and products designed to provide seamless and efficient scheduled train service to these customers.

We continue to increase the capacity and efficiency of our core franchise through infrastructure-sharing and joint-service programs with other railways and third parties, strategic capital investment programs, and operating plan strategies. Combined with the continued improvement of our locomotive and rail car fleets, these strategies enable us to achieve more predictable and fluid train operations between major terminals.

Over the past few years, Class I railway initiatives have included:

- co-operation initiatives with the Canadian National Railway Company ("CN") in the Port Metro Vancouver Terminal and B.C. Lower Mainland;
- working very closely with all the Class I and other carriers that serve Chicago, Illinois under the Chicago Region Environmental and Transportation Efficiency ("CREATE") program. Class Is, Amtrak, Metra and switching carriers Indiana Harbor Belt Railroad ("IHB") and Belt Railway of Chicago ("BRC") have partnered in CREATE to initiate operating and structural changes that will improve operating efficiency and fluidity in and around Chicago, the largest railroad hub in North America;
- CP working with the State Departments of Transportation of New York, Illinois, Wisconsin and Minnesota to develop plans for improved track infrastructure to support intercity passenger rail. This infrastructure will support the fluidity of passenger and freight traffic on shared CP track.

We also develop mutually beneficial arrangements with smaller railways, including shortline and regional carriers.

4.4 Network and Right-of-Way

Our 14,400-mile network extends from the Port Metro Vancouver on Canada's Pacific Coast to the Port of Montreal in eastern Canada, and to the U.S. industrial centres of Chicago; Detroit, Michigan; Newark, New Jersey; and Buffalo, New York; Kansas City, Missouri; and Minneapolis, Minnesota.

The map below depicts our core network:

Our network is composed of four primary corridors: Western, Eastern, Central and the Northeast U.S.

4.4.1 The Western Corridor: Vancouver-Thunder Bay

Overview – The Western Corridor links Vancouver with Thunder Bay, Ontario, which is the western Canadian terminus of our Eastern corridor. With service through Calgary, Alberta the Western Corridor is an important part of our routes between Vancouver and the U.S. Midwest, and between

Vancouver and Eastern Canada. The Western Corridor provides access to the Port of Thunder Bay, Canada's primary Great Lakes bulk terminal.

Products – The Western Corridor is our primary route for bulk and resource products traffic from western Canada to the Port Metro Vancouver for export. We also handle significant volumes of

Table of Contents

international intermodal containers and domestic general merchandise traffic.

Feeder Lines – We support our Western Corridor with four significant feeder lines: the “Coal Route”, which links southeastern B.C. coal deposits to the Western Corridor and to coal terminals at the Port Metro Vancouver; the “Edmonton-Calgary Route”, which provides rail access to Alberta’s Industrial Heartland in addition to the petrochemical facilities in central Alberta; the “Pacific CanAm Route”, which connects Calgary and Medicine Hat, Alberta, with Pacific Northwest rail routes at Kingsgate, B.C. via the Crowsnest Pass; and the “North Main Line route” that provides rail service to customers from Winnipeg, Manitoba to Calgary through Portage la Prairie, Manitoba, Yorkton and Saskatoon in Saskatchewan and Wetaskiwin, Alberta. This line is an important collector of Canadian grain and fertilizer, serving the potash mines located east and west of Saskatoon and many high-throughput grain elevator and processing facilities. In addition, this line provides direct access to refining and upgrading facilities at Lloydminster, Alberta and western Canada’s largest pipeline terminal at Hardisty, Alberta.

Connections – Our Western Corridor connects with the Union Pacific Railroad (“UP”) at Kingsgate and with Burlington Northern Santa Fe, LLC (“BNSF”) at Coutts, Alberta, and at New Westminster and Huntingdon in B.C. This corridor also connects with CN at many locations including Thunder Bay, Winnipeg in Manitoba, Regina and Saskatoon in Saskatchewan, Red Deer, Camrose, Calgary and Edmonton in Alberta and several locations in the Greater Vancouver area.

Yards and Repair Facilities – We support rail operations on the Western Corridor with main rail yards at Vancouver, Calgary, Edmonton, Moose Jaw in Saskatchewan, Winnipeg and Thunder Bay. We also have major intermodal terminals at Vancouver, Calgary, Edmonton, Regina and Winnipeg. We have locomotive and rail car repair facilities at Golden, B.C., Vancouver, Calgary, Moose Jaw and Winnipeg.

4.4.2 The Central Corridor: Moose Jaw-Chicago-Kansas City

Overview – The Central Corridor connects with the Western Corridor at Moose Jaw. By running south to Chicago and Kansas City through the twin Cities of Minneapolis and St. Paul, Minnesota and Milwaukee, Wisconsin, we provide a direct, single-carrier route between western Canada and the U.S. Midwest, providing access to Great Lakes and Mississippi River ports. From LaCrosse, Wisconsin, the Central Corridor continues south towards Kansas City via the Quad Cities, providing an efficient route for traffic destined for southern U.S. and Mexican markets. Our Kansas City line also has a direct connection into Chicago and by extension to points east on CP’s network such as Toronto, Ontario and the Port of Montreal.

Products – Traffic transported on the Central Corridor include Intermodal containers from the Port Metro Vancouver, fertilizers, chemicals, crude, grain, coal, automotive and other agricultural products.

Feeder Lines – We have operating rights over the BNSF line between Minneapolis and the twin ports of Duluth, Minnesota and Superior, Wisconsin. CP maintains its own yard facilities at the Twin Ports that provide an outlet for grain from the U.S. Midwest to the grain terminals at these ports, and a strategic entry point for large dimensional shipments that can be routed via CP's network to locations such as Alberta's Industrial Heartland to serve the needs of the oil sands and energy industry. The DM&E route from Winona, Minnesota to Tracy, Minnesota provides access to key agricultural and industrial commodities. In North Dakota, CP's feeder line between Drake and Newtown, North Dakota is geographically situated in a highly-strategic region for Bakken oil production. CP also owns two significant feeder lines in North Dakota and western Minnesota operated by the Dakota Missouri Valley and Western Railroad, and the Northern Plains Railroad respectively. Both of these short lines are also active in providing service to agricultural and Bakken-oil related customers.

Connections – Our Central Corridor connects with all major railways at Chicago. Outside of Chicago, we have major connections with BNSF at Minneapolis and at Minot, North Dakota and with UP at St. Paul. We connect with CN at Minneapolis, Milwaukee and Chicago. At Kansas City we connect with Kansas City Southern ("KCS"), BNSF, Norfolk Southern Corporation ("NS"), and UP. Our Central Corridor also links to several shortline railways that

Table of Contents

primarily serve grain and coal producing areas in the U.S., and extend CP's market reach in the rich agricultural areas of the U.S. Midwest.

Yards and Repair Facilities – We support rail operations on the Central Corridor with main rail yards in Chicago, Milwaukee, Wisconsin, St. Paul and Glenwood in Minnesota, and Mason City and Nahant in Iowa. We own 49% of the IHB, a switching railway serving Greater Chicago and northwest Indiana, and have a major intermodal terminal in Chicago and one in Minneapolis. In addition, we have a major locomotive repair facility at St. Paul and car repair facilities at St. Paul and Chicago. We share a yard with KCS in Kansas City.

4.4.3 The Eastern Corridor: Thunder Bay-Montreal and Detroit

Overview – The Eastern Corridor extends from Thunder Bay through to its eastern terminus at Montreal and from Toronto to Chicago via Windsor/Detroit. Our Eastern Corridor provides shippers direct rail service from Toronto and Montreal to Calgary and Vancouver via our Western Corridor and to the U.S. via our Central Corridor. This is a key element of our transcontinental intermodal and other services, as well as truck trailers moving in drive-on/drive-off Expressway service between Montreal and Toronto. The corridor also supports our market position at the Port of Montreal by providing one of the shortest rail routes for European cargo destined to the U.S. Midwest, using our CP-owned route between Montreal and Detroit, coupled with a trackage rights arrangement on NS tracks between Detroit and Chicago.

Products – Major traffic categories transported in the Eastern Corridor include forest and industrial and consumer products, intermodal containers, automotive products and general merchandise.

Feeder Lines – A major feeder line that serves the steel industry at Hamilton, Ontario provides connections to both our Northeast U.S. corridor and other U.S. carriers at Buffalo.

Connections – The Eastern Corridor connects with a number of shortline railways including routes from Montreal to Quebec City, Quebec and Montreal to St. John, New Brunswick and Searsport, Maine. CP owns a route to Temiscaming, Quebec via North Bay, Ontario operated by short line Ottawa Valley Railway – where connections are made with the Ontario Northland Railway. Connections are also made with CN at a number of locations, including Sudbury, North Bay, Windsor, London, Hamilton, Toronto in Ontario and Montreal and at Detroit and Buffalo with NS and CSX Corporation ("CSX").

Yards and Repair Facilities – We support our rail operations in the Eastern Corridor with major rail yards at Toronto, London, Windsor and Montreal. Our largest intermodal facility is located in the northern Toronto suburb of Vaughan and serves the Greater Toronto and southwestern Ontario areas. We also operate intermodal terminals at Montreal and Detroit. Terminals for our Expressway service are located in Montreal and at Milton, Ontario in the Greater Toronto area.

We have locomotive repair facilities at Montreal and Toronto and car repair facilities at Thunder Bay, Toronto and Montreal.

4.4.4 The Northeast U.S. Corridor: Buffalo and Montreal to New York

Overview – The Northeast U.S. Corridor provides an important link between the major population centres of eastern Canada, the U.S. Midwest and the U.S. Northeast. The corridor extends from Montreal to Harrisburg, Pennsylvania via Plattsburgh, New

York and Albany/Schenectady in New York's Capital District Region.

Products – Major traffic categories transported in the Northeast U.S. Corridor include lumber, industrial and consumer products.

Feeder Lines – The Northeast U.S. Corridor connects with important feeder lines. Our route between Montreal and Harrisburg, Pennsylvania, in combination with trackage rights over other railways, provides us with direct access to Newark, New Jersey. Agreements with NS provide CP with access to shippers and receivers in the Conrail "shared asset" regions of New Jersey via Harrisburg. The "southern tier" route between Guelph Junction, Ontario, Buffalo and Binghamton in New York that includes haulage rights over NS lines, links industrial southern Ontario with key U.S. connecting rail carriers at Buffalo and provides access to CP for short line carriers along the Buffalo to Binghamton route.

Table of Contents

Connections – We have major connections with NS at Harrisburg, Binghamton and Allentown, Pennsylvania, and with CSX at Philadelphia. Shortline connections exist with multiple players throughout the corridor.

Yards and Repair Facilities – We support our Northeast U.S. Corridor with a major rail yard in Binghamton. We have locomotive and car repair facilities in Montreal and Binghamton.

4.4.5 Right-of-Way

Our rail network is standard gauge, which is used by all major railways in Canada, the U.S. and Mexico. Continuous welded rail is used on our core main line network.

We use different train control systems on portions of our owned track, depending on the volume of rail traffic. Remotely controlled centralized traffic control signals are used to authorize the movement of trains where traffic is heaviest. CP is currently in the development stage of its Positive Train Control strategy for portions of its U.S. network.

Where rail traffic is lighter, train movements are directed by written instructions transmitted electronically and by radio from rail traffic controllers to train crews. In some specific areas of intermediate traffic density, we use an automatic block signalling system in conjunction with written instructions from rail traffic controllers.

4.5 Quarterly Trends

Volumes of and, therefore, revenues from certain goods are stronger during different periods of the year. First-quarter revenues can be lower mainly due to winter weather conditions, closure of the Great Lakes ports and reduced transportation of retail goods. Second and third-quarter revenues generally improve over the first quarter as fertilizer volumes are typically highest during the second quarter and demand for construction-related goods is generally highest in the third quarter. Revenues are typically strongest in the fourth quarter, primarily as a result of the transportation of grain after the harvest, fall fertilizer programs and increased demand for retail goods moved by rail. Operating income is also affected by seasonal fluctuations. Operating income is typically lowest in the first quarter due to lower freight revenue and higher operating costs associated with winter conditions. Net income is also influenced by seasonal fluctuations in customer demand and weather-related issues.

4.6 Business Categories

The following table compares the percentage of our total freight revenue derived from each of our major business lines in 2013 compared with 2012 and 2011:

Business Category	2013	2012	2011
Bulk	42%	41%	44%
Merchandise	36%	34%	30%
Intermodal	22%	25%	26%

Table of Contents

4.7 Revenues

Freight revenues are earned from transporting bulk, merchandise and intermodal goods, and include fuel recoveries billed to our customers. The following table summarizes our annual freight revenues between 2011 and 2013:

Freight Revenues (in $ millions, except for percentages) Business Category	2013	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Bulk					
Grain	$1,300	$1,172	$1,100	11	7
Coal	627	602	556	4	8
Fertilizers and sulphur	570	520	549	10	(5)
Total bulk	2,497	2,294	2,205	9	4
Merchandise					
Forest products	206	193	189	7	2
Industrial and consumer products	1,548	1,268	1,017	22	25
Automotive	403	425	338	(5)	26
Total merchandise	2,157	1,886	1,544	14	22
Intermodal	1,328	1,370	1,303	(3)	5
Total freight revenues	$5,982	$5,550	$5,052	8	10

4.7.1 Bulk

Our bulk business represented approximately 42% of total freight revenues in 2013.

4.7.1.1 Grain

Our grain business accounted for approximately 22% of total freight revenues in 2013.

Grain transported by CP consists of both whole grains, such as wheat, corn, soybeans, and canola, and processed products such as meals, oils, and flour.

Our grain business is centred in two key agricultural areas: the Canadian prairies (Alberta, Saskatchewan and Manitoba) and the states of North Dakota, Minnesota, Iowa and South Dakota. Western Canadian grain is shipped primarily west to the Port Metro Vancouver and east to the Port of Thunder Bay for export. Grain is also shipped to the U.S. and to eastern Canada for domestic consumption. U.S.-originated export grain traffic is shipped to ports at Duluth and Superior. In partnership with other railways, we also move grain to export terminals in the U.S. Pacific Northwest and the Gulf of Mexico. Grain destined for domestic consumption moves east via Chicago to the U.S. Northeast or is interchanged with other carriers to the U.S. Southeast, Pacific Northwest and California markets.

Freight revenues for the movement of export grain from western Canada are subject to legislative provisions. These provisions apply to defined commodities and origin/destination pairings set out in the Canada Transportation Act ("CTA"). The revenue formula included in the CTA is indexed annually to reflect changes in the input costs associated with transporting grain destined for export markets. For additional information, refer to Section 21, Business Risks of the 2013 MD&A.

4.7.1.2 Coal

Our coal business represented approximately 10% of total freight revenues in 2013.

We handle mostly metallurgical coal destined for export through the Port Metro Vancouver for use in the steel-making process in the Pacific Rim, Europe and South America.

Our Canadian coal traffic originates mainly from Teck Resource Limited's mines in southeastern B.C. They are considered to be among the most productive, highest-quality metallurgical coal mines in the world. We move coal west from these mines to port terminals for export to world markets, and east for the U.S.

Midwest markets and for consumption in steel-making mills along the Great Lakes.

In the U.S., we move primarily thermal coal from connecting railways serving the thermal coal fields in the PRB in Montana and Wyoming. It is then delivered to power generating facilities in the Midwest U.S. We also serve petroleum coke operations in Canada and the U.S. where the product is used for power generation and aluminum production.

Table of Contents

4.7.1.3 Fertilizers and sulphur

Fertilizers and sulphur business represented approximately 10% of total freight revenues in 2013.

Fertilizers

Fertilizers traffic consists primarily of potash and chemical fertilizers. Our potash traffic moves mainly from Saskatchewan to offshore markets through the ports of Metro Vancouver, Thunder Bay and Portland, Oregon and to markets in the U.S. Chemical fertilizers are transported to markets in Canada and the U.S. from key production areas in the Canadian prairies. Phosphate fertilizer is also transported from U.S. and Canadian producers to markets in Canada and the northern U.S.

We provide transportation services from major potash and nitrogen production facilities in western Canada and have efficient routes to the major U.S. markets. We also have direct service to key fertilizer distribution terminals, such as the barge facilities on the Mississippi River system at Minneapolis-St. Paul, as well as access to Great Lakes vessels at Thunder Bay.

Sulphur

Most sulphur is produced in Alberta as a by-product of processing sour natural gas, refining crude oil and upgrading bitumen produced in the Alberta oil sands. Sulphur is a raw material used primarily in the manufacturing of sulphuric acid, which is used most extensively in the production of phosphate fertilizers. Demand for elemental sulphur rises with demand for fertilizers. Sulphuric acid is also a key ingredient in industrial processes ranging from smelting and nickel leaching to paper production.

We transport approximately half of the sulphur that enters international markets from Canada and we are the leading transporter of formed sulphur shipped from gas plants in southern Alberta to the Port Metro Vancouver. The two largest shipping points in southern Alberta are Shantz and Waterton and both are located on our rail lines. Currently, our export traffic is destined mainly to China and Australia. In addition, we transport liquid sulphur from Scotford, Alberta, site of one of the largest refineries in the Edmonton area, and from other origins to the southeastern and northwestern U.S. for use in the fertilizer industry.

4.7.2 Merchandise

Our merchandise business represented approximately 36% of total freight revenues in 2013.

Merchandise products move in trains of mixed freight and in a variety of car types. Service involves delivering products to many different customers and destinations. In addition to traditional rail service, we move merchandise traffic through a network of truck-rail transload facilities and provide logistics services.

4.7.2.1 Forest Products

Our forest products business represented approximately 3% of total freight revenues in 2013.

Forest products traffic includes wood pulp, paper, paperboard, newsprint, lumber, panel and oriented strand board shipped from key producing areas in B.C., northern Alberta, northern Saskatchewan, Ontario and Quebec to destinations throughout North America.

4.7.2.2 Industrial and Consumer Products

Our industrial and consumer products business represented approximately 26% of total freight revenues in 2013.

Industrial and consumer products traffic include a wide array of commodities grouped under chemicals, energy and plastics as well as mine, metals and aggregates.

Our industrial and consumer products traffic is widely dispersed across our Canadian and U.S. network with large bases in Alberta, Ontario, Quebec and the Midwest U.S. We are also taking advantage of our Kansas City connection to move energy, chemical and steel products between the Gulf Coast and Alberta thus bypassing the busy Chicago rail interchange. We transport products to destinations throughout North America, including to and from ports. We also participate in the movement of products from the U.S. to Canadian destinations, including chemicals originating in and around the Gulf Coast and destined to points in eastern Canada.

4.7.2.3 Automotive

Our automotive business represented approximately 7% of total freight revenues in 2013.

Automotive traffic includes domestic, import and pre-owned vehicles as well as automotive parts. We transport finished vehicles from U.S. and Canadian

Table of Contents

assembly plants to the Canadian marketplace, and to other markets throughout North America via major interchanges at Detroit, Chicago and Buffalo. We also move imported vehicles to retail markets in Canada and the U.S. Midwest. A comprehensive network of automotive compounds is utilized to facilitate final delivery of vehicles to dealers throughout Canada and in the U.S.

4.7.3 Intermodal

Our intermodal business accounted for approximately 22% of total freight revenues in 2013.

Domestic intermodal freight consists primarily of manufactured consumer products moving in containers. International intermodal freight moves in marine containers to and from ports and North American inland markets.

Domestic Intermodal

Our domestic intermodal business covers a broad spectrum of industries including food, retail, less-than truckload shipping, trucking, forest products and various other consumer-related products. Key service factors in domestic intermodal include consistent on-time delivery, the ability to provide door-to-door service and the availability of value-added services. The majority of our domestic intermodal business originates in Canada where we market our services directly to retailers, providing complete door-to-door service and maintaining direct relationships with our customers. In the U.S., our service is delivered mainly through wholesalers.

International Intermodal

Our international intermodal business consists primarily of containerized traffic moving between the ports in Vancouver, Montreal, New York and Philadelphia and inland points across Canada and the U.S.

We are a major carrier of containers moving via the ports in Montreal and Vancouver. Import traffic from the Port Metro Vancouver is mainly long-haul business destined for eastern Canada and the U.S. Midwest and Northeast. Our trans-Pacific service offers the shortest route between the Port Metro Vancouver and Chicago. We work closely with the Port of Montreal, a major year-round East Coast gateway to Europe, to serve markets primarily in Canada and the U.S. Midwest. Our U.S. Northeast service connects eastern Canada with the ports of Philadelphia and New York, offering a competitive alternative to trucks.

4.7.4 Fuel Cost Recovery Program

CP employs a fuel cost recovery program designed to automatically respond to fluctuations in fuel prices and help mitigate the financial impact of rising fuel prices. Fuel surcharge revenue is earned on individual shipments; as such, our fuel surcharge revenue is a function of our freight volumes. The short-term volatility in fuel prices may adversely or positively impact expenses and revenues.

4.7.5 Other Revenue

Other revenue is generated from leasing certain assets, switching fees, other arrangements including logistical services and contracts with passenger service operators.

4.7.6 Significant Customers

In the full year of 2013, 2012 and 2011 no one customer comprised more than 10% of total revenues and accounts receivable.

Table of Contents

4.8 Railway Performance

We focus on safety, train operation productivity, increasing network efficiency and improving asset utilization. The following table summarizes the effect of our Operating Plan based on industry-recognized performance indicators. Detailed definitions of the performance indicators listed below are included in Section 25, Glossary of Terms in the 2013 MD&A.

For the year ended December 31(1)	2013	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Operations Performance					
Freight gross ton-miles (“GTMs”) (millions)	267,629	254,354	247,995	5	3
Train miles (thousands)	37,817	40,270	40,145	(6)	–
Average train weight - excluding local traffic (tons)	7,573	6,709	6,593	13	2
Average train length - excluding local traffic (feet)(2)	6,530	5,981	5,860	9	2
Average terminal dwell (hours)(3)	7.1	7.5	8.9	(5)	(16)
Average train speed (mph)(4)	18.2	18.0	15.2	1	18
Locomotive productivity (daily average GTMs/active horse power (“HP”))	216.0	179.8	166.7	20	8
Fuel efficiency (U.S. gallons of locomotive fuel consumed /1,000 GTMs)(5)	1.06	1.15	1.18	(8)	(3)
Total employees (average)(6)(7)	15,011	16,999	16,097	(12)	6
Workforce (end of period)(8)	14,977	16,907	18,519	(11)	(9)
Safety indicators					
FRA personal injuries per 200,000 employee-hours	1.69	1.55	1.85	9	(16)
FRA train accidents per million train-miles	1.78	1.67	1.88	7	(11)

(1) Certain prior period figures have been revised to conform with current presentation or have been updated to reflect new information.
(2) Incorporates a new reporting methodology where average train length is the sum of each car and locomotive’s equipment length multiplied by the distance travelled, divided by train miles. Local trains are excluded from this measure.
(3) Incorporates a new reporting definition where average terminal dwell measures the average time a freight car resides within terminal boundaries.
(4) Incorporates a new reporting definition where average train speed measures the line-haul movement from origin to destination including terminal dwell hours.
(5) Includes gallons of fuel consumed from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities.
(6) An employee is defined as an individual, including trainees, who has worked more than 40 hours in a standard biweekly pay period. This excludes part time employees, contractors, and consultants.
(7) 2012 average number of employees has been adjusted for the strike.
(8) Workforce is defined as total employees plus part time employees, contractors and consultants.

GTMs for 2013 were 267,629 million, which increased by 5% compared with 254,354 million in 2012. This increase was primarily due to higher traffic volumes in Industrial and consumer products and Grain partially offset by lower traffic volumes in Automotive and Intermodal and by the impact of volumes lost during the strike in the second quarter of 2012.

GTMs for 2012 were 254,354 million, which increased by 3% compared with 247,955 million in 2011. This increase was primarily due to higher traffic volumes in the Company’s Intermodal and Merchandise franchises. This increase was offset by a reduction in bulk shipments, and the impact of volumes lost during the strike in the second quarter.

Train miles for 2013 decreased by 6% compared with 2012, driven by increases in both train weights and lengths. This improvement was due to the Company’s successful execution of the operating plan, partially offset by higher workload as measured by GTMs.

Train miles for 2012 were relatively flat compared with 2011, with higher workload offset by an increase in train weights. These changes were largely attributable to compressed train service transit schedules.

Average train weight increased in 2013 by 864 tons or 13% from 2012. Average train length increased in 2013 by 549 feet or 9% from 2012. Average train weight and train length benefited from increased workload moving in existing train service, ongoing network capacity and infrastructure investments and the successful execution of the Company’s operating plan, which allowed for the operation of longer and heavier trains.

Average train weight increased in 2012 by 116 tons or 2% from 2011. Average train length increased in

Table of Contents

2012 by 121 feet or 2% from 2011. Average train weight and train length increased slightly compared to the same period in 2011 primarily due to improvements in the second half of 2012. These improvements benefited from increased Merchandise and Intermodal workload moving in existing train service and the successful execution of the Company's operating plan. Improvements to average train weight were further enabled by the siding extension strategy, which allowed for the operation of longer and heavier trains.

Average terminal dwell, the average time a freight car resides in a terminal, decreased by 5% in 2013 to 7.1 hours from 7.5 hours in 2012. This decrease was primarily due to a continued focus on increasing yard productivity, terminal redesign, and the successful execution of the Company's operating plan.

Average terminal dwell, decreased by 16% in 2012 to 7.5 hours when compared to 8.9 in 2011. This decrease was primarily due to programs to improve asset velocity and storage of surplus cars.

Average train speed was 18.2 miles per hour in 2013, an increase of 1%, from 18.0 miles per hour in 2012. This increase was primarily due to improved asset velocity, decreased terminal dwell and successful execution of the Company's operating plan. Speed improvements were partially offset by an increase in bulk commodities, which move at a slower average speed than intermodal and merchandise traffic.

Average train speed was 18.0 miles per hour in 2012, an increase of 18%, from 15.2 miles per hour in 2011. This increase was primarily due to increased volumes, traffic mix, supply chain pipeline issues and significant disruptions to train operations across the network due to unusually severe winter weather in 2011 and flooding in the first half of 2011 and 2012.

Locomotive productivity increased in 2013 by 20% from 2012. This improvement is primarily the result of increased asset velocity due to more efficient operations, improved fleet reliability, and the successful execution of the Company's operating plan.

Locomotive productivity increased in 2012 by 8% from 2011. This increase was primarily due to improvements in network fluidity and the successful execution of the Company's operating plan.

Fuel efficiency improved by 8% in 2013 compared to 2012. This improvement is primarily due to lower horsepower to ton ratios as a result of increased train weights and focus on the fuel conservation strategies of the Company's operating plan.

Fuel efficiency improved by 3% in 2012 compared to 2011. This improvement was primarily due to improved operating conditions and the advancement of the Company's fuel conservation strategies including replacement of older units with new more fuel efficient locomotives.

The average number of total employees for 2013 decreased by 1,988, or 12%, compared with 2012. This decrease was primarily due to job reductions as a result of continuing strong operational performance and natural attrition.

The average number of total employees for 2012 increased by 902, or 6%, compared with 2011. This increase was primarily due to additional hiring early in the year to address volume growth projections and anticipated attrition over future quarters, partially offset by job reductions in the latter half of the year, improvements in labour productivity and the impact of the strike, including temporary layoffs.

The workforce on December 31, 2013 decreased by 1,930, or 11%, compared with December 31, 2012. This decrease was primarily due to job reductions as a result of continuing strong operational performance, natural attrition and fewer contractors. At our Investor Conference in New York on December 4-5, 2012, the Company outlined plans to reduce approximately 4,500 employee and/or contractor positions, from June 30, 2012 to 2016, through job reductions, natural attrition and reducing the number of contractors. The Company met the reduction target by the end of 2013.

The workforce on December 31, 2012 decreased by 1,612, or 9%, compared with December 31, 2011. This decrease was primarily due to job reductions in the latter half of the year as a result of improved operational performance, natural attrition and fewer contractors.

Safety is a key priority and core strategy for our management, employees and Board of Directors. Our two main safety indicators – personal injuries and train accidents – follow strict U.S. Federal Railroad Administration ("FRA") reporting guidelines.

Table of Contents

The FRA personal injury rate per 200,000 employee-hours for CP was 1.69 in 2013, 1.55 in 2012 and 1.85 in 2011.

The FRA train accident rate for CP in 2013 was 1.78 accidents per million train-miles, compared with 1.67 in 2012 and 1.88 in 2011.

4.9 Franchise Investment

Franchise investment is an integral part of our multi-year capital program and supports our growth initiatives. Our annual capital program typically includes investments in track and facilities (including rail yards and intermodal terminals); locomotives; information technology ("IT"); and freight cars and other equipment. On an accrual basis, we invested approximately $3.6 billion in our core assets from 2011 to 2013, with annual capital spending over this period averaging approximately 20% of revenues. This included approximately $2.4 billion invested in track and roadway, $0.5 billion in rolling stock, $0.3 billion in other equipment, $0.3 billion in IT and $0.1 billion in buildings.

4.9.1 Locomotive Fleet

Our locomotive fleet is comprised largely of high-adhesion alternating current ("AC") locomotives, which are more fuel efficient and reliable and have superior hauling capacity compared with standard direct current ("DC") locomotives. Our locomotive fleet now includes 827 AC locomotives. While AC locomotives represent approximately 66.9% of our road-freight locomotive fleet, they handle approximately 89.6% of our workload. Our investment in AC locomotives has helped to improve service reliability and generate cost savings in fuel, equipment rents and maintenance. There was a reduction of the Company's active locomotive fleet by 80 locomotives from Q1 to Q4 2013.

Following is a synopsis of our owned and leased locomotive fleet:

Number of Locomotives (owned and long-term leased) Age in Years	Road Freight AC	Road Freight DC	Road Switcher	Yard Switcher	Total
0-5	91	20	70	–	181
6-10	319	–	–	–	319
11-15	234	–	–	–	234
16-20	183	–	–	–	183
Over 20	–	389	248	97	734
Total	827	409	318	97	1,651

4.9.2 Railcar Fleet

We own, lease or manage approximately 47,600 freight cars. Approximately 16,300 are owned by CP, approximately 6,400 are hopper cars owned by Canadian federal and provincial government agencies and approximately 7,400 are leased on a short-term basis and 17,500 are held under long-term leases. Short-term leases on approximately 4,100 cars are scheduled to expire during 2014, and the leases on approximately 13,500 additional cars are scheduled to expire before the end of 2018.

Our covered hopper car fleet, used for transporting regulated grain, consists of owned, leased and managed cars. A portion of the fleet used to transport export grain is leased from the Government of Canada, with whom we completed an operating agreement in 2007.

4.10 Operating Plan ("OP")

Our OP is the foundation for our scheduled railway operations, through which we strive to provide quality service for customers and improve asset utilization to achieve high levels of efficiency. The key principles upon which our OP is built include moving freight cars across the network with as few handlings as possible, creating balance in directional flow of trains in our corridors by day of week, and minimizing the time that locomotives and freight cars are idle.

Under our OP, trains are scheduled to run consistently at times agreed upon with our customers. To accomplish this, we establish a plan for each rail car that covers its entire trip from point of origin to final destination. Cars with similar destinations are consolidated into blocks. This reduces delays at intermediate locations by simplifying processes for employees, eliminating the

Table of Contents

duplication of work and helping to ensure traffic moves fluidly through rail yards and terminals. These measures improve transit times for shipments throughout our network and increase car availability for customers. Our OP also increases efficiency by more effectively scheduling employee shifts, locomotive maintenance, track repair, track renewal and material supply.

We have capitalized on the new capabilities of our network and our upgraded locomotive fleet to safely operate longer and heavier trains. This has reduced associated expenses, simplified the departure of shipments from points of origin and provided lower-cost capacity for growth.

We are committed to continuously improve scheduled railway operations as a means to achieve additional efficiencies that will enable further growth without the need to incur significant capital expenditures to accommodate the growth.

4.11 Information Services

As a 24-hour-a-day, 7-day-a-week business, CP relies heavily on IT systems to schedule and manage planning and operational components safely and efficiently. IT applications map out complex interconnections of freight cars, locomotives, facilities, tracks and train crews to meet more than 10,000 individual customer service commitments every day. Across the network, CP's suite of operating systems manages the overall movement of customers' shipments and provides railway employees with reliable data on shipment performance, transit times, connections with other trains, train and yard capacities, and locomotive requirements. Within the yards, individual shipments are matched to freight car blocks, which in turn are matched to trains that are scheduled according to CP's operating plan. Our IT applications provide the information needed to ensure that shipments are handled according to commercial agreements while meeting all regulatory requirements to ensure the safe movement of freight throughout North America.

4.12 Business Risks and Enterprise Risk Management

In the normal course of our operations, we are exposed to various business risks and uncertainties that can have an effect on our financial condition. CP's Enterprise Risk Management ("ERM") program targets strategic risk areas to determine additional prevention or mitigation plans that can be undertaken to either reduce risk or enable opportunities to be realized. The ERM process instills discipline in the approach to managing risk at CP and has been a contributing factor in providing focus on key areas. CP has managed to mitigate a number of strategic business risks using this focused approach.

The risks and our enterprise risk management are discussed in more detail in Section 21, Business Risks in the 2013 MD&A which is incorporated by reference herein.

4.13 Indemnifications

Pursuant to a trust and custodial services agreement with the trustee of the Canadian Pacific Railway Company Pension Trust Fund, we have undertaken to indemnify and save harmless the trustee, to the extent not paid by the fund, from any and all taxes, claims, liabilities, damages, costs and expenses arising out of the performance of the trustee's obligations under the agreement, except as a result of misconduct by the trustee. The indemnity includes liabilities, costs or expenses relating to any legal reporting or notification obligations of the trustee with respect to the defined contribution option of the pension plans or otherwise with respect to the assets of the pension plans that are not part of the fund. The indemnity survives the termination or expiry of the agreement with respect to claims and liabilities arising prior to the termination or expiry. At December 31, 2013, we had not recorded a liability associated with this indemnification, as we do not expect to make any payments pertaining to it.

Pursuant to our by-laws, we indemnify all of our current and former directors and officers. In addition to the indemnity provided by our by-laws, we also indemnify our directors and officers pursuant to indemnity agreements. We carry a liability insurance policy for directors and officers, subject to a maximum coverage limit and certain deductibles in cases where a director or officer is reimbursed for any loss covered by the policy.

4.14 Safety

Safety is a key priority for our management and Board of Directors. Our two main safety indicators – personal injuries and train accidents – follow strict U.S. Federal Railroad Administration ("FRA") reporting guidelines. Detailed definition of the safety indicators discussed below is included in Section 25, Glossary of Terms in the 2013 MD&A.

Table of Contents

The FRA personal injury rate per 200,000 employee-hours for CP was 1.69 in 2013, compared with 1.55 in 2012 and 1.85 in 2011. The FRA train accident rate for CP in 2013 was 1.78 accidents per million train-miles, compared with 1.67 in 2012 and 1.88 in 2011. CP strives to continually improve its safety performance through our key strategies and activities such as training and technology.

Our senior leaders in operations provide ongoing focus, leadership, commitment and support for efforts to improve the safety of our operations as well as the safety and health of our employees. The leadership team includes all of our most senior representatives in operations from our senior officers to leaders of our different operation departments and is a key component of safety governance at CP. Our Safety Framework governs the safety management process, which involves more than 1,000 employees in planning and implementing safety-related activities. This management process, combined with planning that encompasses all operational functions, ensures a continuous and consistent focus on safety.

4.15 Environmental Protection

We have implemented a comprehensive Environmental Management System, which uses the five elements of the ISO 14001 standard – policy, planning, implementation and operation, checking and corrective action, and management review – as described below. Further details are discussed in Section 21, Business Risks of the 2013 MD&A.

4.15.1 Policy

We have adopted an Environmental Protection Policy and continue to develop and implement policies and procedures to address specific environmental issues and reduce environmental risk. Each policy is implemented with training for employees and a clear identification of roles and responsibilities.

We are a partner in Responsible Care©, an initiative of the Chemistry Industry Association of Canada and the American Chemistry Council ("ACC") in the U.S., an ethic for the safe and environmentally sound management of chemicals throughout their life cycle. Partnership in Responsible Care© involves a public commitment to continually improve the industry's environmental, health and safety performance. We completed our first Responsible Care© external verification in June 2002 and were granted "Responsible Care© practice-in-place" status. We were successfully re-verified in 2005, 2008 and again in October of 2012. The next re-verification is planned for 2015.

4.15.2 Planning

We prepare an annual Operations Environmental Plan, which include details of our environmental goals and targets as well as high-level strategies. These plans are used by various departments to integrate key corporate environmental strategies into their business plans.

4.15.3 Implementation and Operation

We have developed specific environmental programs to address areas such as air emissions, wastewater, management of vegetation, chemicals and waste, storage tanks and fuelling facilities, and environmental impact assessment. Our environmental specialists and consultants lead these programs.

Our focus is on preventing spills and other incidents that have a negative impact on the environment. As a precaution, we have established a Strategic Emergency Response Contractor network and located spill equipment kits across Canada and the U.S. to ensure a rapid and efficient response in the event of an environmental incident. In addition, we regularly update and test emergency preparedness and response plans.

4.15.4 Environmental Contamination

We continue to be responsible for remediation work on portions of a property in the State of Minnesota and continue to retain liability accruals for remaining future anticipated costs. The costs are expected to be incurred over a period of approximately 10 years. The state's voluntary investigation and remediation program will oversee the work to ensure it is completed in accordance with applicable standards. We currently estimate the remaining liability associated with these areas to be US$21 million.

4.15.5 Checking and Corrective Action

Our environmental audits comprehensively, systematically and regularly assess our facilities for compliance with legal and regulatory requirements and conformance to our policies, which are based on legal requirements and accepted industry standards. Audits are scheduled based on risk assessment for each facility and are led by third-party environmental audit specialists supported by our environmental staff.

Table of Contents

Audits are followed by a formal Corrective Action Planning process that ensures findings are addressed in a timely manner. Progress is monitored against completion targets and reported quarterly to senior management.

4.15.6 Management Review

The Environmental Accrual Lead Team, which includes members of our senior officers and leaders of our environmental teams, completes quarterly reviews of changes to and the progress of the Environmental Accrual program. Senior management leaders provide oversight of health, safety, security and environment issues on an ongoing basis throughout the year. The CP Board of Directors' Safety, Operations and Environment Committee meets five times per year and provides oversight of environmental issues.

4.15.7 Expenditures

We spent $36 million in 2013 for environmental management, including amounts spent on ongoing operations, fuel conservation, capital upgrades and remediation. We spent approximately the same amount for environmental management in 2012.

4.16 Insurance

We maintain insurance policies to protect our assets and to protect against liabilities. Our insurance policies include, but are not limited to, liability insurance, director and officer liability insurance, automobile insurance and property insurance. The property insurance program includes business interruption coverage and contingent business interruption coverage, which would apply in the event of catastrophic damage to our infrastructure and specified strategic assets in the transportation network. We believe our insurance is adequate to protect us from known and unknown liabilities. However, in certain circumstances, certain losses may not be covered or completely covered by insurance and we may suffer losses, which could be material.

4.17 Competitive Conditions

For a discussion of CP's competitive conditions in which we operate, please refer to Section 21, Business Risks included in the 2013 MD&A, which are incorporated by reference herein.

Table of Contents

5. DIVIDENDS

5.1 Declared Dividends and Dividend Policy

Dividends

Dividends declared by the Board of Directors in the last three years are as follows:

Dividend amount	Record date	Payment date
$0.3500	March 28, 2014	April 28, 2014
$0.3500	December 27, 2013	January 27, 2014
$0.3500	September 27, 2013	October 28, 2013
$0.3500	June 28, 2013	July 29, 2013
$0.3500	March 28, 2013	April 29, 2013
$0.3500	December 28, 2012	January 28, 2013
$0.3500	September 28, 2012	October 29, 2012
$0.3500	June 22, 2012	July 30, 2012
$0.3000	March 30, 2012	April 30, 2012
$0.3000	December 30, 2011	January 30, 2012
$0.3000	September 30, 2011	October 31, 2011
$0.3000	June 24, 2011	July 25, 2011
$0.2700	March 25, 2011	April 25, 2011

Our Board of Directors is expected to give consideration on a quarterly basis to the payment of future dividends. The amount of any future quarterly dividends will be determined based on a number of factors that may include the results of operations, financial condition, cash requirements and future prospects of the Company. The Board of Directors is, however, under no obligation to declare dividends and the declaration of dividends is wholly within their discretion. Further, our Board of Directors may cease declaring dividends or may declare dividends in amounts that are different from those previously declared. Restrictions in the credit or financing agreements entered into by the Company or the provisions of applicable law may preclude the payment of dividends in certain circumstances.

Table of Contents

6. CAPITAL STRUCTURE

6.1 Description of Capital Structure

The Company is authorized to issue an unlimited number of Common Shares, an unlimited number of First Preferred Shares and an unlimited number of Second Preferred Shares. At December 31, 2013, no first or second Preferred Shares had been issued.

1) The rights, privileges, restrictions and conditions attaching to the Common Shares are as follows:

   a) Payment of Dividends: The holders of the Common Shares will be entitled to receive dividends if, as and when declared by CP's Board of Directors out of the assets of the Company properly applicable to the payment of dividends in such amounts and payable in such manner as the Board may from time to time determine. Subject to the rights of the holders of any other class of shares of the Company entitled to receive dividends in priority to or rateably with the holders of the Common Shares, the Board may in its sole discretion declare dividends on the Common Shares to the exclusion of any other class of shares of the Company.

   b) Participation upon Liquidation, Dissolution or Winding Up: In the event of the liquidation, dissolution or winding up of the Company or other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the Common Shares will, subject to the rights of the holders of any other class of shares of the Company entitled to receive the assets of the Company upon such a distribution in priority to or rateably with the holders of the Common Shares, be entitled to participate rateably in any distribution of the assets of the Company.

   c) Voting Rights: The holders of the Common Shares will be entitled to receive notice of and to attend all annual and special meetings of the shareholders of the Company and to one (1) vote in respect of each Common Share held at all such meetings, except at separate meetings of or on separate votes by the holders of another class or series of shares of the Company.

2) The rights, privileges, restrictions and conditions attaching to the First Preferred Shares are as follows:

   a) Authority to Issue in One or More Series: The First Preferred Shares may at any time or from time to time be issued in one (1) or more series. Subject to the following provisions, the Board may by resolution fix from time to time before the issue thereof the number of shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to the shares of each series of First Preferred Shares.

   b) Voting Rights: The holders of the First Preferred Shares will not be entitled to receive notice of or to attend any meeting of the shareholders of the Company and will not be entitled to vote at any such meeting, except as may be required by law.

   c)

Limitation on Issue: The Board may not issue any First Preferred Shares if by so doing the aggregate amount payable to holders of First Preferred Shares as a return of capital in the event of the liquidation, dissolution or winding up of the Company or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs would exceed $500,000,000.

d) Ranking of First Preferred Shares: The First Preferred Shares will be entitled to priority over the Second Preferred Shares and the Common Shares of the Company and over any other shares ranking junior to the First Preferred Shares with respect to the payment of dividends and the distribution of assets of the Company in the event of any liquidation, dissolution or winding up of the Company or other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs.

Table of Contents

e) Dividends Preferential: Except with the consent in writing of the holders of all outstanding First Preferred Shares, no dividend can be declared and paid on or set apart for payment on the Second Preferred Shares or the Common Shares or on any other shares ranking junior to the First Preferred Shares unless and until all dividends (if any) up to and including any dividend payable for the last completed period for which such dividend is payable on each series of First Preferred Shares outstanding has been declared and paid or set apart for payment.

3) The rights, privileges, restrictions and conditions attaching to the Second Preferred Shares are as follows:

a) Authority to Issue in One or More Series: The Second Preferred Shares may at any time or from time to time be issued in one (1) or more series. Subject to the following provisions, the Board may by resolution fix from time to time before the issue thereof the number of shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to the shares of each series of Second Preferred Shares.

b) Voting Rights: The holders of the Second Preferred Shares will not be entitled to receive notice of or to attend any meetings of the shareholders of the Company and will not be entitled to vote at any such meeting, except as may be required by law.

c) Limitation on Issue: The Board may not issue any Second Preferred Shares if by so doing the aggregate amount payable to holders of Second Preferred Shares as a return of capital in the event of the liquidation, dissolution or winding up of the Company or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs would exceed $500,000,000.

d) Ranking of Second Preferred Shares: The Second Preferred Shares will be entitled to priority over the Common Shares of the Company and over any other shares ranking junior to the Second Preferred Shares with respect to the payment of dividends and the distribution of assets of the Company in the event of the liquidation, dissolution or winding up of the Company or any other distribution of the assets of the Company among its shareholders for the purpose of winding up of its affairs.

e) Dividends Preferential: Except with the consent in writing of the holders of all outstanding Second Preferred Shares, no dividend can be declared and paid on or set apart for payment on the Common Shares or on any other shares ranking junior to the Second Preferred Shares unless and until all dividends (if any) up to and including any dividend payable for the last completed period for which such dividend is payable on each series of Second Preferred Shares outstanding has been declared and paid or set apart for payment.

6.2 Security Ratings

The following information relating to the Company's credit ratings is provided as it relates to the Company's financing costs, liquidity and operations. Specifically, credit ratings affect the Company's ability to obtain short-term and long-term financing and/or the cost of such financing. Additionally, the ability of the Company to engage in certain collateralized business activities on a cost effective basis depends on the Company's credit ratings. A reduction in the current rating on the Company's debt by its rating agencies, particularly a downgrade below investment grade ratings, or a negative change in the Company's ratings outlook could adversely affect the Company's cost of financing and/or its access to sources of liquidity and capital. In addition, changes in credit ratings may affect the Company's ability to, and/or the associated costs of: (i) entering into ordinary course derivative or hedging transactions and may require the Company to post additional collateral under certain of its contracts, and (ii) entering into and maintaining ordinary course contracts with customers and suppliers on acceptable terms and (iii) ability to self-insure certain leased or financed rolling stock assets as per common industry practice.

Table of Contents

The Company's debt securities are rated by three approved rating organizations – Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Corporation and Dominion Bond Rating Service Limited ("DBRS"). Currently, our securities are rated as Investment Grade, shown in the table below:

Approved Rating Organization	Long-Term Debt Rating
Moody's Investors Service	Baa3
Standard & Poor's Corporation	BBB-
Dominion Bond Rating Service	BBB (low)

As at December 31, 2013, the ratings provided by each of Standard & Poor's Corporation, Moody's and DBRS have a stable outlook. On January 30, 2014, Moody's announced the Company's senior unsecured rating is under review for possible upgrade which is expected to conclude within the next ninety days. On the same day, DBRS also reaffirmed CP's Issuer Rating and the Unsecured Debentures and Medium-Term Notes ratings of "BBB(low)" with a change to positive trend.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities and are indicators of the likelihood of payment and of the capacity and willingness of a company to meet its financial commitment on an obligation in accordance with the terms of the obligation. A description of the rating categories of each of the rating agencies in the table above is set out below.

Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor and may be subject to revision or withdrawal at any time by the rating agencies. Credit ratings may not reflect the potential impact of all risks on the value of securities. In addition, real or anticipated changes in the rating assigned to a security will generally affect the market value of that security. There can be no assurance that a rating will remain in effect for any given period of time or that a rating will not be revised or withdrawn entirely by a rating agency in the future.

In the last two years, the Company has paid the customary fees, including annual surveillance fees covering our long-term debt securities, to the aforementioned credit rating agencies for their rating services.

Table of Contents

The following table summarizes rating categories for respective rating agencies:

Moody's Investors Service	Standard & Poor's	Dominion Bond Rating Service	
Aaa	AAA	AAA	High Investment Grade
Aa1	AA+	AA(high)	
Aa2	AA	AA	
Aa3	AA-	AA(low)	
A1	A+	A(high)	
A2	A	A	
A3	A-	A(low)	
Baa1	BBB+	BBB(high)	Investment Grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB(low)	
Ba1	BB+	BB(high)	Below Investment Grade
Ba2	BB	BB	
Ba3	BB-	BB(low)	
B1	B+	B(high)	
B2	B	B	
B3	B-	B(low)	
Caa	CCC	CCC	
Ca	CC	CC	
C	C	C	

Table of Contents

7. MARKET FOR SECURITIES

7.1 Stock Exchange Listings

The Common Shares of CP are listed on the Toronto Stock Exchange and the New York Stock Exchange under the symbol "CP".

7.2 Trading Price and Volume

The following table provides the monthly trading information for our Common Shares on the Toronto Stock Exchange during 2013:

Toronto Stock Exchange Month	Opening Price per Share ($)	High Price per Share ($)	Low Price per Share ($)	Closing Price per Share ($)	Volume of Shares Traded
January	102.40	118.57	102.14	115.15	13,196,040
February	116.27	125.62	112.14	125.45	9,271,259
March	125.00	132.92	124.50	132.54	9,109,603
April	132.46	132.50	118.25	125.56	11,046,987
May	125.99	144.43	122.68	137.84	9,279,856
June	138.33	138.37	120.13	127.53	9,629,539
July	128.73	134.90	124.86	126.13	8,256,631
August	128.55	130.77	121.39	123.87	5,799,831
September	125.01	133.30	122.74	127.09	7,552,501
October	126.81	152.00	126.42	149.04	9,642,938
November	150.18	164.71	149.69	161.89	5,963,120
December	162.01	167.00	157.60	160.65	4,946,306

The following table provides the monthly composite trading information for our Common Shares on the New York Stock Exchange during 2013:

New York Stock Exchange Month	Opening Price per Share ($)	High Price per Share ($)	Low Price per Share ($)	Closing Price per Share ($)	Volume of Shares Traded
January	104.00	118.07	103.82	115.53	18,207,917
February	116.19	122.22	112.51	121.52	15,243,437
March	121.15	130.81	120.60	130.47	14,253,666
April	130.68	130.68	115.60	124.62	22,724,623
May	124.59	139.99	121.66	131.99	17,246,944
June	133.33	133.50	113.82	121.38	19,677,184
July	122.39	129.79	118.30	122.88	17,200,377
August	124.66	126.22	115.54	118.03	12,069,280
September	118.75	129.81	116.51	123.30	10,339,807
October	123.21	145.41	122.50	143.07	19,320,891
November	143.56	155.30	143.31	153.88	9,182,965
December	153.57	156.96	148.22	151.32	9,086,149

Table of Contents

8. DIRECTORS AND OFFICERS

Following are the names and municipalities of residence of the directors and officers of the Company, their positions and principal occupations within the past five years, the period during which each director has served as director of the Company, and the date on which each director's term of office expires.

8.1 Directors

Name and Municipality of Residence	Position Held and Principal Occupation within the Preceding Five Years (1)	Year of Annual Meeting at which Term of Office Expires (Director Since)
Paul G. Haggis Canmore, Alberta, Canada	Chairman, Canadian Pacific Railway Company and Canadian Pacific Railway Limited	2014 (2012)
William A. Ackman(3)(4) New York, New York, U.S.A.	Founder, Chief Executive Officer Pershing Square Capital Management, L.P. (investment advisor)	2014 (2012)
Gary F. Colter(2)(4) Mississauga, Ontario, Canada	President, CRS Inc. (corporate restructuring and strategy consulting company)	2014 (2012)
Isabelle Courville(2)(6) Rosemere, Quebec, Canada	Corporate Director	2014 (2013)
E. Hunter Harrison(6) Wellington, Florida, U.S.A.	Chief Executive Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited	2014 (2012)
Paul C. Hilal(4)(5) New York, New York, U.S.A.	Partner, Pershing Square Capital Management, L.P. (investment advisor)	2014 (2012)
Krystyna T. Hoeg, C.A. (3)(5) Toronto, Ontario, Canada	Corporate Director	2014 (2007)
Richard C. Kelly (2)(4) Denver, Colorado, U.S.A.	Retired Chairman and Chief Executive Officer, Xcel Energy Inc. (utility supplier of electric power and natural gas)	2014 (2008)
Rebecca MacDonald(3)(5) Toronto, Ontario, Canada	Founder, Executive Chair, Just Energy Group Inc. (independent marketer of deregulated gas and electricity)	2014 (2012)
Dr. Anthony R. Melman(4)(6) Toronto, Ontario, Canada	President and Chief Executive Officer, Acasta Capital (strategic and financial advisor)	2014 (2012)
Linda J. Morgan (2)(6) Bethesda, Maryland, U.S.A.	Partner, Nossaman LLP (law firm)	2014 (2006)
The Hon. Jim Prentice, P.C., Q.C.(3)(6) Calgary, Alberta, Canada	Senior Executive Vice-President and Vice-Chairman Canadian Imperial Bank of Commerce (financial services)	2014 (2013)
Andrew F. Reardon(5)(6) Marco Island, Florida, U.S.A.	Retired Chairman and Chief Executive Officer, TTX Company (railcar leasing company)	2014 (2013)
Stephen C. Tobias(3)(5)(6) Garnett, South Carolina, U.S.A.	Former Vice-Chairman and Chief Operating Officer, Norfolk Southern Corporation (U.S. Class I railroad)	2014 (2012)

(1) P.G. Haggis has been Chairman of the Board of Alberta Enterprise Corporation since March 2009 and was Chairman of the Board of C.A. Bancorp Inc. from July 2011 to March 2013. I. Courville has been Chair of the Laurentian Bank of Canada since March 2013 and was President, Hydro Quebec Distribution from 2011 to 2013 and President, Hydro Quebec TransEnergie from 2007 to 2011. E.H. Harrison was President and Chief Executive Officer of Canadian National Railway from 2003 to 2009. R.C. Kelly was President of Xcel Energy Inc. from 2005 to 2009. L.J. Morgan was Partner from 2003 to 2012 at Covington & Burling LLP. J. Prentice held various ministerial positions in the Government of Canada from 2006 to 2011. A.F. Reardon was Chairman and Chief Executive Officer in 2008, President and Chief Executive Officer from 2001 to 2008 of TTX Company and attorney of Reardon and Chasar LLP from 2008 to 2011. S.C. Tobias was Vice-Chairman and Chief Operating Officer of Norfolk Southern Corporation from 1998 to 2009.

(2) Member of the Audit Committee.

(3) Member of the Corporate Governance and Nominating Committee.

(4) Member of the Finance Committee.

(5) Member of the Management Resources and Compensation Committee.

(6) Member of the Safety, Operations and Environment Committee.

Table of Contents

8.2 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Mr. Harrison was a director of Dynegy Inc. ("Dynegy") from March 9 to December 16, 2011 (Chairman from July 11 to December 16, 2011), as well as its Interim President and Chief Executive Officer from April 9 to July 11, 2011. On July 6, 2012, Dynegy filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code, such filing being primarily a technical step necessary to facilitate the restructuring of one or more Dynegy subsidiaries. Dynegy exited bankruptcy on October 1, 2012.

Mr. R. Kelly was President and Chief Executive Officer of NRG Energy, Inc. ("NRG"), a former subsidiary of Xcel Energy Inc. from June 6, 2002 to May 14, 2003, and a director of NRG from June 2000 to May 14, 2003. In May 2003, NRG and certain of NRG's affiliates filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code to restructure their debt. NRG emerged from bankruptcy on December 5, 2003.

8.3 Senior Officers

As at March 5, 2014, the following were executive officers of CP:

Name and Municipality of Residence	Position Held	Principal Occupation Within the Preceding Five Years
E.H. Harrison Wellington, Florida, U.S.A.	Chief Executive Officer	Chief Executive Officer; President and Chief Executive Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chairman of the Board, Dynegy Inc.; Interim President and Chief Executive Officer, Dynegy Inc.; President and Chief Executive Officer, Canadian National Railway Company
K.E. Creel Chicago, Illinois, U.S.A.	President and Chief Operating Officer	President and Chief Operating Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Executive Vice-President and Chief Operating Officer, Canadian National Railway Company; Executive Vice-President, Operations, Canadian National Railway Company
B.W. Demosky Calgary, Alberta, Canada	Executive Vice-President and Chief Financial Officer	Executive Vice-President and Chief Financial Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chief Financial Officer, Suncor Energy Inc.; Senior Vice-President of Business Services, Suncor Energy Inc.
J. A. O'Hagan Calgary, Alberta, Canada	Executive Vice-President and Chief Marketing Officer	Executive Vice-President and Chief Marketing Officer; Senior Vice-President, Marketing and Sales and Chief Marketing Officer; Senior Vice-President, Strategy and Yield; Vice-President, Strategy and External Affairs, Canadian Pacific Railway Company and Canadian Pacific Railway Limited
P. J. Edwards Calgary, Alberta, Canada	Vice-President, Human Resources and Labour Relations	Vice-President, Human Resources and Labour Relations; Vice-President Human Resources, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President Human Resources, Canadian National Railway Company
P. A. Guthrie, Q.C. Municipal District of Rockyview, Alberta, Canada	Chief Legal Officer and Corporate Secretary	Chief Legal Officer and Corporate Secretary; Vice-President, Law and Risk Management; Vice-President Law, Canadian Pacific Railway Company and Canadian Pacific Railway Limited
M. Redeker St. Albert, Alberta, Canada	Vice-President and Chief Information Officer	Vice-President and Chief Information Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chief Information Officer, ATB Financial; Chief Technology Officer, ATB Financial
M. Wallace Calgary, Alberta, Canada	Vice-President, Corporate Affairs and Chief of Staff	Vice-President, Corporate Affairs and Chief of Staff; Chief of Staff – Office of the President and CEO, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Client Partner, Longview Communications Inc.; Head of Investor Relations, Husky Injection Molding Systems Inc.; Assistant Vice-President Public Affairs, Canadian National Railway Company

8.4 Shareholdings of Directors and Officers

As at December 31, 2013, the directors and executive officers of CPRL owned or controlled a total of 17,367,748 shares representing approximately 9.90% of the outstanding shares at that date (175,451,268). Mr. Ackman exercises control over the voting and disposition of 17,159,888 of such shares which are beneficially owned by Pershing Square Capital Management, L.P. and its affiliates.

Table of Contents

9. LEGAL PROCEEDINGS

We are involved in various claims and litigation arising in the normal course of business. There are no significant legal proceedings currently in progress.

Table of Contents

10. TRANSFER AGENTS AND REGISTRARS

10.1 Transfer Agent

Computershare Investor Services Inc., with transfer facilities in Montreal, Toronto, Calgary and Vancouver, serves as transfer agent and registrar for CP's Common Shares in Canada.

Computershare Trust Company NA, Denver, Colorado, serves as co-transfer agent and co-registrar for CP's Common Shares in the U.S.

Requests for information should be directed to:

Computershare Investor Services Inc.
100 University Avenue, 8th Floor
Toronto, Ontario, Canada
M5J 2Y1

Table of Contents

11. INTERESTS OF EXPERTS

Deloitte LLP, Chartered Accountants, Calgary, Alberta, have issued their audit report dated March 5, 2014, in respect of the Company's consolidated financial statements as at December 31, 2013 and 2012 and for each of the years in the three-year period ended December 31, 2013. Deloitte LLP is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta and is independent within the meaning of the applicable rules and regulations adopted by the U.S. Securities and Exchange Commission and the Public Company Accounting Oversight Board (United States).

Table of Contents

12. AUDIT COMMITTEE

12.1 Composition of the Audit Committee and Relevant Education and Experience

The following individuals comprise the entire membership of the Audit Committee (“the Committee”). Each member of the Committee has been determined by the Board to be independent and financially literate as defined under National Instrument 52-110 – Audit Committees.

G.F. Colter – Mr. Colter is the President of CRS Inc., a corporate restructuring, strategic and management consulting company, which he founded in 2002. Previously, Mr. Colter spent 34 years with KPMG Canada and its predecessor firm Peat Marwick, where he was a Partner for 27 years, holding various senior positions, including Vice Chairman of Financial Advisory Services and member of the Management Committee from 1989 to 1998. From 1998 to 2000, Mr. Colter was Global Managing Partner of Financial Advisory Services and a member of a then new International Executive Team for KPMG International. In 2002, he retired as Vice Chairman of KPMG Canada. Since 2002, Mr. Colter has been a director of Owens-Illinois Inc. In 2003, he joined the board of Canadian Imperial Bank of Commerce and in 2004 he joined the board of Core-Mark Holding Company, Inc. In 2005, he joined the board of Retirement Residences REIT, later known as Revera Inc. Mr. Colter has a B.A. (Honours) in Business Administration from the Ivey Business School of the University of Western Ontario, and is a Fellow Chartered Accountant.

I. Courville – Ms. Courville is a Corporate Director. From 2011 to 2013 she served as President of Hydro-Québec Distribution and from 2006 to 2011 she was President of Hydro-Québec TransÉnergie, both divisions of Hydro-Québec. Previously, she served as President of the Enterprise Group of Bell Canada and as President and Chief Executive Officer of Bell Nordiq Group (Télébec NorthernTel), a subsidiary of Bell Canada. Ms. Courville is currently Chair of the Board of Laurentian Bank of Canada, a director of Group TVA Inc. and a director of École Polytechnique de Montréal. Prior board memberships include Miranda Technologies Inc., Chamber of Commerce of Metropolitan Montreal, NPCC (Northeast Power Coordinating Council) and St. Justine Hospital Foundation. Ms. Courville holds a Bachelor’s degree in Engineering Physics from the École Polytechnique de Montréal and a Bachelor’s degree in Civil Law from McGill University.

R. C. Kelly – Mr. Kelly is the Retired Chairman and Chief Executive Officer of Xcel Energy Inc., a utility supplier of electric power and natural gas service in eight Western and Midwestern States. He held that position from September 2009 until retirement in September 2011. From December 2005 to September 2009 he was Chairman of the Board, President and Chief Executive Officer; from June to mid-December 2005 he served as President and Chief Executive Officer; and previous to that he served as Chief Financial Officer. Mr. Kelly is a director of Pacific Gas and Electric Corporation and is Chairman of the Board of Trustees, Regis University. Mr. Kelly earned both an M.B.A. and a Bachelor’s degree in accounting from Regis University.

L. J. Morgan – Ms. Morgan is a Partner at Nossaman LLP, a premier transportation infrastructure law firm based in the United States. Prior to joining Nossaman in September of 2011, she was a Partner at Covington & Burling LLP, a United States based international law firm, where she chaired its transportation and government affairs practices. She also serves on the Board of Visitors for the Georgetown University Law Center and the Business Advisory Committee for Northwestern University's Transportation Center. Ms. Morgan was previously Chairman of the United States Surface Transportation Board, and its predecessor the Interstate Commerce Commission, from March 1995 to December 2002. Prior to joining the Interstate Commerce Commission, Ms. Morgan served as General Counsel to the Senate Committee on Commerce, Science and Transportation. She graduated from Vassar College with an A.B. and the Georgetown University Law Center with a J.D., and is an alumna of the Program for Senior Managers in Government at Harvard University's John F. Kennedy School of Government.

12.2 Pre-Approval of Policies and Procedures

The Committee has adopted a written policy governing the pre-approval of audit and non-audit services to be provided to CP by our independent auditors. The policy is reviewed annually and the audit and non-audit services to be provided by our

Table of Contents

independent auditors, as well as the budgeted amounts for such services, are pre-approved at that time. Our Comptroller must submit to the Committee at least quarterly a report of all services performed or to be performed by our independent auditors pursuant to the policy. Any additional audit or non-audit services to be provided by our independent auditors either not included among the pre-approved services or exceeding the budgeted amount for such pre-approved services by more than 10% must be individually pre-approved by the Committee or its Chairman, who must report all such additional pre-approvals to the Committee at its next meeting following the granting thereof. Our independent auditors' annual audit services engagement terms and fees are subject to the specific pre-approval of the Committee. In addition, prior to the granting of any pre-approval, the Committee or its Chairman, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of our independent auditors. Our Chief Internal Auditor monitors compliance with this policy.

12.3 Audit Committee Charter

The term "Corporation" herein shall refer to each of Canadian Pacific Railway Limited ("CPRL") and Canadian Pacific Railway Company ("CPRC"), and the terms "Board," "Directors", "Board of Directors" and "Committee" shall refer to the Board, Directors, Board of Directors, or Committee of CPRL or CPRC, as applicable.

A. Committee and Procedures

1. Purpose

The purposes of the Audit Committee (the "Committee") of the Board of Directors of the Corporation are to fulfill applicable public company audit committee legal obligations and to assist the Board of Directors in fulfilling its oversight responsibilities in relation to the disclosure of financial statements and information derived from financial statements, including:

- the review of the annual and interim financial statements of the Corporation;
- the integrity and quality of the Corporation's financial reporting and systems of internal control;
- the Corporation's compliance with applicable legal and regulatory requirements;
- the qualifications, independence, engagement, compensation and performance of the Corporation's external auditors; and
- the performance of the Corporation's internal audit function;

and to prepare, if required, an audit committee report for inclusion in the Corporation's annual management proxy circular, in accordance with applicable rules and regulations. In addition, the Committee will assist the Board with the identification of the principal risks of the Corporation's business and ensure the implementation of appropriate risk assessment and risk management policies and processes to manage these risks.

The Corporation's external auditors shall report directly to the Committee.

2. Composition of Committee

The members of the Committee of each of CPRL and CPRC shall be identical and shall be Directors of CPRL and CPRC, respectively. The Committee shall consist of not less than three and not more than the number of Directors who are not officers or employees of the Corporation, none of whom is either an officer or employee of the Corporation or any of its subsidiaries. Members of the Committee shall meet applicable requirements and guidelines for audit committee service, including requirements and guidelines with respect to being independent and unrelated to the Corporation and to having accounting or related financial management expertise and financial literacy, as set forth in applicable securities laws or the rules of any stock exchange on which the Corporation's securities are listed for trading. No Director shall be eligible to serve on the Committee if such Director currently serves on the audit committees of three public companies other than the Corporation, unless the Board of Directors has determined that such simultaneous service would not impair the ability of such member to effectively serve on the Committee. Determinations as to whether a

Table of Contents

particular Director satisfies the requirements for membership on the Committee shall be affirmatively made by the full Board, upon recommendation from the Corporate Governance and Nominating Committee.

3. Appointment of Committee Members

Members of the Committee shall be appointed from time to time by the Board and shall hold office at the pleasure of the Board.

4. Vacancies

Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board. The Board shall fill a vacancy whenever necessary to maintain a Committee membership of at least three Directors.

5. Committee Chair

The Board shall appoint a Chair for the Committee.

6. Absence of Committee Chair

If the Chair of the Committee is not present at any meeting of the Committee, one of the other members of the Committee who is present at the meeting shall be chosen by the Committee to preside at the meeting.

7. Secretary of Committee

The Committee shall appoint a Secretary who need not be a Director of the Corporation.

8. Meetings

The Committee shall meet at regularly scheduled meetings at least once every quarter and shall meet at such other times during each year as it deems appropriate, and as part of such meetings, shall meet in executive session without management being present. In addition, the Chair of the Committee or the Chairman of the Board or any two of its other members may call a meeting of the Committee at any time.

9. Quorum

Three members of the Committee shall constitute a quorum.

10. Notice of Meetings

Notice of the time and place of every meeting shall be given in writing by any means of transmitted or recorded communication, including facsimile, telex, telegram or other electronic means that produces a written copy, to each member of the Committee at least 24 hours prior to the time fixed for such meeting; provided however, that a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting constitutes a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

11. Attendance of Others at Meetings

At the invitation of the Chair of the Committee, other individuals who are not members of the Committee may attend any meeting of the Committee.

12. Procedure, Records and Reporting

Subject to any statute or the articles and by-laws of the Corporation, the Committee shall fix its own procedures at meetings, keep records of its proceedings and report to the Board when the Committee may deem appropriate (but not later than the next regularly scheduled meeting of the Board).

13. Delegation

The Committee may delegate from time to time to any person or committee of persons any of the Committee's responsibilities that may be lawfully delegated.

14. Report to Shareholders

The Committee shall prepare a report to shareholders or others, concerning the Committee's activities in the discharge of its

Table of Contents

responsibilities, when and as required by applicable laws or regulations.

15. Guidelines to Exercise of Responsibilities

The Board recognizes that meeting the responsibilities of the Committee in a dynamic business environment requires a degree of flexibility. Accordingly, the procedures outlined in these Terms of Reference are meant to serve as guidelines rather than inflexible rules, and the Committee may adopt such different or additional procedures as it deems necessary from time to time.

16. Use of Outside Legal, Accounting or Other Advisers; Appropriate Funding

The Committee may retain, at its discretion, outside legal, accounting or other advisors, at the expense of the Corporation, to obtain advice and assistance in respect of any matters relating to its duties, responsibilities and powers as provided for or imposed by these Terms of Reference or otherwise by law.

The Committee shall be provided by the Corporation with appropriate funding, as determined by the Committee, for payment of:

(i) compensation of any outside advisers as contemplated by the immediately preceding paragraph;

(ii) compensation of any independent auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation; or

(iii) ordinary administrative expenses that are necessary or appropriate in carrying out the Committee's duties.

All outside legal, accounting or other advisors retained to assist the Committee shall be accountable ultimately to the Committee.

17. Remuneration of Committee Members

No member of the Committee shall receive from the Corporation or any of its affiliates any compensation other than the fees to which he or she is entitled as a Director of the Corporation or a member of a committee of the Board. Such fees may be paid in cash and/or shares, options or other in-kind consideration ordinarily available to Directors.

B. Mandate of Committee

1. Committee Role:

The Committee's role is one of oversight. Management is responsible for preparing the interim and annual financial statements of the Corporation and for maintaining a system of risk assessment and internal controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly, for maintaining disclosure controls and procedures to ensure that it is informed on a timely basis of material developments and the Corporation complies with its public disclosure obligations, and for ensuring compliance by the Corporation with applicable legal and regulatory requirements. The external auditors are responsible for auditing the Corporation's financial statements.

In carrying out its oversight responsibilities: (i) each member of the Committee is entitled to, absent knowledge to the contrary, rely upon the accuracy and completeness of the Corporation's records and upon information, opinions, reports or statements presented by any of the Corporation's officers or employees, or consultants of the Corporation which the member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation; and (ii) the Committee and its members do not provide any professional certification or special assurance as to the Corporation's financial statements or the external auditors' work.

The Committee shall:

External Auditors' Report on Annual Audit

a) obtain and review annually prior to the completion of the external auditors' annual

Table of Contents

audit of the year-end financial statements a report from the external auditors describing:

(i) all critical accounting policies and practices to be used;

(ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors; and

(iii) other material written communications between the external auditors and management, such as any management letter or schedule of unadjusted differences;

Management's/Internal Auditors' Reports on External Audit Issues

b) review any reports on the above or similar topics prepared by management or the internal auditors and discuss with the external auditors any material issues raised in such reports;

Annual Financial Reporting Documents and External Auditors' Report

c) meet to review with management, the internal auditors and the external auditors the Corporation's annual financial statements, the report of the external auditors thereon, the related Management's Discussion and Analysis, and the information derived from the financial statements, as contained in the Annual Information Form and the Annual Report. Such review will include obtaining assurance from the external auditors that the audit was conducted in a manner consistent with applicable law and will include a review of:

(i) all major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting policies or principles;

(ii) all significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including the effects on the financial statements of alternative methods within generally accepted accounting principles;

(iii) the effect of regulatory and accounting issues, as well as off-balance sheet structures, on the financial statements;

(iv) all major issues as to the adequacy and effectiveness of the Corporation's internal controls and any special steps adopted in light of material control deficiencies and any consideration by the external auditors of fraud during the performance of the audit of the Corporation's annual financial statements; and

(v) the external auditors' judgment about the appropriateness and quality, not just the acceptability, of the accounting principles applied in the Corporation's financial reporting;

d) following such review with management and the external auditors, recommend to the Board whether to approve the audited annual financial statements of the Corporation and the related Management's Discussion and Analysis, and report to the Board on the review by the Committee of the information derived from the financial statements contained in the Annual Information Form and Annual Report;

Interim Financial Statements and MD&A

e) review with management, the internal auditors and the external auditors the Corporation's interim financial statements and its interim Management's Discussion and Analysis, and if thought fit, approve the interim financial statements and

Table of Contents

interim Management's Discussion and Analysis and the public release thereof by management;

Earnings Releases, Earnings Guidance

f) review and discuss earnings press releases, including the use of "pro forma" or "adjusted" information determined other than in accordance with generally accepted accounting principles, and the disclosure by the Corporation of earnings guidance and other financial information to the public including analysts and rating agencies, it being understood that such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and be satisfied that adequate procedures are in place for the review of such public disclosures and periodically assess the adequacy of those procedures;

Material Litigation, Tax Assessments, Etc.

g) review with management, the external auditors and, if necessary, legal counsel all legal and regulatory matters and litigation, claims or contingencies, including tax assessments, that could have a material effect upon the financial position of the Corporation, and the manner in which these matters may be, or have been, disclosed in the financial statements; and obtain reports from management and review with the Corporation's chief legal officer, or appropriate delegates, the Corporation's compliance with applicable legal and regulatory requirements;

Oversight of External Auditors

h) subject to applicable law relating to the appointment and removal of the external auditors, be directly responsible for the appointment, retention, termination and oversight of the external auditors; recommend to the Board the approval of compensation of the external auditors as such compensation relates to the provision of audit services; and be responsible for the resolution of disagreements between management and the external auditors regarding financial reporting;

Rotation of External Auditors' Audit Partners

i) review and evaluate the lead audit partner of the external auditors and assure the regular rotation of the lead audit partner and the audit partner responsible for reviewing the audit and other audit partners, as required by applicable law;

External Auditors' Internal Quality Control

j) obtain and review, at least annually, and discuss with the external auditors a report by the external auditors describing the external auditors' internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues;

External Auditors' Independence

k) review and discuss, at least annually (and prior to the engagement of any new external auditors), with the external auditors all relationships that the external auditors and their affiliates have with the Corporation and its affiliates in order to assess the external auditors' independence, including, without limitation:

  (i) obtaining and reviewing, at least annually, a formal written statement from the external auditors delineating all relationships that in the external auditors' professional judgment may reasonably be thought to bear on the independence of the external auditors with respect to the Corporation;

  (ii) discussing with the external auditors any disclosed relationships or services

Table of Contents

that may affect the objectivity and independence of the external auditors; and

(iii) recommending that the Board take appropriate action in response to the external auditors' report to satisfy itself as to the external auditors' independence;

Policies Regarding Hiring of External Auditors' Employees, Former Employees

l) set clear policies for the hiring by the Corporation of partners, employees and former partners and employees of the external auditors;

Pre-Approval of Audit and Non-Audit Services Provided by External Auditors

m) be solely responsible for the pre-approval of all audit and non-audit services to be provided to the Corporation and its subsidiary entities by the external auditors (subject to any prohibitions provided in applicable law), and of the fees paid for the non-audit services; provided however, that the Committee may delegate, to an independent member or members of the Committee, authority to pre-approve such non-audit services, and such member(s) shall report to the Committee at its next scheduled meeting following the granting any pre-approvals granted pursuant to such delegated authority;

n) review the external auditors' annual audit plan (including scope, staffing, location, reliance on management and internal controls and audit approach);

o) review the external auditors' engagement letter;

Oversight of Internal Audit

p) oversee the internal audit function by being directly responsible for the appointment or dismissal of the Chief Internal Auditor, who shall report directly to the Committee and administratively to the Chief Legal Officer and Corporate Secretary; afford the Chief Internal Auditor unrestricted access to the Committee; review the charter, activities, internal audit plan, organizational structure, and the skills and experience of the Internal Audit Department; discuss with management and the external auditors the competence, performance, resources, and cooperation of the internal auditors; and approve, after discussion with management and proper performance evaluation, the compensation of the Chief Internal Auditor;

q) review and consider, as appropriate, any significant reports and recommendations issued by the Corporation or by any external party relating to internal audit issues, together with management's response thereto;

Internal Controls and Financial Reporting Processes

r)

review with management, the internal auditors and the external auditors, the Corporation's financial reporting processes and its internal controls;

s) review with the internal auditors the adequacy of internal controls and procedures related to any corporate transactions in which Directors or officers of the Corporation have a personal interest, including the expense accounts of officers of the Corporation at the level of Vice-President and above and officers' use of corporate assets, and consider the results of any reviews thereof by the internal or external auditors;

CEO and Chairman Expenses

t) by its Chairman, approve the expense claims of the Chief Executive Officer and of the Chairman of the Board of Directors, and the Chairman shall, at least annually, provide a report to the Committee on such expense claims which report shall be reviewed and discussed;

Table of Contents

Complaints Processes

u) establish procedures for:

(i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and

(ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;

and review periodically with management and the internal auditors these procedures and any significant complaints received;

Separate Meetings with External Auditors, Internal Audit, Management

v) meet separately with management, the external auditors and the internal auditors periodically to discuss matters of mutual interest, including any audit problems or difficulties and management's response thereto, the responsibilities, budget and staffing of the Internal Audit Department and any matter that they recommend bringing to the attention of the full Board;

Enterprise Risk Management

w) discuss risk assessment and risk management policies and processes to be implemented for the Corporation, review with management and the Corporation's internal auditors the effectiveness and efficiency of such policies and processes and their compliance with other relevant policies of the Corporation, and make recommendations to the Board with respect to any outcomes, findings and issues arising in connection therewith;

x) review management's program to obtain appropriate insurance to mitigate risks;

y) oversee risks that may have a material impact on the Corporation's financial statements;

Tax

z) review the Corporation's tax status and monitor its approach to tax strategy that may have a material impact on the Corporation's financial statements, including tax reserves and potential reassessments and audits;

Codes of Ethics

aa) monitor compliance with the Corporation's code of business ethics and the code of ethics applicable to the Chief Executive Officer and senior financial officers of the Corporation, as well as waivers from compliance therefrom, and ensure that any issues relating to financial governance which are identified by the Directors are raised with management;

Review of Terms of Reference

bb) review and reassess the adequacy of these Terms of Reference annually or otherwise as it deems appropriate and recommend changes to the Board;

Other

cc) perform such other activities, consistent with these Terms of Reference, the Corporation's articles and by-laws and governing law, as the Committee or the Board deems appropriate; and

dd) report regularly to the Board of Directors on the activities of the Committee.

November 27, 2013

Table of Contents

12.4 Audit and Non-Audit Fees and Services

Deloitte LLP ("Deloitte") was appointed as the independent auditor of the Company in May 2011 for fiscal year 2011.

In accordance with applicable laws and the requirements of stock exchanges and securities regulatory authorities, the Audit Committee of the Company must pre-approve all audit and non-audit services to be provided by the independent auditors. Fees payable to Deloitte LLP for the years ended December 31, 2013, and December 31, 2012, totaled $2,213,000 and $2,166,100, respectively, as detailed in the following table:

	Year ended December 31, 2013	Year ended December 31, 2012
Audit Fees	$ 1,943,000	$ 2,090,300
Audit-Related Fees	228,500	27,500
Tax Fees	41,500	48,300
All Other Fees	–	–
TOTAL	$ 2,213,000	$ 2,166,100

The nature of the services provided under each of the categories indicated in the table is described below:

12.4.1 Audit Fees

Audit fees were for professional services rendered for the audit and interim reviews of the Registrants' annual financial statements and services provided in connection with statutory and regulatory filings or engagements, including the attestation engagement for the report from the independent registered public accounting firm on the effectiveness of internal controls over financial reporting, the audit or interim reviews of financial statements of certain subsidiaries and of various pension and benefits plans of the Registrants; special attestation services as may be required by various government entities; access fees for technical accounting database resources; and general advice and assistance related to accounting and/or disclosure matters with respect to new and proposed U.S. and Canadian accounting standards, securities regulations, and/or laws.

12.4.2 Audit-Related Fees

Audit-related fees were for attestation and related services reasonably related to the performance of the audit or review of the annual financial statements, but which are not reported under "Audit Fees" above. These services consisted of audit work related to securities filings.

12.4.3 Tax Fees

Tax fees were for professional services related to tax compliance, tax planning and tax advice. These services consisted of: tax compliance including the review of tax returns; assistance with questions regarding corporate tax audits; tax planning and advisory services relating to common forms of domestic and international taxation (i.e. income tax, capital tax, goods and services tax, and value added tax); and access fees for taxation database resources.

12.4.4 All Other Fees

Fees disclosed under this category would be for products and services other than those described under "Audit Fees", "Audit-Related Fees" and "Tax Fees" above. There were no such services in 2013 or 2012.

Table of Contents

13. FORWARD-LOOKING INFORMATION

This AIF contains certain forward-looking statements within the meaning of the *Private Securities Litigation Reform Act of 1995* (U.S.) and other relevant securities legislation relating, but not limited to expected improvements in operating efficiency and fluidity, the ability of information technology to improve service and provide sophisticated billing options, the benefits of lean process and continuous improvement principles, the cost of environmental remediation and anticipated capital expenditures. Forward-looking information typically contains statements with words such as “anticipate”, “believe”, “expect”, “plan” or similar words suggesting future outcomes.

Readers are cautioned not to place undue reliance on forward-looking information because it is possible that we will not achieve predictions, forecasts, projections and other forms of forward-looking information. Current economic conditions render assumptions, although reasonable when made, subject to greater uncertainty. In addition, except as required by law, we undertake no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

By its nature, our forward-looking information involves numerous assumptions, inherent risks and uncertainties, including but not limited to the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks in agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demand; inflation; changes in laws and regulations, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions on the financial position of pension plans and investments; and various events that could disrupt operations, including severe weather, droughts, floods, avalanches and earthquakes as well as security threats and the governmental response to them, and technological changes.

There are more specific factors that could cause actual results to differ materially from those described in the forward-looking statements contained in this AIF. These more specific factors are identified and discussed in Section 21, Business Risks and elsewhere in the 2013 MD&A.

Table of Contents

14. ADDITIONAL INFORMATION

14.1 Additional Company Information

Additional information about CP is available on SEDAR (System for Electronic Document Analysis and Retrieval) at www.sedar.com in Canada, and on the U.S. Securities and Exchange Commission's website (EDGAR) at www.sec.gov. The aforementioned information is issued and made available in accordance with legal requirements and is not incorporated by reference into this AIF except as specifically stated.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, where applicable, is contained in the information circular for our most recent annual meeting of shareholders at which directors were elected.

Additional financial information is provided in our Consolidated Financial Statements and MD&A for the most recently completed financial year.

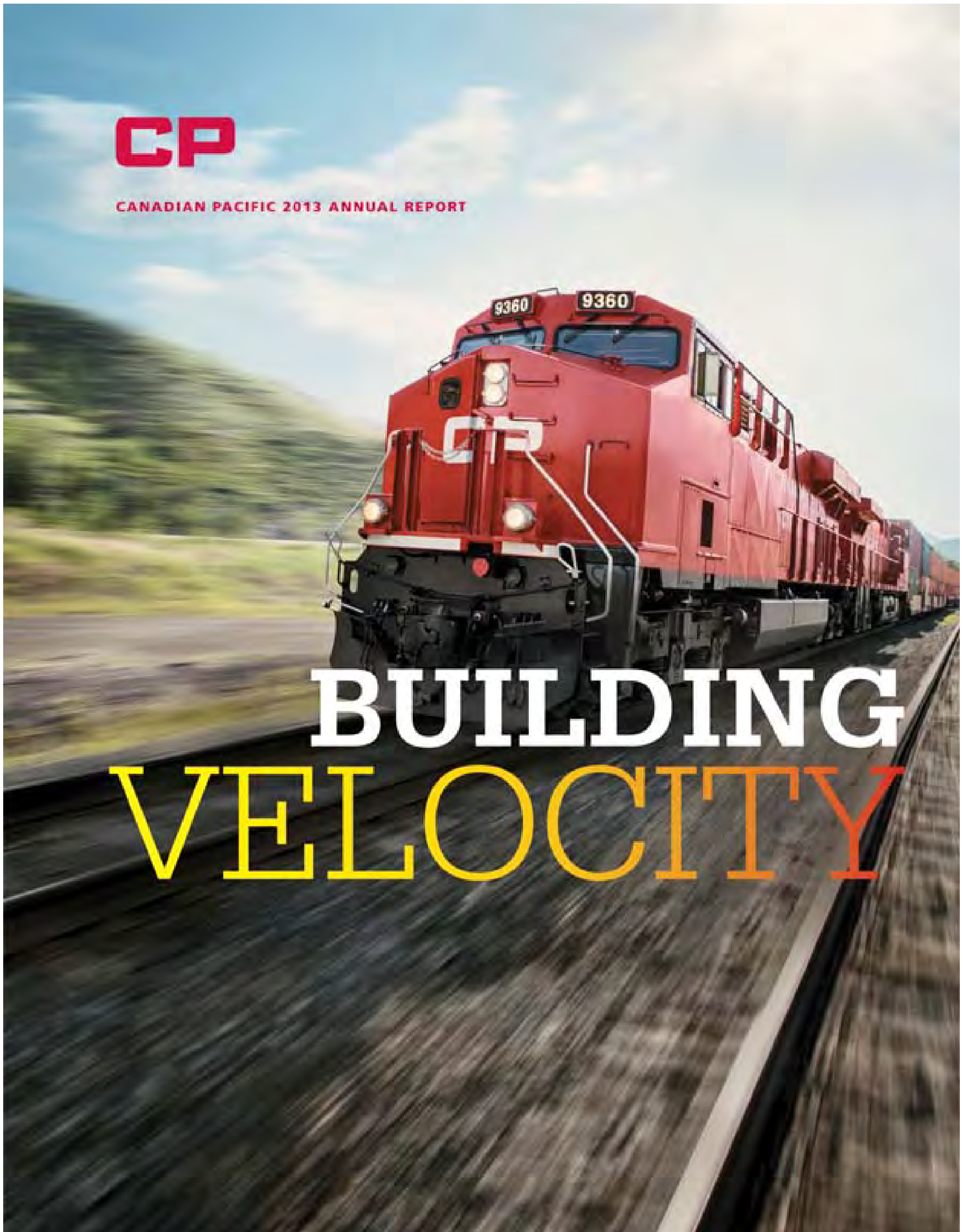
This information is also available on our website at www.cpr.ca.

Table of Contents

Canadian Pacific
7550 Ogden Dale Road SE
Calgary Alberta
Canada T2C 4X9

www.cpr.ca

Table of Contents



CP
CANADIAN PACIFIC 2013 ANNUAL REPORT
BUILDING VELOCITY

Table of Contents

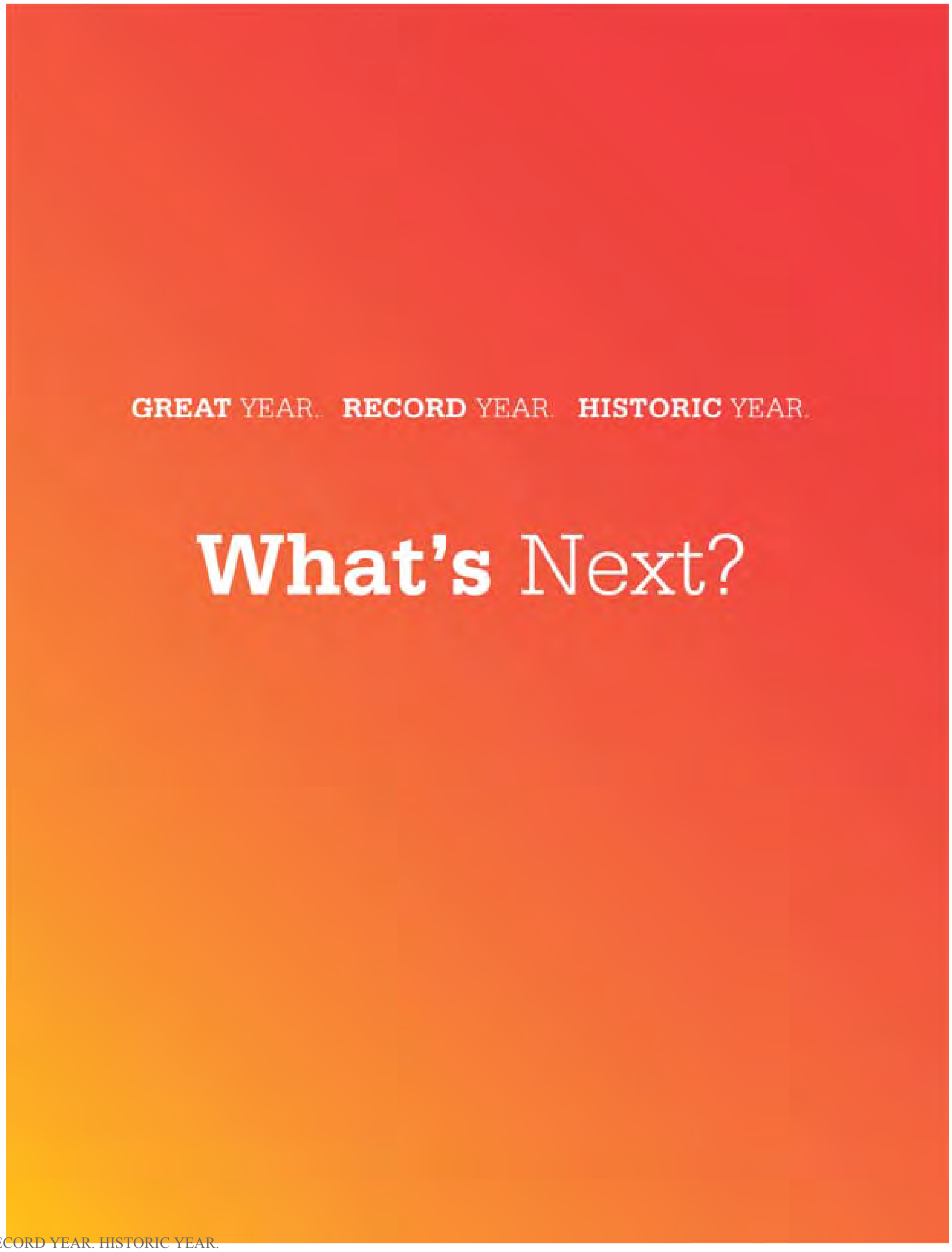
FINANCIAL HIGHLIGHTS

$ in millions, except per share data, or unless otherwise indicated	**2013**	2012	2011
Financial results			
Revenues	**$ 6,133**	$ 5,695	$ 5,177
Operating income	**1,420**	949	967
Operating income, excluding significant items (1)(2)	**1,844**	1,309	967
Net income	**875**	484	570
Income, excluding significant items (1)(2)	**1,132**	753	538
Diluted earnings per share	**4.96**	2.79	3.34
Diluted earnings per share, excluding significant items (1)(2)	**6.42**	4.34	3.15
Dividend declared per share	**1.4000**	1.3500	1.1700
Additions to properties	**1,236**	1,148	1,104
Financial position			
Total assets	**17,060**	14,727	14,110
Long-term debt, including current portion	**4,876**	4,690	4,745
Shareholders' equity	**7,097**	5,097	4,649
Financial ratios (%)			
Operating ratio	**76.8**	83.3	81.3
Operating ratio, excluding significant items (1)(2)	**69.9**	77.0	81.3
Debt-to-total capitalization	**40.7**	47.9	50.7

(1) These earnings measures have no standardized meanings prescribed by U.S. GAAP and, therefore, are unlikely to be comparable to similar measures of other companies. These earnings measures are described further and reconciled to the most directly comparable GAAP measure in Section 15 Non-GAAP Measures of our Management's Discussion and Analysis included within this Annual Report.

(2) Significant items in 2013 were: an asset impairment charge and accruals for future costs totalling $435 million ($257 million after tax) relating to the anticipated sale of DM&E West, a recovery of $7 million ($5 million after tax) for our 2012 labour restructuring initiative, management transition costs related to the change of our Chief Financial Officer totalling $5 million ($4 million after tax), an income tax expense of $7 million as a result of the change in British Columbia's corporate income tax rate, and US$9 million (US$6 million after tax) from the favourable settlement of certain management transition amounts which had been subject to legal proceedings. Significant items in 2012 were: an impairment of the Powder River Basin and another investment of $185 million ($111 million after tax), an impairment charge of certain locomotives of $80 million ($59 million after tax), a labour restructuring charge of $53 million ($39 million after tax), management transition costs of $42 million ($29 million after tax), advisory fees related to shareholder matters of $27 million ($20 million after tax) and an income tax expense of $11 million as a result of the increase in the Ontario corporate income tax rate. Significant items in 2011 were: advisory fees related to shareholder matters of $6 million ($5 million after tax) and the $37 million income tax benefit from the resolution of certain income tax matters.

Table of Contents

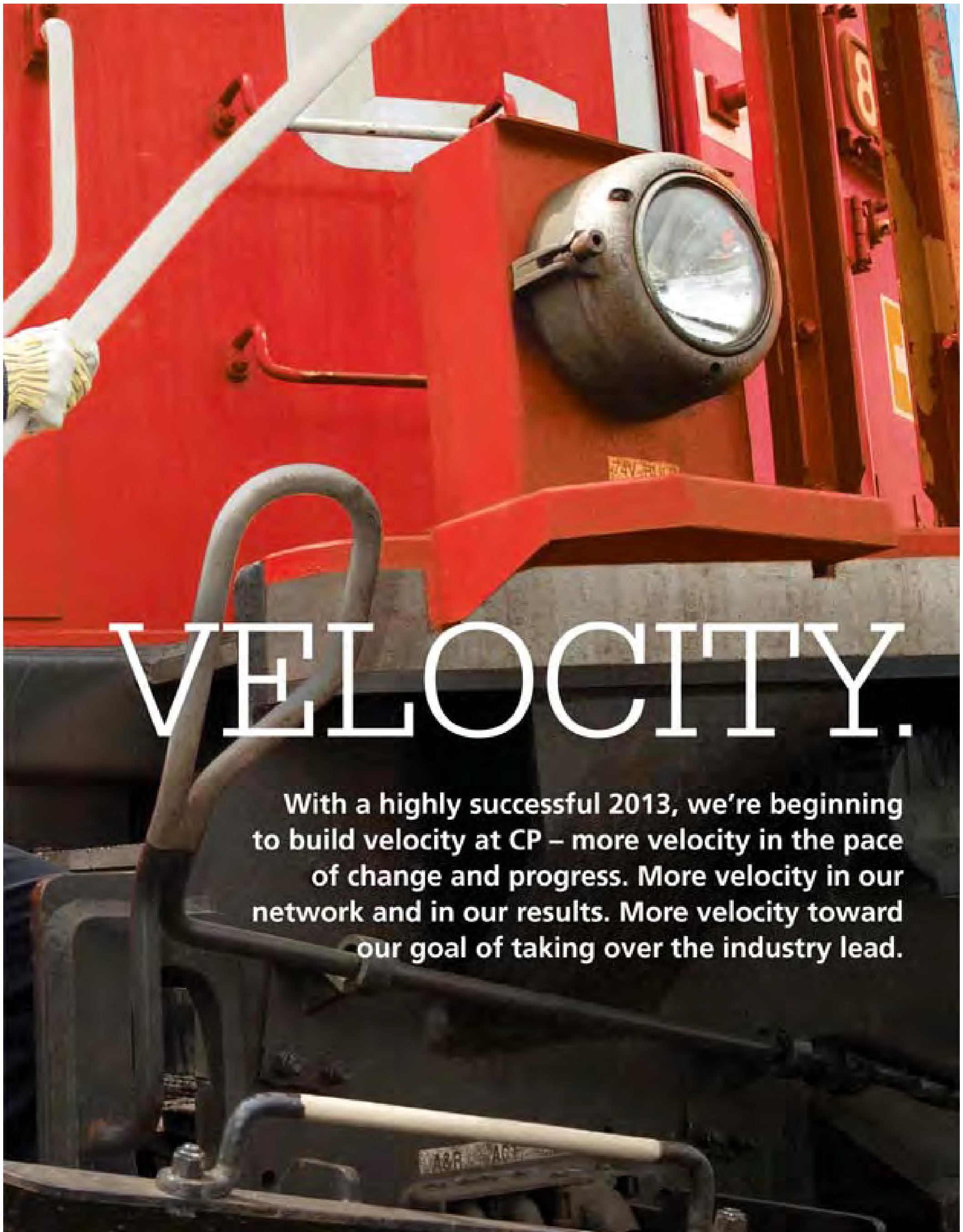


GREAT YEAR. RECORD YEAR. HISTORIC YEAR.
What's Next?

Table of Contents

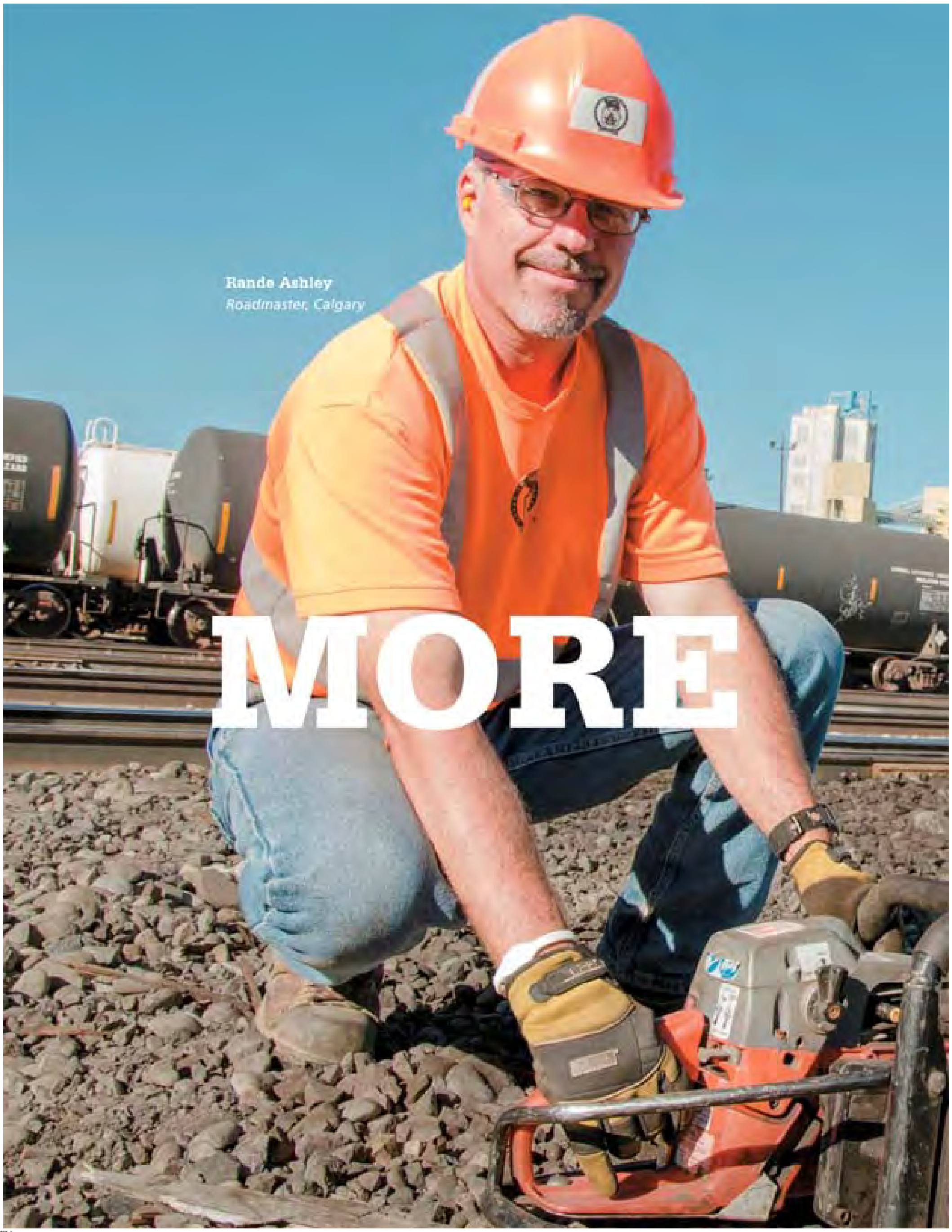
MORE
Cathy Moher
Trainmaster Yard, Toronto

Table of Contents



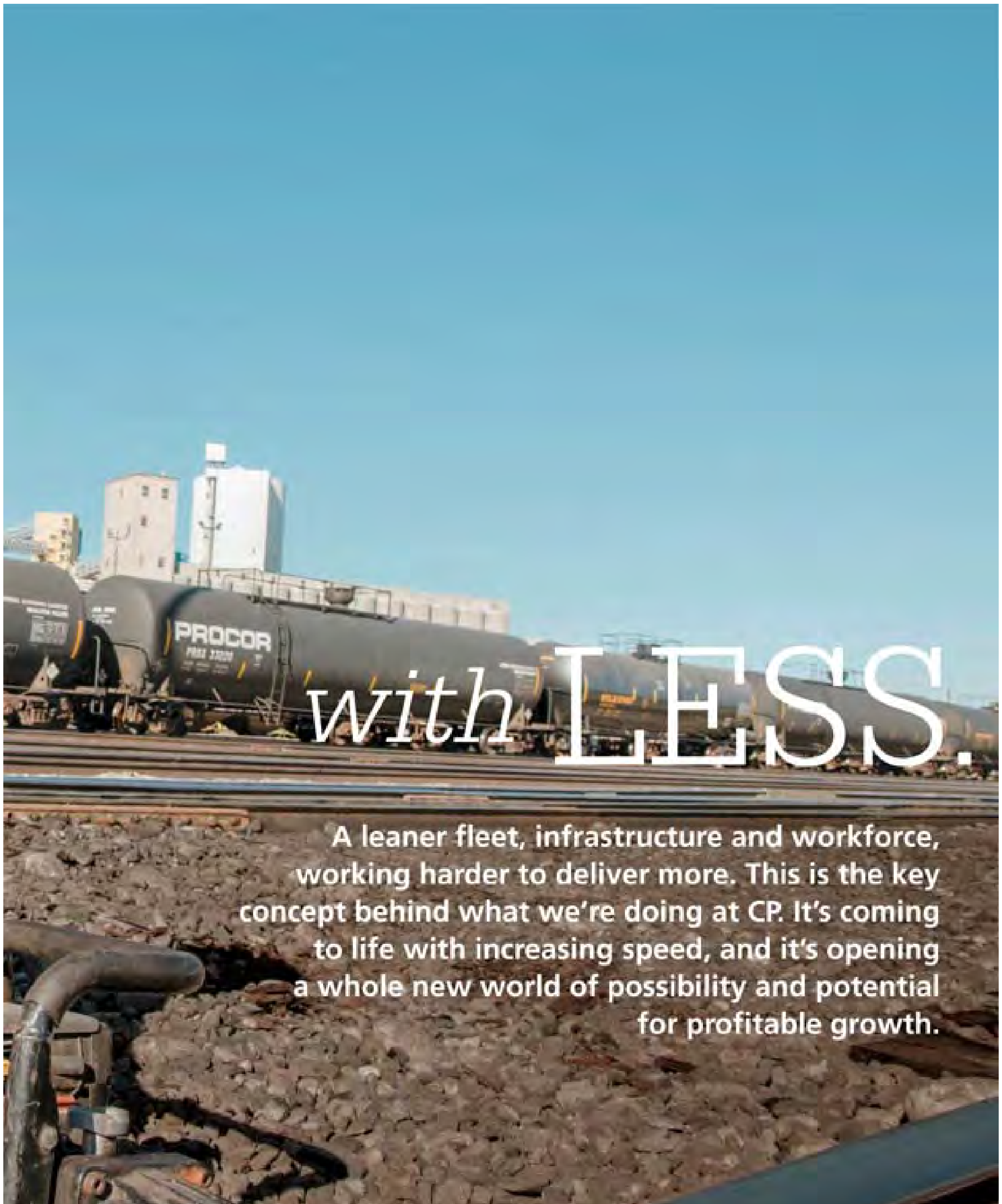
VELOCITY.
With a highly successful 2013, we're beginning to build velocity at CP – more velocity in the pace of change and progress. More velocity in our network and in our results. More velocity toward our goal of taking over the industry lead.

Table of Contents



Rande Ashley
Roadmaster, Calgary
MORE

Table of Contents



with LESS. A leaner fleet, infrastructure and workforce, working harder to deliver more. This is the key concept behind what we're doing at CP. It's coming to life with increasing speed, and it's opening a whole new world of possibility and potential for profitable growth.

Table of Contents

Jagjit Singhsadiura, Terry Inhestern and Noel Borras
Power Engineers, Ogden Powerhouse

MORE Jagjit Singhsadiura, Terry Inhestern and Noel Borras
Power Engineers, Ogden Powerhouse

Table of Contents

RESULTS. The results thus far are both remarkable and gratifying. We're ahead of plan by almost every measure, and we've rewarded our shareholders for their confidence in us. The velocity of change is delivering increasing speed in reaching our goals. And there's more to come.

Table of Contents

A MESSAGE FROM CEO E . HUNTER HARRISON

E. Hunter Harrison
Chief Executive Officer
and
Keith Creel
President and Chief Operating Officer

DEAR SHAREHOLDERS:

We've achieved record results in record time, and we're still picking up speed. Our folks are doing a great job across the board, making even better progress than I'd hoped to achieve by this point. I'm very proud of them. I believe this is the start of a long run of success, driven by doing the right things.

No doubt about it, we've proved some people wrong. Some said we had no credible plan. Others said we had geographic challenges that could not be overcome. Quite a few said our goal of reaching an operating ratio of 65 by 2016 was unrealistic and unachievable.

Well, the skeptics got one thing right—they said what we sought to do had never been accomplished by any railway team in history. The pace of our improvement so far has indeed been historic. We're a year to a year and a half ahead of plan across just about every measure, and CP stock appreciation and market cap growth have been unprecedented.

Record financial results

We reported record revenues of $6.1 billion in 2013, up 8 per cent over 2012 results. Adjusted net income was $1.1 billion, or $6.42 per diluted share, which was a 48 per cent improvement versus 2012 performance. We improved our adjusted operating ratio by 710 basis points to 69.9 for 2013, an all-time record for CP.

We generated $530 million in free cash flow, a big jump from the $93 million we reported in 2012. Strong cash flow gives our management team maximum flexibility for strategies to invest in our business and deliver returns to our investors. We are in the midst of considering the right strategic mix for cash deployment going forward.

Building velocity

We continued to build forward momentum in creating the kind of railroad I envisioned when I took this job. We're driving longer trains, which means fewer train starts, faster network velocity and better service at lower cost. The progress we made in this area contributed to dramatic improvement in fuel efficiency, train weight, car velocity and locomotive productivity, all of which are on or ahead of schedule to reach our 2016 goals.

To support this strategy, we have been investing in longer sidings across the network, many of which came on line in late 2013, and we have plans to install more sidings in 2014. This will enable continued improvements in train length, weight, velocity and productivity over the long term.

Table of Contents

> "You have to believe. I have done this before. It's not magic. It's hard work, making the tough decisions, being willing to do what I know it takes to succeed in railroading. We're going to keep our hand on the throttle."

Our 2013 safety performance came in just short of last year's record numbers. While that's encouraging, it's not good enough. Safety is critical to our people, our communities, our company and our industry. We're investing in technology and focusing on culture to drive meaningful improvement in this area.

More to come

When we have such dramatic success in the beginning, people have a tendency to think the run is over, or close to it. It's an attitude we've fought in each turnaround I've been a part of. But if you take a look at my history, you'll never see a point where we said, "That's it. It's time to take a break and rest on our laurels."

We're not resting. We're pushing forward, staying focused on the Foundations of railroading—service, cost, assets, safety and people—and working to get better in each area. We are now confident that we can reach an operating ratio of 65 or better in 2014, two years ahead of plan. More important, we're starting to get the credibility we need to convert our superior service offering into profitable revenue growth.

Great people, great future

I like to think I'm a pretty good railroader. I can see what needs to be done and I can put together a solid plan, but if I don't have people around me who can execute, we're not going to be successful. In a relatively short time, we have assembled a stellar team of motivated, highly committed railroaders. And they are getting it done.

This is the important thing to understand: What we're building here is not a flash in the pan. It's not done with tricks or smoke and mirrors. The things we're doing today and what we're teaching our people will serve this company and its investors for years to come.

Our focus going forward will be on controlled, sustainable, profitable growth. At the same time, we're going to be as aggressive as we've always been in our efforts to control our costs and keep people safe. I know from experience that when we do that, good things happen.

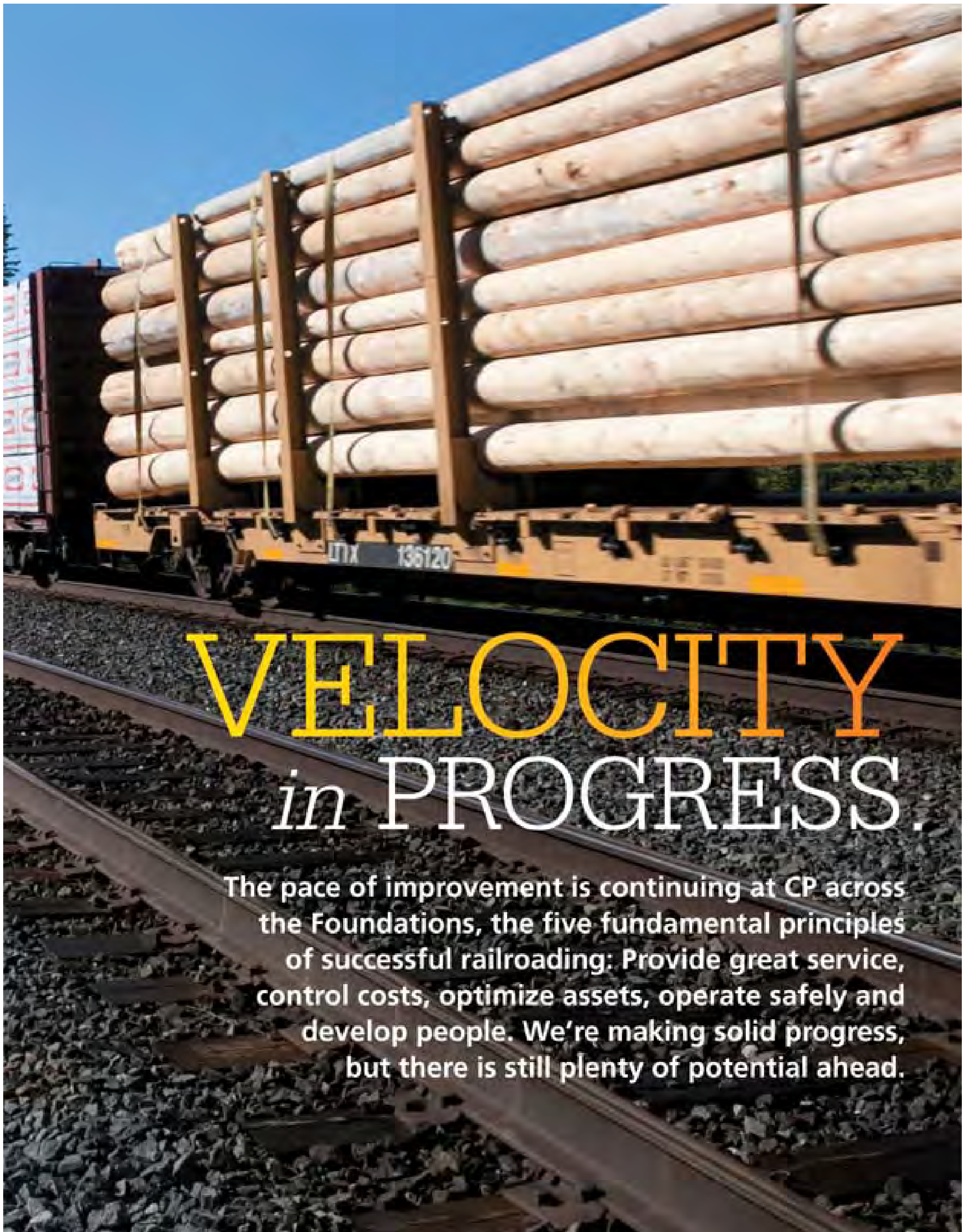
Thanks for staying on this train. We're going to keep it moving forward with ever-increasing velocity.

Sincerely,

E. Hunter Harrison
Chief Executive Officer
Canadian Pacific Railway Limited

Table of Contents

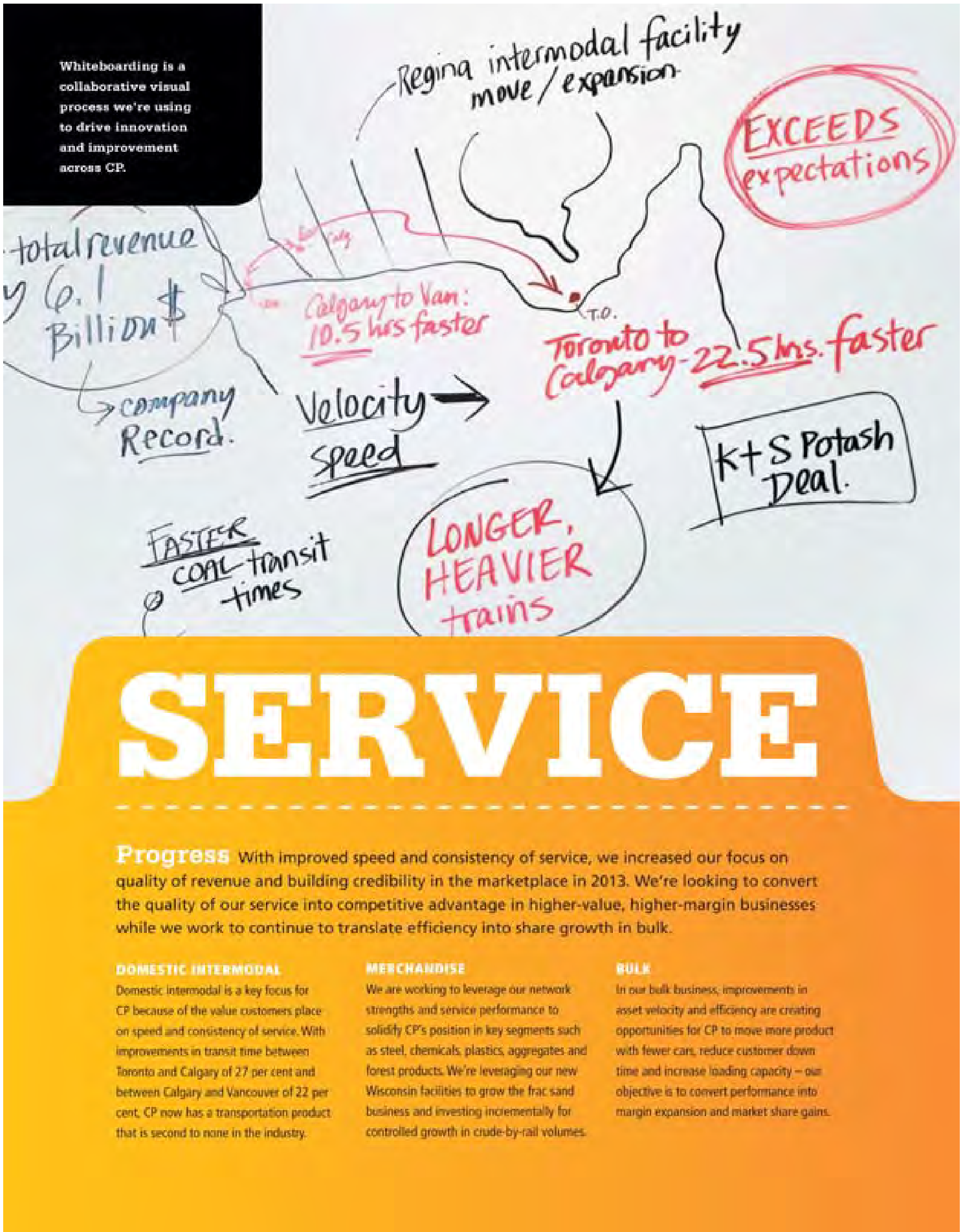
Table of Contents



VELOCITY in PROGRESS

The pace of improvement is continuing at CP across the foundations, the five fundamental principles of successful railroading: Provide great service, control costs, optimize assets, operate safely and develop people. We're making solid progress, but there is still plenty of potential ahead.

Table of Contents



SERVICE

Progress With improved speed and consistency of service, we increased our focus on quality of revenue and building credibility in the marketplace in 2013. We're looking to convert the quality of our service into competitive advantage in higher-value, higher-margin businesses while we work to continue to translate efficiency into share growth in bulk.

DOMESTIC INTERMODAL

Domestic intermodal is a key focus for CP because of the value customers place on speed and consistency of service. With improvements in transit time between Toronto and Calgary of 27 per cent and between Calgary and Vancouver of 22 per cent, CP now has a transportation product that is second to none in the industry.

MERCHANDISE

We are working to leverage our network strengths and service performance to solidify CP's position in key segments such as steel, chemicals, plastics, aggregates and forest products. We're leveraging our new Wisconsin facilities to grow the frac sand business and investing incrementally for controlled growth in crude-by-rail volumes.

BULK

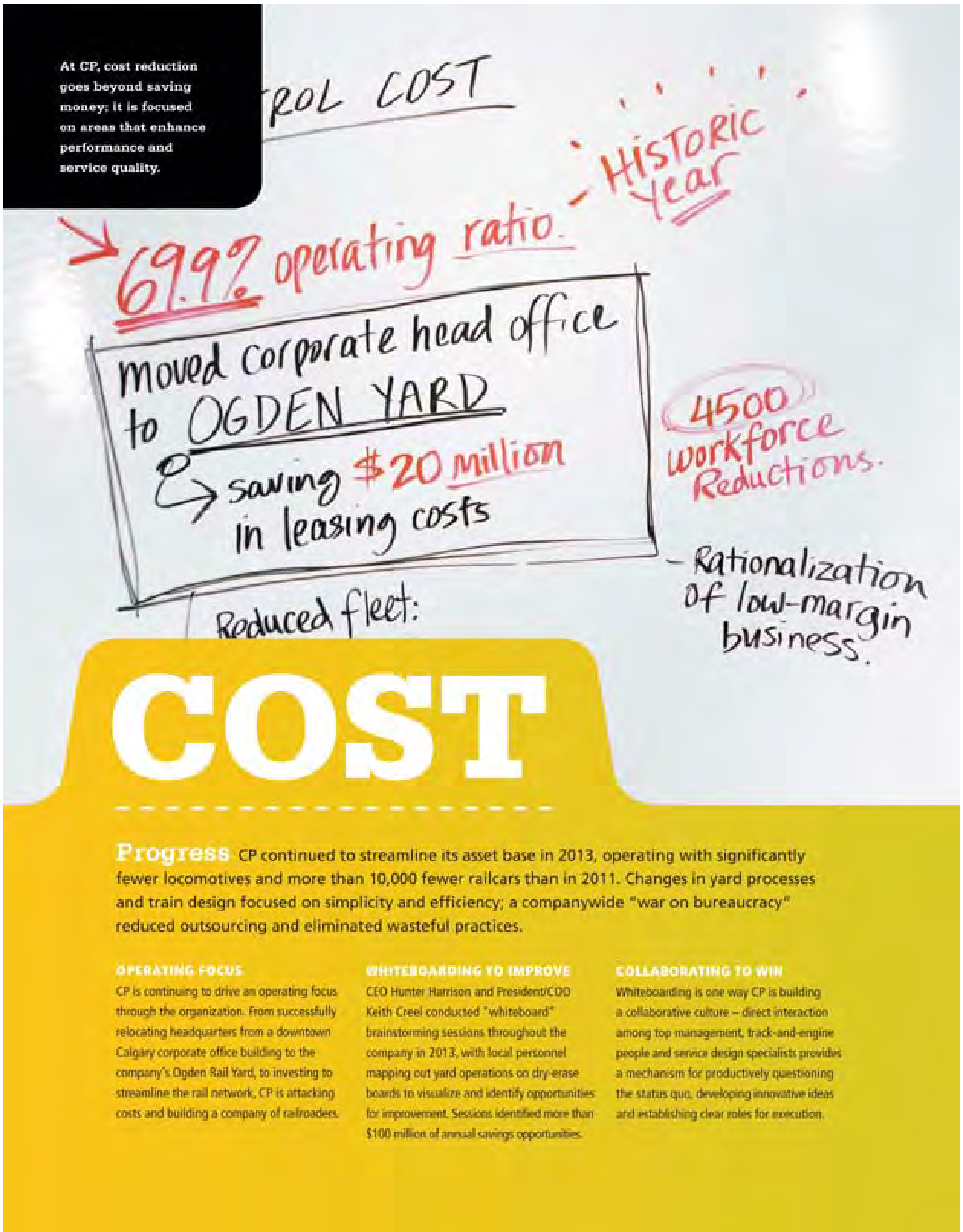
In our bulk business, improvements in asset velocity and efficiency are creating opportunities for CP to move more product with fewer cars, reduce customer down time and increase loading capacity – our objective is to convert performance into margin expansion and market share gains.

Whiteboarding is a collaborative visual process we're using to drive innovation and improvement across CP.
Total revenue 6.1 Billion$
Company Record.
COAL transit times
Calgary to Van:
LONGER, HEAVIER trains
Regina intermodal facility
move / expansion
Toronto to Calgary-22.5 hrs. faster
EXCEEDS expectations
Progress With improved speed and consistency of service, we increased our focus on quality of revenue and building credibility in the marketplace in 2013. We're looking to convert the quality of our service into competitive advantage in higher-value, higher-margin businesses while we work to continue to translate efficiency into share growth in bulk.
Domestic intermodal is a key focus for CP because of the value customers place on speed and consistency of service. With improvements in transit time between Toronto and Calgary of 27 per cent and between Calgary and Vancouver of 22 per cent, CP now has a transportation product that is second to none in the industry.
We are working to leverage our network strengths and service performance to solidify CP's position in key segments such as steel, chemicals, plastics, aggregates and forest products. We're leveraging our new Wisconsin facilities to grow the frac sand business and investing incrementally for controlled growth in crude-by-rail volumes.
In our bulk business, improvements in asset velocity and efficiency are creating opportunities for CP to move more product with fewer cars, reduce customer down time and increase loading capacity – our objective is to convert performance into margin expansion and market share gains.

Table of Contents

Geoff Bostan
Junior Mechanic, Coquitlam
We're focusing our efforts on winning new business where customers value – and will pay for – great service.
Potential We expect to see increasing higher-value business opportunities as we continue to improve the quality of our service. Progress and performance to date have been in a less-than-robust economy – whether conditions improve or not, CP's ability to deliver fast, reliable rail transportation will open up new avenues for quality revenue growth.
Don Brosseau
Superintendent, Operations Saskatchewan South

Table of Contents



At CP, cost reduction goes beyond saving money; it is focused on areas that enhance performance and service quality.

COST

Progress CP continued to streamline its asset base in 2013, operating with significantly fewer locomotives and more than 10,000 fewer railcars than in 2011. Changes in yard processes and train design focused on simplicity and efficiency; a companywide "war on bureaucracy" reduced outsourcing and eliminated wasteful practices.

OPERATING FOCUS
CP is continuing to drive an operating focus through the organization. From successfully relocating headquarters from a downtown Calgary corporate office building to the company's Ogden Rail Yard, to investing to streamline the rail network, CP is attacking costs and building a company of railroaders.

WHITEBOARDING TO IMPROVE
CEO Hunter Harrison and President/COO Keith Creel conducted "whiteboard" brainstorming sessions throughout the company in 2013, with local personnel mapping out yard operations on dry-erase boards to visualize and identify opportunities for improvement. Sessions identified more than $100 million of annual savings opportunities.

COLLABORATING TO WIN
Whiteboarding is one way CP is building a collaborative culture – direct interaction among top management, track-and-engine people and service design specialists provides a mechanism for productively questioning the status quo, developing innovative ideas and establishing clear roles for execution.

At CP, cost reduction goes beyond saving money; it is focused on areas that enhance performance and service quality.
Moved corporate head office to OGDEN YARD
Saving $20 million in leasing costs
Reduced fleet:
Workforce Reductions
Rationalization of low-margin business.
Progress CP continued to streamline its asset base in 2013, operating with significantly fewer locomotives and more than 10,000 fewer railcars than in 2011. Changes in yard processes and train design focused on simplicity and efficiency; a companywide "war on bureaucracy" reduced outsourcing and eliminated wasteful practices.

Table of Contents

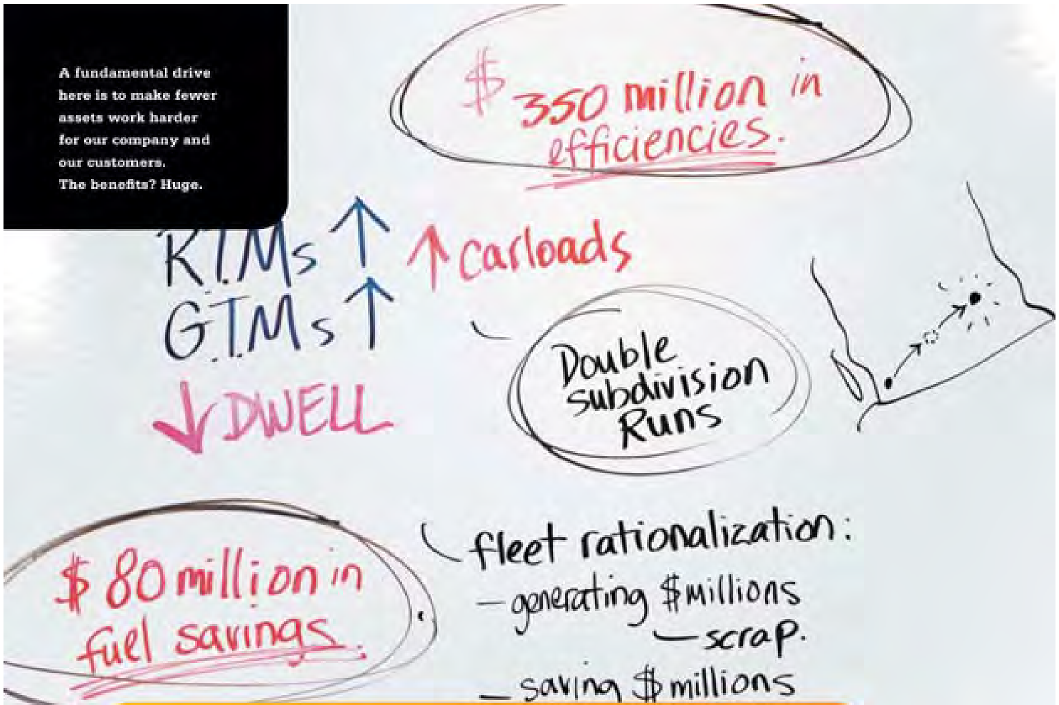
Potential There is no shortage of opportunities across the network to improve operational efficiency and drive out costs. A strategic emphasis on continuous improvement and an aggressive, ongoing focus on productivity in every corner of the business will bear fruit for years to come.

Dion Miller
Conductor
Max, North Dakota

Michael Plue
Yard Foreperson, Sudbury
Through whiteboarding alone, we have identified more than $100 million in cost savings in our rail operations. We're not finished.
Potential There is no shortage of opportunities across the network to improve operational efficiency and drive out costs. A strategic emphasis on continuous improvement and an aggressive, ongoing focus on productivity in every corner of the business will bear fruit for years to come.
Dion Miller
Conductor
Max, North Dakota

Table of Contents

A fundamental drive here is to make fewer assets work harder for our company and our customers. The benefits? Huge.



ASSETS

Progress The key to success is doing more with less. After dramatic yard rationalization initiatives in 2012, CP drove significant improvements in train length and weight, locomotive productivity, car velocity and fuel efficiency despite severe weather challenges late in 2013.

TRACK/REAL ESTATE

As we invest to extend sidings, we are carefully assessing the entire network for other opportunities to optimize track infrastructure for velocity, cost efficiency and alignment with growth initiatives. Meanwhile, a comprehensive process is underway to inventory an estimated $2 billion in non-core real estate assets for monetization over the next several years.

LOCOMOTIVE/CAR FLEET

Longer trains are the centrepiece of the operating plan. Our focus in this area delivered significant results in 2013: 13 per cent increase in train weight; train lengths up by 9 per cent, fuel efficiency improved by 8 per cent; locomotive productivity (GTM/active horsepower) up by 20 per cent. All are on track to meet or exceed 2016 targets.

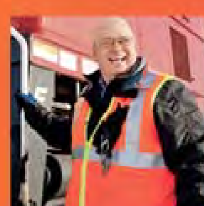
WORKFORCE

Projected workforce reductions – 4,500 by 2016 – were achieved in the first 18 months, largely through selective hiring freezes and natural attrition. Current initiatives such as the overhaul of CP information systems are building best-in-class in-house capabilities while potentially streamlining the workforce even further through elimination of contract positions.

A fundamental drive here is to make fewer assets work harder for our company and our customers.
information systems are building best-in-class in-house capabilities while potentially streamlining the workforce even further through elimination of contract positions.

Table of Contents

Potential Our yards and corridors are capable of more. We're driving productivity and speed improvements with a focus on siding capacity and yard infrastructure. We're investing to bring 11 additional sidings on line by year-end 2014; we're continuing to use whiteboarding as a tool for honing yard operations.



Damien Whalen
Assistant Trainmaster, Operations Eastern Region
London, Ontario

We're continuing to optimize our fleet and infrastructure to support performance and profitable growth. Potential Our yards and corridors are capable of more. We're driving productivity and speed improvements with a focus on siding capacity and yard infrastructure. We're investing to bring 11 additional sidings on line by year-end 2014; we're continuing to use whiteboarding as a tool for honing yard operations. Damien Whalen Assistant Trainmaster, Operations Eastern Region London, Ontario

Table of Contents

SAFETY

Progress CP has long been an industry leader in rail safety. We are more focused on safety than ever, committed to protecting our people, our communities, our environment and our customers' goods. The key is culture, built upon a shared set of priorities and behaviours centred on operating safely across our business.

A CULTURE OF ACCOUNTABILITY

CEO Hunter Harrison puts it simply: "Don't get anybody hurt." Safety is one of the five Foundations of successful railroading, and it starts with knowing and following the rules. In addition to increased safety inspections and internal awareness campaigns, CP general managers are being required to pass examinations on rules and regulations. The message: We are all accountable.

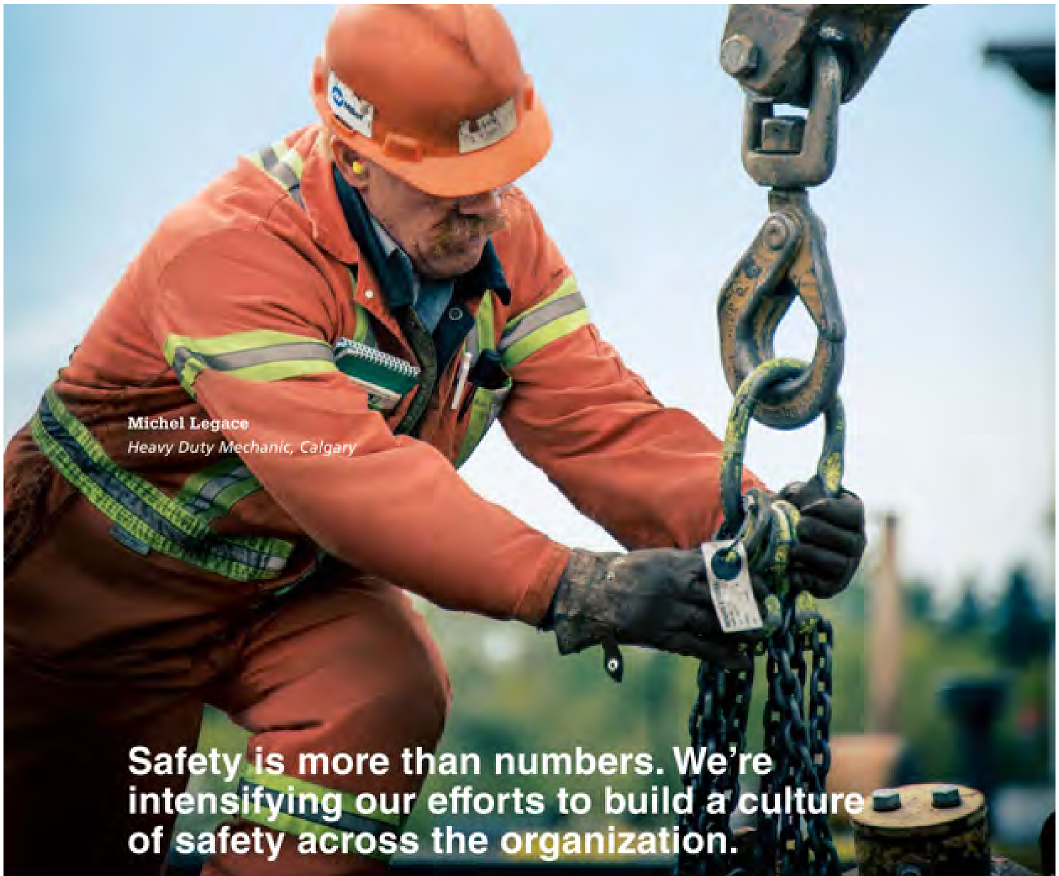
A HARD LOOK IN THE MIRROR

In late 2013, CP began a comprehensive companywide review and analysis of attitudes and behaviours, policies and procedures, circumstances related to past incidents, customer perspectives – everything that impacts safety – in order to develop an unvarnished view of our strengths and weaknesses, and identify best practices as well as gaps to be addressed.

The person in charge of the review will report directly to our president and COO. We will use the findings to guide future improvement strategies and initiatives across CP under the watchful eye of our CEO.

Safety is a key priority that demands continuous improvement. We're aggressively pursuing breakthrough progress.

Table of Contents



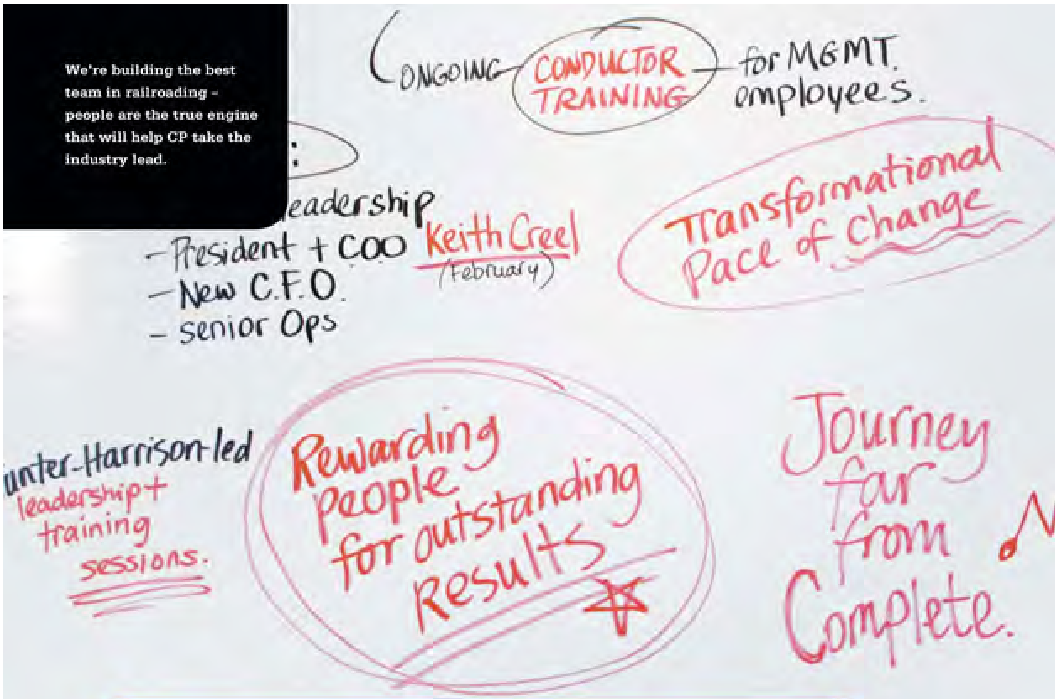
Potential No matter how exemplary a company's performance is in the area of safety, there is always a mandate to improve. Because regardless of a railroad's safety numbers or ranking, even one derailment, injury or fatality is one too many.

Brian Jones
Track Maintenance Section Truck Driver
Central Canada

Michel Legace
Heavy Duty Mechanic, Calgary
Safety is more than numbers. We're intensifying our efforts to build a culture of safety across the organization.
Potential No matter how exemplary a company's performance is in the area of safety, there is always a mandate to improve. Because regardless of a railroad's safety numbers or ranking, even one derailment, injury or fatality is one too many.
Brian Jones
Track Maintenance Section Truck Driver Central Canada

Table of Contents

We're building the best team in railroading – people are the true engine that will help CP take the industry lead.



PEOPLE

Progress People are the power behind sustainable long-term performance. CP is working to retain and attract the right people to create a lean workforce of railroaders who are motivated and aligned with the new operating plan – talented, team-oriented individuals who do more than embrace change. They drive it.

A DEEPER BENCH

Through internal promotions and recruiting experienced executives from outside the company, CP has assembled an upper- and mid-level management team that brings renewed passion and fresh perspectives to create a new industry leader. People drive performance, and we are putting the right people in place to get it done.

A TEACHING EMPHASIS

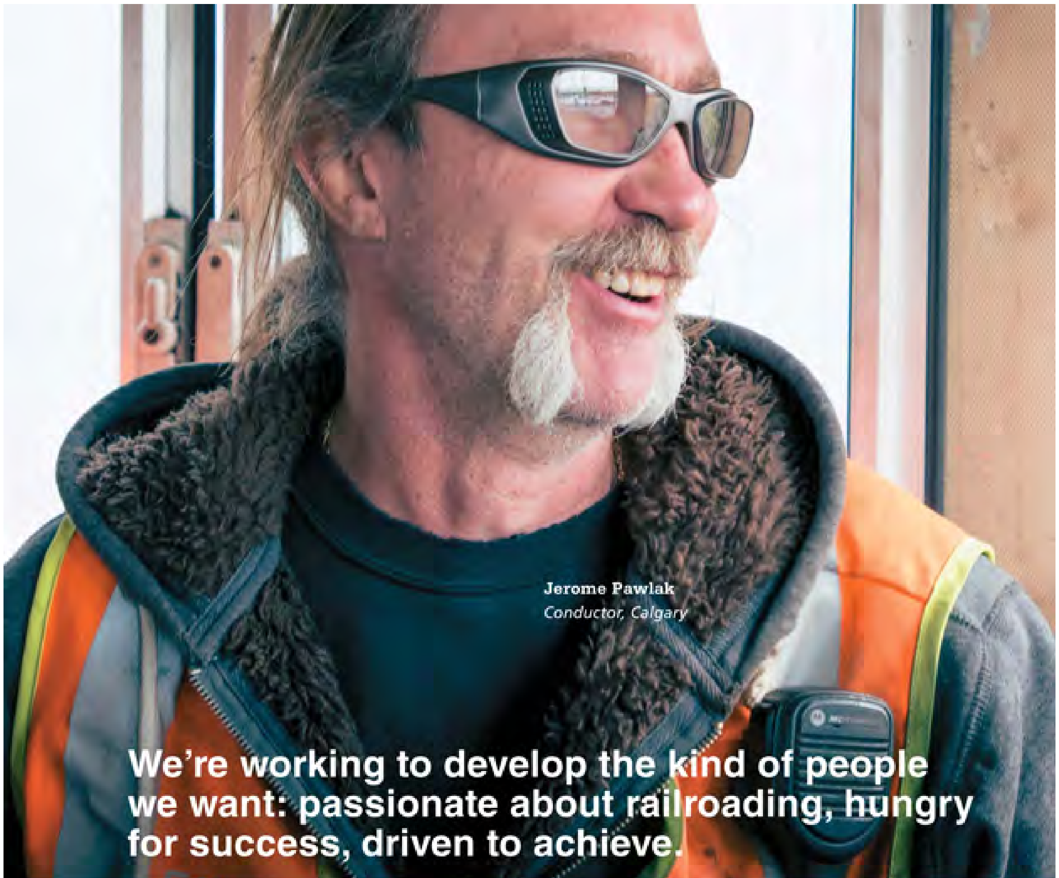
Our CEO is a teacher, an expert railroader who believes in passing on his knowledge through direct interaction. His CEO-led whiteboarding sessions, yard visits, impromptu phone calls and offsite training "camps" for managers are proven techniques for empowering people to advance performance improvement and culture change across the organization.

A NEW SALES FOCUS

We have reorganized our sales and marketing organization to create incentives for developing new business that supports profitable growth. Through breakthrough operational improvements, we are developing a differentiated product. Our goal is to encourage active, aggressive efforts to take that product to the marketplace.

We're building the best team in railroading – people are the true engine that will help CP take the industry lead.
ONGOING
CONDUCTOR TRAINING
for MGMT. employees.
leadership
– President + COO Keith Creel (February)
– New C.F.O.
– senior Ops
Transformational Pace of Change
nter-Harrison-led
leadership+
training
sessions.
Rewarding People for outstanding Results
Journey far from Complete.
Progress People are the power behind sustainable long-term performance. CP is working to retain and attract the right people to create a lean workforce of railroaders who are motivated and aligned with the new operating plan – talented, team-oriented individuals who do more than embrace change. They drive it.
A DEEPER BENCH Through internal promotions and recruiting experienced executives from outside the company, CP has assembled an upper- and mid-level management team that brings renewed passion and fresh perspectives to create a new industry leader. People drive performance, and we are putting the right people in place to get it done.
A TEACHING EMPHASIS Our CEO is a teacher, an expert railroader who believes in passing on his knowledge through direct interaction. His CEO-led whiteboarding sessions, yard visits, impromptu phone calls and offsite training "camps" for managers are proven techniques for empowering people to advance performance improvement and culture change across the organization.
A NEW SALES FOCUS We have reorganized our sales and marketing organization to create incentives for developing new business that supports profitable growth. Through breakthrough operational improvements, we are developing a differentiated product. Our goal is to encourage active, aggressive efforts to take that product to the marketplace.

Table of Contents



Potential Boiled down to its essence, CP potential is human potential. When we put the right people in the right positions and give them what they need to succeed, there is no limit to what we can achieve as a company.

Dan Sewell
GM Operations
Pacific Division

Jerome Pawlak
Conductor, Calgary
We're working to develop the kind of people we want: passionate about railroading, hungry for success, driven to achieve.
Potential Boiled down to its essence, CP potential is human potential. When we put the right people in the right positions and give them what they need to succeed, there is no limit to what we can achieve as a company.
Dan Sewell
GM Operations Pacific Division

Table of Contents

This is CP:

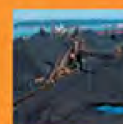
BULK

GRAIN

Grain transported by CP consists of whole grains such as wheat, corn, soybeans and canola, and processed products such as meals, oils and flour. Canadian grain products are transported primarily to ports for export and to Canadian and U.S. markets for domestic consumption. U.S. grain products are shipped from the U.S. Midwest to other points in the Midwest, the Pacific Northwest and the northeastern United States.

FERTILIZERS & SULPHUR

Fertilizers and sulphur include potash, chemical fertilizers and sulphur shipped mainly from western Canada to the ports of Vancouver, B.C., and Portland, Oregon, and to other Canadian and U.S. destinations.



COAL

Our Canadian coal business consists primarily of metallurgical coal transported from southeastern B.C. to the ports of Vancouver, B.C., and Thunder Bay, Ontario, and to the U.S. Midwest. Our U.S. coal business consists primarily of the transportation of thermal coal and petroleum coke within the U.S. Midwest or for export through West Coast ports.

MERCHANDISE

FOREST PRODUCTS

Forest products include lumber, wood pulp, paper products and panel transported from key producing areas in western Canada, Ontario and Quebec to various destinations in North America.

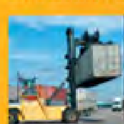
INDUSTRIAL & CONSUMER PRODUCTS

Industrial and consumer products include chemicals, plastics, aggregates, steel, minerals, ethanol and other energy-related products other than coal, shipped throughout North America.

AUTOMOTIVE

Automotive traffic includes domestic, import and pre-owned vehicles as well as automotive parts. Finished vehicles move from U.S. and Canadian assembly plants to the Canadian marketplace and to other markets throughout North America via interchanges at Detroit, Chicago and Buffalo.

INTERMODAL



DOMESTIC

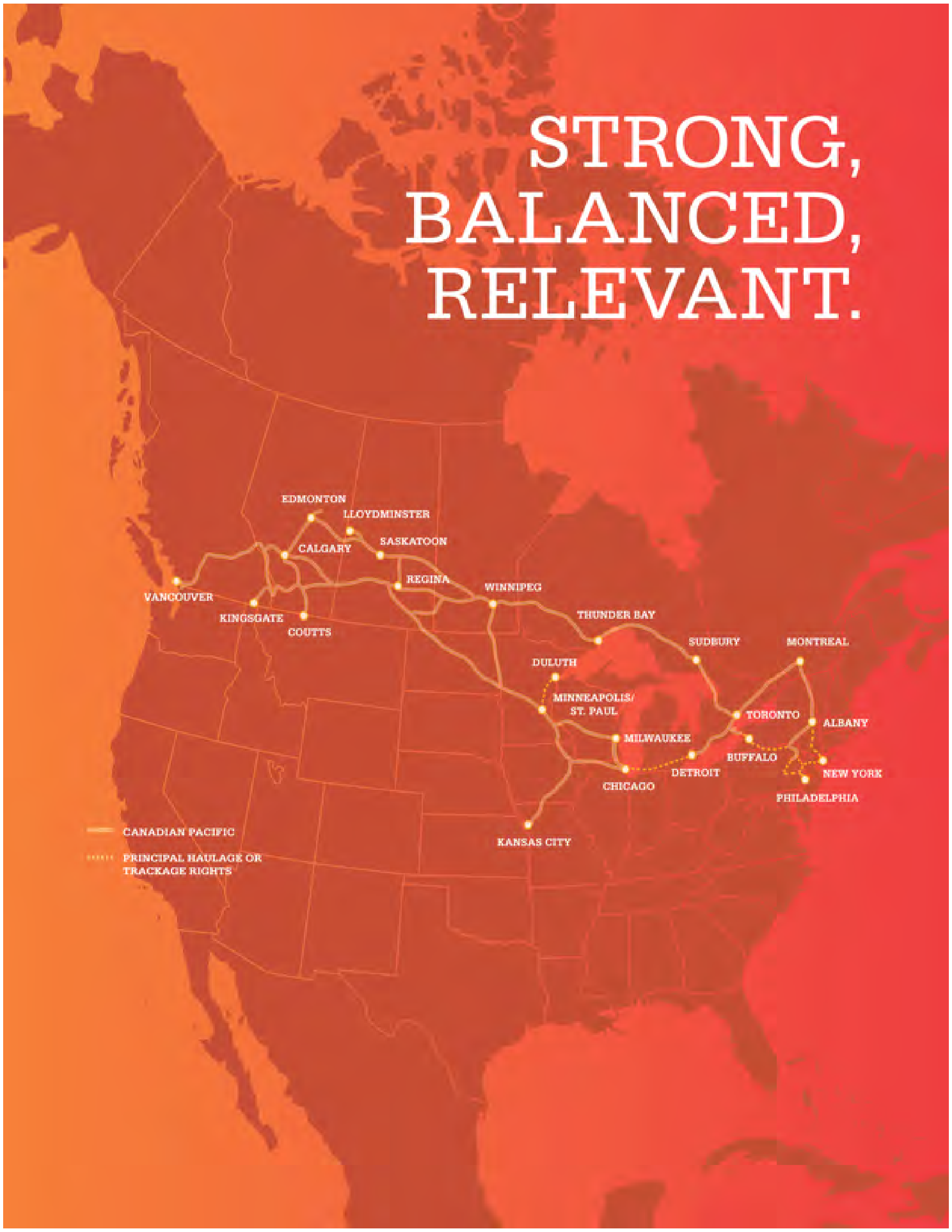
Our domestic intermodal business consists primarily of the movement of manufactured consumer products in containers within North America.

INTERNATIONAL

The international intermodal business handles the movement of marine containers between ports in Vancouver, Montreal, New York and Philadelphia as well as inland ports across North America.

This is CP:
BULK
GRAIN
Grain transported by CP consists of whole grains such as wheat, corn, soybeans and canola, and processed products such as meals, oils and flour. Canadian grain products are transported primarily to ports for export and to Canadian and U.S. markets for domestic consumption. U.S. grain products are shipped from the U.S. Midwest to other points in the Midwest, the Pacific Northwest and the northeastern United States.
FERTILIZERS & SULPHUR
Fertilizers and sulphur include potash, chemical fertilizers and sulphur shipped mainly from western Canada to the ports of Vancouver, B.C., and Portland, Oregon, and to other Canadian and U.S. destinations.
COAL
Our Canadian coal business consists primarily of metallurgical coal transported from southeastern B.C. to the ports of Vancouver, B.C., and Thunder Bay, Ontario, and to the U.S. Midwest. Our U.S. coal business consists primarily of the transportation of thermal coal and petroleum coke within the U.S. Midwest or for export through West Coast ports.
MERCHANDISE
FOREST PRODUCTS
Forest products include lumber, wood pulp, paper products and panel transported from key producing areas in western Canada, Ontario and Quebec to various destinations in North America.
INDUSTRIAL & CONSUMER PRODUCTS
Industrial and consumer products include chemicals, plastics, aggregates, steel, minerals, ethanol and other energy-related products other than coal, shipped throughout North America.
AUTOMOTIVE
Automotive traffic includes domestic, import and pre-owned vehicles as well as automotive parts. Finished vehicles move from U.S. and Canadian assembly plants to the Canadian marketplace and to other markets throughout North America via interchanges at Detroit, Chicago and Buffalo.
INTERMODAL
DOMESTIC
Our domestic intermodal business consists primarily of the movement of manufactured consumer products in containers within North America.
INTERNATIONAL
The international intermodal business handles the movement of marine containers between ports in Vancouver, Montreal, New York and Philadelphia as well as inland ports across North America.

Table of Contents



STRONG
BALANCED
LLOYDMINSTER
SASKATOON
THUNDER BAY
MINNEAPOLIS/ST. PAUL
TORONTO
MILWAUKEE
NEW YORK
PHILADELPHIA
CANADIAN PACIFIC
PRINCIPAL HAULAGE OR TRACKAGE RIGHTS

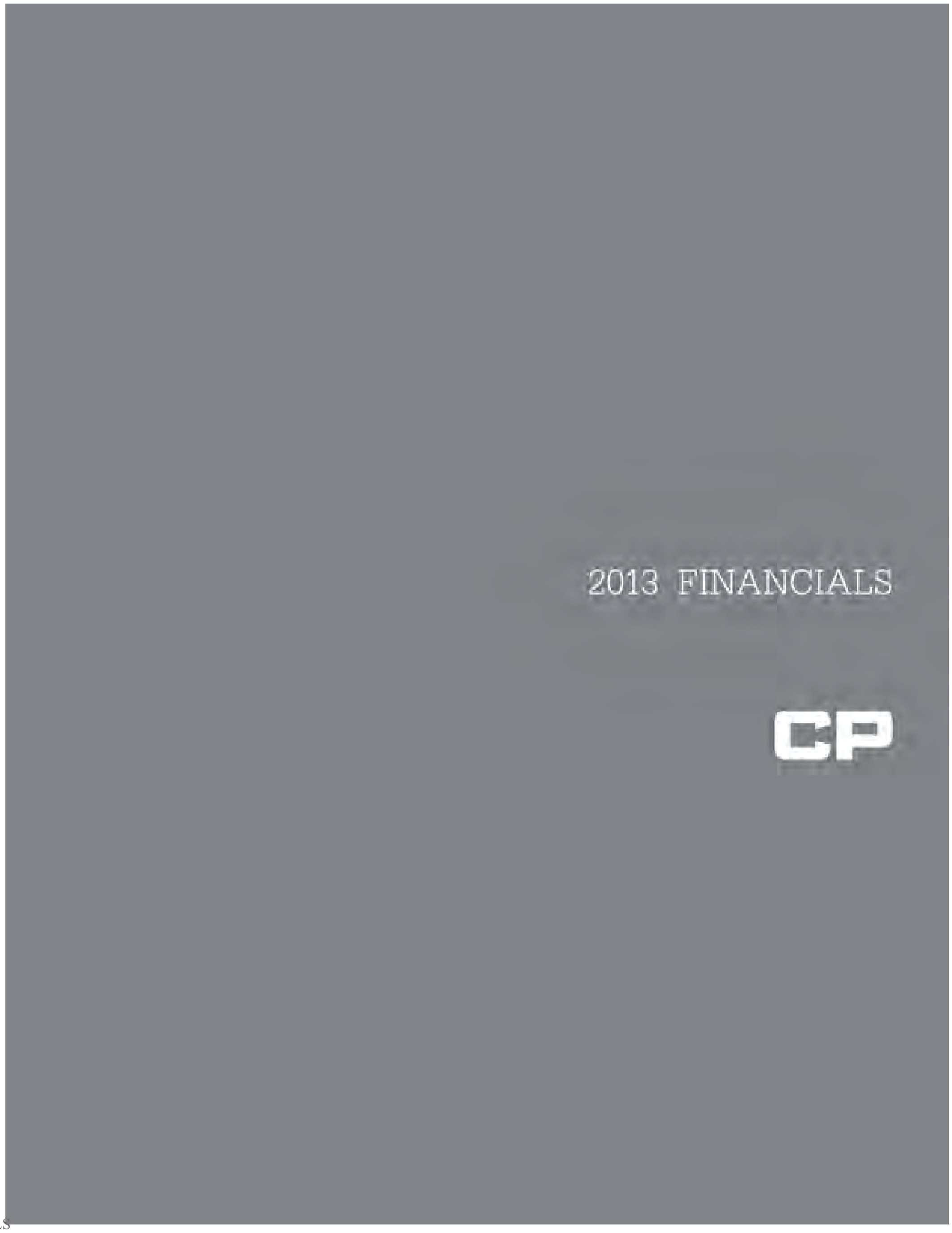
Table of Contents

VELOCITY *is* BUILDING.

Some people look at the dramatic progress we've made and can't imagine we can keep up this pace of improvement. In a tough, asset-intensive, highly competitive industry and an unpredictable global and North American economy, they wonder about "runway."

Those people don't know us. We're following a proven plan to build a new, high-performance CP, and we're moving with increasing velocity. Believe it. There's more to come.

Table of Contents



2013 FINANCIALS
CP

Table of Contents

CANADIAN PACIFIC

TABLE OF CONTENTS

This Management's Discussion and Analysis ("MD&A") is provided in conjunction with the Consolidated Financial Statements and related notes for the year ended December 31, 2013 prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All information has been prepared in accordance with GAAP, except as described in Section 15, Non-GAAP Measures of this MD&A. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars.

March 5, 2014

In this MD&A, "our", "us", "we", "CP", "Canadian Pacific" and "the Company" refer to Canadian Pacific Railway Limited ("CPRL"), CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL's subsidiaries, as the context may require. Other terms not defined in the body of this MD&A are defined in Section 25, Glossary of Terms.

Unless otherwise indicated, all comparisons of results for 2013 and 2012 are against the results for 2012 and 2011, respectively. Unless otherwise indicated, all comparisons of results for the fourth quarter of 2013 are against the results for the fourth quarter of 2012.

1. BUSINESS PROFILE

Canadian Pacific Railway Limited, through its subsidiaries, operates a transcontinental railway in Canada and the United States ("U.S.") and provides logistics and supply chain expertise. We provide rail and intermodal transportation services over a network of approximately 14,400 miles, serving the principal business centres of Canada from Montreal, Quebec, to Vancouver, British Columbia ("B.C."), and the U.S. Northeast and Midwest regions. Our railway feeds directly into the U.S. heartland from the East and West coasts. Agreements with other carriers extend our market reach east of Montreal in Canada, throughout the U.S. and into Mexico. We transport bulk commodities, merchandise freight and intermodal traffic. Bulk commodities include grain, coal, fertilizers and sulphur. Merchandise freight consists of finished vehicles and automotive parts, as well as forest and industrial and consumer products. Intermodal traffic consists largely of high-value, time-sensitive retail goods in overseas containers that can be transported by train, ship and truck, and in domestic containers and trailers that can be moved by train and truck.

2. STRATEGY

Canadian Pacific is driving change as it moves through its transformational journey to become the best railroad in North America, while creating long-term value for shareholders. The Company is focused on providing customers with industry leading rail service; driving sustainable, profitable growth; optimizing our assets; and reducing costs, while remaining a leader in rail safety.

Looking forward, CP is executing its strategic plan to become the lowest cost rail carrier. This plan is centred on five key foundations, which are the Company's performance drivers.

Provide Service: Providing efficient and consistent transportation solutions for our customers. "Doing what we say we are going to do" is what drives CP by providing a reliable product with a lower cost operating model. Centralized planning aligned with local execution is bringing the Company closer to the customer and accelerating decision-making.

Control Costs: Controlling and removing unnecessary costs from the organization, eliminating bureaucracy and continuing to identify productivity enhancements are the keys to success.

Optimize Assets: Through longer sidings, improved asset utilization, and increased train lengths, the Company is moving increased volumes with fewer locomotives and cars while unlocking capacity for future growth potential.

Table of Contents

Operate Safely: Each year, CP safely moves millions of carloads of freight across North America while ensuring the safety of our people and the communities through which we operate. Safety is never to be compromised. Continuous research and development in state-of-the-art safety technology and highly focused employees ensure our trains are built for safe, efficient operations across our network.

Develop People: CP recognizes that none of the other foundations can be achieved without its people. Every CP employee is a railroader and the Company is shaping a new culture focused on a passion for service with integrity in everything it does. Coaching and mentoring managers into becoming leaders will help drive CP forward.

3. FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 and other relevant securities legislation. These forward-looking statements include, but are not limited to statements concerning our defined benefit pension expectations for 2014 and 2015, our financial expectations for 2014, as well as statements concerning our operations, anticipated financial performance, business prospects and strategies, as well as statements concerning the anticipation that cash flow from operations and various sources of financing will be sufficient to meet debt repayments and obligations in the foreseeable future, statements regarding future payments including income taxes and pension contributions, and capital expenditures. Forward-looking information typically contains statements with words such as “anticipate”, “believe”, “expect”, “plan” or similar words suggesting future outcomes.

Readers are cautioned not to place undue reliance on forward-looking information because it is possible that we will not achieve predictions, forecasts, projections and other forms of forward-looking information. Current economic conditions render assumptions, although reasonable when made, subject to greater uncertainty. In addition, except as required by law, we undertake no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

By its nature, our forward-looking information involves numerous assumptions, inherent risks and uncertainties, including but not limited to the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks in agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demand; inflation; changes in laws and regulations, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions on the financial position of pension plans and investments; and various events that could disrupt operations, including severe weather, droughts, floods, avalanches and earthquakes as well as security threats and the governmental response to them, and technological changes.

There are more specific factors that could cause actual results to differ materially from those described in the forward-looking statements contained in this MD&A. These more specific factors are identified and discussed in Section 21, Business Risks and elsewhere in this MD&A. Other risks are detailed from time to time in reports filed by CP with securities regulators in Canada and the United States.

Financial Assumptions

Defined benefit pension expectations

Defined benefit pension contributions are currently estimated to be between $90 million and $110 million in each year to 2016. This contribution level reflects the Company’s intentions with respect to the rate at which we apply the voluntary prepayments made in previous years to reduce contribution requirements. Defined benefit pension credits for 2014 and 2015 are expected to be approximately $50 million for each year. These pension contributions and pension expense and pension income estimates are based on a number of economic and demographic assumptions and are sensitive to changes in the assumptions or to actual experience differing from the assumptions. Pensions are discussed further in Section 22, Critical Accounting Estimates.

Financial expectations for 2014

The Company expects revenue growth to be 6-7%, operating ratio of 65% or lower and diluted earnings per share (“EPS”) growth to be 30% or greater from 2013 annual diluted EPS, excluding significant items, of $6.42, discussed further in Section 15, Non-GAAP Measures. CP plans to spend approximately $1.2 to $1.3 billion on capital programs in 2014, discussed further in Section 14, Liquidity and Capital Resources. Key assumptions for full year 2014 financial expectations include:

- an average fuel cost per gallon of US$3.50 per U.S. gallon;
- defined benefit pension credit of approximately $50 million;
- Canadian to U.S. dollar exchange rate of 1.05; and
- an income tax rate of 28% discussed further in Section 10, Other Income Statement Items and Section 15, Non-GAAP Measures.

Undue reliance should not be placed on these assumptions and other forward-looking information.

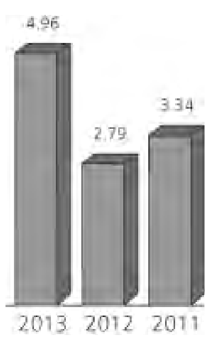
Table of Contents

4. ADDITIONAL INFORMATION

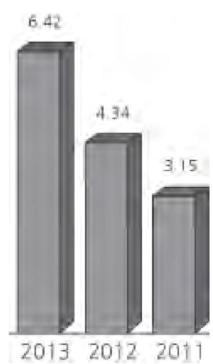
Additional information, including our Consolidated Financial Statements, Annual Information Form, press releases and other required filing documents, are available on SEDAR at www.sedar.com in Canada, on EDGAR at www.sec.gov in the U.S. and on our website at www.cpr.ca. The aforementioned documents are issued and made available in accordance with legal requirements and are not incorporated by reference into this MD&A.

5. FINANCIAL HIGHLIGHTS

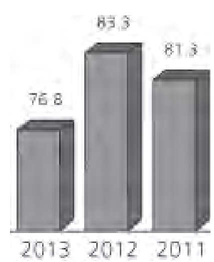
For the year ended December 31 (in millions, except percentages and per share data)	**2013**	2012	2011
Revenues	**$ 6,133**	$ 5,695	$ 5,177
Operating income	**1,420**	949	967
Operating income, excluding significant items(1)(5)	**1,844**	1,309	967
Net income	**875**	484	570
Basic earnings per share	**5.00**	2.82	3.37
Diluted earnings per share	**4.96**	2.79	3.34
Diluted earnings per share, excluding significant items(1)(5)	**6.42**	4.34	3.15
Dividends declared per share	**1.4000**	1.3500	1.1700
Return on capital employed ("ROCE")(2)	**9.5%**	6.9%	7.4%
Operating ratio	**76.8%**	83.3%	81.3%
Operating ratio, excluding significant items(1)(5)	**69.9%**	77.0%	81.3%
Free cash(1)(3)	**530**	93	(724)
Voluntary prepayments to the main Canadian defined benefit pension plan (included in Free cash above)	**–**	–	(600)
Total assets at December 31	**17,060**	14,727	14,110
Total long-term financial liabilities at December 31(4)	**4,784**	4,735	4,812



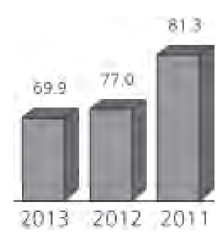
Diluted EPS ($)



Diluted EPS, excluding significant items ($)(1)



Operating ratio (%)



Operating ratio, excluding significant items (%)(1)

(1) This measure has no standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures of other companies. These earnings measures and significant items are discussed further in Section 15, Non-GAAP Measures along with a reconciliation of free cash to GAAP cash position in Section 14, Liquidity and Capital Resources.

(2) ROCE is defined as earnings before interest and taxes, divided by the average for the year of total assets, less current liabilities, as measured under GAAP and it is discussed further in Section 15, Non-GAAP Measures.

(3) Includes $600 million voluntary prepayments to the Company's main Canadian defined benefit pension plan in 2011, discussed further in Section 22, Critical Accounting Estimates.

(4) Total long-term financial liabilities excludes: deferred taxes of $2,903 million, $2,092 million and $1,819 million, and other non-financial long-term liabilities of $898 million, $1,573 million and $1,620 million for the years 2013, 2012 and 2011 respectively.

(5) Significant items are discussed further in Section 15, Non-GAAP Measures.

Table of Contents

6. OPERATING RESULTS

Income

Operating income was $1,420 million in 2013, an increase of $471 million, or 50%, from $949 million in 2012. This increase was primarily due to:

- efficiency savings generated from improved operating performance, asset utilization and insourcing of certain IT activities;
- increased volumes of traffic, as measured by revenue ton-miles ("RTMs"), generating higher freight revenue;
- higher freight rates;
- the net impact of the strike in the second quarter of 2012;
- lower labour restructuring charges in 2013 and associated experience gains in 2013;
- lower management transition costs and a favourable litigation settlement related to management transition in 2013; and
- the favourable impact of the change in foreign exchange ("FX").

This increase was partially offset by:

- a higher asset impairment charge in 2013 due to the anticipated sale of a portion of Dakota, Minnesota & Eastern ("DM&E") line west of Tracy, Minnesota compared to the impairment of various assets in 2012, discussed further in Section 9, Operating Expenses;
- higher volume variable expenses as a result of an increase in workload;
- higher incentive and stock-based compensation expenses;
- wage and benefits inflation; and
- higher depreciation and amortization expenses due to higher depreciable assets as a result of our capital program.

Operating income was $949 million in 2012, a decrease of $18 million, or 2%, from $967 million in 2011. This decrease was primarily due to:

- asset impairment and labour restructuring charges of $318 million;
- higher volume variable expenses;
- higher incentive and stock-based compensation expenses;
- the net impact of the strike in the second quarter;
- higher depreciation and amortization expenses; and
- management transition costs of $42 million, reflected in Compensation and benefits and Purchased services and other.

This decrease was partially offset by:

- increased volumes of traffic, generating higher freight revenue;
- efficiency savings derived from improved operating performance, asset utilization and improved operating conditions;
- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes with full margin coverage;
- higher freight rates; and
- the favourable impact of the change in FX.

Net income was $875 million in 2013, an increase of $391 million, or 81%, from $484 million in 2012. This increase was primarily due to higher Operating income and a decrease in Other income and charges due to advisory fees related to shareholder matters in 2012 and was partially offset by higher Income tax expenses due to the impact of higher earnings.

Net income was $484 million in 2012, a decrease of $86 million, or 15%, from $570 million in 2011. This decrease was primarily due to:

- an increase in income tax expense primarily due to the impact of a tax recovery in the fourth quarter of 2011 of $37 million from the resolution of certain income tax items;
- an increase in net interest expense due to new debt issuances in 2011;
- an increase in Other income and charges due to advisory fees related to shareholder matters; and
- lower Operating income.

Table of Contents

CANADIAN PACIFIC

Diluted Earnings per Share

Diluted EPS was $4.96 in 2013, an increase of $2.17, or 78% from $2.79 in 2012. Excluding the five significant items totalling $1.46 per share, discussed further in Section 15, Non-GAAP Measures, Diluted EPS, excluding significant items, was $6.42 in 2013, an increase of $2.08, or 48%, from $4.34 in 2012. These increases were primarily due to higher Net income.

Diluted EPS was $2.79 in 2012, a decrease of $0.55, or 16% from $3.34 in 2011. This decrease was primarily due to lower Net income. Diluted EPS for 2012 included a $1.55 per share charge for labour restructuring and asset impairment, discussed further in Section 9, Operating Expenses, advisory costs due to shareholder matters, management transition costs and Ontario corporate tax rate change, discussed further in Section 15, Non-GAAP Measures. Diluted EPS, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was $4.34 in 2012, an increase of $1.19, or 38%, from $3.15 in 2011. This increase was primarily due to higher Operating income, excluding significant items, discussed further in Section 15, Non-GAAP Measures.

Diluted EPS, excluding significant items, and Operating income, excluding significant items, have no standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies.

Operating Ratio

The operating ratio provides the percentage of revenues used to operate the railway, and is calculated as operating expenses divided by revenues. A lower percentage normally indicates higher efficiency in the operation of the railway. Our operating ratio was 76.8% in 2013, a decrease from 83.3% in 2012. This improvement was primarily due to efficiency savings, increased volumes of traffic and higher freight rates partially offset by a higher asset impairment charge.

The operating ratio, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was 69.9% in 2013, a decrease from 77.0% in 2012. This improvement was primarily due to an increase in efficiency savings, increased volumes of traffic and higher freight rates.

Our operating ratio was 83.3% in 2012, an increase from 81.3% in 2011. The increase was primarily due to asset impairment and labour restructuring charges and management transition costs, which negatively impacted operating ratio by 630 basis points. The operating ratio, excluding significant items was 77.0% in 2012, a decrease from 81.3% in 2011. This improvement was primarily due to an increase in volumes of traffic and efficiency savings derived from improved operating performance, asset utilization and improved operating conditions.

Operating ratio, excluding significant items, has no standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies.

Return on Capital Employed

The calculation of ROCE utilizes Earnings Before Interest and Taxes ("EBIT") on a rolling twelve month basis. ROCE was 9.5% at December 31, 2013, compared with 6.9% in 2012. This improvement was primarily due to higher earnings partially offset by a higher asset impairment charge. Excluding the significant items in 2013 and 2012 from EBIT, Adjusted ROCE was 12.4% at December 31, 2013, compared with 9.8% in 2012. This improvement was primarily due to higher earnings.

ROCE was 6.9% at December 31, 2012, compared with 7.4% in 2011. The decrease in 2012 and 2011 was primarily due to lower earnings. Excluding the significant items from EBIT, Adjusted ROCE was 9.8% at December 31, 2012, compared with 7.5% in 2011.

ROCE, Adjusted ROCE, EBIT and Adjusted EBIT and significant items are discussed further in Section 15, Non-GAAP Measures.

Calculation of Adjusted ROCE

(in millions)	**2013**	2012	2011
EBIT for the year ended December 31[1]	**$ 1,403**	$ 912	$ 949
Adjusted EBIT for the year ended December 31[1]	**$ 1,827**	$ 1,299	$ 955
Average for the twelve months of total assets, less current liabilities excluding the current portion of long-term debt	**$ 14,711**	$ 13,251	$ 12,809
ROCE[1]	**9.5%**	6.9%	7.4%
Adjusted ROCE[1][2]	**12.4%**	9.8%	7.5%

[1] EBIT, Adjusted EBIT, ROCE and Adjusted ROCE have no standardized meaning prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures of other companies. These earnings measures are discussed further in Section 15, Non-GAAP Measures.

[2] Adjusted ROCE is defined as Adjusted EBIT divided by the average for twelve months of Total assets, less current liabilities, excluding current portion of long-term debt, as measured under GAAP.

Table of Contents

Impact of Foreign Exchange on Earnings

Fluctuations in FX affect our results because U.S. dollar-denominated revenues and expenses are translated into Canadian dollars. U.S. dollar-denominated revenues and expenses increase (decrease) when the Canadian dollar weakens (strengthens) in relation to the U.S. dollar.

Canadian to U.S. dollar Average exchange rates	**2013**	2012	2011
For the year ended December 31	**$ 1.03**	$ 1.00	$ 0.99
For the three months ended December 31	**$ 1.04**	$ 0.99	$ 1.02

Canadian to U.S. dollar Exchange rates	**2013**	2012	2011
Beginning of year – January 1	**$ 0.99**	$ 1.02	$ 0.99
Beginning of quarter – April 1	**$ 1.02**	$ 1.00	$ 0.97
Beginning of quarter – July 1	**$ 1.05**	$ 1.02	$ 0.96
Beginning of quarter – October 1	**$ 1.03**	$ 0.98	$ 1.05
End of quarter – December 31	**$ 1.06**	$ 0.99	$ 1.02

Average Fuel Price

(U.S. dollars per U.S. gallon)	**2013**	2012	2011
For the year ended – December 31	**$ 3.47**	$ 3.45	$ 3.38
For the three months ended – December 31	**$ 3.51**	$ 3.47	$ 3.45

7. PERFORMANCE INDICATORS

For the year ended December 31[(1)]	**2013**	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Operations Performance					
Freight gross ton-miles (“GTMs”) (millions)	**267,629**	254,354	247,995	5	3
Train miles (thousands)	**37,817**	40,270	40,145	(6)	–
Average train weight – excluding local traffic (tons)	**7,573**	6,709	6,593	13	2
Average train length – excluding local traffic (feet)[(2)]	**6,530**	5,981	5,860	9	2
Average terminal dwell (hours)[(3)]	**7.1**	7.5	8.9	(5)	(16)
Average train speed (mph)[(4)]	**18.2**	18.0	15.2	1	18
Locomotive productivity (daily average GTMs/active horse power (“HP”))	**216.0**	179.8	166.7	20	8
Fuel efficiency (U.S. gallons of locomotive fuel consumed /1,000 GTMs)[(5)]	**1.06**	1.15	1.18	(8)	(3)
Total employees (average)[(6)(7)]	**15,011**	16,999	16,097	(12)	6
Workforce (end of period)[(8)]	**14,977**	16,907	18,519	(11)	(9)
Safety indicators					
FRA personal injuries per 200,000 employee-hours	**1.69**	1.55	1.85	9	(16)
FRA train accidents per million train-miles	**1.78**	1.67	1.88	7	(11)

(1) Certain prior period figures have been revised to conform with current presentation or have been updated to reflect new information.

(2) Incorporates a new reporting methodology where average train length is the sum of each car and locomotive's equipment length multiplied by the distance travelled, divided by train miles. Local trains are excluded from this measure.

(3) Incorporates a new reporting definition where average terminal dwell measures the average time a freight car resides within terminal boundaries.

(4) Incorporates a new reporting definition where average train speed measures the line-haul movement from origin to destination including terminal dwell hours.

(5) Includes gallons of fuel consumed from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities.

(6) An employee is defined as an individual, including trainees, who has worked more than 40 hours in a standard biweekly pay period. This excludes part time employees, contractors and consultants.

(7) 2012 average number of employees has been adjusted for the strike.

(8) Workforce is defined as total employees plus part time employees, contractors and consultants.

The indicators listed in this table are key measures of our operating performance. Definitions of these performance indicators are provided in Section 25, Glossary of Terms.

Table of Contents

CANADIAN PACIFIC

Operations Performance

GTMs for 2013 were 267,629 million, which increased by 5% compared with 254,354 million in 2012. This increase was primarily due to higher traffic volumes in Industrial and consumer products and Grain partially offset by lower traffic volumes in Automotive and Intermodal and by the impact of volumes lost during the strike in the second quarter of 2012.

GTMs for 2012 were 254,354 million, which increased by 3% compared with 247,955 million in 2011. This increase was primarily due to higher traffic volumes in the Company's Intermodal and Merchandise franchises. This increase was partially offset by a reduction in bulk shipments, and the impact of volumes lost during the strike in the second quarter.

Train miles for 2013 decreased by 6% compared with 2012, driven by increases in both train weights and lengths. This improvement was due to the Company's successful execution of the operating plan, partially offset by higher workload as measured by GTMs.

Train miles for 2012 were relatively flat compared with 2011, with higher workload offset by an increase in train weights. These changes were largely attributable to compressed train service transit schedules.

Average train weight increased in 2013 by 864 tons or 13% from 2012. Average train length increased in 2013 by 549 feet or 9% from 2012. Average train weight and train length benefited from increased workload moving in existing train service, ongoing network capacity and infrastructure investments and the successful execution of the Company's operating plan, which allowed for the operation of longer and heavier trains.

Average train weight increased in 2012 by 116 tons or 2% from 2011. Average train length increased in 2012 by 121 feet or 2% from 2011. Average train weight and train length increased slightly compared to the same period in 2011 primarily due to improvements in the second half of 2012. These improvements benefited from increased Merchandise and Intermodal workload moving in existing train service and the successful execution of the Company's operating plan. Improvements to average train weight were further enabled by the siding extension strategy, which allowed for the operation of longer and heavier trains.

Average terminal dwell, the average time a freight car resides in a terminal, decreased by 5% in 2013 to 7.1 hours from 7.5 hours in 2012. This decrease was primarily due to a continued focus on increasing yard productivity, terminal redesign, and the successful execution of the Company's operating plan.

Average terminal dwell, decreased by 16% in 2012 to 7.5 hours when compared to 8.9 in 2011. This decrease was primarily due to programs to improve asset velocity and storage of surplus cars.

Average train speed was 18.2 miles per hour in 2013, an increase of 1%, from 18.0 miles per hour in 2012. This increase was primarily due to improved asset velocity, decreased terminal dwell and successful execution of the Company's operating plan. Speed improvements were partially offset by an increase in bulk commodities, which move at a slower average speed than intermodal and merchandise traffic.

Average train speed was 18.0 miles per hour in 2012, an increase of 18%, from 15.2 miles per hour in 2011. This increase was primarily due to increased volumes, traffic mix, supply chain pipeline issues and significant disruptions to train operations across the network due to unusually severe winter weather in 2011 and flooding in the first half of 2011 and 2012.

Locomotive productivity increased in 2013 by 20% from 2012. This improvement is primarily the result of increased asset velocity due to more efficient operations, improved fleet reliability and the successful execution of the Company's operating plan.

Locomotive productivity increased in 2012 by 8% from 2011. This increase was primarily due to improvements in network fluidity and the successful execution of the Company's operating plan.

Fuel efficiency improved by 8% in 2013 compared to 2012. This improvement is primarily due to lower horsepower to ton ratios as a result of increased train weights and focus on the fuel conservation strategies of the Company's operating plan.

Fuel efficiency improved by 3% in 2012 compared to 2011. This improvement was primarily due to improved operating conditions and the advancement of the Company's fuel conservation strategies including replacement of older units with new more fuel efficient locomotives.

The average number of total employees for 2013 decreased by 1,988, or 12%, compared with 2012. This decrease was primarily due to job reductions as a result of continuing strong operational performance and natural attrition.

Table of Contents

The average number of total employees for 2012 increased by 902, or 6%, compared with 2011. This increase was primarily due to additional hiring early in the year to address volume growth projections and anticipated attrition over future quarters, partially offset by job reductions in the latter half of the year, improvements in labour productivity and the impact of the strike, including temporary layoffs.

The workforce on December 31, 2013 decreased by 1,930, or 11%, compared with December 31, 2012. This decrease was primarily due to job reductions as a result of continuing strong operational performance, natural attrition and fewer contractors. At our Investor Conference in New York on December 4-5, 2012, the Company outlined plans to reduce approximately 4,500 employee and/or contractor positions, from June 30, 2012 to 2016, through job reductions, natural attrition and reducing the number of contractors. The Company met the 4,500 positions reduction target by the end of 2013.

The workforce on December 31, 2012 decreased by 1,612, or 9%, compared with December 31, 2011. This decrease was primarily due to higher job reductions in the latter half of the year as a result of improved operational performance, natural attrition and fewer contractors.

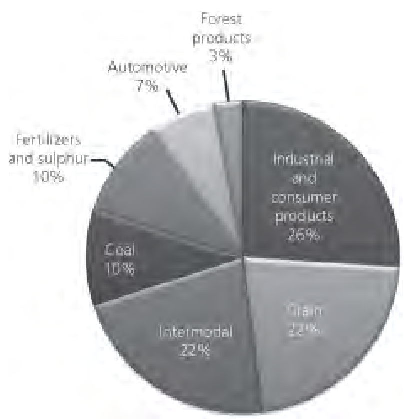
Safety Indicators

Safety is a key priority and core strategy for our management, employees and Board of Directors. Our two main safety indicators – personal injuries and train accidents – follow strict U.S. Federal Railroad Administration ("FRA") reporting guidelines.

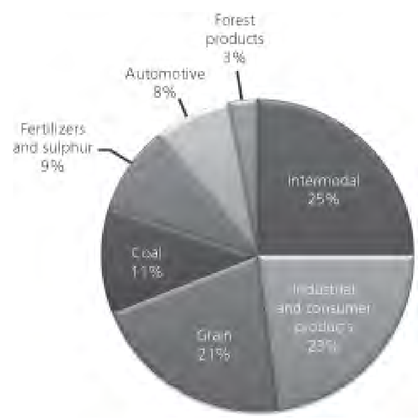
The FRA personal injury rate per 200,000 employee-hours for CP was 1.69 in 2013, 1.55 in 2012 and 1.85 in 2011.

The FRA train accident rate for CP in 2013 was 1.78 accidents per million train-miles, compared with 1.67 in 2012 and 1.88 in 2011.

8. LINES OF BUSINESS



2013 Freight Revenues



2012 Freight Revenues

Revenues

For the year ended December 31 (in millions)	2013	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Freight revenues					
Grain	**$ 1,300**	$ 1,172	$ 1,100	11	7
Coal	**627**	602	556	4	8
Fertilizers and sulphur	**570**	520	549	10	(5)
Industrial and consumer products	**1,548**	1,268	1,017	22	25
Automotive	**403**	425	338	(5)	26
Forest products	**206**	193	189	7	2
Intermodal	**1,328**	1,370	1,303	(3)	5
Total freight revenues	**5,982**	5,550	5,052	8	10
Other revenues	**151**	145	125	4	16
Total revenues	**$ 6,133**	$ 5,695	$ 5,177	8	10

Table of Contents

Our revenues are primarily derived from transporting freight. Other revenues are generated primarily from leasing of certain assets, switching fees, contracts with passenger service operators, and logistics management services.

In the full year of 2013, 2012 and 2011 no one customer comprised more than 10% of total revenues and accounts receivable.

2013 TO 2012 COMPARATIVES

Freight Revenues

Freight revenues are earned from transporting bulk, merchandise and intermodal goods, and include fuel recoveries billed to our customers. Freight revenues were $5,982 million in 2013, an increase of $432 million, or 8% from $5,550 million in 2012. This increase was primarily due to:

- higher shipments, as measured by RTMs, of Industrial and consumer products, Grain, Fertilizers and sulphur and Coal;
- increased freight rates;
- the favourable impact of the change in FX;
- the impact of the strike in 2012 on Canadian shipments; and
- higher fuel surcharge revenues due to an increase in traffic volumes with full margin coverage.

This increase was partially offset by lower shipments in Intermodal and Automotive and the impact of the network outages in the second quarter of 2013.

Fuel Cost Recovery Program

CP employs a fuel cost recovery program designed to automatically respond to fluctuations in fuel prices and help mitigate the financial impact of rising fuel prices. Fuel surcharge revenue is earned on individual shipments; as such, our fuel surcharge revenue is a function of our freight volumes. The short-term volatility in fuel prices may adversely or positively impact expenses and revenues.

Grain

Grain transported by CP consists of both whole grains, such as wheat, corn, soybeans and canola, and processed products such as meals, oils, and flour. Canadian grain products are primarily transported to ports for export and to Canadian and U.S. markets for domestic consumption. U.S. grain products are shipped from the Midwestern U.S. to other points in the Midwest, the Pacific Northwest and northeastern U.S. Grain revenue was $1,300 million in 2013, an increase of $128 million, or 11% from $1,172 million in 2012. This increase was primarily due to:

- higher Canadian originating grain shipments to the west coast due to stronger export demand;
- higher U.S. originating grain shipments to the U.S. Midwest due to increased U.S. crop production in areas served by CP;
- increased freight rates; and
- the favourable impact of the change in FX.

Coal

Our Canadian coal business consists primarily of metallurgical coal transported from southeastern B.C. to the ports of Vancouver, B.C. and Thunder Bay, Ontario, and to the U.S. Midwest. Our U.S. coal business consists primarily of the transportation of thermal coal and petroleum coke within the U.S. Midwest or for export through west coast ports. Coal revenue was $627 million in 2013, an increase of $25 million, or 4% from $602 million in 2012. This increase was primarily due to higher Canadian originating shipments of metallurgical coal due to increased demand and increased freight rates and was partially offset by lower U.S. originating thermal coal shipments as a result of soft market conditions.

Fertilizers and Sulphur

Fertilizers and sulphur include potash, chemical fertilizers and sulphur shipped mainly from western Canada to the ports of Vancouver, B.C. and Portland, Oregon, and to other Canadian and U.S. destinations. Fertilizers and sulphur revenue was $570 million in 2013, an increase of $50 million, or 10% from $520 million in 2012. This increase was primarily due to:

- higher potash and sulphur shipments due to stronger demand;
- increased freight rates;
- higher fuel surcharge revenues due to an increase in traffic volumes with full margin coverage; and
- the favourable impact of the change in FX.

Table of Contents

Industrial and Consumer Products

Industrial and consumer products include chemicals, plastics, aggregates, steel, minerals, ethanol and other energy-related products, other than coal, shipped throughout North America. Industrial and consumer products revenue was $1,548 million in 2013, an increase of $280 million, or 22% from $1,268 million in 2012. This increase was primarily due to:

- higher volumes as a result of strong market demand and growth in movement of energy related commodities and energy related inputs;
- increased freight rates; and
- the favourable impact of the change in FX.

Automotive

Automotive consists primarily of three core finished vehicle traffic segments: imported vehicles, Canadian produced and U.S. produced vehicles. These segments move through Port of Metro Vancouver to eastern Canadian markets; to the U.S. from Ontario production facilities; and to Canadian markets, respectively. Automotive revenue was $403 million in 2013, a decrease of $22 million, or 5% from $425 million in 2012. This decrease was primarily due to lower volumes as a result of the exit from selected customer lanes and a customer shifting production to another facility not served by CP.

Forest Products

Forest products include lumber, wood pulp, paper products and panel transported from key producing areas in western Canada, Ontario and Quebec to various destinations in North America. Forest products revenue was $206 million in 2013, an increase of $13 million, or 7% from $193 million in 2012. This increase was primarily due to:

- higher lumber and panel shipments due to improving U.S. housing market conditions;
- increased freight rates; and
- the favourable impact of the change in FX.

Intermodal

CP's intermodal portfolio consists of domestic and international services. Our domestic business consists primarily of the movement of manufactured consumer products in containers within North America. The international business handles the movement of marine containers between ports and North American inland markets. Intermodal revenue was $1,328 million in 2013, a decrease of $42 million, or 3% from $1,370 million in 2012. This decrease was primarily due to the exit of certain international customer contracts and selected terminal closures partially offset by:

- increased domestic container volumes;
- increased freight rates; and
- the favourable impact of the change in FX.

Other Revenue

Other revenue was $151 million in 2013, an increase of $6 million, or 4% from $145 million in 2012. This increase was primarily due to higher interline switching.

2012 TO 2011 COMPARATIVES

Revenue variances below compare 2012 to 2011 figures.

Freight Revenues

Freight revenues were $5,550 million in 2012, an increase of $498 million, or 10% from $5,052 million in 2011. This increase was primarily due to higher:

- volumes in Industrial and consumer products, Coal and Automotive;
- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes with full margin coverage;
- freight rates for all lines of business; and
- the favourable impact of the change in FX.

This increase was partially offset by lower shipments in Fertilizers and sulphur and the strike impacting Canadian originating shipments in the second quarter of 2012.

Table of Contents

Grain

Grain revenue was $1,172 million in 2012, an increase of $72 million, or 7%, from $1,100 million in 2011. This increase was primarily due to:

- increased Canadian originating traffic volumes, as measured in carloads, in the first half of 2012 due to strong demand;
- increased U.S. originating traffic volumes, in the second half of 2012 due to higher overall production in CP's draw territory;
- increased freight rates;
- higher fuel surcharge revenues due to the change in fuel price; and
- the favourable impact of the change in FX.

This increase was partially offset by lower U.S. originated shipments in the first half of the year due to a poor 2011 harvest in CP's draw territory and the strike impacting Canadian originating shipments in the second quarter of 2012.

Coal

Coal revenue was $602 million in 2012, an increase of $46 million, or 8%, from $556 million in 2011. This increase was primarily due to higher:

- Canadian metallurgical coal shipments due to strong overall demand;
- U.S. thermal coal volumes to Midwestern U.S. markets;
- interline shipments of thermal coal from the Powder River Basin ("PRB") through Canadian west coast ports; and
- fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes.

This increase was partially offset by the strike impacting Canadian originating shipments in the second quarter of 2012.

Fertilizers and Sulphur

Fertilizers and sulphur revenue was $520 million in 2012, a decrease of $29 million, or 5%, from $549 million in 2011. This decrease was primarily due to lower export potash shipments reflecting weaker export market demand and was partially offset by higher:

- dry and wet fertilizer shipments in the second half of the year due to increased demand;
- domestic potash shipments due to strong domestic demand;
- fuel surcharge revenues due to the change in fuel price; and
- freight rates.

Industrial and Consumer Products

Industrial and consumer products revenue was $1,268 million in 2012, an increase of $251 million, or 25%, from $1,017 million in 2011. This increase was primarily due to:

- higher volumes due to strong market demand and growth in the Bakken Oil Formation, the Alberta Industrial Heartland and the Marcellus Gas Formation and for energy related inputs;
- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes;
- increased freight rates; and
- the favourable impact of the change in FX.

Automotive

Automotive revenue was $425 million in 2012, an increase of $87 million, or 26%, from $338 million in 2011. This increase was primarily due to:

- increased shipments as a result of higher North American automotive production and consumption;
- recovery of production by Japanese manufacturers from the impacts of the 2011 tsunami;
- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes; and
- increased freight rates.

Table of Contents

Forest Products

Forest products revenue was $193 million in 2012, an increase of $4 million, or 2%, from $189 million in 2011. This increase was primarily due to higher:

- shipments of lumber and panel products due to improving market conditions;
- freight rates; and
- fuel surcharge revenues due to the change in fuel price.

This increase was partially offset by the strike impacting Canadian shipments in the second quarter and weaker market conditions for pulp and paper products.

Intermodal

Intermodal revenue was $1,370 million in 2012, an increase of $67 million, or 5%, from $1,303 million in 2011. This increase was primarily due to:

- higher shipments driven by increased consumer demand;
- improved service and operating performance;
- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes; and
- increased freight rates.

This increase was partially offset by lower shipments through the Port of Montreal as a result of softness in the European economy and the strike impacting Canadian shipments in the second quarter.

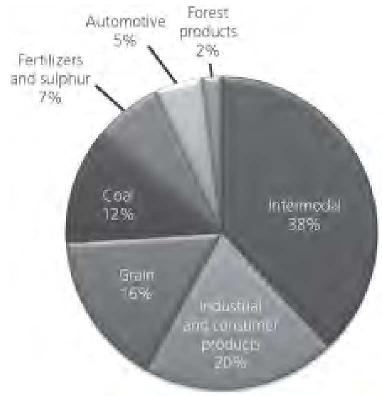
Other Revenue

Other revenue was $145 million in 2012, an increase of $20 million, or 16%, from $125 million in 2011. This increase was primarily due to higher leasing and passenger revenues.

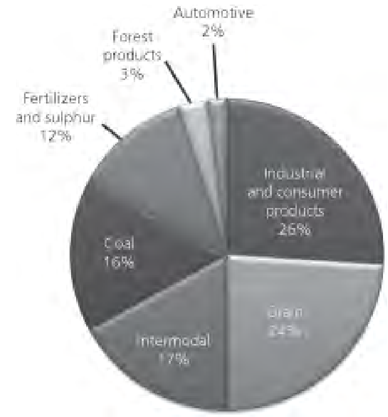
Table of Contents

CANADIAN PACIFIC

Volumes



2013 Carloads



2013 Revenue ton-miles

For the year ended December 31	**2013**	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Carloads (in thousands)					
Grain	**438**	433	450	1	(4)
Coal	**330**	337	313	(2)	8
Fertilizers and sulphur	**185**	177	199	5	(11)
Industrial and consumer products	**519**	469	421	11	11
Automotive	**146**	162	145	(10)	12
Forest products	**66**	67	72	(1)	(7)
Intermodal	**1,004**	1,024	997	(2)	3
Total carloads	**2,688**	2,669	2,597	1	3
Revenue ton-miles (in millions)					
Grain	**33,983**	33,082	32,481	3	2
Coal	**23,172**	22,375	21,041	4	6
Fertilizers and sulphur	**18,170**	17,058	20,468	7	(17)
Industrial and consumer products	**37,875**	30,469	24,122	24	26
Automotive	**2,329**	2,482	2,080	(6)	19
Forest products	**4,619**	4,713	4,960	(2)	(5)
Intermodal	**24,101**	24,853	23,907	(3)	4
Total revenue ton-miles	**144,249**	135,032	129,059	7	5

Changes in freight volumes generally contribute to corresponding changes in freight revenues and certain variable expenses, such as fuel, equipment rents and crew costs.

Volumes in 2013, as measured by total carloads, increased by approximately 19,000 units, or 1% compared to the same period of 2012. This increase in carloads was primarily due to higher:

- volumes as a result of strong market demand and growth in movement of energy related commodities and for energy related inputs;
- domestic container shipments in Intermodal;
- Canadian originating shipments of metallurgical coal due to increased demand;
- domestic and export potash shipments; and
- Canadian originating grain shipments to the west coast due to stronger export demand.

Table of Contents

This increase in carloads was partially offset by lower:

- import and export shipments in Intermodal;
- U.S. originating thermal coal shipments as a result of soft market conditions; and
- overall Automotive shipments.

Volumes in 2012, as measured by total carloads, increased by approximately 72,000 units, or 3% compared to the same period of 2011. This increase in carloads was primarily due to higher:

- volumes due to strong market demand and growth in the Bakken Oil Formation, the Alberta Industrial Heartland and the Marcellus Gas Formation and for energy related inputs;
- Intermodal traffic volumes driven by increased consumer demand;
- volumes of Canadian metallurgical coal shipments, U.S. thermal coal volumes to Midwestern U.S. markets and from the PRB through Canadian west coast ports; and
- Automotive shipments as a result of higher North American automotive production and consumption.

This increase in carloads was partially offset by lower:

- export potash shipments reflecting weaker export market demand;
- lower U.S. originated grain shipments in the first half of the year due to a poor 2011 harvest in CP's draw territory; and
- weaker market conditions for pulp and paper in Forest products.

Revenue ton-miles in 2013 increased by approximately 9,217 million, or 7%, compared to the same period of 2012. This increase was primarily due to higher:

- volumes in energy related commodities and energy related inputs;
- Canadian originating shipments of metallurgical coal;
- domestic and export potash volumes; and
- Canadian originating shipments of grain.

This increase in RTMs was partially offset by lower:

- import and export shipments in Intermodal;
- U.S. originating thermal coal shipments; and
- overall Automotive shipments.

Revenue ton-miles in 2012 increased by approximately 5,973 million, or 5%, compared to the same period of 2011. This increase was primarily due to higher:

- shipments of energy related commodities which have an above average length of haul;
- Canadian originating shipments of metallurgical coal volumes through Port Metro Vancouver; and
- Intermodal shipments through Port Metro Vancouver.

This increase in RTMs was partially offset by lower export potash shipments in Fertilizers and sulphur and lower pulp and paper volumes in Forest products.

Table of Contents

Freight Revenue per Carload

For the year ended December 31 (dollars)	2013	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Freight revenue per carload					
Grain	**$ 2,964**	$ 2,707	$ 2,444	9	11
Coal	**1,904**	1,786	1,776	7	1
Fertilizers and sulphur	**3,083**	2,938	2,759	5	6
Industrial and consumer products	**2,982**	2,704	2,416	10	12
Automotive	**2,758**	2,623	2,331	5	13
Forest products	**3,132**	2,881	2,625	9	10
Intermodal	**1,324**	1,338	1,307	(1)	2
Total freight revenue per carload	**$ 2,226**	$ 2,079	$ 1,945	7	7

Total freight revenue per carload in 2013 increased by 7% compared to 2012. This increase was primarily due to:

- increased freight rates;
- the favourable impact of the change in FX; and
- increased volumes of traffic generating higher freight revenue per carload.

Total freight revenue per carload in 2012 increased by 7% compared to 2011. This increase was primarily due to:

- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes with full margin coverage;
- increased freight rates; and
- the favourable impact of the change in FX.

Freight Revenue per Revenue Ton-Mile

For the year ended December 31 (cents)	2013	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Freight revenue per revenue ton-mile					
Grain	**3.82**	3.54	3.39	8	4
Coal	**2.71**	2.69	2.64	1	2
Fertilizers and sulphur	**3.14**	3.05	2.68	3	14
Industrial and consumer products	**4.09**	4.16	4.22	(2)	(1)
Automotive	**17.27**	17.12	16.25	1	5
Forest products	**4.46**	4.10	3.81	9	8
Intermodal	**5.51**	5.51	5.45	–	1
Total freight revenue per revenue ton-mile	**4.15**	4.11	3.91	1	5

Freight revenue per RTM increased by 1% in 2013 compared to 2012 primarily due to increased freight rates and the favourable impact of the change in FX.

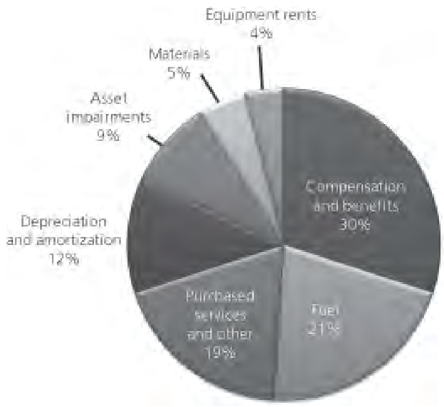
Freight revenue per RTM increased by 5% in 2012 compared to 2011. This increase was primarily due to:

- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes with full margin coverage;
- increased freight rates;
- a decrease in export shipments of potash which generate a lower freight revenue per RTM; and
- the favourable impact of the change in FX.

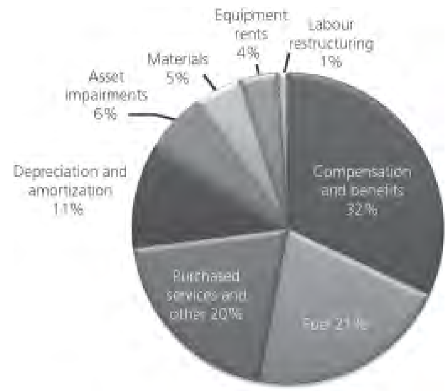
This increase was partially offset by traffic mix changes due to strong growth in energy related inputs and outputs, which generate lower revenue per RTM.

Table of Contents

9. OPERATING EXPENSES



2013 Operating expenses



2012 Operating expenses

For the year ended December 31 (in millions)	**2013**	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Operating expenses					
Compensation and benefits(1)	**$ 1,418**	$ 1,506	$ 1,426	(6)	6
Fuel	**1,004**	999	968	1	3
Materials	**249**	238	243	5	(2)
Equipment rents	**173**	206	209	(16)	(1)
Depreciation and amortization	**565**	539	490	5	10
Purchased services and other(1)	**876**	940	874	(7)	8
Asset impairments	**435**	265	–	64	–
Labour restructuring	**(7)**	53	–	–	–
Total operating expenses	**$ 4,713**	$ 4,746	$ 4,210	(1)	13

(1) As a result of the management transition, $20 million and $22 million were charged in Compensation and benefits and Purchased services and other, respectively in 2012. The US$9 million recovery due to the favourable settlement of litigation recorded in the first quarter of 2013 and $5 million management transition costs recorded in the fourth quarter of 2013 were charged to Purchased services and other and Compensation and benefits, respectively.

Operating expenses were $4,713 million in 2013, a decrease of $33 million, or 1%, from $4,746 million in 2012. This decrease was primarily due to:

- efficiencies generated from improved operating performance, asset utilization, and insourcing of certain IT activities;
- higher labour restructuring charges in 2012 and associated experience gains in 2013;
- lower management transition costs, reflected in Compensation and benefits and Purchased services and other; and
- higher land sales in 2013.

This decrease was partially offset by:

- a higher asset impairment charge in 2013;
- higher volume variable expenses as a result of an increase in workload;
- the unfavourable impact of the change in FX;
- higher incentive compensation resulting from improved corporate performance and higher stock-based compensation;
- wage and benefit inflation; and
- higher depreciation and amortization expenses.

Table of Contents

2013 TO 2012 COMPARATIVES

Compensation and Benefits

Compensation and benefits expense includes employee wages, salaries, fringe benefits and stock-based compensation. Compensation and benefits expense was $1,418 million in 2013, a decrease of $88 million, or 6%, from $1,506 million in 2012. This decrease was primarily due to:

- lower costs achieved through job reductions;
- road and yard crew efficiencies as a result of continuing strong operational performance;
- a reduction in train crew training costs from a lower number of employees; and
- lower management transition costs.

This decrease was partially offset by:

- higher incentive compensation resulting from improved corporate performance and higher stock-based compensation;
- wage and benefit inflation;
- an increase in personnel in certain areas of the business as part of our insourcing strategy, offset by efficiency savings recorded in Purchased services and other;
- the unfavourable impact of the change in FX;
- crew and dispatching costs saved as a result of the strike in 2012; and
- higher pension expense.

Fuel

Fuel expense consists mainly of fuel used by locomotives and includes provincial, state and federal fuel taxes. Fuel expense was $1,004 million in 2013, an increase of $5 million, or 1%, from $999 million in 2012. This increase was primarily due to an increase in workload as measured by GTMs and an unfavourable change in FX, partially offset by an improvement in fuel efficiency as a result of increased train weights and a focus on the fuel conservation strategies of the Company's operating plan.

Materials

Materials expense includes the cost of material used for track, locomotive, freight car, building maintenance and software sustainment. Materials expense was $249 million in 2013, an increase of $11 million or 5%, from $238 million in 2012. This increase was primarily due to higher third party freight car repair material costs, the majority of which were recovered through third party billings recorded in Purchased services and other. This increase was partially offset by reduced locomotive and train servicing and maintenance costs as a result of the storage of less fuel efficient locomotives.

Equipment Rents

Equipment rents expense includes the cost to lease freight cars, intermodal equipment, and locomotives from other companies including railways, net of rental income received from other railways for the use of our equipment. Equipment rents expense was $173 million in 2013, a decrease of $33 million or 16% from $206 million in 2012.

This decrease reflects freight car and locomotive operating efficiencies which have contributed to improved asset velocity. As a result, the Company required fewer freight cars and locomotives reducing the payments made to foreign railways for the use of their freight cars and permitting the return and sublease of certain leased freight cars and locomotives. This decrease was partially offset the unfavourable impact of the change in FX.

Depreciation and Amortization

Depreciation and amortization expense represents the charge associated with the use of track and roadway, buildings, rolling stock, information systems and other depreciable assets. Depreciation and amortization expense was $565 million for 2013, an increase of $26 million, or 5%, from $539 million in the same period of 2012. This increase was primarily due to higher depreciable assets as a result of our capital program.

Table of Contents

Purchased Services and Other

For the year ended December 31 (in millions)	**2013**	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Purchased services and other					
Support and facilities	**$ 400**	$ 420	$ 382	(5)	10
Track and operations	**214**	192	191	11	1
Intermodal	**159**	153	147	4	4
Equipment	**60**	89	75	(33)	19
Casualty	**63**	80	80	(21)	–
Other	**18**	29	24	(38)	21
Land sales	**(38)**	(23)	(25)	65	(8)
Total purchased services and other	**$ 876**	$ 940	$ 874	(7)	8

Purchased services and other expense encompasses a wide range of costs, including expenses for joint facilities, personal injuries and damage, environmental remediation, property and other taxes, contractor and consulting fees, insurance, gains on land sales and equity earnings. Purchased services and other expense was $876 million in 2013, a decrease of $64 million, or 7% from $940 million in 2012. The decrease was primarily due to:

- efficiencies generated from improved operating performance, asset utilization and insourcing of certain IT activities;
- management transition costs of $22 million in 2012 and the $9 million favourable settlement of litigation in 2013 related to management transition, included in Other;
- higher recoveries from third parties related to freight car repair costs, included in Equipment;
- higher land sales in 2013;
- a favourable adjustment to the Workers Compensation Board ("WCB") liability mainly due to a higher discount rate and favourable claims experience, reported in Casualty;
- lower third party repair costs for freight cars being returned to the lessors, included in Equipment; and
- contract termination costs associated with a locomotive warranty service agreement as part of our insourcing strategy in 2012, included in Equipment.

The decrease was partially offset by:

- the unfavourable change in FX;
- increased relocation costs related to our labour strategy, included in Track and operations;
- a higher number of overhauls performed on locomotives, included in Equipment;
- higher facilities and utility costs, included in Support and facilities; and
- higher property and other taxes, included in Support and facilities.

Asset Impairments

The Company executed an agreement with Genesee & Wyoming Inc ("G&W") for the sale of a portion of CP's Dakota, Minnesota & Eastern ("DM&E") line between Tracy, Minnesota and Rapid City, South Dakota, Colony, Wyoming and Crawford, Nebraska and connecting branch lines ("DM&E West"). The sale, which is subject to regulatory approval by the Surface Transportation Board ("STB"), is expected to generate approximately US$215 million in gross proceeds, subject to closing adjustments and is expected to close in 2014.

As a result, in the fourth quarter of 2013, the Company recorded an asset impairment charge and accruals for future costs associated with the sale totaling $435 million ($257 million after tax). The impairment was comprised of $426 million ($249 million after tax) to Property, plant and equipment, Goodwill and intangible assets totaling $8 million ($7 million after tax) and a total of $1 million ($1 million after tax) in accruals for future costs associated with the sale. The impairment charge and associated accruals for future sales costs were recorded as Asset impairments and charged against income.

During the fourth quarter of 2012, the Company recorded an asset impairment charge related to its investment in the PRB and another investment of $185 million ($111 million after tax) and an impairment loss on a certain series of locomotives of $80 million ($59 million after tax).

Table of Contents

As part of the acquisition of DM&E in 2007, CP acquired the option to extend its network into coal mines in the PRB. CP deferred plans to this option indefinitely due to continued deterioration in the market for domestic thermal coal. The Company recorded an asset impairment charge totaling $180 million ($107 million after tax) in the fourth quarter of 2012.

In the fourth quarter of 2012, CP reached a decision to dispose of a certain series of locomotives to improve operating efficiencies and recorded an impairment charge of $80 million ($59 million after tax) based on an impairment test on these assets.

Labour Restructuring

In the fourth quarter of 2012, CP recorded a charge of $53 million ($39 million after tax) for a labour restructuring initiative. The majority of the resulting position reductions were completed in 2013 with the remaining positions to be eliminated by the end of 2014. As a result of favourable experience, the Company recorded a recovery of $7 million ($5 million after tax) in the fourth quarter of 2013 for the labour restructuring initiative recorded in 2012.

2012 TO 2011 COMPARATIVES

Operating expense variances below compare 2012 to 2011 figures.

Operating Expenses

Operating expenses were $4,746 million in 2012, an increase of $536 million, or 13%, from $4,210 million in 2011. This increase was primarily due to:

- asset impairment and labour restructuring charges;
- higher volume variable expenses, such as fuel, crews and intermodal operations, as a result of an increase in workload;
- higher incentive and stock-based compensation expenses driven by improved operating and stock performance as compared to 2011;
- higher depreciation and amortization expenses;
- management transition costs, reflected in Compensation and benefits and Purchased services and other;
- higher IT costs associated with infrastructure and maintenance services;
- the unfavourable impact of the change in FX; and
- higher fuel prices.

This increase was partially offset by:

- improved operating performance, asset utilization and operating conditions;
- certain volume variable expenses saved as a result of the strike in the second quarter of 2012; and
- an insurance recovery recognized in the first quarter of 2012, related to flooding in southern Alberta and Saskatchewan in 2010.

Compensation and Benefits

Compensation and benefits expense was $1,506 million in 2012, an increase of $80 million, or 6%, from $1,426 million in 2011. This increase was primarily due to:

- increased incentive and stock-based compensation expenses driven by improved operating and stock performance as compared to 2011;
- higher crew costs as a result of an increase in workload, measured by GTMs;
- an increase in the number of employees in the first half of 2012, to meet business demand and anticipated attrition;
- charges associated with management transition;
- labour and benefits inflation; and
- the unfavourable impact of the change in FX.

This increase was partially offset by:

- operational efficiencies which favourably impacted yard and road crew costs;
- savings from reduced overtime hours;
- crew and dispatching costs saved as a result of the strike;
- a reduction in training costs for running trade employees relative to 2011, due to fewer new hires; and
- a reduction in pension expense.

Table of Contents

Fuel

Fuel expense was $999 million in 2012, an increase of $31 million, or 3%, from $968 million in 2011. This increase was primarily due to:

- increased traffic volumes, as measured by GTMs;
- higher fuel prices;
- the unfavourable impact of the change in FX; and
- the gain on settled diesel futures contracts recorded in 2011.

This increase was partially offset by a favourable change in fuel efficiency, reflecting improved operational fluidity, storage of older less fuel efficient locomotives, and a continued focus on the Company's fuel conservation strategies.

Materials

Materials expense was $238 million in 2012, a decrease of $5 million, or 2%, from $243 million in 2011. Improved operating conditions as compared to 2011 reduced the need for freight car repairs, and increased locomotive availability combined with the storage of less reliable and less efficient locomotives reduced locomotive repair costs. This decrease was partially offset by additional licensing, maintenance and support costs associated with software.

Equipment Rents

Equipment rents expense was $206 million in 2012, a decrease of $3 million, or 1%, from $209 million in 2011. This decrease reflects freight car and locomotive operating efficiencies and improved operating conditions which have contributed to improved asset velocity. As a result, the Company has required fewer freight cars and locomotives, reducing the payments made to foreign railways for the use of their freight cars and permitting the return of certain leased freight cars.

These benefits were partially offset by:

- lower receipts, reflecting reduced usage of CP owned freight cars by foreign railways;
- higher freight car lease costs due to higher rates; and
- the unfavourable impact of the change in FX.

Depreciation and Amortization

Depreciation and amortization expense was $539 million in 2012, an increase of $49 million, or 10%, from $490 million in 2011. This increase was primarily due to higher depreciable assets as a result of our capital program and the acceleration of depreciation on certain legacy IT assets as we invest and renew our IT infrastructure.

Purchased Services and Other

Purchased services and other expense was $940 million in 2012, an increase of $66 million, or 8%, from $874 million in 2011. The increase was primarily due to:

- management transition costs of $22 million, included in Other;
- higher IT costs associated with infrastructure and maintenance services, reported in Support and facilities;
- increased third party repair costs for freight cars being returned to lessors and a higher number of overhauls performed on locomotives, included in Equipment;
- increased expenses related to higher workload, included in Track and operations, Intermodal and Equipment;
- termination costs of a warranty service agreement as part of our insourcing strategy, included in Equipment; and
- the unfavourable impact of the change in FX.

The increase was partially offset by:

- the favourable impact of improved operating conditions, impacting Support and facilities and Track and operations;
- an insurance recovery recognized in the first quarter of 2012, related to flooding in southern Alberta and Saskatchewan in 2010, included in Other; and
- lower relocation expenses, included in Track and operations.

Table of Contents

10. OTHER INCOME STATEMENT ITEMS

Other Income and Charges

Other income and charges consists of gains and losses from the change in foreign exchange on long-term debt ("LTD") and working capital, various costs related to financing, shareholder costs, gains and losses associated with changes in the fair value of non-hedging derivative instruments, equity income and other non-operating expenditures. Other income and charges was an expense of $17 million in 2013, compared to expense of $37 million in 2012. This decrease was primarily due to advisory fees related to shareholder matters in 2012, partially offset by FX losses on LTD and U.S. dollar denominated working capital compared to FX gains in 2012. Other income and charges was an expense of $37 million in 2012, compared to expense of $18 million in 2011. This increase was primarily due to higher advisory fees related to shareholder matters in 2012 and lower gains on long-term floating rate notes. This increase was partially offset by FX gains on LTD and working capital compared to FX losses in 2011.

Net Interest Expense

Net interest expense includes interest on long-term debt and capital leases. Net interest expense was $278 million in 2013, an increase of $2 million, or 1%, from $276 million in 2012. This increase was primarily due to the unfavourable impact of the change in FX rates on U.S. dollar denominated interest expense partially offset by higher interest income and the impact of principal repayments of debt securities. Net interest expense was $276 million in 2012, an increase of $24 million, or 10%, from $252 million in 2011. This increase was primarily due to new debt issuances in 2011 as well as the unfavourable impact in the change in FX rates on U.S. dollar denominated interest expense. This was partially offset by the retirement of debt securities in 2011 and higher interest capitalized on capital projects in 2012. Debt issuances and retirements are discussed further in Section 14, Liquidity and Capital Resources.

Income Taxes

Income tax expense was $250 million in 2013, an increase of $98 million, or 64%, from $152 million in 2012. This increase was primarily due to higher earnings in 2013 and the increase in the province of British Columbia's corporate income tax rate in the third quarter of 2013. Income tax expense was $152 million in 2012, an increase of $25 million, or 20%, from $127 million in 2011. This increase was primarily due to the impact of a tax recovery in the fourth quarter of 2011 of $37 million from the resolution of certain income tax matters and the impact of the province of Ontario's corporate income tax rate change in 2012. This was partially offset by lower income before tax. The effective income tax rate for 2013 was 22%, compared with 24%, and 18% for 2012 and 2011 respectively. We expect a normalized 2014 income tax rate of approximately 28%. The 2014 outlook on our normalized income tax rate is based on certain assumptions about events and developments that may or may not materialize or that may be offset entirely or partially by other events and developments (discussed further in Section 21, Business Risks and Section 22, Critical Accounting Estimates). We expect to have an increase in our cash tax payments in future years reflecting higher earnings.

11. QUARTERLY FINANCIAL DATA

For the quarter ended	**2013**				2012			
(in millions, except per share data)	**Dec. 31[(1)]**	**Sep. 30[(2)]**	**Jun. 30**	**Mar. 31[(3)]**	Dec. 31[(4)]	Sep. 30	Jun. 30[(5)]	Mar. 31[(6)]
Total revenue	**$ 1,607**	**$ 1,534**	**$ 1,497**	**$ 1,495**	$ 1,502	$ 1,451	$ 1,366	$ 1,376
Operating income	**114**	**524**	**420**	**362**	60	376	239	274
Net income	**82**	**324**	**252**	**217**	15	224	103	142
Basic earnings per share	**$ 0.47**	**$ 1.85**	**$ 1.44**	**$ 1.25**	$ 0.08	$ 1.31	$ 0.60	$ 0.83
Diluted earnings per share	**0.47**	**1.84**	**1.43**	**1.24**	0.08	1.30	0.60	0.82

(1) Significant items included in the fourth quarter of 2013 were an asset impairment charge and accruals for future costs related to the anticipated sale of DM&E West totaling $435 million ($257 million after tax), a recovery of $7 million ($5 million after tax) for our 2012 labour restructuring initiative and $5 million ($4 million after tax) of management transition costs.

(2) Significant items included in the third quarter of 2013 was an Income tax expense of $7 million as a result of the change in the province of British Columbia's corporate income tax rate, which required the re-calculation of the Company's Deferred income tax liability as at January 1, 2013, discussed further in Section 10, Other Income Statement Items.

(3) Significant items included in the first quarter of 2013 was a recovery of US$9 million (US$6 million after tax) from a litigation settlement related to management transition.

(4) Significant items included in the fourth quarter of 2012 were an impairment of the PRB and other investment of $185 million ($111 million after tax), an asset impairment of certain locomotives of $80 million ($59 million after tax) and a labour restructuring charge of $53 million ($39 million after tax).

(5) Significant items included in the second quarter of 2012 were management transition costs of $42 million ($29 million after tax), advisory fees related to shareholder matters of $13 million ($10 million after tax) and the $11 million impact of the increase in the Ontario corporate income tax rate.

(6) Significant item in the first quarter of 2012 was the advisory fees related to shareholder matters of $14 million ($10 million after tax).

Table of Contents

Quarterly Trends

Volumes of and, therefore, revenues from certain goods are stronger during different periods of the year. First quarter revenues can be lower mainly due to winter weather conditions, closure of the Great Lakes ports and reduced transportation of retail goods. Second and third quarter revenues generally improve over the first quarter as fertilizer volumes are typically highest during the second quarter and demand for construction-related goods is generally highest in the third quarter. Revenues are typically strongest in the fourth quarter, primarily as a result of the transportation of grain after the harvest, fall fertilizer programs and increased demand for retail goods moved by rail. Operating income is also affected by seasonal fluctuations. Operating income is typically lowest in the first quarter due to lower freight revenue and higher operating costs associated with winter conditions. Net income is also influenced by seasonal fluctuations in customer demand and weather-related issues.

12. FOURTH-QUARTER SUMMARY

For the three months ended December 31 (in millions)	**2013**	2012	% Change
Revenues			
Grain	**$ 385**	$ 355	8
Coal	**157**	156	1
Fertilizers and sulphur	**126**	133	(5)
Industrial and consumer products	**413**	335	23
Automotive	**105**	99	6
Forest products	**49**	46	7
Intermodal	**335**	340	(1)
Total freight revenues	**1,570**	1,464	7
Other revenues	**37**	38	(3)
Total revenues	**1,607**	1,502	7
Operating expenses			
Compensation and benefits	**343**	378	(9)
Fuel	**262**	256	2
Materials	**65**	60	8
Equipment rents	**39**	48	(19)
Depreciation and amortization	**144**	140	3
Purchased services and other	**212**	242	(12)
Asset Impairments	**435**	265	64
Labour restructuring	**(7)**	53	–
Total operating expenses	**1,493**	1,442	4
Operating income	**$ 114**	$ 60	90

Operating Results

Operating income was $114 million in the fourth quarter of 2013, an increase of $54 million, or 90%, from $60 million in the same period of 2012. This increase was primarily due to:

- efficiencies generated from improved operating performance, asset utilization and insourcing of certain IT activities;
- higher labour restructuring charges in 2012 and associated experience gains in 2013;
- higher freight rates;
- increased volumes of traffic, as measured by RTMs, generating higher freight revenue;

Table of Contents

- the favourable impact of the change in FX;
- higher land sales;
- a favourable adjustment in WCB liability primarily due to higher discount rate and favourable claims experience in 2013; and
- an insurance recovery related to flooding in 2011.

This increase was partially offset by:

- a higher asset impairment charge in 2013;
- higher volume variable expenses as a result of an increase in workload and difficult winter conditions;
- wage and benefits inflation; and
- higher stock-based compensation expenses.

Net income was $82 million in the fourth quarter of 2013, an increase of $67 million, or 447%, from $15 million in the same period of 2012. This increase was primarily due to higher Operating income partially offset by higher Income tax expense due to the impact of higher earnings and the increase in the province of British Columbia's corporate income tax rate.

Diluted Earnings per Share

Diluted EPS was $0.47 in the fourth quarter of 2013, an increase of $0.39, or 488%, from $0.08 in the same period of 2012. Diluted EPS, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was $1.91 in the fourth quarter of 2013, an increase of $0.63, or 49%, from $1.28 in the same period of 2012. These increases were primarily due to higher Net income.

Operating Ratio

Our operating ratio was 92.9% in the fourth quarter of 2013, compared with 96.0% in the same period of 2012. This decrease was primarily due to efficiency savings and lower labour restructuring charges in 2013 partially offset by a higher asset impairment charge.

The operating ratio, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was 65.9% in the fourth quarter of 2013, a decrease of 74.8% compared to the same period in 2012. This improvement was primarily due to an increase in efficiency savings, increased volumes of traffic and higher freight rates.

Table of Contents

PERFORMANCE INDICATORS

For the three months ended December 31[1]	2013	2012	% Change 2013 vs. 2012
Operations Performance			
Freight gross ton-miles (millions)	**68,531**	66,204	4
Train miles (thousands)	**9,341**	10,046	(7)
Average train weight – excluding local traffic (tons)	**7,844**	7,014	12
Average train length – excluding local traffic (feet)[2]	**6,668**	6,198	8
Average terminal dwell (hours)[3]	**7.9**	7.4	7
Average train speed (mph)[4]	**17.6**	17.6	–
Locomotive productivity (daily average GTMs/active HP)	**223.2**	197.1	13
Fuel efficiency (U.S. gallons of locomotive fuel consumed/1,000 GTMs)[5]	**1.06**	1.14	(7)
Total employees (average)[6][7]	**14,677**	16,369	(10)
Workforce (end of period)[8]	**14,977**	16,907	(11)
Safety indicators			
FRA personal injuries per 200,000 employee-hours	**1.77**	2.05	(14)
FRA train accidents per million train-miles	**1.35**	1.68	(20)

(1) Certain prior period figures have been revised to conform with current presentation or have been updated to reflect new information.

(2) Incorporates a new reporting methodology where average train length is the sum of each car and locomotive's equipment length multiplied by the distance travelled, divided by train miles. Local trains are excluded from this measure.

(3) Incorporates a new reporting definition where average terminal dwell measures the average time a freight car resides within terminal boundaries.

(4) Incorporates a new reporting definition where average train speed measures the line-haul movement from origin to destination including terminal dwell hours.

(5) Includes gallons of fuel consumed from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities.

(6) An employee is defined as an individual, including trainees, who has worked more than 40 hours in a standard bi-weekly pay period. This excludes part time employees, contractors, and consultants.

(7) 2012 average number of employees has been adjusted for the strike.

(8) Workforce is defined as total employees plus part time employees, contractors and consultants.

Operations Performance

GTMs for the fourth quarter of 2013 were 68,531 million, which increased by 4% compared with 66,204 million in the same period of 2012. This increase was primarily due to higher traffic volumes in Industrial and consumer products and Grain offset by lower traffic volumes in Intermodal and Automotive.

Train miles for the fourth quarter of 2013 were 9,341 miles, a decrease of 7% compared with 10,046 miles in the same period of 2012. This decrease was driven by improvements in both train weights and lengths due to the Company's successful execution of the operating plan, partially offset by higher workload as measured by GTMs.

In the fourth quarter of 2013, average train weight increased by 830 tons or 12% and average train length increased by 470 feet or 8% from the same period of 2012. Average train weight and train length benefited from increased workload moving in existing train service and through ongoing network capacity and infrastructure investments which allowed for the operation of longer and heavier trains.

Average terminal dwell increased by 7% in the fourth quarter of 2013 to 7.9 hours from 7.4 hours in the same period of 2012. This increase was primarily due to yard processing workload and partially offset by our continued focus on improvements to yard productivity, terminal redesign and the successful execution of the Company's operating plan.

Average train speed was 17.6 miles per hour in the fourth quarter of 2013, unchanged when compared to the same period of 2012. This was primarily due to challenging operating conditions and an increase in bulk commodities, which move at a slower average speed than intermodal and merchandise traffic, offset through ongoing network capacity and infrastructure investments and the successful execution of the Company's operating plan.

Locomotive productivity, which is daily average GTMs/active HP, increased in the fourth quarter of 2013 by 13% from the same period of 2012. This improvement is primarily the result of increased asset velocity due to more efficient operations, improved fleet reliability, and the successful execution of the Company's operating plan.

Table of Contents

Fuel efficiency improved by 7% in the fourth quarter of 2013 compared to the same period of 2012. This improvement is primarily due to lower horsepower to ton ratios as a result of increased train weight and continued focus on the fuel conservation strategies of the Company's operating plan.

Safety Indicators

The FRA personal injury rate per 200,000 employee-hours for CP was 1.77 in the fourth quarter of 2013 compared with 2.05 in same period of 2012.

The FRA train accident rate for CP in the fourth quarter of 2013 was 1.35 accidents per million train-miles, compared with 1.68 in same period of 2012.

Freight Revenues

Freight revenues were $1,570 million in the fourth quarter of 2013, an increase of $106 million, or 7%, from $1,464 million in the same period of 2012. This increase was primarily due to:

- increased volumes of traffic, as measured by RTMs in Industrial and consumer products, Grain, Fertilizer and sulphur, and Automotive;
- the favourable impact of the change in FX; and
- higher freight rates.

This increase was partially offset by lower shipments in Forest products, Coal, and Intermodal.

Grain

Grain revenue was $385 million in the fourth quarter of 2013, an increase of $30 million, or 8%, from $355 million in the same period of 2012. This increase was primarily due to:

- higher Canadian originating shipments due to stronger export demand and record Canadian crop production;
- the favourable impact of the change in FX; and
- increased freight rates.

This increase was partially offset by lower U.S. originating shipments.

Coal

Coal revenue was $157 million in the fourth quarter of 2013, an increase of $1 million, or 1%, from $156 million in the same period of 2012. This increase was primarily due to:

- higher overall Canadian originating shipments of metallurgical coal due to increased demand;
- increased freight rates; and
- the favourable impact of the change in FX.

This increase was partially offset by lower U.S. originating thermal coal shipments as a result of soft market conditions.

Fertilizers and Sulphur

Fertilizers and sulphur revenue was $126 million in the fourth quarter of 2013, a decrease of $7 million, or 5%, from $133 million in the same period of 2012. This decrease was primarily due to lower fertilizer shipments as a result of a late harvest and a narrow application window. This decrease was partially offset by higher export potash shipments and the favourable impact of the change in FX.

Industrial and Consumer Products

Industrial and consumer products revenue was $413 million in the fourth quarter of 2013, an increase of $78 million, or 23%, from $335 million in the same period of 2012. This increase was primarily due to:

- higher volumes as a result of growth in movement of energy related commodities and energy related inputs;
- the favourable impact of the change in FX; and
- increased freight rates.

Table of Contents

Automotive

Automotive revenue was $105 million in the fourth quarter of 2013, an increase of $6 million, or 6%, from $99 million in the same period of 2012. This increase was primarily due to:

- movements of one-time dimensional loads of transformers and windmills in 2012;
- the favourable impact of the change in FX; and
- increased freight rates.

Forest Products

Forest products revenue was $49 million in the fourth quarter of 2013, an increase of $3 million, or 7%, from $46 million in the same period of 2012. This increase was primarily due to the favourable impact of the change in FX, and increased freight rates. This increase was partially offset by lower lumber and panel shipments due to the exit of certain customer contracts in western Canada, and lower pulp and paper shipments due to reduced plant production and production outages at customers on our lines.

Intermodal

Intermodal revenue was $335 million in the fourth quarter of 2013, a decrease of $5 million, or 1%, from $340 million in the same period of 2012. This decrease was primarily due to the exit of certain customer contracts and selected terminal closures. This decrease was partially offset by:

- increased domestic container volumes;
- the favourable impact of the change in FX; and
- increased freight rates.

Other Revenue

Other revenue was $37 million in the fourth quarter of 2013, essentially unchanged from $38 million in the same period of 2012.

Operating Expenses

Operating expenses were $1,493 million in the fourth quarter of 2013, an increase of $51 million, or 4%, from $1,442 million in the same period of 2012. This increase was primarily due to:

- a higher asset impairment charge in 2013;
- the unfavourable impact of the change in FX;
- higher volume variable expenses as a result of an increase in workload and difficult winter conditions;
- wage and benefit inflation; and
- higher stock-based compensation.

This increase was partially offset by:

- efficiencies generated from improved operating performance, asset utilization, and insourcing of certain IT activities;
- higher labour restructuring charges in 2012 and associated experience gains in 2013;
- higher land sales in 2013;
- a favourable WCB adjustment mainly due to a higher discount rate and favourable claims experience in 2013; and
- an insurance recovery related to flooding in 2011.

Compensation and Benefits

Compensation and benefits expense was $343 million in the fourth quarter of 2013, a decrease of $35 million, or 9%, from $378 million in the same period of 2012. This decrease was primarily due to:

- lower costs achieved through job reductions;
- road and yard crew efficiencies as a result of continuing strong operational performance despite higher costs from difficult winter conditions;
- a reduction in train crew training costs resulting from a lower number of employees;

Table of Contents

- lower management transition costs in 2013; and
- reduced pension expense.

This decrease was partially offset by:

- wage and benefit inflation;
- higher stock-based compensation expense;
- increase in personnel in certain areas of the business as part of our insourcing strategy, offset by efficiency savings recorded in Purchased services and other; and
- the unfavourable impact of the change in FX.

Fuel

Fuel expense was $262 million in the fourth quarter of 2013, an increase of $6 million, or 2%, from $256 million in the same period of 2012. This increase was primarily due to an unfavourable change in FX, the change in workload, as measured by GTMs, and difficult winter conditions, partially offset by improvement in fuel efficiency as a result of increased train weights and focus on the fuel conservation strategies of the Company's operating plan.

Materials

Materials expense was $65 million in the fourth quarter of 2013, an increase of $5 million, or 8%, from $60 million in the same period of 2012. This increase was primarily due to higher third party freight car repair material costs, the majority of which were recovered through third party billings recorded in Purchased services and other and the unfavourable change in FX. This increase was partially offset by reduced maintenance and servicing costs for locomotives as higher locomotive availability, the storage of less reliable and efficient locomotives and improved fluidity across the network lowered costs.

Equipment Rents

Equipment rents expense was $39 million in the fourth quarter of 2013, a decrease of $9 million, or 19%, from $48 million in the same period of 2012. This decrease reflected freight car and locomotive operating efficiencies which have contributed to improved asset velocity. As a result, the Company required fewer freight cars and locomotives reducing the payments made to foreign railways for the use of their freight cars and permitting the return and sublease of certain leased freight cars and locomotives.

Depreciation and Amortization

Depreciation and amortization expense was $144 million in the fourth quarter of 2013, an increase of $4 million, or 3%, from $140 million in the same period of 2012. This increase was primarily due to higher depreciable assets as a result of our capital program.

Purchased Services and Other

For the three months ended December 31 (in millions)	2013	2012	% Change
Purchased services and other			
Support and facilities	**$ 100**	$ 109	(8)
Track and operations	**62**	54	15
Intermodal	**41**	40	3
Equipment	**17**	19	(11)
Casualty	**4**	19	(79)
Other	**6**	2	200
Land sales	**(18)**	(1)	1,700
Total purchased services and other	**$ 212**	$ 242	(12)

Purchased services and other expense was $212 million in the fourth quarter of 2013, a decrease of $30 million, or 12%, from $242 million in the same period of 2012. This decrease was primarily due to:

- efficiencies generated from improved operating performance, asset utilization and insourcing of certain IT activities;
- higher land sales in 2013;

Table of Contents

- a favourable WCB adjustment mainly due to a higher discount rate and favourable claims experience in 2013, reported in Casualty; and
- an insurance recovery in the fourth quarter of 2013, related to flooding in 2011, reported in Other.

This decrease was partially offset by the unfavourable impact of the change in FX and higher property and other taxes, included in Support and facilities.

Other Income Statement Items

Other Income and Charges

Other income and charges was an expense of $6 million in the fourth quarter of 2013, compared with an expense of $3 million in the same period of 2012. The increase was primarily due to FX losses on LTD and U.S. dollar denominated working capital.

Net Interest Expense

Net interest expense was $70 million in the fourth quarter of 2013, essentially unchanged from $69 million in the same period of 2012.

Income Taxes

Income tax expense was a recovery of $44 million in the fourth quarter of 2013, compared to a recovery of $27 million in the same period of 2012. This increase was primarily due to the higher asset impairment charge incurred, partially offset by higher pre-tax income in the fourth quarter of 2013.

Liquidity and Capital Resources

During the fourth quarter of 2013, the Company generated cash and cash equivalents of $147 million, compared with $126 million generated in the same period of 2012. This increase in cash and cash equivalents was primarily due to improved pre-tax earnings and higher proceeds from the sale of properties and other assets. This increase in cash and cash equivalents was partially offset by:

- higher additions to properties in 2013;
- increase in Restricted cash and cash equivalents in 2013 related to the collateralization of letters of credit, discussed further in Section 21, Business Risks; and
- lower proceeds from the issuance of common shares in 2013 resulting from the exercising of options.

13. CHANGES IN ACCOUNTING POLICY

2013 Accounting Change

Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, an amendment to FASB Accounting Standards Codification (“ASC”) Topic 220. The update requires disclosure of amounts reclassified out of Accumulated other comprehensive income by component. In addition, an entity is required to present either on the face of the statement of operations or in the notes, significant amounts reclassified out of Accumulated other comprehensive income by the respective line items of Net income but only if the amount reclassified is required to be reclassified to Net income in its entirety in the same reporting period. For amounts not reclassified in their entirety to Net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. This ASU is effective prospectively for fiscal years, and interim periods within those years beginning after December 15, 2012. The disclosure requirements of this ASU for the year ended December 31, 2013 are presented as a note in the annual Consolidated Financial Statements.

14. LIQUIDITY AND CAPITAL RESOURCES

The Company believes adequate amounts of cash and cash equivalents are available in the normal course of business to provide for ongoing operations, including the obligations identified in the tables in Section 19, Contractual Commitments and Section 20, Future Trends and Commitments. We are not aware of any trends or expected fluctuations in our liquidity that would create any deficiencies. Liquidity risk is discussed in Section 21, Business Risks. The following discussion of operating, investing and financing activities describes our indicators of liquidity and capital resources.

Operating Activities

Cash provided by operating activities was $1,950 million in 2013, an increase of $622 million from cash provided by operating activities of $1,328 million in 2012. This increase was primarily due to improved pre-tax earnings, partially offset by higher income tax payments and the purchase of material as part of the Company’s insourcing strategy.

Table of Contents

Cash provided by operating activities was $1,328 million in 2012, an increase of $816 million from cash provided by operating activities of $512 million in 2011. This increase was primarily due to:

- significantly lower pension contributions compared with 2011, which included $600 million of solvency deficit contributions all of which were represented by a voluntary prepayment to the Company's main Canadian defined benefit pension plan, discussed further in Section 22, Critical Accounting Estimates; and
- higher cash generating earnings: the labour restructuring and asset impairment charges in the fourth quarter of 2012 did not result in any significant cash outflows, discussed further in Section 9, Operating Expenses.

Investing Activities

Cash used in investing activities was $1,597 million in 2013, an increase of $586 million from cash used in investing activities of $1,011 million in 2012. This increase was primarily due to:

- increase in Restricted cash and cash equivalents related to the collateralizing of letters of credit, discussed further in Section 21, Business Risks;
- higher additions to properties associated with our capital program;
- proceeds from the sale of long-term floating rate notes in 2012, discussed further in Section 22, Critical Accounting Estimates; and
- a $20 million interest free loan made in 2013 pursuant to a court order to a corporation owned by a court appointed trustee. This amount will be held in trust until the resolution of legal proceedings with regard to CP's entitlement to an exercised purchase option of a building. If successful in these proceedings, title to the building will transfer to CP with an additional payment of $20 million; otherwise the loan will be repaid.

Cash used in investing activities was $1,011 million in 2012, a decrease of $33 million from cash used in investing activities of $1,044 million in 2011. This decrease was primarily due to higher proceeds from the sale of long-term floating rate notes, discussed further in Section 22, Critical Accounting Estimates, offset in part by higher additions to properties associated with our capital program.

Additions to properties ("capital programs") in 2014 are expected to be approximately $1.2 to $1.3 billion. Planned capital programs include approximately $850 million to preserve capacities through replacement or renewal of depleted assets, between $200 and $275 million for network capacity expansions, business development projects and productivity initiatives and between $50 and $75 million to address capital regulated by governments, principally Positive Train Control ("PTC") and locomotive engine upgrades to meet emission standards.

Capital Programs

For the year ended December 31 (in millions, except for miles and crossties)	**2013**	2012	2011
Additions to properties			
Track and roadway	**$ 831**	$ 744	$ 756
Buildings	**48**	38	47
Rolling stock	**169**	155	179
Information systems	**110**	105	99
Other	**107**	110	72
Total – accrued additions to properties	**1,265**	1,152	1,153
Less:			
Other non-cash transactions	**29**	4	49
Cash invested in additions to properties (per Consolidated Statements of Cash Flows)	**$ 1,236**	$ 1,148	$ 1,104
Track installation capital programs			
Track miles of rail laid (miles)	**429**	470	532
Track miles of rail capacity expansion (miles)	**24**	32	31
Crossties installed (thousands)	**926**	794	885

Of the total capital additions to properties noted in the table above, costs for the renewal of the railway, including track and roadway, buildings and rolling stock were approximately $905 million in 2013. The costs for renewal of the railway in 2012 and 2011 were $708 million and $680 million respectively. Costs related to normal repairs and maintenance of the railroad have been expensed and presented within operating expenses. Approximately $816 million, $830 million and $836 million were expensed during the years ended December 31, 2013, 2012 and 2011, respectively. Repairs and maintenance does not have a standardized definition and, therefore is unlikely to be comparable to similar measures of other companies and definitions applied by regulators.

Table of Contents

We intend to finance capital expenditures with available cash from operations, but may partially finance these expenditures with new debt, capital leases and temporary draws on our credit facility. Our decisions on funding equipment acquisitions will be influenced by such factors as optimizing our capital structure and maintaining our debt covenants and investment grade rating, as well as the amount of cash flow we believe can be generated from operations and the prevailing capital market conditions.

Financing Activities

Cash used in financing activities was $220 million in 2013, as compared to cash used in financing activities of $30 million in 2012 and cash provided by financing activities of $217 million in 2011.

Cash used in financing activities in 2013 was primarily for the payment of dividends and the repayment of long-term debt. These uses of cash were partially offset by proceeds from the issuance of common shares resulting from the exercising of options.

Cash used in financing activities in 2012 was primarily for the payment of dividends, the repayment of long-term debt and short-term borrowings. These uses of cash were largely offset by proceeds from the issuance of common shares resulting from the exercising of options and from the issuance of US$71 million 4.28% Senior Secured Notes due in 2027 for net proceeds of $71 million.

Cash provided by financing activities in 2011 was primarily from:

- the issuance of CDN$125 million 5.10% 10-year Medium Term Notes, US$250 million 4.50% 10-year Notes and US$250 million 5.75% 30-year Notes for net proceeds of $618 million. These proceeds were largely used to make a $600 million voluntary prepayment to the Company's main Canadian defined benefit pension plan;
- the issuance of US$139 million 3.88% Series A and B Senior Secured Notes due in 2026 for net proceeds of $139 million; and
- $28 million in short-term borrowings.

These proceeds were partially offset by;

- the redemption of US$246 million 6.25% 10-year Notes for a total cost of $251 million;
- the redemption of US$101 million 5.75% 5-year Notes pursuant to a call offer for a total cost of $113 million, which included a redemption premium paid to note holders to redeem the Notes; and
- the payments of dividends.

The Company has available, as sources of financing, up to $1.2 billion under its revolving credit facility and up to $191 million under its bilateral letter of credit facilities, discussed further in Section 21, Business Risks.

Debt to Total Capitalization

Debt to total capitalization is the sum of long-term debt, long-term debt maturing within one year and short-term borrowing, divided by debt plus total Shareholders' equity as presented on our Consolidated Balance Sheets. At December 31, 2013, our debt to total capitalization decreased to 40.7%, compared with 47.9% at December 31, 2012. This decrease was largely due to an increase in equity driven by earnings and a decrease in Pension and other benefit liabilities.

At December 31, 2012, our debt to total capitalization decreased to 47.9%, compared with 50.7% at December 31, 2011. This decrease was largely due to an increase in equity driven by earnings and an increase in share capital resulting from the exercise of options.

Calculation of Interest Coverage Ratio

For the year ended December 31 (in millions, except for coverage ratios)	**2013**	2012	2011
EBIT[(1)]	**$ 1,403**	$ 912	$ 949
Adjusted EBIT[(1)]	**$ 1,827**	$ 1,299	$ 955
Net interest expense	**$ 278**	$ 276	$ 252
Interest coverage ratio[(1)]	**5.0**	3.3	3.8
Adjusted interest coverage ratio[(1)]	**6.6**	4.7	3.8

(1) Interest coverage ratio, Adjusted interest coverage ratio, EBIT and Adjusted EBIT have no standardized meanings prescribed by U.S. GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies. These earnings measures are described in this section and are discussed further in Section 15, Non-GAAP Measures.

Table of Contents

Interest coverage ratio is measured, on a rolling twelve month basis, EBIT divided by Net interest expense, discussed further in Section 15, Non-GAAP Measures. At December 31, 2013, our interest coverage ratio was 5.0, compared with 3.3 in 2012. This improvement was primarily due to a year-over-year increase in EBIT. In 2013 and 2012, EBIT was negatively impacted by asset impairment charges. In 2012, EBIT was further impacted by labour restructuring, advisory costs due to shareholder matters, and management transition costs, discussed further in Section 15, Non-GAAP Measures.

Excluding these significant items from EBIT, Adjusted interest coverage ratio was 6.6 at December 31, 2013, compared with 4.7 in 2012. This increase was primarily due to an increase in Adjusted EBIT. Adjusted interest coverage ratio and significant items are discussed further in Section 15, Non-GAAP Measures.

Our interest coverage ratio was 3.3 at December 31, 2012, compared with 3.8 in 2011. This reduction was primarily due to a year-over-year increase in Net interest expense and a reduction in EBIT which was negatively impacted by labour restructuring, asset impairment charges, advisory costs due to shareholder matters, and management transition costs in 2012, discussed further in Section 15, Non-GAAP Measures.

Excluding these significant items from EBIT, Adjusted interest coverage ratio was 4.7 at December 31, 2012, compared with 3.8 in 2011. This increase was primarily due to an increase in Adjusted EBIT. Adjusted interest coverage ratio and significant items are discussed further in Section 15, Non-GAAP Measures.

Calculation of Free Cash[(1)]

(Reconciliation of free cash to GAAP cash position) For the year ended December 31 (in millions)	**2013**	2012	2011
Voluntary prepayments to the main Canadian defined benefit pension plan	**$ –**	$ –	$ (600)
Other operating cash flows	**1,950**	1,328	1,112
Cash provided by operating activities	**1,950**	1,328	512
Cash used in investing activities	**(1,597)**	(1,011)	(1,044)
Change in restricted cash and cash equivalents used to collateralize letters of credit [(2)]	**411**	–	–
Dividends paid	**(244)**	(223)	(193)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	**10**	(1)	1
Free cash[(1)]	**530**	93	(724)
Cash provided by financing activities, excluding dividend payment	**24**	193	410
Change in restricted cash and cash equivalents used to collateralize letters of credit [(2)]	**(411)**	–	–
Increase (decrease) in cash and cash equivalents, as shown on the Consolidated Statements of Cash Flows	**143**	286	(314)
Cash and cash equivalents at beginning of year	**333**	47	361
Cash and cash equivalents at end of year	**$ 476**	$ 333	$ 47

(1) Free cash and cash provided by financing activities, excluding dividend payment have no standardized meaning prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies. Free cash is discussed further in Section 15, Non-GAAP Measures.

(2) Changes in Restricted cash and cash equivalents related to collateralized letters of credit are discussed further in Section 21, Business Risks.

There was positive free cash of $530 million in 2013, and positive free cash of $93 million in 2012. This improvement in free cash in 2013 was primarily due to improved pre-tax earnings partially offset by:

- higher additions to properties;
- higher income tax payments;
- the purchase of materials as part of the Company's insourcing strategy;
- a loan made to a court appointed trustee to facilitate the acquisition of a building; and
- proceeds from the sale of long-term floating rate notes in 2012.

There was positive free cash of $93 million in 2012, and negative free cash of $724 million in 2011. This increase was primarily due to:

- lower pension contributions compared with 2011, which included a $600 million voluntary prepayment to the Company's main Canadian defined benefit pension plan;
- higher cash generating earnings: the labour restructuring and asset impairment charges in the fourth quarter of 2012 did not result in any significant cash outflows; and
- higher proceeds from the sale of long-term floating rate notes in 2012.

This increase was partially offset by higher additions to properties associated with our capital program.

Table of Contents

15. NON-GAAP MEASURES

We present non-GAAP measures and cash flow information to provide a basis for evaluating underlying earnings and liquidity trends in our business that can be compared with the results of our operations in prior periods. These non-GAAP measures exclude other specified items that are not among our normal ongoing revenues and operating expenses. These non-GAAP measures have no standardized meaning and are not defined by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies.

Operating expenses, excluding significant items, provide relevant and useful information for evaluating the effectiveness of our operations and underlying business trends impacting our cost control strategy.

Operating income, excluding significant items, provides a measure of the profitability of the railway on an ongoing basis. Operating ratio, excluding significant items, calculated as operating expenses, excluding significant items divided by revenues, provides the percentage of revenues used to operate the railway on an ongoing basis.

Income, excluding significant items, provides management with a measure of income that allows a multi-period assessment of long-term profitability and also allows management and other external users of our consolidated financial statements to compare our profitability on a long-term basis with that of our peers.

Diluted earnings per share, excluding significant items, provides the same information on a per share basis.

Significant Items

Significant items are material transactions that may include, but are not limited to, restructuring and asset impairment charges, gains and losses on non-routine sales of assets and other items that are not normal course business activities.

In 2013, there were five significant items included in Net income as follows:

- in the fourth quarter, we recorded an asset impairment charge and accruals for future costs totaling $435 million ($257 million after tax) relating to the anticipated sale of DM&E West, discussed further in Section 9, Operating Expenses;
- in the fourth quarter, we recorded management transition costs related to the retirement of our Chief Financial Officer and the appointment of our new Chief Financial Officer of $5 million ($4 million after tax), discussed further in Section 20, Future Trends and Commitments;
- in the fourth quarter, we recorded a recovery of $7 million ($5 million after tax) for our 2012 labour restructuring initiative due to favourable experience gains, discussed further in Section 9, Operating Expenses;
- in the third quarter, we recorded an income tax expense of $7 million as a result of the change in the province of British Columbia's corporate income tax rate, discussed further in Section 10, Other Income Statement Items; and
- in the first quarter, we recorded a recovery of US$9 million (US$6 million after tax) related to settlement of certain management transition amounts which had been subject to legal proceedings.

In 2012, there were six significant items included in Net income as follows:

- in the fourth quarter, we recorded an asset impairment charge of $185 million ($111 million after tax) with respect to the option to build into the Powder River Basin and another investment, discussed further in Section 9, Operating Expenses;
- in the fourth quarter, we recorded an asset impairment charge of $80 million ($59 million after tax) related to a certain series of locomotives, discussed further in Section 9, Operating Expenses;
- in the fourth quarter, we recorded a labour restructuring charge of $53 million ($39 million after tax) as part of a restructuring initiative, discussed further in Section 9, Operating Expenses;
- in the second quarter, we recorded a charge of $42 million ($29 million after tax) with respect to compensation and other management transition costs, discussed further in Section 9, Operating Expenses;
- during the first and second quarters, we incurred advisory fees of $27 million ($20 million after tax) related to shareholder matters, discussed further in Section 10, Other Income Statement Items; and
- in the second quarter, we recorded an income tax expense of $11 million as a result of the change in the province of Ontario's corporate income tax rate, discussed further in Section 10, Other Income Statement Items.

In 2011, there were two significant items included in Net income:

- in the fourth quarter, we incurred advisory fees of $6 million ($5 million after tax) related to shareholder matters, discussed further in Section 10, Other Income Statement Items.
- in the fourth quarter, we recorded the $37 million benefit resulting from the resolution of certain tax matters, discussed further in Section 10, Other Income Statement Items.

Table of Contents

The following tables reconcile Operating expenses, excluding significant items, Operating income, excluding significant items and Income, excluding significant items to Operating expenses, Operating income and Net income, respectively, and Diluted earnings per share, excluding significant items and operating ratio, excluding significant items to Diluted earnings per share and operating ratio.

Reconciliation of Non-GAAP Measures to GAAP Measures

(in millions)	For the year ended December 31 2013	2012	2011	For the three months ended December 31 2013	2012
Operating expenses, excluding significant items[1]	**$ 4,289**	$ 4,386	$ 4,210	**$ 1,060**	$ 1,124
Add (less) significant items:					
Labour restructuring	**(7)**	53	–	**(7)**	53
Asset impairments	**435**	265	–	**435**	265
Management transition costs	**(4)**	42	–	**5**	–
Operating expenses as reported	**$ 4,713**	$ 4,746	$ 4,210	**$ 1,493**	$ 1,442
Operating income, excluding significant items[1]	**$ 1,844**	$ 1,309	$ 967	**$ 547**	$ 378
Less (add) significant items:					
Labour restructuring	**(7)**	53	–	**(7)**	53
Asset impairments	**435**	265	–	**435**	265
Management transition costs	**(4)**	42	–	**5**	–
Operating income as reported	**$ 1,420**	$ 949	$ 967	**$ 114**	$ 60
Income, excluding significant items[1]	**$ 1,132**	$ 753	$ 538	**$ 338**	$ 224
Less (add) significant items, net of tax:					
Labour restructuring	**(5)**	39	–	**(5)**	39
Asset impairments	**257**	170	–	**257**	170
Management transition costs	**(2)**	29	–	**4**	–
Advisory fees related to shareholder matters	**–**	20	5	**–**	–
Resolution of certain tax matters	**–**	–	(37)	**–**	–
Income tax rate change	**7**	11	–	**–**	–
Net income as reported	**$ 875**	$ 484	$ 570	**$ 82**	$ 15

[1] These earnings measures have no standardized meanings prescribed by U.S. GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies. These earnings measures and other significant items are described in this section.

Diluted earnings per share	For the year ended December 31 2013	2012	2011	For the three months ended December 31 2013	2012
Excluding significant items	**$ 6.42**	$ 4.34	$ 3.15	**$ 1.91**	$ 1.28
Less (add) significant items:					
Labour restructuring	**(0.03)**	0.22	–	**(0.03)**	0.22
Asset impairments	**1.46**	0.98	–	**1.45**	0.98
Management transition costs	**(0.01)**	0.17	–	**0.02**	–
Advisory fees related to shareholder matters	**–**	0.12	0.03	**–**	–
Income tax rate change	**0.04**	0.06	(0.22)	**–**	–
Diluted earnings per share as reported	**$ 4.96**	$ 2.79	$ 3.34	**$ 0.47**	$ 0.08

Table of Contents

Operating ratio	For the year ended December 31 **2013**	2012	2011	For the three months ended December 31 **2013**	2012
Excluding significant items	**69.9%**	77.0%	81.3%	**65.9%**	74.8%
Add (less) significant items:					
Labour restructuring	**(0.1)%**	0.9%	–	**(0.4)%**	3.5%
Asset impairments	**7.1%**	4.7%	–	**27.1%**	17.7%
Management transition costs	**(0.1)%**	0.7%	–	**0.3%**	–
Operating ratio as reported	**76.8%**	83.3%	81.3%	**92.9%**	96.0%

Free cash and cash flow before dividends are non-GAAP measures that management considers to be indicators of liquidity. The measures are used by management to provide information with respect to the relationship between cash provided by operating activities and investment decisions and provide comparable measures for period to period changes. Free cash is calculated as cash provided by operating activities, less cash used in investing activities, excluding changes in restricted cash and cash equivalents and investment balances used to collateralize letters of credit, and dividends paid, adjusted for changes in cash and cash equivalents balances resulting from FX fluctuations. Free cash is discussed further and is reconciled to the change in cash and cash equivalents as presented in the financial statements in Section 14, Liquidity and Capital Resources. Cash provided by financing activities, excluding dividend payments, reflects financing activities cash flows not included in the computation of free cash. Cash flow before dividends is calculated as cash provided by operating activities less cash used in investing activities, excluding changes in restricted cash and cash equivalents and investment balances used to collateralize letters of credit.

Interest coverage ratio is used in assessing the Company's debt servicing capabilities. This ratio provides an indicator of our debt servicing capabilities, and how these have changed, period over period and in comparison to our peers. The ratio, measured as EBIT divided by Net interest expense is reported quarterly and is measured on a twelve month rolling basis. Interest coverage ratio is discussed further in Section 14, Liquidity and Capital Resources.

The interest coverage ratio, excluding significant items, also referred to as Adjusted interest coverage ratio, is calculated as Adjusted EBIT divided by Net interest expense. By excluding significant items which affect EBIT, Adjusted interest coverage ratio provides a metric that is more comparable on a period to period basis. Interest coverage ratio and Adjusted interest coverage ratio are discussed further in Section 14, Liquidity and Capital Resources.

ROCE is a measure of performance which measures how productively the Company uses its assets. ROCE is defined as EBIT divided by the average for the twelve months of total assets, less current liabilities excluding the current portion of long-term debt. ROCE, excluding significant items, also referred to as Adjusted ROCE is calculated as Adjusted EBIT divided by the average for the twelve months of total assets, less current liabilities excluding the current portion of long-term debt. By excluding significant items which affect EBIT, Adjusted ROCE provides a metric that is more comparable on a period to period basis. ROCE and Adjusted ROCE are discussed further in Section 6, Operating Results.

Interest coverage ratio and ROCE include EBIT, a non-GAAP measure, which can be calculated as Operating income, less Other income and charges. Adjusted EBIT is calculated as Operating income, excluding significant items less Other income and charges, excluding significant items that are reported in Other income and charges on our income statement. A reconciliation of Operating income for the years ended December 31, 2013 and 2012 to EBIT and Adjusted EBIT, each for the years ended December 31, 2013 and 2012, is presented below:

Reconciliation of EBIT and Adjusted EBIT to Operating income

(in millions)	**2013**	2012	2011
Adjusted EBIT for the year ended December 31(1)	**$ 1,827**	$ 1,299	$ 955
Less (add) significant items:			
Labour restructuring	**(7)**	53	–
Asset impairments	**435**	265	–
Management transition	**(4)**	42	–
Advisory costs related to shareholder matters	**–**	27	6
EBIT for the year ended December 31(1)	**1,403**	912	949
Add (less):			
Other income and charges	**17**	37	18
Operating income for the year ended December 31	**$ 1,420**	$ 949	$ 967

(1) EBIT and Adjusted EBIT have no standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies. These earnings measures and significant items are described in this section.

Table of Contents

CANADIAN PACIFIC

16. BALANCE SHEET

Total Assets

Total assets were $17,060 million at December 31, 2013, compared with $14,727 million at December 31, 2012. This increase was primarily due to increases in:

- discount rates and equity returns which resulted in a net asset position for our main Canadian defined benefit pension plan, shown as Pension asset;
- Properties due to our 2013 capital additions in excess of depreciation and changes in FX;
- Restricted cash and cash equivalents used to collateralize letters of credit, discussed further in Section 14, Liquidity and Capital Resources;
- Deferred income taxes reflecting our current estimate of loss carry forward amounts expected to be utilized in 2014;
- Other assets driven by a loan to a court appointed trustee to facilitate the purchase of a building; and
- Materials and supplies to support our capital program, including the purchase of mechanical and engineering materials as part of the Company's insourcing strategy.

This increase was partially offset by the anticipated sale of DM&E West assets, shown as Assets held for sale at fair value, discussed further in Section 9, Operating Expenses.

Total Liabilities

Total liabilities were $9,963 million at December 31, 2013, compared with $9,630 million at December 31, 2012. This increase was primarily due to higher Deferred income tax liabilities as a result of deferred income taxes on earnings and Other Comprehensive income, FX and higher current deferred income tax assets, as well as an increase in Long-term debt due to FX partly offset by debt payments. This increase was partially offset by lower Pension and other benefit liabilities primarily due to higher discount rates, favourable investment returns and pension plan amendments, discussed further in Section 22, Critical Accounting Estimates.

Shareholders' Equity

At December 31, 2013, our Consolidated Balance Sheets reflected $7,097 million in equity, compared with $5,097 million at December 31, 2012. This increase was primarily due to:

- higher Net income in excess of dividends;
- decrease in Accumulated other comprehensive loss related to our main Canadian defined benefit pension plan driven by an increase in discount rates, favourable investment returns, pension plan amendments as well as the amortization of pension plan losses; and
- increase in Share capital as stock options were exercised.

Share Capital

At February 28, 2014, 175,679,130 common shares and no preferred shares were issued and outstanding. In addition, CP has a Management Stock Option Incentive Plan ("MSOIP") under which key officers and employees are granted options to purchase CP shares. Each option granted can be exercised for one Common Share. At February 28, 2014, 3.5 million options were outstanding under our MSOIP and Directors' Stock Option Plan, as well as stand-alone option agreements entered into with Mr. E. Hunter Harrison, Mr. Keith Creel and Mr. Bart W. Demosky. 2.4 million additional options may be issued in the future under the MSOIP and Directors' Stock Option Plan.

Table of Contents

Dividends

Dividends declared by the Board of Directors in the last three years are as follows:

Dividend amount	Record date	Payment date
$0.3500	March 28, 2014	April 28, 2014
$0.3500	December 27, 2013	January 27, 2014
$0.3500	September 27, 2013	October 28, 2013
$0.3500	June 28, 2013	July 29, 2013
$0.3500	March 28, 2013	April 29, 2013
$0.3500	December 28, 2012	January 28, 2013
$0.3500	September 28, 2012	October 29, 2012
$0.3500	June 22, 2012	July 30, 2012
$0.3000	March 30, 2012	April 30, 2012
$0.3000	December 30, 2011	January 30, 2012
$0.3000	September 30, 2011	October 31, 2011
$0.3000	June 24, 2011	July 25, 2011
$0.2700	March 25, 2011	April 25, 2011

17. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The Company categorizes its financial assets and liabilities measured at fair value in line with the fair value hierarchy established by GAAP, that prioritizes, with respect to reliability, the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of quoted prices (unadjusted) in active markets for identical assets and liabilities and gives the highest priority to these inputs. Level 2 and 3 inputs are based on significant other observable inputs and significant unobservable inputs, respectively, and gives lower priority to these inputs.

When possible, the estimated fair value is based on quoted market prices and, if not available, estimates from third party brokers. For non-exchange traded derivatives classified in Level 2, the Company uses standard valuation techniques to calculate fair value. Primary inputs to these techniques include observable market prices (interest, foreign exchange and commodity) and volatility, depending on the type of derivative and nature of the underlying risk. The Company uses inputs and data used by willing market participants when valuing derivatives and considers its own credit default swap spread as well as those of its counterparties in its determination of fair value.

The techniques used to value the Company's long-term floating rate notes, which were classified as Level 3, are discussed further in Section 22, Critical Accounting Estimates.

Carrying Value and Fair Value of Financial Instruments

The carrying values of financial instruments equal or approximate their fair values with the exception of long-term debt which has a fair value of approximately $5,572 million and a carrying value of $4,876 million at December 31, 2013. At December 31, 2012, long-term debt had a fair value of approximately $5,688 million and a carrying value of $4,690 million. The estimated fair value of current and long-term borrowings has been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Company at period end. All derivatives and long-term debt are classified as Level 2.

Financial Risk Management

Derivative Financial Instruments

Derivative financial instruments may be used to selectively reduce volatility associated with fluctuations in interest rates, foreign exchange rates, the price of fuel and stock-based compensation expense. Where derivatives are designated as hedging instruments, the relationship between the hedging instruments and their associated hedged items is documented, as well as the risk management objective and strategy for the use of the hedging instruments. This documentation includes linking the derivatives that are designated as fair value or cash flow hedges to specific assets or liabilities on the Consolidated Balance Sheets, commitments or forecasted transactions. At the time a derivative contract is entered into, and at least quarterly thereafter, an assessment is made whether the derivative item is effective in offsetting the changes in fair value or cash flows of the hedged items. The derivative qualifies for hedge accounting treatment if it is effective in substantially mitigating the risk it was designed to address.

It is not the Company's intent to use financial derivatives or commodity instruments for trading or speculative purposes.

Table of Contents

Credit Risk Management

Credit risk refers to the possibility that a customer or counterparty will fail to fulfill its obligations under a contract and as a result create a financial loss for the Company.

The railway industry predominantly serves financially established customers and the Company has experienced limited financial losses with respect to credit risk. The credit worthiness of customers is assessed using credit scores supplied by a third party, and through direct monitoring of their financial well-being on a continual basis. The Company establishes guidelines for customer credit limits and should thresholds in these areas be reached, appropriate precautions are taken to improve collectability.

Counterparties to financial instruments expose the Company to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an on-going basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. The Company does not anticipate non-performance that would materially impact the Company's financial statements. In addition, the Company believes there are no significant concentrations of credit risk.

Foreign Exchange Management

The Company conducts business transactions and owns assets in both Canada and the United States. As a result, the Company is exposed to fluctuations in value of financial commitments, assets, liabilities, income or cash flows due to changes in FX rates. The Company may enter into foreign exchange risk management transactions primarily to manage fluctuations in the exchange rate between Canadian and U.S. currencies. FX exposure is primarily mitigated through natural offsets created by revenues, expenditures and balance sheet positions incurred in the same currency. Where appropriate, the Company may negotiate with customers and suppliers to reduce the net exposure.

Occasionally the Company will enter into short-term FX forward contracts as part of its cash management strategy.

Net Investment Hedge

The FX gains and losses on long-term debt are mainly unrealized and can only be realized when U.S. dollar denominated long-term debt matures or is settled. The Company also has long-term FX exposure on its investment in U.S. affiliates. The majority of the Company's U.S. dollar denominated long-term debt has been designated as a hedge of the net investment in foreign subsidiaries. This designation has the effect of mitigating volatility on net income by offsetting long-term FX gains and losses on U.S. dollar denominated long-term debt and gains and losses on its net investment.

Foreign Exchange Forward Contracts

The Company may enter into FX forward contracts to lock-in the amount of Canadian dollars it has to pay on U.S. denominated debt maturities.

At December 31, 2013, the Company had FX forward contracts to fix the exchange rate on US$100 million of principal outstanding on a capital lease due in January 2014, US$175 million of its 6.50% Notes due in May 2018, and US$100 million of its 7.25% Notes due in May 2019, unchanged from December 31, 2012. These derivatives, which are accounted for as cash flow hedges, guarantee the amount of Canadian dollars that the Company will repay when these obligations mature.

During 2013, an unrealized foreign exchange gain of $18 million was recorded in Other income and charges in relation to these derivatives, compared to an unrealized loss of $4 million in 2012 and a realized and unrealized gain of $8 million in 2011. Gains recorded in Other income and charges were largely offset by unrealized losses on the underlying debt which the derivatives were designated to hedge. Similarly, losses were largely offset by unrealized gains on the underlying debt.

At December 31, 2013, the unrealized gain derived from these FX forwards was $25 million of which $6 million was included in Other current assets and $19 million in Other assets with the offset reflected as an unrealized gain of $5 million in Accumulated other comprehensive loss and as an unrealized gain of $20 million in Retained earnings. At December 31, 2012, the unrealized gain derived from these FX forwards was $8 million which was included in Other assets with the offset reflected as an unrealized gain of $6 million in Accumulated other comprehensive loss and as an unrealized gain of $2 million in Retained earnings.

Interest Rate Management

The Company is exposed to interest rate risk, which is the risk that the fair value or future cash flows of a financial instrument will vary as a result of changes in market interest rates. In order to manage funding needs or capital structure goals, the Company enters into debt or capital lease agreements that are subject to either fixed market interest rates set at the time of issue or floating rates determined by on-going market conditions. Debt subject to variable interest rates exposes the Company to variability in interest expense, while debt subject to fixed interest rates exposes the Company to variability in the fair value of debt.

To manage interest rate exposure, the Company accesses diverse sources of financing and manages borrowings in line with a targeted range of capital structure, debt ratings, liquidity needs, maturity schedule, and currency and interest rate profiles. In anticipation of future debt issuances, the

Table of Contents

Company may enter into forward rate agreements such as treasury rate locks, bond forwards or forward starting swaps, designated as cash flow hedges, to substantially lock in all or a portion of the effective future interest expense. The Company may also enter into swap agreements, designated as fair value hedges, to manage the mix of fixed and floating rate debt.

Interest Rate Swaps

At December 31, 2013 and December 31, 2012, the Company had no outstanding interest rate swaps, nor did it enter into or unwind any such transactions during 2013.

During 2011, the Company amortized $5 million of deferred gains to Net interest expense relating to interest rate swaps previously unwound in 2010 and 2009. In addition, during 2011, the Company amortized $2 million of deferred gains to Other income and charges as a result of the redemption of 5.75% May 2013 Notes, discussed further in Section 14, Liquidity and Capital Resources. These gains were deferred as a fair value adjustment to the underlying debts that were hedged and were amortized to Net interest expense until the debts were redeemed in 2011.

Treasury Rate Locks

At December 31, 2013, the Company had net unamortized losses related to interest rate locks, which are accounted for as cash flow hedges, settled in previous years totaling $22 million, unchanged from December 31, 2012. This amount is composed of various unamortized gains and losses related to specific debts which are reflected in Accumulated other comprehensive loss and are amortized to Net interest expense in the period that interest on the related debt is charged. The amortization of these gains and losses resulted in a negligible increase to Net interest expense and Other comprehensive loss in 2013 and comparative periods.

Fuel Price Management

The Company is exposed to commodity risk related to purchases of diesel fuel and the potential reduction in net income due to increases in the price of diesel. Fuel expense constitutes a large portion of the Company's operating costs and volatility in diesel fuel prices can have a significant impact on the Company's income. Items affecting volatility in diesel prices include, but are not limited to, fluctuations in world markets for crude oil and distillate fuels, which can be affected by supply disruptions and geopolitical events.

The impact of variable fuel expense is mitigated substantially through fuel cost recovery programs which apportion incremental changes in fuel prices to shippers through price indices, tariffs, and by contract, within agreed upon guidelines. While these programs provide effective and meaningful coverage, residual exposure remains as the fuel expense risk may not be completely recovered from shippers due to timing and volatility in the market. In the past, to address the residual portion of CP's fuel costs not mitigated by its fuel cost recovery programs, CP had a systematic hedge program. As a result of improving coverage from its fuel cost recovery programs, CP exited its hedging program during the first quarter of 2013.

Energy Futures

During the first quarter of 2013, the Company settled its remaining diesel futures contracts, accounted for as cash flow hedges, to purchase 20 million U.S. gallons during 2013 for proceeds of $2 million.

During the twelve months ended December 31, 2013, the impact of settled swaps decreased Fuel expense by $2 million, as a result of realized gains on diesel swaps compared to $1 million in 2012 and $8 million in 2011.

At December 31, 2013, the Company had no outstanding diesel futures contracts. At December 31, 2012, the unrealized loss on these contracts was negligible.

18. OFF-BALANCE SHEET ARRANGEMENTS

Guarantees

At December 31, 2013, the Company had residual value guarantees on operating lease commitments of $159 million. The maximum amount that could be payable under these and all of the Company's other guarantees cannot be reasonably estimated due to the nature of certain of the guarantees. All or a portion of amounts paid under certain guarantees could be recoverable from other parties or through insurance. The Company has accrued for all guarantees that it expects to pay. As at December 31, 2013, these accruals amounted to $6 million and $6 million as at December 31, 2012.

19. CONTRACTUAL COMMITMENTS

The accompanying table indicates our obligations and commitments to make future payments for contracts, such as debt, capital lease and commercial arrangements.

Table of Contents

CANADIAN PACIFIC

Contractual Commitments

At December 31, 2013

Payments due by period (in millions)	Total	2014	2015 & 2016	2017 & 2018	2019 & beyond
Contractual commitments					
Long-term debt	**$ 4,625**	$ 50	$ 157	$ 725	$ 3,693
Capital lease	**280**	139	9	7	125
Operating lease(1)	**684**	121	187	120	256
Supplier purchase	**1,515**	195	321	285	714
Other long-term liabilities(2)	**679**	126	136	115	302
Total contractual commitments	**$ 7,783**	$ 631	$ 810	$ 1,252	$ 5,090

(1) Residual value guarantees on certain leased equipment with a maximum exposure of $159 million, discussed further in Section 18, Off-Balance Sheet Arrangements, are not included in the minimum payments shown above, as management believes that we will not be required to make payments under these residual guarantees.

(2) Includes expected cash payments for restructuring, environmental remediation, asset retirement obligations, post-retirement benefits, workers' compensation benefits, long-term disability benefits, pension benefit payments for our non-registered supplemental pension plan, deferred income tax liabilities and certain other long-term liabilities. Projected payments for post-retirement benefits, workers' compensation benefits and long-term disability benefits include the anticipated payments for years 2014 to 2023. Pension contributions for our registered pension plans are not included due to the volatility in calculating them. Pension payments are discussed further in Section 22, Critical Accounting Estimates. Deferred income tax liabilities may vary according to changes in tax rates, tax regulations and the operating results of the Company. As the cash impact in any particular year cannot be reasonably determined, all long-term deferred tax liabilities have been reflected in the "2019 & beyond" category in this table. Deferred income taxes are discussed further in Section 22, Critical Accounting Estimates.

20. FUTURE TRENDS AND COMMITMENTS

Agreements and Recent Developments

Changes in Executive Officers

On November 29, 2013, the Company announced Mr. Bart W. Demosky was appointed Executive Vice President and Chief Financial Officer effective December 28, 2013. Mr. Demosky replaced Mr. Brian Grassby, who retired from his role as Senior Vice President, Chief Financial Officer and Treasurer as announced on October 23, 2013.

Stock Price

The market value per CP common share, as listed on the Toronto Stock Exchange was $160.65 at December 31, 2013, an increase of $59.75 per share from $100.90 at December 31, 2012. The market value per CP common share, as listed on the Toronto Stock Exchange was $100.90 at December 31, 2012, an increase of $31.89 per share from $69.01 at December 31, 2011.

Environmental

Cash payments related to our environmental remediation program, described in Section 22, Critical Accounting Estimates, totaled $9 million in 2013, compared with $11 million in 2012 and $15 million in 2011. Cash payments for environmental initiatives are estimated to be approximately $14 million in 2014, $11 million in 2015, $10 million in 2016 and a total of approximately $55 million over the remaining years through 2023, which will be paid in decreasing amounts. All payments will be funded from general operations.

We continue to be responsible for remediation work on portions of a property in the State of Minnesota and continue to retain liability accruals for remaining future expected costs. The costs are expected to be incurred over approximately 10 years. The state's voluntary investigation and remediation program will oversee the work to ensure it is completed in accordance with applicable standards.

Certain Other Financial Commitments

In addition to the financial commitments mentioned previously in Section 18, Off-Balance Sheet Arrangements and Section 19, Contractual Commitments, we are party to certain other financial commitments set forth in the table and discussed below.

Letters of Credit

Letters of credit are obtained mainly to provide security to third parties under the terms of various agreements, including workers' compensation and supplemental pension. We are liable for these contractual amounts in the case of non-performance under these agreements. Letters of credit are accommodated through our bi-lateral letter of credit facility.

Table of Contents

Capital Commitments

We remain committed to maintaining our current high level of plant quality and renewing our franchise. As part of this commitment, we have entered contracts with suppliers to make various capital purchases related to track programs. Payments for these commitments are due in 2014 through 2046. These expenditures are expected to be financed by cash generated from operations or by issuing new debt.

At December 31, 2013

Amount of commitments per period (in millions)	Total	2014	2015 & 2016	2017 & 2018	2019 & beyond
Commitments					
Letters of credit	**$ 394**	$ 394	$ –	$ –	$ –
Capital commitments	**569**	367	143	26	33
Total commitments	**$ 963**	$ 761	$ 143	$ 26	$ 33

Pension Plan Surplus And Deficit

A description of our future expectations related to the Company's pension plans are included in Section 22, Critical Accounting Estimates.

Restructuring

Cash payments related to severance under all restructuring initiatives totaled $33 million in 2013, compared with $22 million in 2012 and $27 million in 2011. Cash payments for restructuring initiatives are estimated to be approximately $31 million in 2014, $10 million in 2015, $6 million in 2016, and a total of approximately $8 million over the remaining years through 2025. These amounts include residual payments to protected employees for previous restructuring plans that have been completed.

21. BUSINESS RISKS

In the normal course of our operations, we are exposed to various business risks and uncertainties that can have an effect on our financial condition. While some financial exposures are reduced through risk management strategies including the insurance and hedging programs we have in place, there are certain circumstances where the financial risks are not fully insurable or are driven by external factors beyond our influence or control.

As part of the preservation and delivery of value to our shareholders, we have developed an integrated Enterprise Risk Management framework to support consistent achievement of key business objectives through daily pro-active management of risk. The objective of the program is to identify events that result from risks, thereby requiring active management. Each event identified is assessed based on the potential impact and likelihood, taking account of financial, environmental, and reputational impacts, and existing management control. Risk mitigation strategies are formulated to accept, treat, transfer, or eliminate the exposure to the identified events. Readers are cautioned that the following is not an exhaustive list of all the risks to which we are exposed, nor will our mitigation strategies eliminate all risks listed.

Competition

We face significant competition for freight transportation in Canada and the U.S., including competition from other railways, and pipelines, trucking and barge companies. Competition is based mainly on price, quality of service and access to markets. Competition with the trucking industry is generally based on freight rates, flexibility of service and transit time performance. The cost structure and service of our competitors could impact our competitiveness and have a materially adverse impact on our business or operating results. Certain aspects of competition in Canada are also subject to regulation and are discussed further in Regulatory Authorities below.

To mitigate competition risk, our strategies include:

- creating long-term value for customers and shareholders by profitably growing through collaborative supply chain solutions and aligned investments with our customers, delivering competitive and reliable service, developing markets that are consistent with our network's strengths and enhancing our network capability, and selective use of long-term contracts;
- renewing and maintaining infrastructure to enable safe and efficient operations;
- improving handling through our operating plan to reduce costs and enhance quality and reliability of service; and
- exercising a disciplined yield approach to competitive contract renewals and bids.

Liquidity

Revolving Credit Facility

During November of 2013, CP extended its revolving credit agreement, dated October 31, 2011, by 3 years to November 29, 2018. The amended agreement is with 13 highly rated financial institutions for a committed amount of $1.165 billion and also contains an uncommitted accordion

Table of Contents

feature to a maximum size of $1.5 billion. The agreement can accommodate draws of cash and/or letters of credit at market competitive pricing. At December 31, 2013, the facility was undrawn. The weighted average annualized interest rate of the facility for drawn funds was nil in 2013 compared to 2.94% in 2012 and 1.98% in 2011. The agreement requires the Company not to exceed a maximum debt to total capitalization ratio. At December 31, 2013, the Company satisfied this threshold stipulated in the financial covenant. In addition, should our senior unsecured debt not be rated at least investment grade by Moody's and S&P, the Company's credit agreement will also require it to maintain a minimum fixed charge coverage ratio.

Bilateral Letter of Credit Facilities

During 2013, the Company entered into a series of committed and uncommitted bilateral letter of credit facility agreements with financial institutions to support its requirement to post letters of credit in the ordinary course of business. The agreements have varying expiration dates with the earliest expiry in August 2014. Under these agreements, the Company has the option to post collateral in the form of cash or cash equivalents, equal at least to the face value of the letter of credit issued. Collateral provided includes highly liquid investments purchased three months or less from maturity and is stated at cost, which approximates market value and is shown separately as Restricted cash and cash equivalents on the Consolidated Balance Sheets.

At December 31, 2013, under its bilateral facilities the Company had letters of credit drawn of $394 million from a total available amount of $585 million. Prior to these bilateral agreements letters of credit were drawn under the Company's revolving credit facility. At December 31, 2013, Cash and cash equivalents of $411 million were pledged as collateral and recorded as Restricted cash and cash equivalents on the Consolidated Balance Sheets. The Company can largely withdraw this collateral during any month.

Regulatory Authorities

Regulatory Change

Our railway operations are subject to extensive federal laws, regulations and rules in both Canada and the U.S. which directly affect how we manage many aspects of our railway operations and business activities. Our operations are primarily regulated by the Canadian Transportation Agency ("the Agency") and Transport Canada in Canada and the Federal Railroad Administration and the Surface Transportation Board in the U.S. Various other federal regulators directly and indirectly affect our operations in areas such as health, safety, security and environmental and other matters. No assurance can be given to the content, timing or effect on CP of any anticipated additional legislation or future legislative action.

The Canada Transportation Act ("CTA") provides shipper rate and service remedies, including Final Offer Arbitration ("FOA"), competitive line rates and compulsory inter-switching in Canada. The Agency regulates the grain revenue entitlement, commuter and passenger access, FOA, and charges for ancillary services and railway noise. For the grain crop year beginning August 1, 2013 the Agency announced a 1.8% decrease in the Volume-Related Composite Price Index ("VRCPI"), a cost inflator used in calculating the grain maximum revenue entitlement for CP and Canadian National Railway. Grain revenues are impacted by several factors including volumes and VRCPI.

Transport Canada regulates safety-related aspects of our railway operations in Canada through the Railway Safety Act ("RSA"). On October 7, 2011, the Government introduced amendments to the RSA. The Bill received Royal Assent on May 17, 2012. The amendments to the RSA do not have a material impact on CP's operating practices. On August 12, 2008, Transport Canada announced a review focused on understanding the nature and extent of problems and best practices within the logistics chain, with a focus on railway performance in Canada. On March 18, 2011 the panel conducting the review released its final report and the Government of Canada announced its response. On the same day, the federal government announced a series of supply chain initiatives to take place over the next several months, including the intention to table a bill to give shippers the right to a service agreement. Prior to tabling legislation on rail service, the Minister appointed a facilitator to lead a process between railways and shippers to develop a service agreement template and a commercial dispute resolution. The facilitator's report was issued on June 22, 2012. The report provides guidance on how rail service can be negotiated between a shipper and a railway, through a service agreement template, and a process for commercial dispute resolution.

After the tragic accident in Lac-Megantic, Quebec in July of 2013, the Government of Canada implemented several measures pursuant to the Rail Safety Act and the Transportation of Dangerous Goods Act. These modifications implemented changes with respect to rules associated with securing unattended trains, the classification of crude oil being imported, handled, offered for transport or transported and the provision of information to municipalities through which dangerous goods are transported by rail. These changes do not have a material impact on CP's operating practices.

On December 11, 2012 the Government of Canada introduced proposed legislation to amend the CTA to require a railway company, on a shipper's request, to make the shipper an offer to enter into a contract respecting the manner in which the railway company must fulfill its service obligations to the shipper. To exercise the new right to a service contract, a shipper will first have to request one from the railway. The railway will then be obligated to respond within 30 days. If an agreement cannot be reached through commercial negotiations, service arbitration would be available to a shipper to establish the terms of service. To access the remedy, a shipper would have to satisfy the Agency that an attempt was made to resolve the matter with the railway. On June 26, 2013 this legislation received Royal Assent. It is too soon to determine if these actions will have a material impact on the Company's financial condition and results of operations.

Table of Contents

The FRA regulates safety-related aspects of our railway operations in the U.S. State and local regulatory agencies may also exercise limited jurisdiction over certain safety and operational matters of local significance. The Railway Safety Improvement Act ("RSIA") requires, among other things, the implementation of Positive Train Control by the end of 2015, limits freight rail crews' duty time, and requires development of a crew fatigue management plan. The requirements imposed by this legislation could have an adverse impact on the Company's financial condition and results of operations. The FRA filed a report to Congress in August 2012 stating the legislated implementation deadline is not feasible due to significant technical issues beyond the railroads' control. As of May 2013, the concern arose that the Federal Communications Commission ("FCC") process will not allow the railroads to complete the required self-certification for the approximately 22,000 needed radio antennae across the U.S. rail network in a timely fashion.

There is ongoing discussion with Canadian and American regulators concerning amendments to the regulation for the transportation of hazardous commodities including the tank cars used for the transportation of crude oil. The freight rail industry petitioned the Pipeline and Hazardous Materials Safety Administration ("PHMSA") in 2011 to adopt the industry's new tank car standards and, in the absence of PHMSA action, required new cars be built to those standards for the transport of crude oil and ethanol. In November 2013, the industry renewed its request to PHMSA and also urged that existing cars used for crude oil and ethanol be retrofitted to the higher standard or phased out of flammable service. CP does not own any tank cars used for commercial transportation of hazardous commodities.

Congress did not reauthorize the RSIA and the Passenger Rail Investment and Improvement Act which expired at the end of September of 2013. It is uncertain whether legislation will be enacted in 2014. A separate Senate bill has been introduced in the current Congress to extend the PTC implementation deadline by five years. The Surface Transportation Board regulates commercial aspects of CP's railway operations in the U.S. The STB is an economic regulatory agency that Congress charged with the fundamental mandate of resolving railroad rate and service disputes and reviewing proposed railroad mergers. The STB serves as both an adjudicatory and a regulatory body. Matters pending before the STB include proposed rules to address its rate case processes and a petition by the National Industrial Transportation League for new reciprocal switching rules. A new STB Commissioner is awaiting Senate confirmation. To mitigate statutory and regulatory impacts, we are actively and extensively engaged throughout the different levels of government and regulators, both directly and indirectly through industry associations, including the Association of American Railroads ("AAR") and the Railway Association of Canada.

Security

We are subject to statutory and regulatory directives in Canada and the U.S. that address security concerns. CP plays a critical role in the North American transportation system. Our rail lines, facilities, and equipment, including rail cars carrying hazardous materials, could be direct targets or indirect casualties of terrorist attacks. Regulations by the Department of Transportation and the Department of Homeland Security in the U.S. include speed restrictions, chain of custody and security measures which can impact service and increase costs for the transportation of hazardous materials, especially toxic inhalation materials. Legislative changes in Canada to the Transportation of Dangerous Goods Act are expected to add new security regulatory requirements similar to those in the U.S. In addition, insurance premiums for some or all of our current coverage could increase significantly, or certain coverage may not be available to us in the future. While CP will continue to work closely with Canadian and U.S. government agencies, future decisions by these agencies on security matters or decisions by the industry in response to security threats to the North American rail network could have a materially adverse effect on our business or operating results.

As we strive to ensure our customers have unlimited access to North American markets, we have taken the following steps to provide enhanced security and reduce the risks associated with the cross-border transportation of goods:

- to strengthen the overall supply chain and border security, we are a certified carrier in voluntary security programs, such as the Customs-Trade Partnership Against Terrorism and Partners in Protection;
- to streamline clearances at the border, we have implemented several regulatory security frameworks that focus on the provision of advanced electronic cargo information and improved security technology at border crossings, including the implementation of the Vehicle and Cargo Inspection System at five of our border crossings;
- to strengthen railway security in North America, we signed a revised voluntary Memorandum of Understanding with Transport Canada and worked with the AAR to develop and put in place an extensive industry-wide security plan to address terrorism and security-driven efforts seeking to restrict the routings and operational handlings of certain hazardous materials;
- to reduce toxic inhalation risk in high threat urban areas, we work with the Transportation Security Administration; and
- to comply with U.S. regulations for rail security sensitive materials, we have implemented procedures to maintain positive chain of custody and are performing annual route assessments to select and use the route posing the least overall safety and security risk.

Positive Train Control

In the U.S., the Rail Safety Improvement Act requires Class I railroads to implement, by December 31, 2015, interoperable PTC on main track in the U.S. that has passenger rail traffic or toxic inhalant hazard commodity traffic. The legislation defines PTC as a system designed to prevent train-to-train collisions, over-speed derailments, incursions into established work zone limits, and the movement of a train through a switch left in the wrong position. The FRA has issued rules and regulations for the implementation of PTC, and CP filed its PTC Implementation Plans in April 2010, which

Table of Contents

outlined the Company's solution for interoperability as well as its consideration of relative risk in the deployment plan. The Company is participating in industry and government working groups to evaluate the scope of effort that will be required to comply with these regulatory requirements, and to further the development of an industry standard interoperable solution that can be supplied in time to complete deployment. At this time CP estimates the cost to implement PTC as required for railway operations in the U.S. to be up to US$325 million. As at December 31, 2013, total expenditures related to PTC were approximately $146 million, including approximately $23 million and $51 million for the fourth quarter and full year of 2013 respectively, discussed further in Section 14, Liquidity and Capital Resources.

Labour Relations

Currently none of our union agreements are under renegotiation. All of the Canadian bargaining agreements are in place through at least December 31, 2014. All of our U.S. collective bargaining agreements are in place until the end of 2014, with the exception of two agreements on the DM&E which became amendable at the end of 2013.

At December 31, 2013, approximately 77% of our workforce was unionized and approximately 75% of our workforce was located in Canada. Unionized employees are represented by a total of 39 bargaining units. Agreements are in place with all seven bargaining units that represent our employees in Canada and all 32 bargaining units that represent employees in our U.S. operations.

Canada

We are party to collective agreements with seven bargaining units in our Canadian operations. As of December 31, 2013, agreements were in place with all seven bargaining units.

Of the collective agreements that are in effect, four expire at the end of 2017 (Canadian Pacific Police Association ("CPPA") – representing CP police employees, United Steelworkers ("USW") – representing clerical workers, Teamster Canada Rail Conference ("TCRC") – Maintenance of Way Employees Division ("MWED") – representing track maintenance employees and the International Brotherhood of Electrical Workers ("IBEW") – representing signals employees). Agreements with the TCRC, representing running trade employees ("TCRC-RTE") and the TCRC-RCTC, representing rail traffic controllers, expire at the end of 2014. Our agreement with the Unifor, previously the Canadian Auto Workers ("CAW") which represents our car and locomotive repair employees will also expire at the end of 2014.

U.S.

We are party to collective agreements with fourteen bargaining units of our Soo Line subsidiary, thirteen bargaining units of our Delaware & Hudson ("D&H") subsidiary, and five bargaining units of our DM&E subsidiary.

Soo Line has settled contracts with all fourteen bargaining units representing train service employees, car repair employees, locomotive engineers, yard supervisors, clerks, machinists, boilermakers and blacksmiths, electricians, sheet metal workers, and mechanical labourers as a result of national bargaining with the other U.S. Class I railroads.

D&H has settled contracts for all thirteen bargaining units, including locomotive engineers, train service employees, car repair employees, signal maintainers, yardmasters, electricians, machinists, mechanical labourers, track maintainers, clerks, police, engineering supervisors and mechanical supervisors, as a result of stand-by agreements on wage, benefits, and rules negotiations at the national table.

DM&E has agreements in place with five bargaining units which cover all DM&E engineers and conductors, signal and communication workers, mechanics and maintenance of way workers. The agreement with the bargaining unit covering track maintainers was ratified November 27, 2012, and was fully effective January 1, 2013.

All collective bargaining agreements with our three U.S. subsidiaries become amendable December 31, 2014, except the locomotive engineers and conductors agreements on the DM&E which became amendable December 31, 2013. Notices were timely served for contract changes to the locomotive engineers and conductors on the DM&E represented by the Brotherhood of Locomotive Engineers and Trainmen and the United Transportation Union pursuant to Section 6 of the Railway Labor Act. Schedules will be established with each organization for negotiations.

Environmental Laws and Regulations

Our operations and real estate assets are subject to extensive federal, provincial, state and local environmental laws and regulations governing emissions to the air, discharges to waters and the handling, storage, transportation and disposal of waste and other materials. If we are found to have violated such laws or regulations it could materially affect our business or operating results. In addition, in operating a railway, it is possible that releases of hazardous materials during derailments or other accidents may occur that could cause harm to human health or to the environment. Costs of remediation, damages and changes in regulations could materially affect our operating results and reputation.

We have implemented a comprehensive Environmental Management System to facilitate the reduction of environmental risk. CP's annual corporate Operations Environmental Plan states our current environmental goals, objectives and strategies.

Specific environmental programs are in place to address areas such as air emissions, wastewater, management of vegetation, chemicals and waste, storage tanks and fuelling facilities. We also undertake environmental impact assessments and risk assessments. There is continued focus on

Table of Contents

preventing spills and other incidents that have a negative impact on the environment. There is an established Strategic Emergency Response Contractor network and spill equipment kits are located across Canada and the U.S. to ensure a rapid and efficient response in the event of an environmental incident. In addition, emergency preparedness and response plans are regularly updated and tested.

We have developed an environmental audit program that comprehensively, systematically and regularly assesses our facilities for compliance with legal requirements and our policies for conformance to accepted industry standards. Included in this is a corrective action follow-up process and five review meetings with the Safety, Operations and Environment Committee established by the Board of Directors.

We focus on key strategies, identifying tactics and actions to support commitments to the community. Our strategies include:

- protecting the environment;
- ensuring compliance with applicable environmental laws and regulations;
- promoting awareness and training;
- managing emergencies through preparedness; and
- encouraging involvement, consultation and dialogue with communities along our lines.

Climate Change

In both Canada and the U.S., the federal governments have not designated railway transportation as a large final emitter with respect to greenhouse gas (“GHG”) emissions. The railway transportation industry is currently not regulated with respect to GHG emissions, nor do we operate under a regulated cap of GHG emissions. Growing support for climate change legislation is likely to result in changes to the regulatory framework in Canada and the U.S. However, the timing and specific nature of those changes are difficult to predict. Specific instruments such as carbon taxes, and technical and fuel standards have the ability to significantly affect the Company’s capital and operating costs. Restrictions, caps and/or taxes on the emissions of GHG could also affect the markets for, or the volume of, the goods the Company transports.

The fuel efficiency of railways creates a significant advantage over trucking, which currently handles a majority of the market share of ground transportation. Although trains are already three times more fuel efficient than trucks on a per ton-mile basis, we continue to adopt new technologies to minimize our fuel consumption and GHG emissions.

Potential physical risks associated with climate change include damage to railway infrastructure due to extreme weather effects, (e.g. increased flooding, winter storms). Improvements to infrastructure design and planning are used to mitigate the potential risks posed by weather events. The Company maintains flood plans, winter operating plans, an avalanche risk management program and geotechnical monitoring of slope stability.

Financial Risks

Pension Funding Volatility

A description of our pension funding volatility related to the Company’s pension plans are included in Section 22, Critical Accounting Estimates.

Fuel Cost Volatility

Fuel expense constitutes a significant portion of CP’s operating costs and can be influenced by a number of factors, including, without limitation, worldwide oil demand, international politics, weather, refinery capacity, unplanned infrastructure failures, labour and political instability and the ability of certain countries to comply with agreed-upon production quotas.

Our mitigation strategy consists of fuel cost recovery programs which reflect changes in fuel costs that are included in freight rates. Freight rates will increase when fuel prices rise and will decrease when fuel costs decrease. While fluctuations in fuel cost are mitigated, the risk cannot be completely eliminated due to timing and the volatility in the market.

Foreign Exchange Risk

Although we conduct our business primarily in Canada, a significant portion of our revenues, expenses, assets and liabilities including debt are denominated in U.S. dollars. The value of the Canadian dollar is affected by a number of domestic and international factors, including, without limitation, economic performance, and Canadian, U.S. and international monetary policies. Consequently, our results are affected by fluctuations in the exchange rate between these currencies. On average, a $0.01 weakening (or strengthening) of the Canadian dollar increases (or reduces) EPS by approximately $0.05 per share. On an annualized basis, a $0.01 weakening (or strengthening) of the Canadian dollar positively (or negatively) impacts Freight revenues by approximately $35 million and negatively (or positively) impacts Operating expenses by approximately $20 million. To manage this exposure to fluctuations in exchange rates between Canadian and U.S. dollars, we may sell or purchase U.S. dollar forwards at fixed rates in future periods. In addition, changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by us more or less competitive in the world marketplace and may in turn positively or negatively affect our revenues. Foreign exchange management is discussed further in Section 17, Financial Instruments.

Table of Contents

Interest Rate Risk

In order to meet our capital structure requirements, we may enter into long-term debt agreements. These debt agreements expose us to increased interest costs on future fixed debt instruments and existing variable rate debt instruments should market rates increase. In addition, the present value of our assets and liabilities will also vary with interest rate changes. To manage our interest rate exposure, we may enter into forward rate agreements such as treasury rate locks or bond forwards that lock in rates for a future date, thereby protecting ourselves against interest rate increases. We may also enter into swap agreements whereby one party agrees to pay a fixed rate of interest while the other party pays a floating rate. Contingent on the direction of interest rates, we may incur higher costs depending on our contracted rate. Interest rate management is discussed further in Section 17, Financial Instruments.

General and Other Risks

Transportation of Dangerous Goods and Hazardous Materials

Railways, including CP, are legally required to transport dangerous goods and hazardous materials as part of their common carrier obligations regardless of risk or potential exposure of loss. A train accident involving hazardous materials, including toxic inhalation hazard commodities such as chlorine and anhydrous ammonia could result in catastrophic losses from personal injury and property damage, which could have a material adverse effect on CP's operations, financial condition and liquidity.

Legal Proceedings Related to Lac-Megantic Rail Accident

On July 6, 2013, a train carrying crude oil operated by Montreal Maine and Atlantic Railway ("MM&A") derailed and exploded in Lac-Megantic, Quebec on a section of railway line owned by MM&A. The day before CP had interchanged the train to MM&A, but after the interchange MM&A exercised exclusive control over the train.

Following this incident, the Minister of Sustainable Development, Environment, Wildlife and Parks of Quebec issued an order directing named parties to recover the contaminants and to clean up and decontaminate the derailment site. CP was later added as a named party in the administrative action on August 14, 2013.

A class action lawsuit has also been filed in the Superior Court of Quebec on behalf of a class of persons and entities residing in, owning or leasing property in, operating a business in or physically present in Lac-Megantic. The lawsuit seeks damages caused by the derailment including for wrongful deaths, personal injuries, and property damages. CP was added as a defendant on August 16, 2013. In the wake of the derailment and ensuing litigation, MM&A filed for bankruptcy in Canada and the United States.

At this early stage in the legal proceedings, any potential liability and the quantum of potential loss cannot be determined. Nevertheless, CP denies liability for MM&A's derailment and will vigorously defend itself in both proceedings or any proceeding that may be commenced in the future.

Supply Chain Disruptions

The North American transportation system is integrated. CP's operations and service may be negatively impacted by service disruptions of other transportation links such as ports, handling facilities, customer facilities, and other railways. A prolonged service disruption at one of these entities could have a material adverse effect on CP's operations, financial condition and liquidity.

Reliance on Technology and Technological Improvements

Information technology is critical to all aspects of our business. While we have business continuity and disaster recovery plans in place, a significant disruption or failure of one or more of our information technology or communications systems could result in service interruptions or other failures and deficiencies which could have a material adverse effect on our results of operations, financial condition and liquidity. If we are unable to acquire or implement new technology, we may suffer a competitive disadvantage, which could also have an adverse effect on our results of operations, financial condition and liquidity.

Qualified Personnel

Changes in employee demographics, training requirements, and the availability of qualified personnel, particularly locomotive engineers and train-persons, could negatively impact the Company's ability to meet demand for rail service. We have workforce planning tools and programs in place and are undertaking technological improvements to assist with manual tasks. Unpredictable increases in the demand for rail services may increase the risk of having insufficient numbers of trained personnel, which could have a material adverse effect on our results of operations, financial condition and liquidity. In addition, changes in operations and other technology improvements may significantly impact the number of employees.

Severe Weather

We are exposed to severe weather conditions including floods, avalanches, mudslides, extreme temperatures and significant precipitation that may cause business interruptions that can adversely affect our entire rail network and result in increased costs, increased liabilities, and decreased revenue, which could have a material adverse effect on CP's operations, financial condition and liquidity.

Table of Contents

Supplier Concentration

Due to the complexity and specialized nature of rail equipment and infrastructure, there can be a limited number of suppliers of this equipment and material available. Should these specialized suppliers cease production or experience capacity or supply shortages, this concentration of suppliers could result in CP experiencing cost increases or difficulty in obtaining rail equipment and materials. While CP manages this risk by sourcing key products and services from multiple suppliers whenever possible, widespread business failures of suppliers could have a material adverse effect on CP's operations, financial condition and liquidity.

General Risks

There are factors and developments that are beyond the influence or control of the railway industry generally and CP specifically which may have a material adverse effect on our business or operating results. Our freight volumes and revenues are largely dependent upon the performance of the North American and global economies, which remains uncertain, and other factors affecting the volumes and patterns of international trade. CP's bulk traffic is dominated by grain, metallurgical coal, fertilizers and sulphur. Factors outside of CP's control which affect bulk traffic include:

- with respect to grain volumes, domestic production-related factors such as weather conditions, acreage plantings, yields and insect populations;
- with respect to coal volumes, global steel production;
- with respect to fertilizer volumes, grain and other crop markets, with both production levels and prices being important factors; and
- with respect to sulphur volumes, gas production levels in southern Alberta, industrial production and fertilizer production, both in North America and abroad.

The merchandise commodities transported by the Company include those relating to the forestry, energy, industrial, automotive and other consumer spending sectors. Factors outside of CP's control which affect this portion of CP's business include the general state of the North American economy, with North American industrial production, business investment and consumer spending being the general sources of economic demand. Housing, auto production and energy development are also specific sectors of importance. Factors outside of CP's control which affect the Company's intermodal traffic volumes include North American consumer spending and a technological shift toward containerization in the transportation industry that has expanded the range of goods moving by this means.

Adverse changes to any of the factors outside of CP's control which affect CP's bulk traffic, the merchandise commodities transported by CP or CP's intermodal traffic volumes or adverse changes to fuel prices could have a material adverse effect on CP's operations, financial condition and liquidity.

We are also sensitive to factors including, but not limited to, natural disasters, security threats, commodity pricing, global supply and demand, and supply chain efficiency. Other business risks include: potential increases in maintenance and operational costs, uncertainties of litigation, risks and liabilities arising from derailments and technological changes.

22. CRITICAL ACCOUNTING ESTIMATES

To prepare consolidated financial statements that conform with GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Using the most current information available, we review our estimates on an ongoing basis, including those related to environmental liabilities, pensions and other benefits, property, plant and equipment, deferred income taxes, legal and personal injury liabilities, long-term floating rate notes and goodwill.

The development, selection and disclosure of these estimates, and this MD&A, have been reviewed by the Board of Directors' Audit Committee, which is comprised entirely of independent directors.

Environmental Liabilities

We estimate the probable cost to be incurred in the remediation of property contaminated by past railway use. We screen and classify sites according to typical activities and scale of operations conducted, and we develop remediation strategies for each property based on the nature and extent of the contamination, as well as the location of the property and surrounding areas that may be adversely affected by the presence of contaminants. We also consider available technologies, treatment and disposal facilities and the acceptability of site-specific plans based on the local regulatory environment. Site-specific plans range from containment and risk management of the contaminants through to the removal and treatment of the contaminants and affected soils and ground water. The details of the estimates reflect the environmental liability at each property. We are committed to fully meeting our regulatory and legal obligations with respect to environmental matters.

Liabilities for environmental remediation may change from time to time as new information about previously untested sites becomes known. The net liability may also vary as the courts decide legal proceedings against outside parties responsible for contamination. These potential charges, which cannot be quantified at this time, are not expected to be material to our financial position, but may materially affect income in the period in which a charge is recognized. Material increases to costs would be reflected as increases to Other long-term liabilities on our Consolidated Balance Sheets and to Purchased services and other within Operating expenses on our Consolidated Statements of Income.

Table of Contents

At December 31, 2013 and 2012, the accrual for environmental remediation on our Consolidated Balance Sheets amounted to $90 million and $89 million respectively, of which the long-term portion amounting to $76 million in 2013 and $77 million in 2012 was included in Other long-term liabilities and the short-term portion amounting to $14 million in 2013 and $12 million in 2012 was included in Accounts payable and accrued liabilities. Total payments were $9 million in 2013 and $11 million in 2012. The U.S. dollar-denominated portion of the liability was affected by the change in FX, resulting in an increase in environmental liabilities of $4 million in 2013 and a decrease of $1 million in 2012.

Pensions and Other Benefits

We have defined benefit and defined contribution pension plans. Other benefits include post-retirement medical and life insurance for pensioners, and some post-employment workers' compensation and long-term disability benefits in Canada. Workers' compensation and long-term disability benefits are discussed in the Legal and Personal Injury Liabilities section below. Pension and post-retirement benefits liabilities are subject to various external influences and uncertainties.

Pension costs are actuarially determined using the projected-benefit method prorated over the credited service periods of employees. This method incorporates our best estimates of expected plan investment performance, salary escalation and retirement ages of employees. The expected return on fund assets is calculated using market-related asset values developed from a five-year average of market values for the fund's investments in public equity securities and absolute return investments (with each prior year's market value adjusted to the current date for assumed investment income during the intervening period) plus the market value of the fund's fixed income, real estate and infrastructure investments, subject to the market-related asset value not being greater than 120% of the market value nor being less than 80% of the market value.

The discount rate we use to determine the benefit obligation is based on market interest rates on high-quality corporate debt instruments with matching cash flows. Unrecognized actuarial gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of plan assets are amortized over the expected average remaining service period of active employees expected to receive benefits under the plan (approximately 10 years). Prior service costs arising from collectively bargained amendments to pension plan benefit provisions are amortized over the term of the applicable union agreement. Prior service costs arising from all other sources are amortized over the expected average remaining service period of active employees who were expected to receive benefits under the plan at the date of amendment.

The obligations with respect to post-retirement benefits, including health care and life insurance, are actuarially determined and are accrued using the projected-benefit method prorated over the credited service periods of employees. The obligations with respect to post-employment benefits, including some workers' compensation and long-term disability benefits in Canada are the actuarial present value of benefits payable to employees on disability.

2013 Developments

CP reached agreements with all of the unions with which it had been bargaining in Canada in 2012. The new agreements introduced amendments to pension plans. Among other changes, the amendments established a cap on pension for each year of pensionable service, including a cap on some non-union employees' pensions. Under the amendments, plan participants will continue to earn additional pensionable years of service as before, but with a dollar limit on the pension amount for each year earned. Plan amendments resulting from collective bargaining are accounted for in the periods the new agreements are ratified. As a result of the plan amendments, the projected benefit obligation decreased by $135 million from December 31, 2012, with a corresponding increase to Other comprehensive income and reduction of Accumulated other comprehensive loss as prior service credits. The prior service credits are recognized in net periodic pension expense over the remaining terms of the applicable union agreements (averaging approximately two years), and over the expected average remaining service life of non-union employees.

At the date of the plan amendments, we assessed the significance of such amendments to the consolidated financial statements and determined that a remeasurement of plan assets and obligations as of the date of the above plan amendments was not warranted.

Pension Liabilities and Pension Assets

We included pension benefit liabilities of $218 million in Pension and other benefit liabilities and $9 million in Accounts payable and accrued liabilities on our December 31, 2013 Consolidated Balance Sheets. We also included post-retirement benefits accruals of $351 million in Pension and other benefit liabilities and $21 million in Accounts payable and accrued liabilities on our December 31, 2013 Consolidated Balance Sheets. Accruals for self-insured workers compensation and long-term disability benefit plans are discussed in the Legal and Personal Injury Liabilities section below.

We included pension benefit assets of $1,028 million in Pension asset on our December 31, 2013 Consolidated Balance Sheets.

Net Periodic Benefit Costs

Net periodic benefit costs for pensions and post-retirement benefits were included in Compensation and benefits on our December 31, 2013 Consolidated Statements of Income. Combined net periodic benefit costs for pensions and post-retirement benefits (excluding self-insured workers compensation and long-term disability benefits) were $77 million in 2013, compared with $76 million in 2012.

Table of Contents

Net periodic benefit costs for pensions were $50 million in 2013, compared with $46 million in 2012. The portion of this related to defined benefit pensions was $43 million in 2013, compared with $41 million in 2012, and the portion related to defined contribution pensions (equal to contributions) was $7 million in 2013, compared with $5 million for 2012. Net periodic benefit costs for post retirement benefits were $27 million in 2013, compared with $30 million in 2012.

We estimate net periodic benefit credits for defined benefit pensions to be approximately $50 million in 2014, and we estimate net periodic benefit costs for defined contribution pensions to be approximately $7 million in 2014. Net periodic benefit costs for post-retirement benefits in 2014 are not expected to differ materially from the 2013 costs.

Pension Plan Contributions

We made contributions of $98 million to the defined benefit pension plans in 2013, compared with $102 million in 2012.

Our main Canadian defined benefit pension plan accounts for 96% of CP's pension obligation and can produce significant volatility in pension funding requirements, given the pension fund's size, the many factors that drive the pension plan's funded status, and Canadian statutory pension funding requirements. Our 2011, 2010 and 2009 contributions included voluntary prepayments of $600 million in December 2011, $650 million in September 2010 and $500 million in December 2009 to our main Canadian defined benefit pension plan. We have significant flexibility with respect to the rate at which we apply these voluntary prepayments to reduce future years' pension contribution requirements, which allows us to manage the volatility of future pension funding requirements.

We estimate our aggregate pension contributions to be in the range of $90 million to $110 million per year from 2014 to 2016. These estimates reflect our current intentions with respect to the rate at which we will apply the December 2009, September 2010 and December 2011 voluntary prepayments against contribution requirements in the next few years.

Future pension contributions will be highly dependent on our actual experience with such variables as investment returns, interest rate fluctuations and demographic changes, on the rate at which the voluntary prepayments are applied against pension contribution requirements, and on any changes in the regulatory environment. We will continue to make contributions to the pension plans that, at a minimum, meet pension legislative requirements.

Pension Plan Risks

Fluctuations in the deficit and net periodic benefit costs for pensions can result from favourable or unfavourable investment returns and changes in long-term interest rates. The impact of favourable or unfavourable investment returns is moderated by the use of a market-related asset value for the main Canadian defined benefit pension plan's public equity securities. The impact of changes in long-term rates on pension obligations is partially offset by their impact on the pension funds' investments in fixed income assets.

If the rate of investment return on the plans' public equity securities in 2013 had been 10 percentage points higher (or lower) than the actual 2013 rate of investment return on such securities, 2014 net periodic benefit costs for pensions would be lower (or higher) by $20 million. Changes in bond yields can result in changes to discount rates and to changes in the value of fixed income assets. If the discount rate as at December 31, 2013 had been higher (or lower) by 0.1% with no related changes in the value of the pension funds' investment in fixed income assets, 2014 net periodic benefit costs for pensions will be lower (or higher) by $13 million. However, a change in bond yields would also lead to a change in the value of the pension funds' investment in fixed income assets, and this change will partially offset the impact to net periodic benefit costs noted above.

We estimate that a 1.0 percentage point increase (or decrease) in the discount rate would decrease (or increase) our defined benefit pension plans' projected benefit obligations approximately by $1,350 million. Similarly, for every 1.0 percentage point the actual return on assets varies above by (or below) the estimated return for the year, the value of the defined benefit pension plans' assets would increase (or decrease) by approximately $100 million. Adverse experience with respect to these factors could eventually increase funding and pension expense significantly, while favourable experience with respect to these factors could eventually decrease funding and pension expense significantly.

Fluctuations in the post-retirement benefit obligation also can result from changes in the discount rate used. A 1.0 percentage point increase (decrease) in the discount rate would decrease (increase) the liability by approximately $50 million.

CP continues to review its pensioner mortality experience to ensure that the mortality assumption continues to be appropriate, or to determine what changes to the assumption are needed.

The plans' investment policies provide a target allocation of between 35% and 50% of the plans' assets to be invested in public equity securities. As a result, stock market performance is the key driver in determining the pension funds' asset performance. Most of the plans' remaining assets are invested in fixed income securities which, as mentioned above, provide a partial offset to the increase (or decrease) in our pension deficit caused by decreases (or increases) in the discount rate.

The Finance Committee of the Board of Directors' regularly reviews the asset allocation policy for the Company's defined benefit pension plans. During 2013, allocation ranges were revised. Permitted investments currently includes public equity, fixed income, real estate and infrastructure, and absolute return investments.

Table of Contents

Property, Plant and Equipment

CP performs depreciation studies of each property group approximately every three years to update depreciation rates. The depreciation studies are based on statistical analysis of historical retirements of properties in the group and incorporate engineering estimates of changes in current operations and of technological advances. We depreciate the cost of properties, net of salvage, on a straight-line basis over the estimated useful life of the property group. We follow the group depreciation method under which a single depreciation rate is applied to the total cost in a particular class of property, despite differences in the service life or salvage value of individual properties within the same class. The estimates of economic lives are uncertain and can vary due to technological changes or in the rate of wear. Additionally, the depreciation rates are updated to reflect the change in residual values of the assets in the class. Under the group depreciation method, retirements or disposals of properties in the normal course of business are accounted for by charging the cost of the property less any net salvage to accumulated depreciation. For the sale or retirement of larger groups of depreciable assets that are unusual and were not included in our depreciation studies, CP records a gain or loss for the difference between net proceeds and net book value of the assets sold or retired.

Due to the capital intensive nature of the railway industry, depreciation represents a significant part of our operating expenses. The estimated useful lives of properties have a direct impact on the amount of depreciation recorded as a component of Properties on our Consolidated Balance Sheets. At December 31, 2013 and 2012, accumulated depreciation was $6,184 million and $6,268 million, respectively.

Revisions to the estimated useful lives and net salvage projections for properties constitute a change in accounting estimate and we address these prospectively by amending depreciation rates. It is anticipated that there will be changes in the estimates of weighted average useful lives and net salvage for each property group as assets are acquired, used and retired. Substantial changes in either the useful lives of properties or the salvage assumptions could result in significant changes to depreciation expense. For example, if the estimated average life of road locomotives, our largest asset group, increased (or decreased) by 5%, annual depreciation expense would decrease (or increase) by approximately $3 million.

We review the carrying amounts of our properties when circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows. When such properties are determined to be impaired, recorded asset values are revised to their fair values and an impairment loss is recognized. See Section 9, Operating Expenses for details of the impairment associated with the anticipated sale of DM&E West in 2013 and impairment on locomotives and the PRB in 2012.

Deferred Income Taxes

We account for deferred income taxes based on the liability method. This method focuses on a Company's balance sheet and the temporary differences otherwise calculated from the comparison of book versus tax values. It is assumed that such temporary differences will be settled in the deferred income tax assets and liabilities at the balance sheet date.

In determining deferred income taxes, we make estimates and assumptions regarding deferred tax matters, including estimating the timing of the realization and settlement of deferred income tax assets (including the benefit of tax losses) and liabilities. Deferred income taxes are calculated using enacted federal, provincial, and state future income tax rates, which may differ in future periods.

Deferred income tax expense totalling $212 million was included in Income tax expense for 2013 and $140 million was included in Income tax expense in 2012. The increase in deferred income tax expense in 2013 was primarily due to higher earnings, partially offset by the higher asset impairment related to the anticipated sale of the DM&E West in 2013 compared to the impairment of various assets during 2012. At December 31, 2013 and 2012, deferred income tax liabilities of $2,903 million and $2,092 million, respectively, were recorded as a long-term liability and comprised largely of temporary differences related to accounting for properties. Deferred income tax benefits of $344 million realizable within one year were recorded as a current asset compared to $254 million at December 31, 2012.

Legal and Personal Injury Liabilities

We are involved in litigation in Canada and the U.S. related to our business. Management is required to establish estimates of the potential liability arising from incidents, claims and pending litigation, including personal injury claims and certain occupation-related and property damage claims.

Accruals for incidents, claims and litigation, including WCB accruals, totaled $158 million, net of insurance recoveries, at December 31, 2013 and $172 million at December 31, 2012. At December 31, 2013 and 2012 respectively, the total accrual included $89 million and $105 million in Pension and other benefit liabilities, $14 million and $13 million in Other long-term liabilities and $63 million and $55 million in Accounts payable and accrued liabilities, offset by $7 million and $nil million in Accounts receivable, and $1 million and $1 million in Other assets.

Legal Liabilities

These estimates are determined on a case-by-case basis. They are based on an assessment of the actual damages incurred and current legal advice with respect to settlements in other similar cases. We employ experienced claims adjusters who investigate and assess the validity of individual claims made against us and estimate the damages incurred.

A provision for incidents, claims or litigation is recorded based on the facts and circumstances known at the time. We accrue for likely claims when the facts of an incident become known and investigation results provide a reasonable basis for estimating the liability. The lower end of the range is accrued if the facts and circumstances permit only a range of reasonable estimates and no single amount in that range is a better estimate than any other. Additionally, for administrative expediency, we keep a general provision for lesser value injury cases. Facts and circumstances related to asserted claims can change, and a process is in place to monitor accruals for changes in accounting estimates.

Personal Injury Liabilities

With respect to claims related to occupational health and safety in the provinces of Quebec, Ontario, Manitoba and B.C., claims administered through the Workers' Compensation Board are actuarially determined. In the provinces of Saskatchewan and Alberta, we are assessed for an annual WCB contribution. As a result, this amount is not subject to estimation by management.

Railway employees in the U.S. are not covered by a workers' compensation program, but are covered by U.S. federal law for railway employees. Although we manage in the U.S. using a case-by-case comprehensive approach, for accrual purposes, a combination of case-by-case analysis and statistical analysis is utilized.

Provisions for incidents, claims and litigation charged to income, which are included in "Purchased services and other" on our Consolidated Statements of Income, amounted to $40 million in 2013. The amount in 2012 was $60 million and $74 million in 2011.

Long-term Floating Rate Notes

At December 31, 2013 and at December 31, 2012, the Company had no remaining investment in long-term floating rate notes (Master Asset Vehicle ("MAV")).

During 2012, the Company sold all its remaining MAV 2 Class A-1 and A-2 Notes which had a carrying value of $81 million for proceeds of $81 million. These notes had an original cost of $105 million.

Accretion, redemption of notes and other minor changes in market assumptions resulted in a net gain of $2 million in 2012 compared to $15 million in 2011, which were reported in Other income and charges.

The valuation technique and assumptions used by the Company to estimate the fair value of its investment in long-term floating rate notes during 2012 were similar to those used at December 31, 2011, and incorporated probability weighted discounted cash flows and considered the best available public information regarding market conditions and other factors that a market participant would consider for such investments.

Goodwill

As part of the acquisition of DM&E in 2007, CP recognized goodwill of US$147 million on the allocation of the purchase price, determined as the excess of the purchase price over the fair value of the net assets acquired. Since the acquisition, the operations of DM&E have been integrated with CP's U.S. operations and the related goodwill is allocated to CP's U.S. reporting unit. Goodwill is tested for impairment at least once per year as at October 1st. The goodwill impairment test determines if the fair value of the reporting unit continues to exceed its net book value, or whether an impairment charge is required. The fair value of the reporting unit is affected by projections of its profitability including estimates of revenue growth, which are inherently uncertain.

The 2013 and 2012 annual test for impairment determined that the fair value of CP's U.S. reporting unit exceeded the carrying value of the allocated goodwill by approximately 47% and 46% respectively.

The impairment test was performed primarily using an income approach based on discounted cash flows. A discount rate of 10.0% was used, based on the weighted average cost of capital. The 2012 impairment test used a discount rate of 10.5%. A change in discount rates of 0.25% would change the valuation by 4.0 to 5.0%. The valuation used revenue growth projections ranging from 4.0% to 7.4% annually. The revenue growth projection in the 2012 impairment test was 3.0% to 16.5%. A change in the long term growth rate of 0.25% would change the valuation by 4.2% to 4.6%. These sensitivities indicate that a prolonged recession or increased borrowing rates could result in an impairment to the carrying value of goodwill in future periods. A secondary approach used in the valuation was a market approach which included a comparison of implied earnings multiples of CP U.S. to trading earnings multiples of comparable companies. The derived value of CP U.S. using the income approach compared favourably with the trading multiples of other Class I railroads. The income approach was chosen over the market approach however both approaches conclude that the assets of CP U.S. are fairly valued.

Decreases to the profit projections, which could be caused by a prolonged economic recession, or increases to the discount rate used in the valuation could require an impairment in future periods. The carrying value of CP's goodwill changes from period to period due to changes in the exchange rate. As at December 31, 2013 goodwill was $150 million and was $146 million in 2012, the increase was primarily due to the favourable impact of the change in FX partially offset by the asset impairment charge associated with the anticipated sale of the DM&E West, discussed further in Section 9, Operating Expenses.

Table of Contents

23. SYSTEMS, PROCEDURES AND CONTROLS

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the U.S. Securities Exchange Act of 1934 (as amended)) to ensure that material information relating to the Company is made known to them. The Chief Executive Officer and Chief Financial Officer have a process to evaluate these disclosure controls and are satisfied that they are effective for ensuring that such material information is made known to them.

24. 2013 GUIDANCE UPDATES

2013 Guidance

On January 29, 2013 and in the 2012 annual MD&A, the Company outlined that it expected revenue growth to be in the high single digits; operating ratio to be in the low 70s; and diluted EPS growth to be in excess of 40% from 2012 annual diluted EPS, excluding significant items, of $4.34. CP also outlined that it expected capital expenditures in the range of $1.0 to $1.1 billion in 2013.

Update

On May 7, 2013, the Company announced it would be increasing its 2013 capital expenditures by $75 to $100 million in order to accelerate the timing of certain capital projects originally targeted for future years.

Variance from 2013 Guidance

The Company's 2013 results for revenue growth, operating ratio and diluted EPS growth were in line with guidance. Revenue growth was 8%, adjusted operating ratio was 69.9% and adjusted EPS was $6.42, an increase of 48%. Adjusted operating ratio and adjusted EPS are discussed further in Section 15, Non-GAAP Measures. Capital expenditures were also consistent with guidance and are discussed further in Section 14, Liquidity and Capital Resources.

25. GLOSSARY OF TERMS

AAR: Association of American Railroads, representing North America's freight railroads and Amtrak.

Agency: The Canadian Transportation Agency, a regulatory agency under the Canada Transportation Act ("CTA"). The Agency regulates the grain revenue cap, commuter and passenger access, Final Offer Arbitration, and charges for ancillary services and railway noise.

Average terminal dwell: The average time a freight car resides within terminal boundaries expressed in hours. The timing starts with a train arriving in the terminal, a customer releasing the car to us, or a car arriving that is to be transferred to another railway. The timing ends when the train leaves, a customer receives the car from us or the freight car is transferred to another railway. Freight cars are excluded if they are being stored at the terminal or used in track repairs.

Average train length – excluding local traffic: The average train length is the sum of each car and locomotive's equipment length multiplied by the distance travelled, divided by train miles. Local trains are excluded from this measure.

Average train speed: The average speed measures the line-haul movement from origin to destination including terminal dwell hours calculated by dividing the total train miles traveled by the total hours operated. This calculation does not include the travel time or the distance traveled by: i) trains used in or around CP's yards; ii) passenger trains; and iii) trains used for repairing track.

Average train weight – excluding local traffic: The average gross weight of CP trains, both loaded and empty. This excludes trains in short haul service, work trains used to move CP's track equipment and materials and the haulage of other railways' trains on CP's network.

Car miles per car day: The total car-miles for a period divided by the total number of active cars. Total car-miles include the distance travelled by every car on a revenue-producing train and a train used in or around our yards. A car-day is assumed to equal one active car-day. An active car is a revenue-producing car that is generating costs to CP on an hourly or mileage basis. Excluded from this count are i) cars that are not on the track or are being stored; ii) cars that are in need of repair; iii) cars that are used to carry materials for track repair; iv) cars owned by customers that are on the customer's tracks; and v) cars that are idle and waiting to be reclaimed by CP.

Carloads: Revenue-generating shipments of containers, trailers and freight cars.

Casualty expenses: Includes costs associated with personal injuries, freight and property damages, and environmental mishaps.

Class I railroads: a railroad earning a minimum of US$433.2 million in revenues annually as defined by the Surface Transportation Board in the United States.

CP, the Company: CPRL, CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL's subsidiaries.

Table of Contents

CPRL: Canadian Pacific Railway Limited.

D&H: Delaware and Hudson Railway Company, Inc., a wholly owned indirect U.S. subsidiary of CPRL.

DM&E: Dakota, Minnesota & Eastern Railroad Corporation, a wholly owned indirect U.S. Subsidiary of CPRL.

Employee: An individual, including trainees, who has worked more than 40 hours in a standard biweekly pay period. This excludes part time employees, contractors and consultants.

FRA: U.S. Federal Railroad Administration, a regulatory agency whose purpose is to promulgate and enforce rail safety regulations; administer railroad assistance programs; conduct research and development in support of improved railroad safety and national rail transportation policy; provide for the rehabilitation of Northeast Corridor rail passenger service; and consolidate government support of rail transportation activities.

FRA personal injury rate per 200,000 employee-hours: The number of personal injuries multiplied by 200,000 and divided by total employee hours. Personal injuries are defined as injuries that require employees to lose time away from work, modify their normal duties or obtain medical treatment beyond minor first aid. FRA Employee-hours are the total hours worked, excluding vacation and sick time, by all employees, excluding contractors.

FRA train accidents rate: The number of train accidents, multiplied by 1,000,000 and divided by total train-miles. Train accidents included in this metric meet or exceed the FRA reporting threshold of US$9,900 or CDN$9,960 in damage.

Freight revenue per carload: The amount of freight revenue earned for every carload moved, calculated by dividing the freight revenue for a commodity by the number of carloads of the commodity transported in the period.

Freight revenue per RTM: The amount of freight revenue earned for every RTM moved, calculated by dividing the total freight revenue by the total RTMs in the period.

FX or Foreign Exchange: The value of the Canadian dollar relative to the U.S. dollar (exclusive of any impact on market demand).

GAAP: Accounting principles generally accepted in the United States of America.

GTMs or gross ton-miles: The movement of total train weight over a distance of one mile. Total train weight is comprised of the weight of the freight cars, their contents and any inactive locomotives. An increase in GTMs indicates additional workload.

Locomotive productivity: The daily average GTMs divided by the active road horsepower. Active road horsepower excludes locomotives in yard and short haul service, in repair status, in storage and in use on other railways.

Operating income: Calculated as total revenues less total operating expenses and is a common measure of profitability used by management.

Operating ratio: The ratio of total operating expenses to total revenues. A lower percentage normally indicates higher efficiency.

RTMs or revenue ton-miles: The movement of one revenue-producing ton of freight over a distance of one mile.

Soo Line: Soo Line Railroad Company, a wholly owned indirect U.S. subsidiary of CPRL.

STB: U.S. Surface Transportation Board, a regulatory agency with jurisdiction over railway rate and service issues and rail restructuring, including mergers and sales.

U.S. gallons of locomotive fuel consumed per 1,000 GTMs: The total fuel consumed in freight and yard operations for every 1,000 GTMs traveled. This is calculated by dividing the total amount of fuel issued to our locomotives, excluding commuter and non-freight activities, by the total freight-related GTMs. The result indicates how efficiently we are using fuel.

Workforce: The total employees plus part time employees, contractors and consultants.

Table of Contents

Canadian Pacific Railway Limited
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013

Accounting Principles Generally Accepted
In the United States of America

Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars

Table of Contents

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The information in this report is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include some amounts based on management's best estimates and careful judgment. The consolidated financial statements include the accounts of Canadian Pacific Railway Limited, Canadian Pacific Railway Company and all of its subsidiaries (the "Company"). The financial information of the Company included in the Company's Annual Report is consistent with that in the consolidated financial statements. The consolidated financial statements have been approved by the Board of Directors.

Our Board of Directors is responsible for reviewing and approving the consolidated financial statements and for overseeing management's performance of its financial reporting responsibilities. The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee (the "Audit Committee"), consisting of four members, all of whom are independent directors. The Audit Committee reviews the consolidated financial statements with management and the Independent Registered Public Accounting Firm prior to submission to the Board for approval. The Audit Committee meets regularly with management, internal auditors, and the Independent Registered Public Accounting Firm to review accounting policies, and financial reporting. The Audit Committee also reviews the recommendations of the Independent Registered Public Accounting Firm and internal auditors for improvements to internal controls, as well as the actions of management to implement such recommendations. The internal auditors and Independent Registered Public Accounting Firm have full access to the Audit Committee, with or without the presence of management.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the Company's internal control over financial reporting in accordance with the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *"Internal Control-Integrated Framework (1992)"*. Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2013.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2013 has been audited by Deloitte LLP, Independent Registered Public Accounting Firm, as stated in their report, which is included herein.

/s/ Bart W. Demosky
Bart W. Demosky
Executive Vice-President and
Chief Financial Officer

/s/ E. Hunter Harrison
E. Hunter Harrison
Chief Executive Officer

March 5, 2014

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders of Canadian Pacific Railway Limited:

We have audited the accompanying consolidated financial statements of Canadian Pacific Railway Limited and subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2013 and 2012 and the consolidated statements of income, comprehensive income (loss), cash flows and changes in shareholders' equity for each of the years in the three-year period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canadian Pacific Railway Limited and subsidiaries as at December 31, 2013 and 2012 and the results of their operations and cash flows for each of the years in the three-year period ended December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 5, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte LLP
Chartered Accountants
March 5, 2014
Calgary, Canada

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders of Canadian Pacific Railway Limited:

We have audited the internal control over financial reporting of Canadian Pacific Railway Limited and subsidiaries (the "Company") as of December 31, 2013, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as at and for the year ended December 31, 2013 of the Company and our report dated March 5, 2014 expressed an unqualified opinion on those financial statements.

/s/ Deloitte LLP
Chartered Accountants
March 5, 2014
Calgary, Canada

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME

Year ended December 31 (in millions of Canadian dollars, except per share data)	**2013**	2012	2011
Revenues			
Freight	**$ 5,982**	$ 5,550	$ 5,052
Other	**151**	145	125
Total revenues	**6,133**	5,695	5,177
Operating expenses			
Compensation and benefits (Note 28)	**1,418**	1,506	1,426
Fuel	**1,004**	999	968
Materials	**249**	238	243
Equipment rents	**173**	206	209
Depreciation and amortization	**565**	539	490
Purchased services and other (Note 28)	**876**	940	874
Asset impairments (Note 3)	**435**	265	–
Labour restructuring (Note 4)	**(7)**	53	–
Total operating expenses	**4,713**	4,746	4,210
Operating income	**1,420**	949	967
Less:			
Other income and charges (Note 5)	**17**	37	18
Net interest expense (Note 6)	**278**	276	252
Income before income tax expense	**1,125**	636	697
Income tax expense (Note 7)	**250**	152	127
Net income	**$ 875**	$ 484	$ 570
Earnings per share (Note 8)			
Basic earnings per share	**$ 5.00**	$ 2.82	$ 3.37
Diluted earnings per share	**$ 4.96**	$ 2.79	$ 3.34
Weighted-average number of shares (millions) (Note 8)			
Basic	**174.9**	171.8	169.5
Diluted	**176.5**	173.2	170.6
Dividends declared per share	**$ 1.4000**	$ 1.3500	$ 1.1700

See Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Year ended December 31 (in millions of Canadian dollars)	**2013**	2012	2011
Net income	**$ 875**	$ 484	$ 570
Net gain in foreign currency translation adjustments, net of hedging activities	**3**	11	–
Change in derivatives designated as cash flow hedges	**(1)**	9	(7)
Change in pension and post-retirement defined benefit plans	**1,681**	(50)	(883)
Other comprehensive income (loss) before income taxes	**1,683**	(30)	(890)
Income tax (expense) recovery on above items (Note 9)	**(418)**	–	240
Equity accounted investments	**–**	(2)	–
Other comprehensive income (loss) (Note 9)	**1,265**	(32)	(650)
Comprehensive income (loss)	**$ 2,140**	$ 452	$ (80)

See Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED BALANCE SHEETS

As at December 31 (in millions of Canadian dollars)	**2013**	2012
Assets		
Current assets		
Cash and cash equivalents (Note 11)	**$ 476**	$ 333
Restricted cash and cash equivalents (Note 18)	**411**	–
Accounts receivable, net (Note 12)	**580**	546
Materials and supplies	**165**	136
Deferred income taxes (Note 7)	**344**	254
Other current assets	**53**	60
	2,029	1,329
Investments (Note 13)	**92**	83
Properties (Note 14)	**13,327**	13,013
/s/ Paul G. HaggisAssets held for sale (Note 3)	**222**	–
Goodwill and intangible assets (Note 15)	**162**	161
Pension asset (Note 23)	**1,028**	–
Other assets (Note 16)	**200**	141
Total assets	**$ 17,060**	$ 14,727
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 17)	**$ 1,189**	$ 1,176
Long-term debt maturing within one year (Note 18)	**189**	54
	1,378	1,230
Pension and other benefit liabilities (Note 23)	**657**	1,366
Other long-term liabilities (Note 20)	**338**	306
Long-term debt (Note 18)	**4,687**	4,636
Deferred income taxes (Note 7)	**2,903**	2,092
Total liabilities	**9,963**	9,630
Shareholders' equity		
Share capital (Note 22)	**2,240**	2,127
Authorized unlimited common shares without par value. Issued and outstanding are 175.4 million and 173.9 million at December 31, 2013 and 2012, respectively.		
Authorized unlimited number of first and second preferred shares; none outstanding.		
Additional paid-in capital	**34**	41
Accumulated other comprehensive loss (Note 9)	**(1,503)**	(2,768)
Retained earnings	**6,326**	5,697
	7,097	5,097
Total liabilities and shareholders' equity	**$ 17,060**	$ 14,727

Commitments and contingencies (Note 26)

See Notes to Consolidated Financial Statements.

Approved on behalf of the Board:

/s/ Paul G. Haggis	**/s/ Richard C. Kelly**
Paul G. Haggis, Director, Chairman of the Board	**Richard C. Kelly, Director, Chairman of Audit Committee**

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 (in millions of Canadian dollars)	**2013**	2012	2011
Operating activities			
Net income	**$ 875**	$ 484	$ 570
Reconciliation of net income to cash provided by operating activities:			
Depreciation and amortization	**565**	539	490
Deferred income taxes (Note 7)	**212**	140	187
Pension funding in excess of expense (Note 23)	**(55)**	(61)	(647)
Asset impairments (Note 3)	**435**	265	–
Labour restructuring, net (Note 4)	**(29)**	50	–
Other operating activities, net	**(51)**	(84)	(112)
Change in non-cash working capital balances related to operations (Note 10)	**(2)**	(5)	24
Cash provided by operating activities	**1,950**	1,328	512
Investing activities			
Additions to properties (Note 14)	**(1,236)**	(1,148)	(1,104)
Proceeds from sale of properties and other assets	**73**	145	71
Change in restricted cash and cash equivalents used to collateralize letters of credit (Note 18)	**(411)**	–	–
Other	**(23)**	(8)	(11)
Cash used in investing activities	**(1,597)**	(1,011)	(1,044)
Financing activities			
Dividends paid	**(244)**	(223)	(193)
Issuance of common shares (Note 22)	**83**	198	29
Issuance of long-term debt (Note 18)	**–**	71	757
Repayment of long-term debt (Note 18)	**(56)**	(50)	(401)
Net (decrease) increase in short-term borrowing (Note 18)	**–**	(27)	28
Other	**(3)**	1	(3)
Cash (used in) provided by financing activities	**(220)**	(30)	217
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	**10**	(1)	1
Cash position			
Increase (decrease) in cash and cash equivalents	**143**	286	(314)
Cash and cash equivalents at beginning of year	**333**	47	361
Cash and cash equivalents at end of year (Note 11)	**$ 476**	$ 333	$ 47

Supplemental disclosures of cash flow information:

Income taxes paid (refunded)	**$ 31**	$ (3)	$ 4
Interest paid	**$ 295**	$ 278	$ 271

See Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in millions of Canadian dollars)	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at December 31, 2010	$ 1,813	$ 24	$ (2,086)	$ 5,073	$ 4,824
Net income	–	–	–	570	570
Other comprehensive loss (Note 9)	–	–	(650)	–	(650)
Dividends declared	–	–	–	(198)	(198)
Effect of stock-based compensation expense	–	16	–	–	16
Change to stock compensation awards (Note 24)	–	57	–	–	57
Shares issued under stock option plans (Note 22)	41	(11)	–	–	30
Balance at December 31, 2011	1,854	86	(2,736)	5,445	4,649
Net income	–	–	–	484	484
Other comprehensive loss (Note 9)	–	–	(32)	–	(32)
Dividends declared	–	–	–	(232)	(232)
Effect of stock-based compensation expense	–	25	–	–	25
Shares issued under stock option plans (Note 22)	273	(70)	–	–	203
Balance at December 31, 2012	2,127	41	(2,768)	5,697	5,097
Net income	–	–	–	875	875
Other comprehensive income (Note 9)	–	–	1,265	–	1,265
Dividends declared	–	–	–	(246)	(246)
Effect of stock-based compensation expense	–	17	–	–	17
Shares issued under stock option plans (Note 22)	113	(24)	–	–	89
Balance at December 31, 2013	**$ 2,240**	**$ 34**	**$ (1,503)**	**$ 6,326**	**$ 7,097**

See Notes to Consolidated Financial Statements.

Table of Contents

CANADIAN PACIFIC RAILWAY LIMITED
Notes to Consolidated Financial Statements
December 31, 2013

Canadian Pacific Railway Limited ("CPRL"), through its subsidiaries (collectively referred to as "CP" or "the Company"), operates a transcontinental railway in Canada and the United States. CP provides rail and intermodal transportation services over a network of approximately 14,400 miles, serving the principal business centres of Canada from Montreal, Quebec, to Vancouver, British Columbia, and the U.S. Northeast and Midwest regions. CP's railway network feeds directly into the U.S. heartland from the East and West coasts. Agreements with other carriers extend the Company's market reach east of Montreal in Canada, throughout the U.S. and into Mexico. CP transports bulk commodities, merchandise freight and intermodal traffic. Bulk commodities include grain, coal, fertilizers and sulphur. Merchandise freight consists of finished vehicles and automotive parts, as well as forest and industrial and consumer products. Intermodal traffic consists largely of retail goods in overseas containers that can be transported by train, ship and truck, and in domestic containers and trailers that can be moved by train and truck.

1 Summary of significant accounting policies

Generally accepted accounting principles in the United States of America ("GAAP")

These consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with GAAP as codified in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification.

Principles of consolidation

These consolidated financial statements include the accounts of CP and all its subsidiaries. The Company's investments in which it has significant influence are accounted for using the equity method. All intercompany accounts and transactions have been eliminated.

Use of estimates

The preparation of these consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the year, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Management regularly reviews its estimates, including those related to investments, restructuring and environmental liabilities, pensions and other benefits, depreciable lives of properties and intangible assets, goodwill, stock-based compensation, deferred income tax assets and liabilities, as well as legal and personal injury liabilities based upon currently available information. Actual results could differ from these estimates.

Principal subsidiaries

The following list sets out CPRL's principal railway operating subsidiaries, including the jurisdiction of incorporation. All of these subsidiaries are wholly owned, directly or indirectly, by CPRL as at December 31, 2013.

Principal subsidiary	Incorporated under the laws of
Canadian Pacific Railway Company	Canada
Soo Line Railroad Company ("Soo Line")	Minnesota
Delaware and Hudson Railway Company, Inc. ("D&H")	Delaware
Dakota, Minnesota & Eastern Railroad Corporation ("DM&E")	Delaware
Mount Stephen Properties Inc. ("MSP")	Canada

Revenue recognition

Railway freight revenues are recognized based on the percentage of completed service method. The allocation of revenue between reporting periods is based on the relative transit time in each reporting period with expenses recognized as incurred. Volume rebates to customers are accrued as a reduction of freight revenues based on estimated volume and contract terms as freight service is provided. Other revenues, including passenger revenue, revenue from leasing certain assets and switching fees, are recognized as service is performed or contractual obligations are met. Revenues are presented net of taxes collected from customers and remitted to government authorities.

Cash and cash equivalents

Cash and cash equivalents include highly-liquid short-term investments that are readily convertible to cash with original maturities of three months or less, but exclude cash and cash equivalents pledged as collateral or subject to other restrictions.

Table of Contents

Restricted cash and cash equivalents

Restricted cash and cash equivalents include a series of committed and uncommitted bilateral letter of credit facility agreements with financial institutions to support the Company's requirement to post letters of credit in the ordinary course of business. Under these agreements, the Company has the option to post collateral in the form of cash or cash equivalents, equal at least to the face value of the letter of credit issued. Restricted cash and cash equivalents are shown separately on the balance sheets and include highly liquid investments purchased three months or less from maturity and are stated at cost, which approximates market value.

Foreign currency translation

Assets and liabilities denominated in foreign currencies, other than those held through foreign subsidiaries, are translated into Canadian dollars at the year-end exchange rate for monetary items and at the historical exchange rates for non-monetary items. Foreign currency revenues and expenses are translated at the exchange rates in effect on the dates of the related transactions. Foreign exchange gains and losses, other than those arising from the translation of the Company's net investment in foreign subsidiaries, are included in income.

The accounts of the Company's foreign subsidiaries are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average exchange rates during the year for revenues, expenses, gains and losses. Foreign exchange gains and losses arising from translation of these foreign subsidiaries' accounts are included in "Other comprehensive income (loss)". The majority of U.S. dollar-denominated long-term debt has been designated as a hedge of the net investment in foreign subsidiaries. As a result, unrealized foreign exchange ("FX") gains and losses on this U.S. dollar-denominated long-term debt are offset against foreign exchange gains and losses arising from translation of foreign subsidiaries' accounts in "Other comprehensive income (loss)".

Pensions and other benefits

Pension costs are actuarially determined using the projected-benefit method prorated over the credited service periods of employees. This method incorporates management's best estimates of expected plan investment performance, salary escalation and retirement ages of employees. The expected return on fund assets is calculated using market-related asset values developed from a five-year average of market values for the fund's public equity and absolute return investments (with each prior year's market value adjusted to the current date for assumed investment income during the intervening period) plus the market value of the fund's fixed income, real estate and infrastructure securities, subject to the market-related asset value not being greater than 120% of the market value nor being less than 80% of the market value. The discount rate used to determine the projected benefit obligation is based on blended market interest rates on high-quality corporate debt instruments with matching cash flows. Unrecognized actuarial gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of plan assets are amortized over the expected average remaining service period of active employees expected to receive benefits under the plan (approximately 10 years). Prior service costs arising from collectively bargained amendments to pension plan benefit provisions are amortized over the term of the applicable union agreement. Prior service costs arising from all other sources are amortized over the expected average remaining service period of active employees who are expected to receive benefits under the plan at the date of amendment.

Costs for post-retirement and post-employment benefits other than pensions, including post-retirement health care and life insurance and some workers' compensation and long-term disability benefits in Canada, are actuarially determined on a basis similar to pension costs.

The over or under funded status of defined benefit pension and other post-retirement benefit plans are recognized on the balance sheet. The over or under funded status is measured as the difference between the fair value of the plan assets and the benefit obligation. In addition, any unrecognized actuarial gains and losses and prior service costs and credits that arise during the period are recognized as a component of "Other comprehensive income (loss)", net of tax.

Gains and losses on post-employment benefits that do not vest or accumulate, including some workers' compensation and long-term disability benefits in Canada, are included immediately in income as "Compensation and benefits".

Materials and supplies

Materials and supplies are carried at the lower of average cost or market.

Properties

Fixed asset additions and major renewals are recorded at cost, including direct costs, attributable indirect costs and carrying costs, less accumulated depreciation and any impairments. When there is a legal obligation associated with the retirement of property, a liability is initially recognized at its fair value and a corresponding asset retirement cost is added to the gross book value of the related asset and amortized to expense over the estimated term to retirement. The Company reviews the carrying amounts of its properties whenever changes in circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows. When such properties are determined to be impaired, recorded asset values are revised to fair value.

Table of Contents

The Company recognizes expenditures as additions to properties or operating expenses based on whether the expenditures increase the output or service capacity, lower the associated operating costs or extend the useful life of the properties and whether the expenditures exceed minimum physical and financial thresholds.

Much of the additions to properties, both new and replacement properties, are self-constructed. These are initially recorded at cost, including direct costs and attributable indirect costs, overheads and carrying costs. Direct costs include, among other things, labour costs, purchased services, equipment costs and material costs. Attributable indirect costs and overheads include incremental long-term variable costs resulting from the execution of capital projects. Indirect costs include largely local crew facilities, highway vehicles, work trains and area management costs. Overheads primarily include a portion of the cost of the Company's engineering department which plans, designs and administers these capital projects. These costs are allocated to projects by applying a measure consistent with the nature of the cost based on cost studies. For replacement properties, the project costs are allocated to dismantling and installation based on cost studies. Dismantling work is performed concurrently with the installation.

Ballast programs including undercutting, shoulder ballasting and renewal programs which form part of the annual track program are capitalized as this work, and the related added ballast material, significantly improves drainage which in turn extends the life of ties and other track materials. These costs are tracked separately from the underlying assets and depreciated over the period to the next estimated similar ballast program. Spot replacement of ballast is considered a repair which is expensed as incurred.

The costs of large refurbishments are capitalized and locomotive overhauls are expensed as incurred.

The Company capitalizes development costs for major new computer systems.

The Company follows group depreciation which groups assets which are similar in nature and have similar economic lives. The property groups are depreciated based on their expected economic lives determined by studies of historical retirements of properties in the group and engineering estimates of changes in current operations and of technological advances. Actual use and retirement of assets may vary from current estimates, which would impact the amount of depreciation expense recognized in future periods.

When depreciable property is retired or otherwise disposed of in the normal course of business, the book value, less net salvage proceeds, is charged to accumulated depreciation and if different than the assumptions under the depreciation study could potentially result in adjusted depreciation expense over a period of years. However, when removal costs exceed the salvage value on assets and the Company has no legal obligation to remove the assets, the removal costs incurred are charged to income in the period in which the assets are removed and are not charged to accumulated depreciation.

For the sale or retirement of larger groups of depreciable assets that are unusual and were not considered in depreciation studies, CP records a gain or loss for the difference between net proceeds and net book value of the assets sold or retired.

Depreciation is calculated on the straight-line basis at rates based on the estimated service life, taking into consideration the projected annual usage of depreciable property, except for rail and other track material in the U.S., which is based directly on usage.

Equipment under capital lease is included in Properties and depreciated over the period of expected use.

Assets held for sale

Assets to be disposed that meet the held for sale criteria are reported at the lower of their carrying amount and fair value, less costs to sell, and are no longer depreciated.

Goodwill and intangible assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets upon acquisition of a business. Goodwill is assigned to the reporting units that are expected to benefit from the business acquisition which, after integration of operations with the railway network, may be different than the acquired business.

The carrying value of goodwill, which is not amortized, is assessed for impairment annually in the fourth quarter of each year, or more frequently as economic events dictate. The fair value of the reporting unit is compared to its carrying value, including goodwill. If the fair value of the reporting unit is less than its carrying value goodwill is potentially impaired. The impairment charge that would be recognized is the excess of the carrying value of the goodwill over the fair value of the goodwill, determined in the same manner as in a business combination.

Intangible assets with finite lives are amortized on a straight-line basis over the estimated useful lives of the respective assets. Favourable leases, customer relationships and interline contracts have amortization periods ranging from 15 to 20 years. When there is a change in the estimated useful life of an intangible asset with a finite life, amortization is adjusted prospectively.

Financial instruments

Financial instruments are contracts that give rise to a financial asset of one party and a financial liability or equity instrument of another party.

Financial instruments are recognized initially at fair value, which is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

Table of Contents

Subsequent measurement depends on how the financial instruments have been classified. Accounts receivable and investments, classified as loans and receivables, are measured at amortized cost, using the effective interest method. Certain equity investments, classified as available for sale, are recognized at cost as fair value cannot be reliably established. Cash and cash equivalents are classified as held for trading and are measured at fair value. Accounts payable, accrued liabilities, short-term borrowings, dividends payable, other long-term liabilities and long-term debt, classified as other liabilities, are also measured at amortized cost.

Derivative financial instruments

Derivative financial and commodity instruments may be used from time to time by the Company to manage its exposure to risks relating to foreign currency exchange rates, stock-based compensation, interest rates and fuel prices. When CP utilizes derivative instruments in hedging relationships, CP identifies, designates and documents those hedging transactions and regularly tests the transactions to demonstrate effectiveness in order to continue hedge accounting.

All derivative instruments are classified as held for trading and recorded at fair value. Any change in the fair value of derivatives not designated as hedges is recognized in the period in which the change occurs in the Consolidated Statements of Income in the line item to which the derivative instrument is related. On the Consolidated Balance Sheets they are classified in “Other assets”, “Other long-term liabilities”, “Other current assets” or “Accounts payable and accrued liabilities” as applicable. Gains and losses arising from derivative instruments affect the following income statement lines: “Revenues”, “Compensation and benefits”, “Fuel”, “Other income and charges”, and “Net interest expense”.

For fair value hedges, the periodic changes in values are recognized in income, on the same line as the changes in values of the hedged items are also recorded. For a cash flow hedge, the change in value of the effective portion is recognized in “Other comprehensive income”. Any ineffectiveness within an effective cash flow hedge is recognized in income as it arises in the same income account as the hedged item. Should a cash flow hedging relationship become ineffective, previously unrealized gains and losses remain within “Accumulated other comprehensive loss” until the hedged item is settled and, prospectively, future changes in value of the derivative are recognized in income. The change in value of the effective portion of a cash flow hedge remains in “Accumulated other comprehensive loss” until the related hedged item settles, at which time amounts recognized in “Accumulated other comprehensive loss” are reclassified to the same income or balance sheet account that records the hedged item.

In the Consolidated Statements of Cash Flows, cash flows relating to derivative instruments designated as hedges are included in the same line as the related hedged items.

The Company from time to time enters into foreign exchange forward contracts to hedge anticipated sales in U.S. dollars, the related accounts receivable and future capital acquisitions. Foreign exchange translation gains and losses on foreign currency-denominated derivative financial instruments used to hedge anticipated U.S. dollar-denominated sales are recognized as an adjustment of the revenues when the sale is recorded. Those used to hedge future capital acquisitions are recognized as an adjustment of the property amount when the acquisition is recorded.

The Company also occasionally enters into foreign exchange forward contracts as part of its short-term cash management strategy. These contracts are not designated as hedges due to their short-term nature and are carried on the Consolidated Balance Sheets at fair value. Changes in fair value are recognized in income in the period in which the changes occur.

The Company enters into interest rate swaps to manage the risk related to interest rate fluctuations. These swap agreements require the periodic exchange of payments without the exchange of the principal amount on which the payments are based. Interest expense on the debt is adjusted to include the payments owing or receivable under the interest rate swaps.

The Company from time to time enters into bond forwards to fix interest rates for anticipated issuances of debt. These agreements are usually accounted for as cash flow hedges with gains and losses recorded in “Accumulated other comprehensive loss” and amortized to “Net interest expense” in the period that interest on the related debt is charged.

The Company entered into derivatives called Total Return Swaps (“TRS”) to mitigate fluctuations in tandem share appreciation rights (“TSAR”), deferred share units (“DSU”) and restricted share units (“RSU”). These were not designated as hedges and were recorded at market value with the offsetting gain or loss reflected in “Compensation and benefits”.

Restructuring accrual

Restructuring liabilities are recorded at their present value. The discount related to liabilities is amortized to “Compensation and benefits” over the payment period. Provisions for labour restructuring are recorded in “Other long-term liabilities”, except for the current portion, which is recorded in “Accounts payable and accrued liabilities”.

Environmental remediation

Environmental remediation accruals, recorded on an undiscounted basis, cover site-specific remediation programs. Provisions for environmental remediation costs are recorded in “Other long-term liabilities”, except for the current portion, which is recorded in “Accounts payable and accrued liabilities”.

Table of Contents

Income taxes

The Company follows the liability method of accounting for income taxes. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in income tax rates on deferred income tax assets and liabilities is recognized in income in the period during which the change occurs.

When appropriate, the Company records a valuation allowance against deferred tax assets to reflect that these tax assets may not be realized. In determining whether a valuation allowance is appropriate, CP considers whether it is more likely than not that all or some portion of CP's deferred tax assets will not be realized, based on management's judgment using available evidence about future events.

At times, tax benefit claims may be challenged by a tax authority. Tax benefits are recognized only for tax positions that are more likely than not sustainable upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely to be realized upon settlement. A liability for "unrecognized tax benefits" is recorded for any tax benefits claimed in CP's tax returns that do not meet these recognition and measurement standards.

Investment and other similar tax credits are deferred on the Consolidated Balance Sheets and amortized to "Income tax expense" as the related asset is recognized in income.

Earnings per share

Basic earnings per share are calculated using the weighted average number of Common Shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method for determining the dilutive effect of options.

Stock-based compensation

CP follows the fair value based approach to account for stock options. Compensation expense and an increase in additional paid-in capital are recognized for stock options over their vesting period, or over the period from the grant date to the date employees become eligible to retire when this is shorter than the vesting period, based on their estimated fair values on the grant date, as determined using the Black-Scholes option-pricing model.

With the granting of regular stock options, some employees have been simultaneously granted share appreciation rights, which provide the employee the choice to either exercise the stock option for shares, or to exercise the TSAR and thereby receive the intrinsic value of the stock option in cash. Options with TSARs are awards that may call for settlement in cash and, therefore, are recorded as liabilities. CP follows the fair value based approach, as determined by the Black-Scholes option pricing model, to account for the TSAR liability. The liability is fair valued and changes in the liability are recorded in "Compensation and benefits" over the vesting period, or over the period from the grant date to the date employees become eligible to retire when this is shorter than the vesting period, until exercised. If an employee chooses to exercise the option, thereby cancelling the TSAR, both the exercise price and the liability are settled to "Share capital".

Forfeitures of options and tandem options are estimated at issuance and subsequently at the balance sheet date.

Any consideration paid by employees on exercise of stock options is credited to share capital when the option is exercised and the recorded fair value of the option is removed from additional paid-in capital and credited to share capital.

Compensation expense is also recognized for TSARs, DSUs, performance share units ("PSUs") and RSUs using the fair value method. Forfeitures of TSARs, DSUs, PSUs and RSUs are estimated at issuance and subsequently at the balance sheet date.

The employee share purchase plan ("ESPP") gives rise to compensation expense that is recognized using the issue price by amortizing the cost over the vesting period or over the period from the grant date to the date employees become eligible to retire when this is shorter than the vesting period.

2 Accounting changes

Accumulated other comprehensive income

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, an amendment to FASB ASC Topic 220. The update requires disclosure of amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present either on the face of the income statement or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts not reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2012. The disclosure requirements of this ASU for the year ended December 31, 2013 are presented in Note 9.

Table of Contents

3 Asset impairments

(in millions of Canadian dollars)		2013	2012	2011
Dakota, Minnesota & Eastern Railroad – West	(a)	**$ 435**	$ –	$ –
Powder River Basin impairment and other investment[1]	(b)	**–**	185	–
Impairment loss on locomotives	(c)	**–**	80	–
Asset impairment, before tax		**$ 435**	$ 265	$ –

[1] Includes impairment of other investment of $5 million

(a) Dakota, Minnesota & Eastern Railroad – West

On January 2, 2014, the Company executed an agreement with Genesee & Wyoming Inc. (“G&W”) for the sale of a portion of CP’s DM&E line between Tracy, Minnesota and Rapid City, South Dakota, Colony, Wyoming and Crawford, Nebraska and connecting branch lines (“DM&E West”). The sale, which is subject to regulatory approval by the U.S. Surface Transportation Board, is expected to generate approximately US$215 million in gross proceeds, subject to closing adjustments, and is expected to close in 2014.

At December 31, 2013, CP has classified DM&E West as an asset held for sale carried at CDN$222 million, being its estimated fair value less estimated direct selling costs. As a result, in the fourth quarter of 2013, the Company recorded an asset impairment charge and accruals for future costs associated with the sale totaling CDN$435 million ($257 million after-tax). The components of the asset impairment charge and charge for the accruals, which are subject to closing adjustments, that were recorded against income as “Asset impairments” are as follows:

(in millions of Canadian dollars)	2013
Property, plant and equipment	**$ 426**
Intangible assets	**2**
Goodwill	**6**
Total asset impairment charge	**434**
Accruals for future costs	**1**
Total charge	**$ 435**

(b) Powder River Basin impairment

As part of the acquisition of DM&E in 2007, CP acquired the option to build a 260 mile extension of its network into coal mines in the Powder River Basin (“PRB”).

Due to continued deterioration in the market for domestic thermal coal, including a sharp deterioration in 2012, in the fourth quarter of 2012 CP deferred plans to extend its rail network into the PRB coal mines indefinitely. As a result of this decision and in light of the declined market conditions, CP has evaluated the recoverability of the carrying amount of PRB assets and determined that this exceeded the estimated fair value by $180 million. The estimated fair value represents the expected proceeds from the sale of the acquired land, as determined by a comparable market assessment. Other costs associated with the acquisition of DM&E and accumulated by CP since acquisition have been written down to $nil. The amount of the impairment associated with this indefinite deferral was $180 million ($107 million after-tax). The components of the PRB impairment that were charged against income as “Asset impairments” in 2012 are as follows:

(in millions of Canadian dollars)	2012
Option impairment (Note 15)	$ 26
Construction plans, including capitalized interest	134
Land, land option appraisals, including capitalized interest	20
Total impairment	$ 180

(c) Impairment loss on locomotives

In the fourth quarter of 2012, CP reached a decision to dispose of a certain series of locomotives to improve operating efficiencies, and accordingly performed an impairment test on these assets. The impairment test determined that the net book value of these locomotives exceeded their estimated fair value by $80 million. The estimated fair value represents the expected future cashflows from the disposal of these locomotives. The impairment charge of $80 million ($59 million after tax) was recorded in “Asset impairments” and charged against income.

Table of Contents

4 Labour restructuring

In 2013, CP recorded a recovery of $7 million ($5 million after tax) (2012 – a charge of $53 million, $39 million after tax) for a labour restructuring initiative which was included in “Labour restructuring” in the Consolidated Statements of Income, and “Accounts payable and accrued liabilities” and “Other long-term liabilities” in the Consolidated Balance Sheets. The resulting position reductions are expected to be completed by the end of 2014, with the majority achieved in 2013.

At December 31, 2013, the provision for restructuring was $50 million (2012 – $89 million). The restructuring accrual was primarily for labour liabilities arising for restructuring plans, including those from prior year initiatives. Payments are expected to continue in diminishing amounts until 2025.

Set out below is a reconciliation of CP’s liabilities associated with its restructuring accrual:

(in millions of Canadian dollars)	**2013**	2012
Opening balance, January 1	**$ 89**	$ 55
Accrued[(1)]	**(8)**	54
Payments	**(33)**	(22)
Amortization of discount[(2)]	**2**	2
Closing balance, December 31	**$ 50**	$ 89

[(1)] Includes fourth quarter 2013 recovery of $7 million which is related to the fourth quarter 2012 labour restructuring initiative charge of $53 million.
[(2)] Amortization of discount is charged to income as “Compensation and benefits”.

5 Other income and charges

(in millions of Canadian dollars)	**2013**	2012	2011
Accretion income on long-term floating rate notes (Note 19)	**$ –**	$ (3)	$ (5)
Loss (gain) in fair value of long-term floating rate notes (Note 19)	**–**	1	(10)
Net loss on repurchase of debt (Note 18)	**–**	–	10
Other foreign exchange losses (gains)	**2**	(1)	3
Foreign exchange loss (gain) on long-term debt	**2**	(2)	3
Advisory fees (related to shareholder matters)	**–**	27	6
Other	**13**	15	11
Total other income and charges	**$ 17**	$ 37	$ 18

6 Net interest expense

(in millions of Canadian dollars)	**2013**	2012	2011
Interest cost	**$ 296**	$ 294	$ 266
Interest capitalized to Properties	**(13)**	(15)	(11)
Interest expense	**283**	279	255
Interest income	**(5)**	(3)	(3)
Net interest expense	**$ 278**	$ 276	$ 252

Interest expense includes interest on capital leases of $19 million for the year ended December 31, 2013 (2012 – $19 million; 2011 – $19 million).

Table of Contents

7 Income taxes

The following is a summary of the major components of the Company's income tax expense:

(in millions of Canadian dollars)	**2013**	2012	2011
Current income tax expense (recovery)[(1)]	**$ 38**	$ 12	$ (60)
Deferred income tax expense			
Origination and reversal of temporary differences	**183**	144	194
Effect of tax rate increases	**7**	11	–
Effect of hedge of net investment in foreign subsidiaries	**29**	(9)	8
Tax credits	**–**	(4)	(15)
Other	**(7)**	(2)	–
Total deferred income tax expense	**212**	140	187
Total income taxes	**$ 250**	$ 152	$ 127
Income before income tax expense			
Canada	**$ 1,019**	$ 464	$ 430
Foreign	**106**	172	267
Total income before income tax expense	**$ 1,125**	$ 636	$ 697
Income tax expense (recovery)			
Current			
Canada	**$ 4**	$ 6	$ (59)
Foreign	**34**	6	(1)
Total current income tax expense (recovery)	**38**	12	(60)
Deferred			
Canada	**256**	120	115
Foreign	**(44)**	20	72
Total deferred income tax expense	**212**	140	187
Total income taxes	**$ 250**	$ 152	$ 127

(1) Current income tax recovery in 2011 includes a reduction to the Company's uncertain tax positions.

The provision for deferred income taxes arises from temporary differences in the carrying values of assets and liabilities for financial statement and income tax purposes and the effect of loss carry forwards. The items comprising the deferred income tax assets and liabilities are as follows:

(in millions of Canadian dollars)	**2013**	2012
Deferred income tax assets		
Restructuring liability	**$ 16**	$ 24
Amount related to tax losses carried forward	**96**	322
Liabilities carrying value in excess of tax basis	**66**	295
Future environmental remediation costs	**31**	31
Tax credits carried forward including minimum tax	**72**	122
Other	**46**	71
Total deferred income tax assets	**327**	865

Table of Contents

(in millions of Canadian dollars)	2013	2012
Deferred income tax liabilities		
Properties carrying value in excess of tax basis	**2,847**	2,676
Other long-term assets carrying value in excess of tax basis	**9**	7
Other	**30**	20
Total deferred income tax liabilities	**2,886**	2,703
Total net deferred income tax liabilities	**2,559**	1,838
Current deferred income tax assets	**344**	254
Long-term deferred income tax liabilities	**$ 2,903**	$ 2,092

The Company's consolidated effective income tax rate differs from the expected statutory tax rates. Expected income tax expense at statutory rates is reconciled to income tax expense as follows:

(in millions of Canadian dollars, except percentage)	2013	2012	2011
Statutory federal and provincial income tax rate	**26.32%**	26.09%	28.75%
Expected income tax expense at Canadian enacted statutory tax rates	**$ 296**	$ 166	$ 200
Increase (decrease) in taxes resulting from:			
Items not subject to tax	**(6)**	(4)	(3)
Canadian tax rate differentials	**(1)**	(1)	(8)
Foreign tax rate differentials	**(36)**	(17)	(4)
Effect of tax rate increases	**7**	11	–
Tax credits	**–**	(4)	(15)
Other[(1)]	**(10)**	1	(43)
Income tax expense	**$ 250**	$ 152	$ 127

(1) Substantially all amounts relate to uncertain tax positions.

The Company has no unrecognized tax benefits from capital losses at December 31, 2013 and 2012.

The Company has not provided a deferred liability for the income taxes, if any, which might become payable on any temporary difference associated with its foreign investments because the Company intends to indefinitely reinvest in its foreign investments and has no intention to realize this difference by a sale of its interest in foreign investments.

During the third quarter of 2013, legislation was enacted to increase the province of British Columbia's corporate income tax rate. As a result, the Company recalculated its deferred income taxes as at January 1, 2013 based on this change and recorded an income tax expense of $7 million in the third quarter of 2013.

During the second quarter of 2012, legislation was enacted to cancel the previously planned province of Ontario's corporate income tax rate reductions. As a result of these changes, the Company recorded an income tax expense of $11 million in the second quarter of 2012, based on its deferred income tax balances as at December 31, 2011.

At December 31, 2013, the Company had income tax operating losses carried forward of $339 million, which have been recognized as a deferred tax asset. Certain of these losses carried forward will begin to expire in 2015, with the majority expiring between 2029 and 2031. The Company also has minimum tax credits of approximately $47 million that will begin to expire in 2016 as well as investment tax credits of $40 million, certain of which will begin to expire in 2018, and track maintenance credits of $16 million which will begin to expire in 2032.

It is more likely than not that the Company will realize the majority of its deferred income tax assets from the generation of future taxable income, as the payments for provisions, reserves and accruals are made and losses and tax credits carried forward are utilized.

Table of Contents

The following table provides a reconciliation of uncertain tax positions in relation to unrecognized tax benefits for Canada and the United States for the year ended December 31, 2013:

(in millions of Canadian dollars)	**2013**	2012	2011
Unrecognized tax benefits at January 1	**$ 19**	$ 19	$ 60
Increase in unrecognized:			
Tax benefits related to the current year	**4**	2	3
Gross uncertain tax benefits related to prior years	**–**	–	1
Dispositions:			
Gross uncertain tax benefits related to prior years	**(7)**	(2)	(45)
Unrecognized tax benefits at December 31	**$ 16**	$ 19	$ 19

If these uncertain tax positions were recognized, all of the amount of unrecognized tax positions as at December 31, 2013 would impact the Company's effective tax rate.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense in the Company's Consolidated Statement of Income. The total amount of accrued interest and penalties in 2013 was a credit of $1 million (2012 – $nil; 2011 – credit of $15 million). The total amount of accrued interest and penalties associated with the unrecognized tax benefit at December 31, 2013 was $4 million (2012 – $5 million; 2011 – $5 million).

The Company and its subsidiaries are subject to either Canadian federal and provincial income tax, U.S. federal, state and local income tax, or the relevant income tax in other international jurisdictions. The Company has substantially concluded all Canadian federal and provincial income tax matters for the years through 2009. The federal and provincial income tax returns filed for 2010 and subsequent years remain subject to examination by the taxation authorities.

All U.S. federal income tax returns and generally all U.S. state and local income tax returns are closed to 2006. The income tax returns for 2007 and subsequent years continue to remain subject to examination by the taxation authorities.

The Company does not anticipate any material changes to the unrecognized tax benefits previously disclosed within the next twelve months as at December 31, 2013.

8 Earnings per share

Basic earnings per share have been calculated using net income for the year divided by the weighted average number of shares outstanding during the year.

Diluted earnings per share have been calculated using the treasury stock method, which assumes that any proceeds received from the exercise of in-the-money options would be used to purchase Common Shares at the average market price for the period. For purposes of this calculation, at December 31, 2013, there were 3.2 million dilutive options outstanding (2012 – 4.2 million; 2011 – 4.7 million). These option totals at December 31, 2013 exclude no options (2012 – 0.2 million; 2011 – 0.3 million) for which there are TSARs outstanding (Note 24), as these are not included in the dilution calculation.

The number of shares used in the earnings per share calculations is reconciled as follows:

(in millions)	**2013**	2012	2011
Weighted average shares outstanding	**174.9**	171.8	169.5
Dilutive effect of weighted average number of stock options	**1.6**	1.4	1.1
Weighted average diluted shares outstanding	**176.5**	173.2	170.6

In 2013, the number of options excluded from the computation of diluted earnings per share, because their effect was not dilutive, was nil (2012 – 0.2 million; 2011 – 1.4 million).

Table of Contents

9 Other comprehensive income (loss) and accumulated other comprehensive loss

The components of "Accumulated other comprehensive loss", net of tax, are as follows:

(in millions of Canadian dollars)	2013	2012
Unrealized foreign exchange loss on translation of the net investment in U.S. subsidiaries	**$ (88)**	$ (308)
Unrealized foreign exchange gain on translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	**193**	382
Deferred loss on settled hedge instruments	**(16)**	(1)
Unrealized effective gains (losses) on cash flow hedges	**3**	(11)
Amounts for defined benefit pension and other post-retirement plans not recognized in income	**(1,593)**	(2,828)
Equity accounted investments	**(2)**	(2)
Accumulated other comprehensive loss	**$ (1,503)**	$ (2,768)

Components of other comprehensive income (loss) and the related tax effects are as follows:

(in millions of Canadian dollars)	Before tax amount	Income tax recovery (expense)	Net of tax amount
For the year ended December 31, 2013			
Unrealized foreign exchange gain (loss) on:			
Translation of the net investment in U.S. subsidiaries	**$ 220**	**$ –**	**$ 220**
Translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries (Note 19)	**(217)**	**28**	**(189)**
Change in derivatives designated as cash flow hedges:			
Realized loss on cash flow hedges recognized in income	**(19)**	**–**	**(19)**
Unrealized gain on cash flow hedges	**18**	**–**	**18**
Change in pension and other benefits actuarial gains and losses	**1,603**	**(427)**	**1,176**
Change in prior service pension and other benefit costs	**78**	**(19)**	**59**
Other comprehensive income	**$ 1,683**	**$ (418)**	**$ 1,265**
For the year ended December 31, 2012			
Unrealized foreign exchange (loss) gain on:			
Translation of the net investment in U.S. subsidiaries	$ (58)	$ –	$ (58)
Translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries (Note 19)	69	(9)	60
Change in derivatives designated as cash flow hedges:			
Realized gain on cash flow hedges recognized in income	6	(1)	5
Unrealized gain on cash flow hedges	3	–	3
Change in pension and other benefits actuarial gains and losses	(62)	12	(50)
Change in prior service pension and other benefit costs	12	(2)	10
Equity accounted investments	(2)	–	(2)
Other comprehensive loss	$ (32)	$ –	$ (32)

Table of Contents

(in millions of Canadian dollars)	Before tax amount	Income tax recovery (expense)	Net of tax amount
For the year ended December 31, 2011			
Unrealized foreign exchange gain (loss) on:			
Translation of the net investment in U.S. subsidiaries	$ 59	$ –	$ 59
Translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries (Note 19)	(59)	8	(51)
Change in derivatives designated as cash flow hedges:			
Realized loss on cash flow hedges recognized in income	(17)	3	(14)
Unrealized gain on cash flow hedges	10	(1)	9
Change in pension and other benefits actuarial gains and losses	(892)	232	(660)
Change in prior service pension and other benefit costs	9	(2)	7
Other comprehensive loss	$ (890)	$ 240	$ (650)

Changes in accumulated other comprehensive loss (AOCL) by component:

(in millions of Canadian dollars)	Foreign currency net of hedging activities[1]	Derivatives and other[1]	Pension and post-retirement defined benefit plans[1][a]	Total[1]
Opening balance, 2013	**$ 74**	**$ (14)**	**$ (2,828)**	**$ (2,768)**
Other comprehensive income (loss) before reclassifications	**31**	**17**	**1,078**	**1,126**
Amounts reclassified from accumulated other comprehensive loss	**–**	**(18)**	**157**	**139**
Net current-period other comprehensive income (loss)	**31**	**(1)**	**1,235**	**1,265**
Closing balance, 2013	**$ 105**	**$ (15)**	**$ (1,593)**	**$ (1,503)**
Opening balance, 2012	$ 72	$ (20)	$ (2,788)	$ (2,736)
Other comprehensive income (loss) before reclassifications	2	1	(199)	(196)
Amounts reclassified from accumulated other comprehensive loss	–	5	159	164
Net current-period other comprehensive income (loss)	2	6	(40)	(32)
Closing balance, 2012	$ 74	$ (14)	$ (2,828)	$ (2,768)

(a) Amounts reclassified from accumulated other comprehensive loss

	2013	2012
Amortization of prior service costs[2]	**$ (58)**	$ 2
Recognition of net actuarial loss[2]	**272**	214
Total before income tax	**$ 214**	$ 216
Income tax recovery	**(57)**	(57)
Net of income tax	**$ 157**	$ 159

(1) Amounts are presented net of tax.
(2) Impacts Compensation and benefits on the Consolidated Statements of Income.

10 Change in non-cash working capital balances related to operations

(in millions of Canadian dollars)	**2013**	2012	2011
(Use) source of cash:			
Accounts receivable, net	**$ (29)**	$ (40)	$ (69)
Materials and supplies	**(19)**	7	(15)
Other current assets	**5**	15	(8)
Accounts payable and accrued liabilities	**41**	13	116
Change in non-cash working capital	**$ (2)**	$ (5)	$ 24

Table of Contents

11 Cash and cash equivalents

(in millions of Canadian dollars)	**2013**	2012
Cash	**$ 109**	$ 24
Short-term investments:		
Deposits with financial institutions	**367**	309
Total cash and cash equivalents	**$ 476**	$ 333

12 Accounts receivable, net

(in millions of Canadian dollars)	**2013**	2012
Freight	**$ 408**	$ 410
Non-freight	**192**	155
	600	565
Allowance for doubtful accounts	**(20)**	(19)
Total accounts receivable, net	**$ 580**	$ 546

The Company maintains an allowance for doubtful accounts based on expected collectability of accounts receivable. Credit losses are based on specific identification of uncollectible accounts, the application of historical percentages by aging category and an assessment of the current economic environment. At December 31, 2013, allowances of $20 million (2012 – $19 million) were recorded in “Accounts receivable, net”. During 2013, $3 million of doubtful accounts (2012 – $3 million; 2011 – $2 million) were expensed and recorded within “Purchased services and other”.

13 Investments

(in millions of Canadian dollars)	**2013**	2012
Rail investments accounted for on an equity basis	**$ 67**	$ 61
Other investments	**25**	22
Total investments	**$ 92**	$ 83

14 Properties

	2013	**2013**			2012		
(in millions of Canadian dollars)	**Average annual depreciation rate**	**Cost**	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
Track and roadway	2.6%	**$ 13,459**	**$ 3,877**	**$ 9,582**	$ 13,273	$ 3,845	$ 9,428
Buildings	2.9%	**535**	**138**	**397**	476	244	232
Rolling stock	2.3%	**3,466**	**1,338**	**2,128**	3,320	1,318	2,002
Information systems[1]	12.7%	**679**	**338**	**341**	746	389	357
Other	5.0%	**1,372**	**493**	**879**	1,466	472	994
Total		**$ 19,511**	**$ 6,184**	**$ 13,327**	$ 19,281	$ 6,268	$ 13,013

[1] During 2013, CP capitalized costs attributable to the design and development of internal-use software in the amount of $85 million (2012 – $105 million; 2011 –$91 million). Current year depreciation expense related to internal use software was $84 million (2012 – $78 million; 2011 – $56 million).

Capital leases included in properties

	2013			2012		
(in millions of Canadian dollars)	**Cost**	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
Buildings	**$ 1**	**$ 1**	**$ –**	$ 1	$ –	$ 1
Rolling stock	**511**	**195**	**316**	510	179	331
Other	**–**	**–**	**–**	2	2	–
Total assets held under capital lease	**$ 512**	**$ 196**	**$ 316**	$ 513	$ 181	$ 332

Table of Contents

15 Goodwill and intangible assets

(in millions of Canadian dollars)	Goodwill	Cost	Intangible assets accumulated amortization	Net carrying amount
Balance at December 31, 2011	$ 150	$ 50	$ (8)	$ 42
Amortization	–	–	(1)	(1)
Foreign exchange impact	(4)	–	–	–
PRB option impairment (Note 3)	–	(26)	–	(26)
Balance at December 31, 2012	$ 146	$ 24	$ (9)	$ 15
Amortization	–	–	(1)	(1)
Foreign exchange impact	10	–	–	–
DM&E West impairment (Note 3)	(6)	(2)	–	(2)
Balance at December 31, 2013	**$ 150**	**$ 22**	**$ (10)**	**$ 12**

As part of the acquisition of DM&E in 2007, CP recognized goodwill of US$147 million on the allocation of the purchase price, determined as the excess of the purchase price over the fair value of the net assets acquired. Since the acquisition, the operations of DM&E have been integrated with CP's U.S. operations and the related goodwill is allocated to CP's U.S. reporting unit. Goodwill is tested for impairment at least once per year as at October 1st. The goodwill impairment test determines if the fair value of the reporting unit continues to exceed its net book value, or whether an impairment charge is required. The fair value of the reporting unit is affected by projections of its profitability including estimates of revenue growth, which are inherently uncertain.

Intangible assets of $12 million (2012 – $15 million), acquired in the acquisition of DM&E, includes favourable leases, customer relationships and interline contracts.

At December 31, 2013, CP has classified DM&E West as an asset held for sale, which resulted in a goodwill impairment charge of $6 million and an intangible assets impairment charge of $2 million (Note 3).

Due to continued deterioration in the market for domestic thermal coal, including a sharp deterioration in 2012, in the fourth quarter of 2012 CP deferred plans to extend its rail network into the PRB coal mines indefinitely. The amount of the impairment associated with the option to expand the track network, previously included in intangible assets, was $26 million (Note 3).

The estimated amortization expense for intangible assets for 2014 to 2018 is insignificant each year.

16 Other assets

(in millions of Canadian dollars)	**2013**	2012
Unamortized fees on long-term debt	**$ 44**	$ 45
Contracted customer incentives	**6**	8
Long-term materials	**31**	18
Long-term receivables (Note 26)	**28**	3
Prepaid leases	**9**	9
Deferred hedging gains (Note 19)	**19**	8
Other	**63**	50
Total other assets	**$ 200**	$ 141

Fees on long-term debt and contracted customer incentives are amortized to income over the term of the related debt and over the term of the related revenue contract, respectively.

Table of Contents

17 Accounts payable and accrued liabilities

(in millions of Canadian dollars)	2013	2012
Trade payables	$ 358	$ 321
Accrued charges	343	325
Payroll-related accruals	67	95
Accrued interest	79	75
Accrued vacation	67	74
Provision for environmental remediation (Note 20)	14	12
Provision for restructuring (Note 4)	29	59
Dividends payable	62	61
Personal injury and other claims provision	57	54
Income and other taxes payable	46	36
Stock-based compensation liabilities	20	21
Other	47	43
Total accounts payable and accrued liabilities	$ 1,189	$ 1,176

18 Long-term debt

(in millions of Canadian dollars)	Maturity	Currency in which payable	2013	2012
6.500% 10-year Notes (A)	May 2018	US$	$ 292	$ 273
6.250% 10-year Medium Term Notes (A)	Jun. 2018	CDN$	374	374
7.250% 10-year Notes (A)	May 2019	US$	371	347
9.450% 30-year Debentures (A)	Aug. 2021	US$	266	249
5.100% 10-year Medium Term Notes (A)	Jan. 2022	CDN$	125	125
4.500% 10-year Notes (A)	Jan. 2022	US$	262	244
4.450% 12.5-year Notes (A)	Mar. 2023	US$	371	347
7.125% 30-year Debentures (A)	Oct. 2031	US$	372	348
5.750% 30-year Debentures (A)	Mar. 2033	US$	258	241
5.950% 30-year Notes (A)	May 2037	US$	471	440
6.450% 30-year Notes (A)	Nov. 2039	CDN$	400	400
5.750% 30-year Notes (A)	Jan. 2042	US$	260	243
Secured Equipment Loan (B)	Aug. 2015	CDN$	80	98
5.41% Senior Secured Notes (C)	Mar. 2024	US$	116	113
6.91% Secured Equipment Notes (D)	Oct. 2024	CDN$	167	176
5.57% Senior Secured Notes (E)	Dec. 2024	US$	62	60
7.49% Equipment Trust Certificates (F)	Jan. 2021	US$	96	96
3.88% Senior Secured Notes Series A & B (G)	Oct./Dec. 2026	US$	140	134
4.28% Senior Secured Notes (H)	Mar. 2027	US$	73	70
Other long-term loans (nil% – 5.50%)	2014 - 2025	US$	2	2
Obligations under capital leases (6.313% – 6.99%) (I)	2014 - 2026	US$	277	271
Obligations under capital leases (12.77%) (I)	Jan. 2031	CDN$	3	3
			4,838	4,654
Perpetual 4% Consolidated Debenture Stock (J)		US$	32	30
Perpetual 4% Consolidated Debenture Stock (J)		GB£	6	6
			4,876	4,690
Less: Long-term debt maturing within one year			189	54
			$ 4,687	$ 4,636

Table of Contents

At December 31, 2013, the gross amount of long-term debt denominated in U.S. dollars was US$3,527 million (2012 – US$3,538 million).

Annual maturities and principal repayments requirements, excluding those pertaining to capital leases, for each of the five years following 2013 are (in millions): 2014 – $50; 2015 – $127; 2016 – $31; 2017 – $28; 2018 – $697.

A. These debentures and notes pay interest semi-annually and are unsecured, but carry a negative pledge.

On September 30, 2011, the Company redeemed US$101 million 5.75% Notes due in May 2013 with a carrying amount of $107 million pursuant to a call offer for a total cost of $113 million. Upon redemption of the Notes a net loss of $9 million was recognized to “Other income and charges”. The loss consisted largely of a redemption premium paid to note holders to redeem the Notes.

On September 13, 2011, the Company announced a cash tender offer and consent solicitation for any or all its outstanding US$246 million 6.25% Notes due October 15, 2011. Notes tendered with a principal value of US$204 million were redeemed on October 12, 2011, and the remaining US$42 million Notes not tendered were redeemed on October 17, 2011. Upon redemption of the Notes a net loss of $1 million was recognized to “Other income and charges”.

During December 2011, the Company issued $125 million 5.10% 10-year Medium Term Notes, US$250 million 4.50% 10-year Notes and US$250 million 5.75% 30-year Notes. Net proceeds from these offerings were $618 million and were largely used to make a $600 million voluntary prepayment to the Company’s main Canadian defined benefit pension plan.

B. The Secured Equipment Loan is collateralized by specific locomotive units with a carrying value of $65 million at December 31, 2013. The floating interest rate is calculated based on a six-month average Canadian Dollar Offered Rate (calculated based on an average of Bankers’ Acceptance rates) plus 53 basis points (2013 – 1.93%; 2012 – 1.97%; 2011 – 1.94%). The Company makes blended payments of principal and interest semi-annually. Final repayment of the remaining principal balance of $53 million is due in August 2015.

C. The 5.41% Senior Secured Notes are collateralized by specific locomotive units with a carrying value of $141 million at December 31, 2013. The Company pays equal blended semi-annual payments of principal and interest. Final repayment of the remaining principal of US$44 million is due in March 2024.

D. The 6.91% Secured Equipment Notes are full recourse obligations of the Company collateralized by a first charge on specific locomotive units with a carrying value of $139 million at December 31, 2013. The Company pays equal blended semi-annual payments of principal and interest up to and including October 2024.

E. The 5.57% Senior Secured Notes are secured by specific locomotive units and other rolling stock with a combined carrying value of $59 million at December 31, 2013. The Company pays equal blended semi-annual payments of principal and interest up to and including December 2024. Final repayment of the remaining principal of US$33 million is due in December 2024.

F. The 7.49% Equipment Trust Certificates are secured by specific locomotive units with a carrying value of $104 million at December 31, 2013. The Company makes semi-annual payments that vary in amount and are interest-only payments or blended principal and interest payments. Final repayment of the remaining principal of US$11 million is due in January 2021.

G. During 2011, the Company issued US$139 million 3.88% Series A and B Senior Secured Notes due in 2026 for net proceeds of $139 million. These Notes are secured by locomotives previously acquired by the Company with a carrying value of $131 million at December 31, 2013. The Company pays equal blended semi-annual payments of principal and interest up to and including December 2026. Final repayment of the remaining principal of US$69 million is due in the fourth quarter of 2026.

H. During 2012, the Company issued US$71 million 4.28% Senior Secured Notes due in 2027 for net proceeds of $71 million. These Notes are secured by locomotives previously acquired by the Company with a carrying value of $68 million at December 31, 2013. The Company pays equal blended semi-annual payments of principal and interest up to and including March 2027. Final repayment of the remaining principal of US$35 million is due in March 2027.

Table of Contents

I. At December 31, 2013, capital lease obligations included in long-term debt were as follows:

(in millions of Canadian dollars)	Year	Capital leases
Minimum lease payments in:		
	2014	$ 160
	2015	14
	2016	15
	2017	13
	2018	13
	Thereafter	159
Total minimum lease payments		374
Less: Imputed interest		(94)
Present value of minimum lease payments		280
Less: Current portion		(139)
Long-term portion of capital lease obligations		$ 141

During the year the Company had no additions to property, plant and equipment under capital lease obligations (2012 – $nil; 2011 – $nil).

The carrying value of the assets collateralizing the capital lease obligations was $316 million at December 31, 2013.

J. The Consolidated Debenture Stock, authorized by an Act of Parliament of 1889, constitutes a first charge upon and over the whole of the undertaking, railways, works, rolling stock, plant, property and effects of the Company, with certain exceptions.

K. During November 2013, CP extended its revolving credit agreement, dated October 31, 2011, by three years to November 29, 2018. The amended agreement is with 13 highly rated financial institutions for a committed amount of $1.165 billion and also contains an uncommitted accordion feature to a maximum size of $1.5 billion. The agreement can accommodate draws of cash and/or letters of credit at pre-agreed pricing. At December 31, 2013, the facility was undrawn. The weighted average annualized interest rate of the facility for drawn funds was not applicable in 2013 compared to 2.94% in 2012 and 1.98% in 2011. The agreement requires the Company not to exceed a maximum debt to total capitalization ratio. At December 31, 2013, the Company satisfied this threshold stipulated in the financial covenant. In addition, should CP's senior unsecured debt not be rated at least investment grade by Moody's and S&P, the Company's credit agreement will also require it to maintain a minimum fixed charge coverage ratio.

L. During 2013, the Company entered into a series of committed and uncommitted bilateral letter of credit facility agreements with financial institutions to support its requirement to post letters of credit in the ordinary course of business. The agreements have varying expiration dates with the earliest expiry in August 2014. Under these agreements, the Company has the option to post collateral in the form of cash or cash equivalents, equal at least to the face value of the letter of credit issued. Collateral provided includes highly liquid investments purchased three months or less from maturity and is stated at cost, which approximates market value and is shown separately on the balance sheet as "Restricted cash and cash equivalents".

At December 31, 2013, under its bilateral facilities the Company had letters of credit drawn of $394 million from a total available amount of $585 million. Prior to these bilateral agreements, letters of credit were drawn under the Company's revolving credit facility. At December 31, 2013, cash and cash equivalents of $411 million were pledged as collateral and recorded as "Restricted cash and cash equivalents", $nil in 2012. The Company can withdraw this collateral during any month.

19 Financial Instruments

A. Fair values of financial instruments

The Company categorizes its financial assets and liabilities measured at fair value in line with the fair value hierarchy established by GAAP that prioritizes, with respect to reliability, the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of quoted prices (unadjusted) in active markets for identical assets and liabilities and give the highest priority to these inputs. Level 2 and 3 inputs are based on significant other observable inputs and significant unobservable inputs, respectively, and give lower priority to these inputs.

When possible, the estimated fair value is based on quoted market prices and, if not available, estimates from third party brokers. For non-exchange traded derivatives classified in Level 2, the Company uses standard valuation techniques to calculate fair value. Primary inputs to these techniques include observable market prices (interest, foreign exchange and commodity) and volatility, depending on the type of derivative and nature of the underlying risk. The Company uses inputs and data used by willing market participants when valuing derivatives and considers its own credit default swap spread as well as those of its counterparties in its determination of fair value.

Table of Contents

The carrying values of financial instruments equal or approximate their fair values with the exception of long-term debt which has a fair value of approximately $5,572 million at December 31, 2013 (December 31, 2012 – $5,688 million) with a carrying value of $4,876 million (December 31, 2012 – $4,690 million). The estimated fair value of current and long-term borrowings has been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Company at period end. All derivatives and long-term debt are classified as Level 2.

B. Fair values of non-financial assets

At December 31, 2013, CP classified DM&E West as an asset held for sale carried at its estimated fair value less estimated direct selling costs (Note 3). During 2012, CP reviewed certain properties, goodwill, and certain related intangible assets for impairment (Note 3) and estimated the fair values of those properties. These estimated fair values were based on measurements classified as Level 3 which resulted in the recording of total impairment charges in 2013 of $434 million and in 2012 of $265 million (Note 3). CP used third party information that was corroborated with other internal information to estimate the fair value of these properties.

The techniques used to value long-term floating rate notes, which were classified as Level 3, is discussed below:

Long-term floating rate notes

At December 31, 2013 and December 31, 2012, the Company had no remaining investment in long-term floating rate notes.

During 2012, the Company sold its remaining investment in long-term floating rate notes (Master Asset Vehicle ("MAV") 2 Class A-1 and A-2 Notes) which had a carrying value of $81 million (original cost – $105 million) for proceeds of $81 million.

Accretion, redemption of notes and other minor changes in market assumptions resulted in a net gain of $2 million in 2012 (2011 – $15 million), which was reported in "Other income and charges".

The valuation technique and assumptions used by the Company to estimate the fair value of its investment in long-term floating rate notes during 2012 and 2011 incorporated probability weighted discounted cash flows considered the best available public information regarding market conditions and other factors that a market participant would have considered for such investments.

C. Financial risk management

Derivative financial instruments

Derivative financial instruments may be used to selectively reduce volatility associated with fluctuations in interest rates, foreign exchange ("FX") rates, the price of fuel and stock-based compensation expense. Where derivatives are designated as hedging instruments, the relationship between the hedging instruments and their associated hedged items is documented, as well as the risk management objective and strategy for the use of the hedging instruments. This documentation includes linking the derivatives that are designated as fair value or cash flow hedges to specific assets or liabilities on the Consolidated Balance Sheets, commitments or forecasted transactions. At the time a derivative contract is entered into, and at least quarterly thereafter, an assessment is made whether the derivative item is effective in offsetting the changes in fair value or cash flows of the hedged items. The derivative qualifies for hedge accounting treatment if it is effective in substantially mitigating the risk it was designed to address.

It is not the Company's intent to use financial derivatives or commodity instruments for trading or speculative purposes.

Credit risk management

Credit risk refers to the possibility that a customer or counterparty will fail to fulfil its obligations under a contract and as a result create a financial loss for the Company.

The railway industry predominantly serves financially established customers and the Company has experienced limited financial losses with respect to credit risk. The credit worthiness of customers is assessed using credit scores supplied by a third party, and through direct monitoring of their financial well-being on a continual basis. The Company establishes guidelines for customer credit limits and should thresholds in these areas be reached, appropriate precautions are taken to improve collectability.

Counterparties to financial instruments expose the Company to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an on-going basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. The Company does not anticipate non-performance that would materially impact the Company's financial statements. In addition, the Company believes there are no significant concentrations of credit risk.

Foreign exchange management

The Company conducts business transactions and owns assets in both Canada and the United States. As a result, the Company is exposed to fluctuations in value of financial commitments, assets, liabilities, income or cash flows due to changes in FX rates. The Company may enter into

Table of Contents

foreign exchange risk management transactions primarily to manage fluctuations in the exchange rate between Canadian and U.S. currencies. FX exposure is primarily mitigated through natural offsets created by revenues, expenditures and balance sheet positions incurred in the same currency. Where appropriate, the Company may negotiate with customers and suppliers to reduce the net exposure.

Occasionally the Company will enter into short-term FX forward contracts as part of its cash management strategy.

Net investment hedge

The FX gains and losses on long-term debt are mainly unrealized and can only be realized when U.S. dollar denominated long-term debt matures or is settled. The Company also has long-term FX exposure on its investment in U.S. affiliates. The majority of the Company's U.S. dollar denominated long-term debt has been designated as a hedge of the net investment in foreign subsidiaries. This designation has the effect of mitigating volatility on net income by offsetting long-term FX gains and losses on U.S. dollar denominated long-term debt and gains and losses on its net investment. The effective portion recognized in "Other comprehensive income (loss)" in 2013 was an unrealized foreign exchange loss of $217 million (2012 – unrealized gain of $69 million; 2011 – unrealized loss of $59 million) (Note 9). There was no ineffectiveness during 2013 (2012 – $nil; 2011 – $nil).

Foreign exchange forward contracts

The Company may enter into FX forward contracts to lock-in the amount of Canadian dollars it has to pay on U.S. denominated debt maturities.

At December 31, 2013, the Company had FX forward contracts to fix the exchange rate on US$100 million of principal outstanding on a capital lease due in January 2014, US$175 million of its 6.50% Notes due in May 2018, and US$100 million of its 7.25% Notes due in May 2019, unchanged from December 31, 2012. These derivatives, which are accounted for as cash flow hedges, guarantee the amount of Canadian dollars that the Company will repay when these obligations mature.

During 2013, an unrealized foreign exchange gain of $18 million (2012 – unrealized loss of $4 million; 2011 – realized and unrealized gain of $8 million) was recorded in "Other income and charges" in relation to these derivatives. Gains recorded in "Other income and charges" were largely offset by unrealized losses on the underlying debt which the derivatives were designated to hedge. Similarly, losses were largely offset by unrealized gains on the underlying debt.

At December 31, 2013, the unrealized gain derived from these FX forwards was $25 million (2012 – $8 million) of which $6 million (2012 – $nil) was included in "Other current assets" and $19 million (2012 – $8 million) in "Other assets" with the offset reflected as an unrealized gain of $5 million (2012 – $6 million) in "Accumulated other comprehensive loss" and as an unrealized gain of $20 million (2012 – $2 million) in "Retained earnings".

During 2011, in anticipation of a cash tender to offer to redeem the Company's US$101 million 5.75% May 2013 Notes, the Company unwound a similar amount of FX forward contracts to fix the exchange rate on these Notes for total proceeds of $2 million (Note 18).

At December 31, 2013, the Company expected that, during the next twelve months, unrealized pre-tax losses of $1 million would be reclassified to "Other income and charges".

Interest rate management

The Company is exposed to interest rate risk, which is the risk that the fair value or future cash flows of a financial instrument will vary as a result of changes in market interest rates. In order to manage funding needs or capital structure goals, the Company enters into debt or capital lease agreements that are subject to either fixed market interest rates set at the time of issue or floating rates determined by on-going market conditions. Debt subject to variable interest rates exposes the Company to variability in interest expense, while debt subject to fixed interest rates exposes the Company to variability in the fair value of debt.

To manage interest rate exposure, the Company accesses diverse sources of financing and manages borrowings in line with a targeted range of capital structure, debt ratings, liquidity needs, maturity schedule, and currency and interest rate profiles. In anticipation of future debt issuances, the Company may enter into forward rate agreements such as treasury rate locks, bond forwards or forward starting swaps, designated as cash flow hedges, to substantially lock in all or a portion of the effective future interest expense. The Company may also enter into swap agreements, designated as fair value hedges, to manage the mix of fixed and floating rate debt.

Interest rate swaps

At December 31, 2013 and December 31, 2012, the Company had no outstanding interest rate swaps, nor did it enter into or unwind any such transactions during 2013.

During 2011, the Company amortized $5 million of deferred gains to "Net interest expense" relating to interest rate swaps previously unwound in 2010 and 2009. In addition, during 2011, the Company amortized $2 million of deferred gains to "Other income and charges" as a result of the redemption of 5.75% May 2013 Notes (Note 18). These gains were deferred as a fair value adjustment to the underlying debts that were hedged and were amortized to "Net interest expense" until the debts were redeemed in 2011.

Table of Contents

Treasury rate locks

At December 31, 2013, the Company had net unamortized losses related to interest rate locks, which are accounted for as cash flow hedges, settled in previous years totalling $22 million (December 31, 2012 – $22 million). This amount is composed of various unamortized gains and losses related to specific debts which are reflected in “Accumulated other comprehensive loss” and are amortized to “Net interest expense” in the period that interest on the related debt is charged. The amortization of these gains and losses resulted in a negligible increase to “Net interest expense” and “Other comprehensive income (loss)” in 2013 (2012 – negligible; 2011 – negligible).

At December 31, 2013, the Company expected that, during the next twelve months, a negligible amount of loss related to these previously settled derivatives would be reclassified to “Net interest expense”.

Fuel price management

The Company is exposed to commodity risk related to purchases of diesel fuel and the potential reduction in net income due to increases in the price of diesel. Fuel expense constitutes a large portion of the Company’s operating costs and volatility in diesel fuel prices can have a significant impact on the Company’s income. Items affecting volatility in diesel prices include, but are not limited to, fluctuations in world markets for crude oil and distillate fuels, which can be affected by supply disruptions and geopolitical events.

The impact of variable fuel expense is mitigated substantially through fuel cost recovery programs which apportion incremental changes in fuel prices to shippers through price indices, tariffs, and by contract, within agreed upon guidelines. While these programs provide effective and meaningful coverage, residual exposure remains as the fuel expense risk may not be completely recovered from shippers due to timing and volatility in the market. In the past, to address the residual portion of CP’s fuel costs not mitigated by its fuel cost recovery programs, CP had a systematic hedge program. As a result of improving coverage from its fuel cost recovery programs, CP exited its hedging program during the first quarter of 2013.

Energy futures

During the first quarter ended March 31, 2013, the Company settled its remaining diesel futures contracts, accounted for as cash flow hedges, to purchase 20 million U.S. gallons during 2013 for proceeds of $2 million.

During the twelve months ended December 31, 2013, the impact of settled swaps decreased “Fuel” expense by $2 million, as a result of realized gains on diesel swaps (2012 – realized gains $1 million; 2011 – realized gains $8 million).

At December 31, 2013, the Company had no outstanding diesel futures contracts. At December 31, 2012, the unrealized loss on these contracts was negligible.

Stock-based compensation expense management

Total return swaps (“TRS”)

The Company is exposed to stock-based compensation risk, which is the probability of increased compensation expense when the Company’s share price rises.

The TRS was a derivative that provided a gain to offset increased compensation expense as the share price increased and a loss to offset reduced compensation expense when the share price declined. If stock-based compensation share units fall out of the money after entering the program, the loss associated with the swap would no longer be fully offset by the compensation expense reductions, which would reduce the effectiveness of the swap. This derivative was not designated as a hedge and changes in fair value were recognized in net income in the period in which the change occurred.

At December 31, 2013 and December 31, 2012, the Company had no share units remaining in the TRS.

During 2012, the Company exited the TRS program and unwound 0.6 million of its remaining share units for proceeds of $3 million. During the same period of 2011, the program was reduced by 0.5 million share units at minimal cost.

“Compensation and benefits” expense on the Company’s Consolidated Statements of Income included a net gain on these swaps of $6 million in 2012 (2011 – $3 million). There was no impact to “Compensation and benefits” expense in 2013.

Table of Contents

20 Other long-term liabilities

(in millions of Canadian dollars)	**2013**	2012
Provision for environmental remediation, net of current portion(1)	**$ 76**	$ 77
Provision for restructuring, net of current portion(2) (Note 4)	**21**	27
Deferred gains on sale leaseback transactions	**31**	34
Deferred revenue on rights-of-way license agreements, net of current portion	**31**	33
Stock-based compensation liabilities, net of current portion	**69**	26
Asset retirement obligations (Note 21)	**24**	23
Deferred retirement compensation (Note 28)	**16**	16
Other, net of current portion	**70**	70
Total other long-term liabilities	**$ 338**	$ 306

(1) As at December 31, 2013, the aggregate provision for environmental remediation, including the current portion was $90 million (2012 – $89 million).

(2) As at December 31, 2013, the aggregate provision for restructuring, including the current portion was $50 million (2012 – $89 million).

The deferred revenue on rights-of-way license agreements, and deferred gains on sale leaseback transactions are being amortized to income on a straight-line basis over the related lease terms. Deferred income credits are being amortized over the life of the related asset.

Environmental remediation accruals

Environmental remediation accruals cover site-specific remediation programs. Environmental remediation accruals are measured on an undiscounted basis and are recorded when the costs to remediate are probable and reasonably estimable. The estimate of the probable costs to be incurred in the remediation of properties contaminated by past railway use reflects the nature of contamination at individual sites according to typical activities and scale of operations conducted. CP has developed remediation strategies for each property based on the nature and extent of the contamination, as well as the location of the property and surrounding areas that may be adversely affected by the presence of contaminants, considering available technologies, treatment and disposal facilities and the acceptability of site-specific plans based on the local regulatory environment. Site-specific plans range from containment and risk management of the contaminants through to the removal and treatment of the contaminants and affected soils and ground water. The details of the estimates reflect the environmental liability at each property. Provisions for environmental remediation costs are recorded in “Other long-term liabilities”, except for the current portion which is recorded in “Accounts payable and accrued liabilities”. Payments are expected to be made over ten years to 2023.

The accruals for environmental remediation represent CP’s best estimate of its probable future obligation and include both asserted and unasserted claims, without reduction for anticipated recoveries from third parties. Although the recorded accruals include CP’s best estimate of all probable costs, CP’s total environmental remediation costs cannot be predicted with certainty. Accruals for environmental remediation may change from time to time as new information about previously untested sites becomes known, environmental laws and regulations evolve and advances are made in environmental remediation technology. The accruals may also vary as the courts decide legal proceedings against outside parties responsible for contamination. These potential charges, which cannot be quantified at this time, may materially affect income in the particular period in which a charge is recognized. Costs related to existing, but as yet unknown, or future contamination will be accrued in the period in which they become probable and reasonably estimable. Changes to costs are reflected as changes to “Other long-term liabilities” or “Accounts payable and accrued liabilities” on the Consolidated Balance Sheets and to “Purchased services and other” within operating expenses on the Consolidated Statements of Income. The amount charged to income in 2013 was $6 million (2012 – $4 million; 2011 – $3 million).

21 Asset retirement obligations

Asset retirement obligations are recorded in “Other long-term liabilities”. The majority of these liabilities are discounted at 6.25%. Accretion expense is included in “Depreciation and amortization” on the Consolidated Statements of Income.

(in millions of Canadian dollars)	**2013**	2012
Opening balance, January 1	**$ 23**	$ 23
Accretion	**1**	1
Liabilities settled	**–**	(1)
Closing balance, December 31	**$ 24**	$ 23

Upon the ultimate retirement of grain-dependent branch lines, the Company has to pay a fee, levied under the *Canada Transportation Act*, of $30,000 per mile of abandoned track. The undiscounted amount of the liability was $39 million at December 31, 2013 (2012 – $39 million), which, when present valued, was $21 million at December 31, 2013 (2012 – $20 million). The payments are expected to be made in the 2014 – 2044 period.

Table of Contents

The Company also has a liability on a joint facility that will have to be settled upon retirement based on a proportion of use during the life of the asset. The estimate of the obligation at December 31, 2013, was $20 million (2012 – $19 million), which, when present valued, was $3 million at December 31, 2013 (2012 – $3 million). For purposes of estimating this liability, the payment related to the retirement of the joint facility is anticipated to be made in 31 years.

22 Shareholders' equity

Authorized and issued share capital

The Company is authorized to issue an unlimited number of Common Shares, an unlimited number of First Preferred Shares and unlimited number of Second Preferred Shares. At December 31, 2013, no First or Second Preferred Shares had been issued.

An analysis of Common Share balances is as follows:

(number of shares in millions)	**2013**	2012	2011
Share capital, January 1	**173.9**	170.0	169.2
Shares issued under stock option plans	**1.5**	3.9	0.8
Share capital, December 31	**175.4**	173.9	170.0

The change in the "Share capital" balances includes $5 million (2012 – $6 million; 2011 – $1 million) related to the cancellation of the TSARs liability on exercise of tandem stock options, and $24 million (2012 – $70 million; 2011 – $11 million) of stock-based compensation transferred from "Additional paid-in capital".

23 Pensions and other benefits

The Company has both defined benefit ("DB") and defined contribution ("DC") pension plans. At December 31, 2013, the Canadian pension plans represent approximately 99% of total combined pension plan assets and approximately 98% of total combined pension plan obligations.

The DB plans provide for pensions based principally on years of service and compensation rates near retirement. Pensions for Canadian pensioners are partially indexed to inflation. Annual employer contributions to the DB plans, which are actuarially determined, are made on the basis of being not less than the minimum amounts required by federal pension supervisory authorities.

CP reached agreements with all of the unions which it had been bargaining with in Canada in 2012. The new agreements introduced amendments to pension plans. Among other changes, the amendments established a cap on pension for each year of pensionable service, including a cap on some non-union employees' pensions. Under the amendments, plan participants will continue to earn additional pensionable years of service as before, but with a dollar limit on the pension amount for each year earned. Plan amendments resulting from collective bargaining are accounted for in the periods the new agreements are ratified. The plan amendments resulting from the December 2012 arbitration award were contingent on CP making plan amendments for non-union employees, and consequently were accounted for in the period CP made such amendments. As a result of the plan amendments, the projected benefit obligation decreased by $135 million from December 31, 2012, with a corresponding increase to "Other comprehensive income" and a reduction of "Accumulated other comprehensive loss" as prior service credits. The prior service credits are recognized in net periodic pension expense over the remaining terms of the applicable union agreements (averaging approximately two years), and over the expected average remaining service life of non-union employees.

The Company has other benefit plans including post-retirement health and life insurance for pensioners, and post-employment long-term disability and workers' compensation benefits, which are based on Company-specific claims. At December 31, 2013, the Canadian other benefits plans represent approximately 96% of total combined other plan obligations.

The Finance Committee of the Board of Directors has approved an investment policy that establishes long-term asset mix targets which take into account the Company's expected risk tolerances. Pension plan assets are managed by a suite of independent investment managers, with the allocation by manager reflecting these asset mix targets. Most of the assets are actively managed with the objective of outperforming applicable benchmarks. In accordance with the investment policy, derivative instruments may be used to hedge or adjust existing or anticipated exposures. At December 31, 2013, derivatives were primarily being used to partially hedge foreign currency exposures.

To develop the expected long-term rate of return assumption used in the calculation of net periodic benefit cost applicable to the market-related value of assets, the Company considers the expected composition of the plans' assets, past experience and future estimates of long-term investment returns. Future estimates of investment returns reflect the expected annual yield on applicable fixed income capital market indices, and the long-term return expectation for public equity, real estate, infrastructure and absolute return investments and the expected added value (relative to applicable benchmark indices) from active management of pension fund assets.

The Company has elected to use a market-related value of assets for the purpose of calculating net periodic benefit cost, developed from a five-year average of market values for the plans' public equity and absolute return investments (with each prior year's market value adjusted to the current date for assumed investment income during the intervening period) plus the market value of the plans' fixed income, real estate and infrastructure securities.

The benefit obligation is discounted using a discount rate that is a blended interest rate for a portfolio of high-quality corporate debt instruments with matching cash flows. The discount rate is determined by management with the aid of third-party actuaries.

Table of Contents

The elements of net periodic benefit cost for DB pension plans and other benefits recognized in the year included the following components:

	Pensions			Other benefits		
(in millions of Canadian dollars)	**2013**	2012	2011	**2013**	2012	2011
Current service cost (benefits earned by employees in the year)	**$ 135**	$ 131	$ 105	**$ 16**	$ 19	$ 17
Interest cost on benefit obligation	**445**	452	460	**21**	24	26
Expected return on fund assets	**(746)**	(752)	(674)	**–**	–	(1)
Recognized net actuarial loss (gain)	**267**	208	142	**(11)**	3	8
Amortization of prior service costs	**(58)**	2	13	**–**	–	(1)
Net periodic benefit cost	**$ 43**	$ 41	$ 46	**$ 26**	$ 46	$ 49

Information about the Company's DB pension plans and other benefits, in aggregate, is as follows:

	Pensions		Other benefits	
(in millions of Canadian dollars)	**2013**	2012	**2013**	2012
Change in projected benefit obligation:				
Benefit obligation at January 1	**$ 10,647**	$ 10,099	**$ 535**	$ 536
Current service cost	**135**	131	**16**	19
Interest cost	**445**	452	**21**	24
Employee contributions	**50**	58	**–**	–
Benefits paid	**(602)**	(525)	**(33)**	(35)
Foreign currency changes	**13**	(4)	**2**	(1)
Plan amendments and other	**(135)**	(11)	**–**	–
Actuarial (gain) loss	**(632)**	447	**(58)**	(8)
Projected benefit obligation at December 31	**$ 9,921**	$ 10,647	**$ 483**	$ 535
Change in fund assets:				
Fair value of fund assets at January 1	**$ 9,763**	$ 9,215	**$ 9**	$ 11
Actual return on fund assets	**1,404**	916	**–**	(1)
Employer contributions	**98**	102	**32**	34
Employee contributions	**50**	58	**–**	–
Benefits paid	**(602)**	(525)	**(33)**	(35)
Foreign currency changes	**9**	(3)	**–**	–
Fair value of fund assets at December 31	**$ 10,722**	$ 9,763	**$ 8**	$ 9
Funded status – plan surplus (deficit)	**$ 801**	$ (884)	**$ (475)**	$ (526)

	2013		2012	
	Pension plans in surplus	**Pension plans in deficit**	Pension plans in surplus	Pension plans in deficit
Projected benefit obligation at December 31	**$ (9,533)**	**$ (388)**	$ –	$ (10,647)
Fair value of fund assets at December 31	**10,561**	**161**	–	9,763
Funded status	**$ 1,028**	**$ (227)**	$ –	$ (884)

All Other benefits plans were in a deficit position at December 31, 2013 and 2012.

Amounts recognized in the Company's Consolidated Balance Sheet are as follows:

	Pensions		Other benefits	
(in millions of Canadian dollars)	**2013**	2012	**2013**	2012
Pension asset	**$ 1,028**	$ –	**$ –**	$ –
Accounts payable and accrued liabilities	**(9)**	(8)	**(36)**	(36)
Pension and other benefit liabilities	**(218)**	(876)	**(439)**	(490)
Total amount recognized	**$ 801**	$ (884)	**$ (475)**	$ (526)

Table of Contents

The defined benefit pension plans' accumulated benefit obligation as at December 31, 2013 was $9,578 million (2012 – $10,122 million). The accumulated benefit obligation is calculated on a basis similar to the projected benefit obligation, except no future salary increases are assumed in the projection of future benefits.

The measurement date used to determine the plan assets and the accrued benefit obligation is December 31. The most recent actuarial valuation for pension funding purposes for the Company's main Canadian pension plan was performed as at January 1, 2013. During 2014, the Company expects to file a new valuation with the pension regulator.

Amounts recognized in accumulated other comprehensive loss are as follows:

	Pensions		Other benefits	
(in millions of Canadian dollars)	**2013**	2012	**2013**	2012
Net actuarial loss:				
Other than deferred investment losses	**$ 2,982**	$ 3,761	**$ 61**	$ 108
Deferred investment (gains) losses	**(738)**	40	**–**	–
Prior service cost	**(88)**	(11)	**5**	5
Deferred income tax	**(613)**	(1,045)	**(16)**	(30)
Total (Note 9)	**$ 1,543**	$ 2,745	**$ 50**	$ 83

The unamortized actuarial loss and the unamortized prior service cost included in "Accumulated other comprehensive loss" that are expected to be recognized in net periodic benefit cost during 2014 are $190 million and a recovery of $68 million, respectively, for pensions and $2 million and $nil, respectively, for other post-retirement benefits.

Weighted-average actuarial assumptions used were approximately:

(percentages)	**2013**	2012	2011
Benefit obligation at December 31:			
Discount rate	**4.90**	4.28	4.55
Projected future salary increases	**3.00**	3.00	3.00
Health care cost trend rate	**8.00**(1)	8.00(1)	8.00(1)
Benefit cost for year ended December 31:			
Discount rate	**4.28**	4.55	5.20
Expected rate of return on fund assets	**7.75**	7.75	7.75
Projected future salary increases	**3.00**	3.00	3.00
Health care cost trend rate	**8.00**(1)	8.00(1)	8.00(2)

(1) The health care cost trend rate is assumed to be 7.5% in 2014 (8.0% in 2013), and then decreasing by 0.5% per year to an ultimate rate of 5.0% per year in 2019 and thereafter.
(2) The health care cost trend rate was previously projected to decrease by 0.5% per year to approximately 5.0% per year in 2017.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

(in millions of Canadian dollars) Favourable (unfavourable)	**One percentage point increase**	**One percentage point decrease**
Effect on the total of service and interest costs	–	–
Effect on post-retirement benefit obligation	(7)	6

Plan assets

Plan assets are recorded at fair value. The major asset categories are public equity securities, debt securities, and real estate, infrastructure and absolute return investments. The fair values of the public equity and debt securities are primarily based on quoted market prices. Real estate values are based on annual valuations performed by external parties, taking into account current market conditions and recent sales transactions where practical and appropriate. Infrastructure values are based on the fair value of each fund's assets as calculated by the fund manager, generally using a discounted cash flow analysis that takes into account current market conditions and recent sales transactions where practical and appropriate. Absolute return investments are a portfolio of units of externally managed hedge funds, which are valued by the fund administrators.

Table of Contents

The Company's pension plan asset allocation, the current weighted average asset allocation targets and the current weighted average policy range for each major asset class, were as follows:

Asset allocation (percentage)	**Current asset allocation target**	**Current policy range**	**Percentage of plan assets at December 31**	
			2013	2012
Cash and cash equivalents	0.5	0 – 5	**4.1**	0.8
Fixed income	29.5	20 – 40	**20.6**	41.9
Public equity	46.0	35 – 50	**49.6**	45.9
Real estate and infrastructure	12.0	8 – 20	**10.8**	11.4
Absolute return	12.0	0 – 18	**14.9**	–
Total	100.0		**100.0**	100.0

The following is a summary of the assets of the Company's DB pension plans at fair values at December 31, 2013 and a comparative summary at December 31, 2012:

(in millions of Canadian dollars)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
December 31, 2013				
Cash and cash equivalents	**$ 155**	**$ 282**	**$ –**	**$ 437**
Government bonds(1)	**–**	**1,314**	**–**	**1,314**
Corporate bonds(1)	**–**	**849**	**–**	**849**
Mortgages(1)	**–**	**52**	**–**	**52**
Public equities				
• Canada	**1,304**	**37**	**–**	**1,341**
• U.S. and international	**3,979**	**20**	**–**	**3,999**
Real estate(2)	**–**	**–**	**847**	**847**
Infrastructure(2)	**–**	**–**	**314**	**314**
Absolute return(3)				
• Funds of hedge funds	**–**	**–**	**563**	**563**
• Multi-strategy funds	**–**	**–**	**403**	**403**
• Credit funds	**–**	**–**	**434**	**434**
• Equity funds	**–**	**–**	**193**	**193**
Derivative liabilities(4)	**–**	**(24)**	**–**	**(24)**
	$ 5,438	**$ 2,530**	**$ 2,754**	**$ 10,722**
December 31, 2012				
Cash and cash equivalents	$ 70	$ 7	$ –	$ 77
Government bonds(1)	–	2,810	–	2,810
Corporate bonds(1)	–	1,249	–	1,249
Mortgages(1)	–	34	–	34
Public equities				
• Canada	1,130	28	–	1,158
• U.S. and international	3,316	13	–	3,329
Real estate(2)	–	–	779	779
Infrastructure(2)	–	–	333	333
Absolute return(3)	–	–	–	–
Derivative liabilities(4)	–	(6)	–	(6)
	$ 4,516	$ 4,135	$ 1,112	$ 9,763

Table of Contents

(1) Government & Corporate Bonds:
Fair values for bonds are based on market prices supplied by independent pricing sources as of the last trading day.

Mortgages: The fair value measurement of $52 million (2012 – $34 million) of mortgages categorized as Level 2 is based on current market yields of financial instruments of similar maturity, coupon and risk factors.

(2) Real Estate:
The fair value of real estate investments of $847 million (2012 – $779 million) is based on property appraisals which use a number of approaches that typically include a discounted cash flow analysis, a direct capitalization income method and/or a direct comparison approach. Appraisals of real estate investments are generally performed semi-annually by qualified external accredited appraisers. There are no unfunded commitments for real estate as at December 31, 2013.

Infrastructure:
Infrastructure fund values of $314 million (2012 – $333 million) are based on the fair value of the fund assets as calculated by the fund manager, generally using a discounted cash flow analysis that takes into account current market conditions and recent sales transactions where practical and appropriate. As at December 31, 2013, unfunded commitments for the infrastructure funds were $23 million (2012 – $24 million).

(3) Absolute Return:
The fair value of absolute return investments is based on the net asset value reported by the fund administrators. The funds have different redemption policies and periods. All hedge fund investments have contractual redemption frequencies, ranging from monthly to tri-annually, and redemption notice periods varying from 30 to 95 days. Hedge fund investments that have redemption dates less frequent than every four months or have restrictions on contractual redemption features at the reporting date are classified as Level 3. There are no unfunded commitments for absolute return fund investments as at December 31, 2013.

- Funds of hedge funds invest in a portfolio of hedge funds that allocate capital across a broad array of funds and/or investment managers.
- Multi-strategy funds include funds that invest in broadly diversified portfolios of equity, fixed income and derivative instruments.
- Credit funds invest in an array of fixed income securities.
- Equity funds invest primarily in U.S. and global equity securities.

(4) At December 31, 2013, derivatives were primarily being used to partially hedge foreign currency exposures. The Company's pension funds may utilize the following derivative instruments: equity futures to replicate equity index returns (Level 2); currency forwards to partially hedge foreign currency exposures (Level 2); bond forwards to reduce asset/liability interest rate risk exposures (Level 2); interest rate swaps to manage duration and interest rate risk (Level 2); credit default swaps to manage credit risk (Level 2); and options to manage interest rate risk and volatility (Level 2).

During 2012 and 2013, the portion of the assets of the Company's DB pension plans measured at fair value using unobservable inputs (Level 3) changed as follows:

(in millions of Canadian dollars)	Mortgages	Real Estate	Infrastructure	Absolute Return	Total
As at January 1, 2012	$ 4	$ 691	$ 294	$ –	$ 989
Contributions	–	39	27	–	66
Disbursements	(1)	(36)	–	–	(37)
Net transfer out of Level 3	(3)	–	–	–	(3)
Net realized gains	–	19	–	–	19
Increase in net unrealized gains	–	66	12	–	78
As at December 31, 2012	$ –	$ 779	$ 333	$ –	$ 1,112
Contributions	–	–	–	1,500	1,500
Disbursements	–	(22)	(42)	–	(64)
Net realized gains	–	22	3	(2)	23
Increase in net unrealized gains	–	68	20	95	183
As at December 31, 2013	**$ –**	**$ 847**	**$ 314**	**$ 1,593**	**$ 2,754**

Level 3 fair value measurements for absolute return, real estate and infrastructure investments are based on the net asset value reported by the fund administrator, property appraisals and discounted cash flow analysis, of which there are no reasonable alternative assumptions. Therefore it is not practicable to provide a sensitivity analysis.

The Company's expected long-term target return is 7.75%, net of all fees and expenses. In identifying the asset allocation ranges, consideration was given to the long-term nature of the underlying plan liabilities, the solvency and going-concern financial position of the plan, long-term return expectations and the risks associated with key asset classes as well as the relationships of returns on key asset classes with each other, inflation and interest rates. When advantageous and with due consideration, derivative instruments may be utilized, provided the total value of the underlying assets represented by financial derivatives, excluding currency forwards, is limited to 30% of the market value of the fund.

Table of Contents

When investing in foreign securities, the plans are exposed to foreign currency risk; the effect of which is included in the valuation of the foreign securities. Net of the above hedging, the plans were 24% exposed to the U.S. dollar, 5% exposed to European currencies, and 5% exposed to various other currencies, as at December 31, 2013.

At December 31, 2013, fund assets consisted primarily of listed stocks and bonds, including 129,444 of the Company's Common Shares (2012 – $nil) at a market value of $21 million (2012 – $nil) and 6.25% Unsecured Notes issued by the Company at a par value of $2 million (2012 – $2 million) and a market value of $2 million (2012 – $2 million). At December 31, 2012, the fund assets also held 6.91% Secured Equipment Notes issued by the Company at a par value of $2 million and a market value of $3 million.

Cash flows

In 2013, the Company contributed $105 million to its pension plans (2012 – $107 million; 2011 – $698 million), including $7 million to the DC plans (2012 – $5 million; 2011 – $5 million), $86 million to the Canadian registered and U.S. qualified DB pension plans (2012 – $89 million; 2011 – $696 million), and $12 million to the Canadian non-registered supplemental pension plan (2012 – $13 million contribution; 2011 – $3 million net refund). Contributions to the main Canadian registered DB plan included voluntary prepayments of $600 million in 2011. In addition, the Company made payments directly to employees, their beneficiaries or estates or to third-party benefit administrators of $32 million in 2013 (2012 – $35 million; 2011 – $35 million) with respect to other benefits.

Estimated future benefit payments

The estimated future defined benefit pension and other benefit payments to be paid by the plans for each of the next five years and the subsequent five-year period are as follows:

(in millions of Canadian dollars)	Pensions	Other benefits
2014	$ 535	$ 37
2015	554	37
2016	572	37
2017	590	37
2018	607	36
2019 – 2023	3,216	175

The benefit payments from the Canadian registered and U.S. qualified DB pension plans are payable from their respective pension funds. Benefit payments from the supplemental pension plan and from the other benefits plans are payable directly from the Company.

Defined contribution plan

Canadian non-unionized employees hired prior to July 1, 2010 had the option to participate in the Canadian DC plan. All Canadian non-unionized employees hired after such date must participate in this plan. Employee contributions are based on a percentage of salary. The Company matches employee contributions to a maximum percentage each year.

Effective July 1, 2010, a new U.S. DC plan was established. All U.S. non-unionized employees hired after such date must participate in this plan. Employees do not contribute to the plan. The Company annually contributes a percentage of salary.

The DC plans provide a pension based on total employee and employer contributions plus investment income earned on those contributions.

In 2013, the net cost of the DC plans, which generally equals the employer's required contribution, was $7 million (2012 – $5 million; 2011 – $5 million).

Contributions to multi-employer plans

Some of the Company's unionized employees in the U.S. are members of a U.S. national multi-employer benefit plan. Contributions made by the Company to this plan in 2013 in respect of post-retirement medical benefits were $5 million (2012 – $6 million; 2011 – $6 million).

24 Stock-based compensation

At December 31, 2013, the Company had several stock-based compensation plans, including stock option plans, various cash settled liability plans and an employee stock savings plan. These plans resulted in an expense in 2013 of $92 million (2012 – $64 million; 2011 – $43 million).

Accelerated vesting due to changes in the composition of the Board of Directors

Most of the stock-based compensation plans include a provision whereby vesting is accelerated should certain changes in the composition of the Board of Directors occur. These provisions were triggered on June 26, 2012 and the recognition of the revised vesting terms as outlined in the stock-based compensation plans resulted in a credit to "Compensation and benefits" of $8 million in the second quarter of 2012. From February 28, 2012, accelerated vesting will only occur when the definition of change of control under the stock-based compensation plans is triggered and the holder of the award is terminated without cause.

Table of Contents

A. Stock Option Plans

Regular options and TSARs

With the granting of regular options, employees may be simultaneously granted TSARs equivalent to the number of regular options granted (stock options granted prior to January 2009 were simultaneously granted TSARs equivalent to one-half the regular options granted). The last issue of TSARs was in April 2010. A TSAR entitles the holder to receive payment of an amount equal to the excess of the market value of a Common Share at the exercise date of the TSAR over the related option exercise price. The liability for TSARs is recognized and measured at its fair value. Pursuant to the employee plans, regular options and TSARs vest between 12 and 48 months after the grant date, and will expire after 10 years. Certain of these options granted are only exercisable after employment is terminated.

Where an option granted is a tandem award, the holder can choose to exercise an option or a TSAR of equal intrinsic value.

As a result of changes to Canadian tax legislation, which eliminated the favourable tax treatment on cash settled compensation awards, the Company offered employees the option of cancelling the outstanding SAR and keeping in place the outstanding option. During 2011, the Company cancelled 3.5 million SARs and reclassified the fair value of the previously recognized liability ($75 million) and the recognized deferred tax asset ($18 million) to "Additional paid-in capital". The terms of the awards were not changes and as a result no incremental cost was recognized. The weighted-average fair value of the units cancelled was $23.75.

Summary of options

The following table summarizes the Company's fixed stock option plans (that do not have a TSAR attached to them) as of December 31:

	Options outstanding		Nonvested options	
	Number of options	Weighted average exercise price	Number of options	Weighted average grant date fair value
Outstanding, January 1, 2013	4,226,641	$ 63.69	1,428,596	$ 20.70
New options granted	576,430	124.18	576,430	35.40
Exercised	(1,406,818)	55.06	N/A	N/A
Vested	N/A	N/A	(235,960)	21.14
Forfeited	(20,737)	105.25	(20,387)	29.31
Expired	(15,033)	105.89	(14,833)	29.00
Outstanding at December 31, 2013	3,360,483	77.15	1,733,846	25.35
Vested or expected to vest at December 31, 2013[(1)]	3,347,274	$ 77.04	N/A	N/A
Exercisable at December 31, 2013	1,626,637	$ 60.43	N/A	N/A

[(1)] As at December 31, 2013, the weighted-average remaining term of vested or expected to vest options was 6.8 years with an aggregate intrinsic value of $280 million.

The following table provides the number of stock options outstanding and exercisable as at December 31, 2013 by range of exercise price and their related intrinsic aggregate value, and for options outstanding, the weighted-average years to expiration. The table also provides the aggregate intrinsic value for in-the-money stock options, which represents the amount that would have been received by option holders had they exercised their options on December 31, 2013 at the Company's closing stock price of $160.65.

	Options outstanding				Options exercisable		
Range of exercise prices	Number of options	Weighted average years to expiration	Weighted average exercise price	Aggregate intrinsic value (millions)	Number of options	Weighted average exercise price	Aggregate intrinsic value (millions)
$32.50 – $65.47	1,130,230	4.2	$ 54.05	$ 120	1,130,230	$ 54.05	$ 120
$65.48 – $74.93	920,400	7.1	72.82	81	431,400	72.18	38
$74.94 – $159.62	1,309,853	8.1	100.11	79	65,007	93.47	4
Total[(1)]	3,360,483	6.5	$ 77.15	$ 280	1,626,637	$ 60.43	$ 162

[(1)] As at December 31, 2013, the total number of in-the-money stock options outstanding was 3,360,483 with a weighted-average exercise price of $77.15. The weighted-average years to expiration of exercisable stock options is 4.7 years.

Table of Contents

Under the fair value method, the fair value of options at the grant date was approximately $20 million for options issued in 2013 (2012 – $28 million; 2011 – $12 million). The weighted-average fair value assumptions were approximately:

	2013	2012	2011
Expected option life (years)[(1)]	**6.25**	6.03	6.30
Risk-free interest rate[(2)]	**1.60%**	1.47%	2.79%
Expected stock price volatility[(3)]	**30%**	31%	31%
Expected annual dividends per share[(4)]	**$ 1.40**	$ 1.40	$ 1.20
Estimated forfeiture rate[(5)]	**1.2%**	1.2%	0.7%
Weighted average grant date fair value of options granted during the year	**$ 35.40**	$ 19.04	$ 19.44

(1) Represents the period of time that awards are expected to be outstanding. Historical data on exercise behaviour or, when available, specific expectations regarding future exercise behaviour were used to estimate the expected life of the option.
(2) Based on the implied yield available on zero-coupon government issues with an equivalent remaining term at the time of the grant.
(3) Based on the historical stock price volatility of the Company's stock over a period commensurate with the expected term of the option.
(4) Determined by the current annual dividend at the time of grant. The Company does not employ different dividend yields throughout the contractual term of the option.
(5) The Company estimated forfeitures based on past experience. The rate is monitored on a periodic basis.

Certain of the Company's stock option plans are subject to post-vesting restrictions prior to expiry. The discount for these restrictions resulted in a reduction of the fair value at grant date of options issued in 2012 of $2 million. This discount was estimated using the fair value of put options that, together with the granted call options, mimicked the characteristics of the post-vesting restriction. The post-vesting restrictions do not relate to grants in 2013.

In 2013, the expense for stock options (regular and performance) was $17 million (2012 –$24 million; 2011 –$15 million). At December 31, 2013, there was $17 million of total unrecognized compensation related to stock options which is expected to be recognized over a weighted-average period of approximately 2.2 years.

At December 31, 2013, there were 2,426,425 (2012 – 2,728,685; 2011 – 3,459,831) Common Shares available for the granting of future options under the stock option plans, out of the 18,966,842 (2012 – 18,728,642; 2011 – 15,578,642) Common Shares currently authorized for issuance.

Summary of TSARs

The following table summarizes information related to the Company's TSARs as of December 31:

	TSARs outstanding	
	Number of TSARs	Weighted average exercise price
Outstanding, January 1, 2013	168,075	$ 53.28
Exercised as TSARs	(350)	54.75
Exercised as Options	(104,305)	52.94
Vested	N/A	N/A
Expired	(200)	31.45
Outstanding at December 31, 2013	63,220	$ 53.89
Vested at December 31, 2013[(1)]	63,220	$ 53.89
Exercisable at December 31, 2013	63,220	$ 53.89

(1) As at December 31, 2013, the weighted average remaining term of vested TSARs was 2.3 years with an aggregate intrinsic value of $7 million. As at December 31, 2012, all TSARs outstanding were vested.

Table of Contents

The following table provides the number of TSARs outstanding and exercisable as at December 31, 2013 by range of exercise price and their related intrinsic value, and for TSARs outstanding, the weighted-average years to expiration. The table also provides the aggregate intrinsic value for in-the-money TSARs, which represents the amount that would have been received by TSAR holders had they exercised their TSAR on December 31, 2013 at the Company's closing stock price of $160.65.

	TSARs outstanding				TSARs exercisable		
Range of exercise prices	Number of TSARs	Weighted average years to expiration	Weighted average exercise price	Aggregate intrinsic value (millions)	Number of TSARs	Weighted average exercise price	Aggregate intrinsic value (millions)
$32.50 – $49.88	25,095	0.8	$ 39.06	$ 3	25,095	$ 39.06	$ 3
$49.89 – $60.13	14,825	1.9	57.70	2	14,825	57.70	2
$60.14 – $71.69	23,300	3.6	67.43	2	23,300	67.43	2
Total(1)	63,220	2.1	$ 53.89	$ 7	63,220	$ 53.89	$ 7

(1) As at December 31, 2013, the total number of in-the-money TSARs outstanding was 63,220 with a weighted-average exercise price of $53.89. The weighted-average years to expiration of exercisable TSARs is 2.10 years.

In 2013, the expense for TSARs was $6 million (2012 – $7 million; 2011 – $4 million).

Summary of stock option plans

The following table refers to the total fair value of shares vested for all stock option plans (including TSARs) during the years ended December 31:

(in millions of Canadian dollars)	**2013**	2012	2011
Regular stock option plan	**$ 5**	$ 33	$ 8
TSARs	**–**	1	1
Total	**$ 5**	$ 34	$ 9

The following table provides information related to all options exercised in the stock option plans during the years ended December 31:

(in millions of Canadian dollars)	**2013**	2012	2011
Total intrinsic value	**$ 103**	$ 118	$ 17
Cash received by the Company upon exercise of options	**83**	198	29

B. Other Share-based Plans

Performance share unit ("PSU") plan

During 2013, the Company issued 206,405 PSUs. These units attract dividend equivalents in the form of additional units based on the dividends paid on the Company's Common Shares. PSUs vest and are settled in cash, or in CP common shares approximately three years after the grant date, contingent upon CP's performance (performance factor). The fair value of PSUs is measured, both on the grant date and each subsequent quarter until settlement, using a Monte Carlo simulation model. The model utilizes multiple input variables that determine the probability of satisfying the performance and market conditions stipulated in the grant.

In the second quarter of 2012, changes to the Board resulted in the immediate vesting of a pro-rata portion of all unvested PSUs. The number of units that vested was based on the number of months of the total performance period that had passed and the fair value of the units to be settled was based on the average closing price of the 30 trading days prior to June 26, 2012. The payout of $31 million occurred in the third quarter of 2012.

The performance period for the PSUs issued in the fourth quarter of 2012 and in 2013 is January 1, 2013 to December 31, 2015. The performance factors for these PSUs are Operating ratio, Free cash flow, Total Shareholder Return ("TSR") compared to the S&P/TSX60 index, and TSR compared to Class I railways.

The performance period for the first grant of PSUs issued in 2009 ended December 31, 2011. These PSUs were earned based on TSR compared to the S&P/TSX60 index, and Return on Capital Employed ("ROCE"). The TSR for the three-year period exceeded target, while ROCE targets were not met. The TSR component of the plan resulted in a total PSU payout equal to 200% for half of the award, in effect resulting in a target payout. The payout of $24 million occurred in March 2012 and was calculated using the Company's average share price during the last 30 trading days ending on December 31, 2011.

Table of Contents

The following table summarizes information related to the Company's PSUs as at December 31:

	2013	2012
Outstanding, January 1	**200,702**	930,311
Granted	**206,405**	479,372
Units, in lieu of dividends	**3,498**	2,143
Vested	**–**	(610,568)
Forfeited	**(60,680)**	(600,556)
Outstanding at December 31	**349,925**	200,702

Under the fair value method, the fair value of PSUs at the grant date was $26 million for PSUs issued in 2013 (2012 – $38 million; 2011 – $16 million).

In 2013, the expense for PSUs was $25 million (2012 – expense recovery of $1 million; 2011 – expense of $15 million). At December 31, 2013, there was $58 million of total unrecognized compensation related to PSUs which is expected to be recognized over a weighted-average period of approximately 2.0 years.

Deferred share unit plan

The Company established the DSU plan as a means to compensate and assist in attaining share ownership targets set for certain key employees and Directors. A DSU entitles the holder to receive, upon redemption, a cash payment equivalent to the market value of a Common Share at the redemption date. DSUs vest over various periods of up to 48 months and are only redeemable for a specified period after employment is terminated.

Senior Managers may elect to receive DSUs in lieu of cash payments for certain incentive programs. In addition, when acquiring common shares to meet ownership targets, Senior Managers were granted with a 25% company match of the amount elected. Beginning in 2013, the 25% company match now only applies to DSUs granted. The election to receive eligible payments in DSUs is no longer available to a participant when the value of the participant's DSUs is sufficient to meet the Company's stock ownership guidelines. Senior Managers have five years to meet their ownership targets.

An expense to income for DSUs is recognized over the vesting period for both the initial subscription price and the change in value between reporting periods.

The following table summarizes information related to the DSUs as of December 31:

	2013	2012
Outstanding, January 1	**357,740**	396,306
Granted	**76,035**	167,435
Units, in lieu of dividends	**4,145**	6,821
Forfeited	**(2,372)**	–
Redeemed	**(103,327)**	(212,822)
Outstanding, December 31	**332,221**	357,740

During 2013, the Company granted 76,035 DSUs with a grant date fair value of $10 million. In 2013, the expense for DSUs was $32 million (2012 – expense of $23 million; 2011 – expense of $5 million). At December 31, 2013, there was $6 million of total unrecognized compensation related to DSUs which is expected to be recognized over a weighted-average period of approximately 1.2 years.

Restricted share unit plan

The Company did not issue RSUs in 2013 (2012 – 113,408; 2011 – 64,470). The RSUs are notional full value shares that attract dividend equivalents in the form of additional units based on the dividends paid on the Company's Common Shares. RSUs have no performance factors attached to them and are subject to time vesting over various periods of up to 36 months. RSUs are settled in cash up to three years after the grant date. An expense to income for RSUs is recognized over the vesting period for both the initial subscription price and the change in value between reporting periods. In 2013, the expense for RSUs was $10 million (2012 – $7 million; 2011 – $nil). At December 31, 2013, there was $5 million of total unrecognized compensation related to RSUs which is expected to be recognized over a weighted-average period of approximately 1.0 years.

Table of Contents

The following table summarizes information related to the Company's RSUs as at December 31:

	2013	2012
Outstanding, January 1	**173,234**	64,470
Granted	**–**	113,408
Units, in lieu of dividends	**1,304**	1,639
Exercised	**(70,211)**	–
Forfeited	**(11,994)**	(6,283)
Outstanding, December 31	**92,333**	173,234

Summary of share based liabilities paid

The following table summarizes the total share based liabilities paid for each of the years ended December 31:

(in millions of Canadian dollars)	**2013**	2012	2011
Plan			
DSUs	**$ 17**	$ 19	$ 4
PSUs	**–**	55	–
RSUs	**9**	–	–
Total	**$ 26**	$ 74	$ 4

C. Employee share purchase plan

The Company has an employee share purchase plan whereby both employee and Company contributions are used to purchase shares on the open market for employees. The Company's contributions are expensed over the one-year vesting period. Under the plan, the Company matches $1 for every $3 contributed by employees up to a maximum employee contribution of 6% of annual salary.

The total number of shares purchased in 2013 on behalf of participants, including the Company contribution, was 271,934 (2012 – 445,951; 2011 – 630,480). In 2013, the Company's contributions totalled $5 million (2012 – $4 million; 2011 – $4 million) and the related expense was $5 million (2012 – $4 million; 2011 – $4 million).

25 Variable interest entities

The Company leases equipment from certain trusts, which have been determined to be variable interest entities financed by a combination of debt and equity provided by unrelated third parties. The lease agreements, which are classified as operating leases, have a fixed price purchase option which create the Company's variable interest and result in the trusts being considered variable interest entities.

Responsibility for maintaining and operating the leased assets according to specific contractual obligations outlined in the terms of the lease agreements and industry standards is the Company's. The rigor of the contractual terms of the lease agreements and industry standards are such that the Company has limited discretion over the maintenance activities associated with these assets. As such, the Company concluded these terms do not provide the Company with the power to direct the activities of the variable interest entities in a way that has a significant impact on the entities' economic performance.

The financial exposure to the Company as a result of its involvement with the variable interest entities is equal to the fixed lease payments due to the trusts. In 2013, lease payments after tax were $9 million. Future minimum lease payments, before tax, of $207 million will be payable over the next 17 years.

The Company does not guarantee the residual value of the assets to the lessor, however, it must deliver to the lessor the assets in good operating condition, subject to normal wear and tear, at the end of the lease term.

As the Company's actions and decisions do not significantly affect the variable interest entities' performance, and the Company's fixed price purchase option is not considered to be potentially significant to the variable interest entities, the Company is not considered to be the primary beneficiary, and does not consolidate these variable interest entities.

26 Commitments and contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions it considers to be adequate for such actions. While the final outcome with respect to actions outstanding or pending at December 31, 2013, cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

Table of Contents

On July 6, 2013, a train carrying crude oil operated by Montreal Maine and Atlantic Railway ("MM&A") derailed and exploded in Lac-Megantic, Quebec on a section of railway line owned by MM&A. The day before CP had interchanged the train to MM&A, but after the interchange MM&A exercised exclusive control over the train.

Following this incident, the Minister of Sustainable Development, Environment, Wildlife and Parks of Quebec issued an order directing named parties to recover the contaminants and to clean up and decontaminate the derailment site. CP was later added as a named party in the administrative action on August 14, 2013.

A class action lawsuit has also been filed in the Superior Court of Quebec on behalf of a class of persons and entities residing in, owning or leasing property in, operating a business in or physically present in Lac-Megantic. The lawsuit seeks damages caused by the derailment including for wrongful deaths, personal injuries, and property damages. CP was added as a defendant on August 16, 2013. In the wake of the derailment and ensuing litigation, MM&A filed for bankruptcy in Canada and the United States. At this early stage in the legal proceedings, any potential liability and the quantum of potential loss cannot be determined. Nevertheless, CP denies liability for MM&A's derailment and will vigorously defend itself in both proceedings or any proceeding that may be commenced in the future.

At December 31, 2013, the Company had committed to total future capital expenditures amounting to $569 million and operating expenditures relating to supplier purchase obligations, such as locomotive maintenance and overhaul agreements, as well as agreements to purchase other goods and services amounting to approximately $1.5 billion for the years 2014-2046, of which CP estimates approximately $0.8 billion will be incurred within the next 5 years.

As at December 31, 2013, the Company's commitments under operating leases were estimated at $684 million in aggregate, with minimum annual payments in each of the next five years and thereafter as follows:

(in millions of Canadian dollars)	Operating leases
2014	$ 121
2015	102
2016	85
2017	66
2018	54
Thereafter	256
Total minimum lease payments	$ 684

Expenses for operating leases for the year ended December 31, 2013 were $154 million (2012 – $182 million; 2011 – $161 million).

During the three months ended March 31, 2013, CP provided an interest free loan pursuant to a court order in the amount of $20 million to a corporation owned by a court appointed trustee to facilitate the acquisition of a building. The building will be held in trust until the resolution of legal proceedings with regard to CP's entitlement to an exercised purchase option of the building. If CP is successful in these proceedings, title to the building will transfer to CP with an additional payment of $20 million; otherwise the loan will be repaid.

27 Guarantees

In the normal course of operating the railway, the Company enters into contractual arrangements that involve providing certain guarantees, which extend over the term of the contracts. These guarantees include, but are not limited to:

- residual value guarantees on operating lease commitments of $159 million at December 31, 2013;
- guarantees to pay other parties in the event of the occurrence of specified events, including damage to equipment, in relation to assets used in the operation of the railway through operating leases, rental agreements, easements, trackage and interline agreements; and
- indemnifications of certain tax-related payments incurred by lessors and lenders.

The maximum amount that could be payable under these guarantees, excluding residual value guarantees, cannot be reasonably estimated due to the nature of certain of these guarantees. All or a portion of amounts paid under guarantees to other parties in the event of the occurrence of specified events could be recoverable from other parties or through insurance. The Company has accrued for all guarantees that it expects to pay. At December 31, 2013, these accruals amounted to $6 million (2012 – $6 million), recorded in "Accounts payable and accrued liabilities".

Indemnifications

Pursuant to a trust and custodial services agreement with the trustee of the Canadian Pacific Railway Company Pension Plan, the Company has undertaken to indemnify and save harmless the trustee, to the extent not paid by the fund, from any and all taxes, claims, liabilities, damages, costs and expenses arising out of the performance of the trustee's obligations under the agreement, except as a result of misconduct by the trustee. The indemnity includes liabilities, costs or expenses relating to any legal reporting or notification obligations of the trustee with respect to the defined

Table of Contents

contribution option of the pension plans or otherwise with respect to the assets of the pension plans that are not part of the fund. The indemnity survives the termination or expiry of the agreement with respect to claims and liabilities arising prior to the termination or expiry. At December 31, 2013, the Company had not recorded a liability associated with this indemnification, as it does not expect to make any payments pertaining to it.

28 Management transition

On May 17, 2012, following a proxy contest, Mr. Fred Green left his position as President and Chief Executive Officer of the Company. That same day, Mr. Stephen Tobias, a new Board member elected at the Company's annual shareholders meeting held on May 17, 2012, was appointed by the Board as Interim Chief Executive Officer and served in that role until June 28, 2012.

On June 28, 2012, Mr. E. Hunter Harrison was appointed by the Board as President and Chief Executive Officer. As a result of the appointment of Mr. Harrison, the Company recorded a charge of $38 million with respect to compensation and other transition costs, including $2 million of associated costs, in the second quarter of 2012. This charge was recorded in the Company's financial statements in "Compensation and benefits" and "Purchased services and other", in the amounts of $16 million and $22 million, respectively.

Included in this charge were amounts totalling $16 million in respect of deferred retirement compensation for Mr. Harrison and $20 million to Pershing Square Capital Management, L.P. ("Pershing Square") and related entities. In 2012, Pershing Square and related entities owned or controlled approximately 14% of the Company's outstanding shares, and two Board members, Mr. William Ackman and Mr. Paul Hilal, are partners of Pershing Square. The amount payable to Pershing Square and related entities was to reimburse them, on behalf of Mr. Harrison, for certain amounts they had previously paid to or incurred on behalf of Mr. Harrison pursuant to an indemnity in favour of Mr. Harrison in connection with losses suffered in legal proceedings commenced against Mr. Harrison by his former employer. The terms of Pershing Square's indemnity required Mr. Harrison to return any funds advanced under the indemnity in the event he accepted employment at CP. As a result, Mr. Harrison made it a precondition of accepting the Company's offer of employment that CP assumes the indemnity obligations and return the funds advanced by Pershing Square. As a result of the payment, the Company would have been entitled to enforce Mr. Harrison's rights in the aforementioned legal proceedings, allowing it to recover to the extent of Mr. Harrison's success in those proceedings; however on February 3, 2013 the Company and Mr. Harrison settled the legal proceedings with Mr. Harrison's former employer, providing the Company with partial recovery (US$9 million) of the amounts in the dispute. The Company may receive repayment in other circumstances in the event of certain breaches by Mr. Harrison of his obligations under an employment agreement with the Company. Mr. Harrison was also granted stock options and DSUs upon commencing employment that had a grant date fair value of $12 million (Note 24).

In addition, the Company agreed to indemnify Mr. Harrison for certain other amounts, to a maximum of $3 million plus legal fees, but as a result of the settlement of the aforementioned legal proceedings, such indemnity is no longer applicable. Accordingly, no amount was accrued at December 31, 2012.

The Company also recorded a charge of $4 million in the second quarter of 2012 with respect to a retirement allowance for Mr. Green.

On February 5, 2013, as part of its long-term succession plan, the Company appointed Mr. Keith Creel as President and Chief Operating Officer. In connection with this appointment, Mr. Harrison's title changed to Chief Executive Officer.

29 Segmented information

Operating segment

The Company operates in only one operating segment: rail transportation. Operating results by geographic areas, railway corridors or other lower level components or units of operation are not reviewed by the Company's chief operating decision maker to make decisions about the allocation of resources to, or the assessment of performance of, such geographic areas, corridors, components or units of operation.

In 2013, 2012 and 2011, no one customer comprised more than 10% of total revenues and accounts receivable.

Geographic information

(in millions of Canadian dollars)	Canada	United States	Total
2013			
Revenues	**$ 4,330**	**$ 1,803**	**$ 6,133**
Long-term assets excluding financial instruments, mortgages receivable and deferred tax assets	**$ 9,842**	**$ 4,237**	**$ 14,079**
2012			
Revenues	$ 4,095	$ 1,600	$ 5,695
Long-term assets excluding financial instruments, mortgages receivable and deferred tax assets	$ 9,138	$ 4,249	$ 13,387
2011			
Revenues	$ 3,766	$ 1,411	$ 5,177
Long-term assets excluding financial instruments, mortgages receivable and deferred tax assets	$ 8,854	$ 4,309	$ 13,163

Table of Contents

CANADIAN PACIFIC EXECUTIVE LEADERSHIP

L to R: **Michael Redeker,** *Vice-President, Chief Information Officer;* **Peter Edwards,** *Vice-President, Human Resources & Labour Relations;* **Mark Wallace,** *Vice-President, Corporate Affairs and Chief of Staff;* **E. Hunter Harrison,** *Chief Executive Officer;* **Jeff Kampsen,** *Vice-President and Comptroller;* **Bart W. Demosky,** *Executive Vice-President and Chief Financial Officer;* **Paul A. Guthrie,** *Chief Legal Officer and Corporate Secretary*

L to R: **Tony Marquis,** *Vice-President Operations, Eastern Region;* **Jane O'Hagan,** *Executive Vice-President and Chief Marketing Officer;* **Scott MacDonald,** *Senior Vice-President Operations (System);* **Keith Creel,** *President and Chief Operating Officer;* **Guido De Ciccio,** *Senior Vice-President Operations, Western Region;* **Robert Johnson,** *Vice-President Operations, Southern Region*

CANADIAN PACIFIC EXECUTIVE LEADERSHIP
L to R: Michael Redeker, Vice-President, Chief Information Officer; Peter Edwards, Vice-President, Human Resources & Labour Relations; Mark Wallace, Vice-President, Corporate Affairs and Chief of Staff; E. Hunter Harrison, Chief Executive Officer; Jeff Kampsen, Vice-President and Comptroller; Bart W. Demosky, Executive Vice-President and Chief Financial Officer; Paul A. Guthrie, Chief Legal Officer and Corporate Secretary
L to R: Tony Marquis, Vice-President Operations, Eastern Region; Jane O'Hagan, Executive Vice-President and Chief Marketing Officer; Scott MacDonald, Senior Vice-President Operations (System); Keith Creel, President and Chief Operating Officer; Guido De Ciccio, Senior Vice-President Operations, Western Region; Robert Johnson, Vice-President Operations, Southern Region

Table of Contents

Richard C. Kelly* (1)*(3)
Retired Chairman
and Chief Executive Officer
Xcel Energy, Inc.
Denver, Colorado

* Retiring May 1, 2014

Jim Prentice, P.C., Q.C. (2)(5)*
Senior Executive Vice-President
and Vice-Chairman
Canadian Imperial Bank
of Commerce
Calgary, Alberta

Krystyna T. Hoeg, C.A. (2)*(4)
Former President
and Chief Executive Officer
Corby Distilleries Limited
Corporate Director
Toronto, Ontario

Andrew F. Reardon (4)(5)*
Retired Chairman
and Chief Executive Officer, TTX
Corporate Director
Marco Island, Florida

Isabelle Courville (1)(5)*
Corporate Director
Montreal, Quebec

Paul C. Hilal (3)(4)*
Partner
Pershing Square Capital
Management, L.P.
New York, New York

Gary F. Colter (1)(3)
President
CRS Inc.
Mississauga, Ontario

CHAIRMAN'S MESSAGE

DEAR FELLOW SHAREHOLDERS:

It has been a year of extraordinary accomplishment for our company. Hunter Harrison and his team have done an outstanding job of delivering on the promise of a new, high-performing CP, both for customers and for you, our shareholders.

The Board of Directors and I could not be more pleased with the company's progress against the goals we established for 2016. Record 2013 performance in revenue, free cash flow and operating ratio has CP on track to achieve many of those goals well ahead of plan, and has us poised to become the new standard of leadership among North American railroads.

With President and COO Keith Creel, and the addition of Bart Demosky as CFO in December of 2013, the Board is highly confident that we have the right executive team in place to lead this company to 2016 and beyond. On behalf of the Board, I would like to commend that team for the leadership and clarity of vision they have displayed thus far in our journey.

Equally as important, the Board would like to recognize the skills, passion and dedication of the CP workforce, without whose efforts the rapid progress we have seen so far would never have been possible. We know fundamental changes of the kind we have put in motion can be stressful—we deeply appreciate the role each and every employee is playing in the creation of a new CP.

Table of Contents

My Board colleagues and I would also like to express our sincere thanks to Richard Kelly, who will retire from the Board on May 1, 2014, for his five years of service, including three as Chairman of the Audit Committee. We will miss his wise counsel and commitment to CP success. We welcomed Jim Prentice to the Board of Directors in June of 2013. With his unique combination of government and corporate experience, Jim has been a valuable addition to the Board.

I am proud and honoured to serve as Chairman during this historic time of positive change. It is deeply gratifying to be a part of CP's great Canadian success story, and I have no doubt that the accomplishments of 2013 represent but a start to what this company will achieve in the years ahead.

With appreciation,

Paul Haggis.

Paul G. Haggis
Chairman of the Board
Canadian Pacific Railway Limited

Table of Contents

SHAREHOLDER INFORMATION

Common Share Market Prices

Toronto Stock Exchange

(Canadian dollars)	2013 High	2013 Low	2012 High	2012 Low
First Quarter	**132.92**	**102.14**	79.29	67.99
Second Quarter	**144.43**	**118.25**	77.89	71.61
Third Quarter	**134.90**	**121.39**	85.66	72.66
Fourth Quarter	**167.00**	**126.42**	101.81	81.29
Year	**167.00**	**102.14**	101.81	67.99

New York Stock Exchange

(U.S. dollars)	2013 High	2013 Low	2012 High	2012 Low
First Quarter	**130.81**	**103.82**	79.91	66.23
Second Quarter	**139.99**	**113.82**	79.00	68.69
Third Quarter	**129.81**	**115.54**	88.23	71.22
Fourth Quarter	**156.96**	**122.50**	102.80	82.75
Year	**156.96**	**103.82**	102.80	66.23

Number of registered shareholders at year end: 15,632

Closing market prices at year end:

Toronto Stock Exchange:	$160.65 (CDN)
New York Stock Exchange:	$ 151.32 (US)

Shareholder Administration

Common Shares

Computershare Investor Services Inc., with transfer facilities in Montreal, Toronto, Calgary and Vancouver, serves as transfer agent and registrar for the Common Shares in Canada. Computershare Trust Company NA, Denver, Colorado, serves as co-transfer agent and co-registrar for the Common Shares in the United States.

For information concerning dividends, lost share certificates, estate transfers or for change in share registration or address, please contact the transfer agent and registrar by telephone at 1-877-4-CP-RAIL (1-877-427-7245) toll free North America or International (514) 982-7555, visit their website at www.investorcentre.com/cp; or write to:

Computershare Investor Services Inc.

100 University Avenue, 8th Floor
Toronto, Ontario Canada M5J 2Y1

Information Regarding Direct Registration

The Direct Registration System, or DRS, allows registered holders to hold securities in “book entry” form without having a physical certificate issued as evidence of ownership. Instead, securities are held in the name of the registered holder and registered electronically on the issuer’s records maintained by the issuer’s transfer agent. If you are a registered holder of shares and wish to hold your shares using the DRS, please contact the transfer agent at the phone number or address shown above; or for more information about direct registration, log on to Computershare’s website at www.investorcentre.com/cp and click on “Got a question? Ask Penny”.

Direct Deposit of Dividends

Registered shareholders are offered the option of having their Canadian and U.S. dollar dividends directly deposited into their personal bank accounts in Canada and the United States on the dividend payment dates. Shareholders can enroll for direct deposit either by phone or by completing a direct deposit enrolment form. For more information about direct deposit, please contact Computershare Investor Services Inc. at 1-877-4-CP-RAIL (1-877-427-7245).

Table of Contents

4% Consolidated Debenture Stock

Inquiries with respect to Canadian Pacific Railway Company's 4% Consolidated Debenture Stock should be directed as follows:

For stock denominated in U.S. currency—

The Bank of New York Mellon at (212) 815-2719 or by e-mail at lesley.daley@bnymellon.com; and

For stock denominated in pounds sterling—

BNY Trust Company of Canada at (416) 933-8504 or by e-mail at marcia.redway@bnymellon.com.

Market for Securities

The Common Shares of Canadian Pacific Railway Limited are listed on the Toronto and New York stock exchanges. The Debenture Stock of Canadian Pacific Railway Company is listed on the London Stock Exchange (UK pounds sterling) and on the New York Stock Exchange (U.S. currency).

Trading Symbol

Common Shares—CP

Duplicate Annual Reports

While every effort is made to avoid duplication, some Canadian Pacific Railway Limited registered shareholders may receive multiple copies of shareholder information mailings such as this Annual Report. Registered shareholders who wish to consolidate any duplicate accounts that are registered in the same name are requested to write to Computershare Investor Services Inc.

Corporate Governance

CP's Board of Directors and management are committed to a high standard of corporate governance. They believe effective corporate governance calls for the establishment of processes and structures that contribute to the sound direction and management of the Corporation's business, with a view to enhancing shareholder value.

A detailed description of CP's approach to corporate governance is contained in its Management Proxy Circular issued in connection with the 2014 Annual Meeting of Shareholders and in its Corporate Governance Principles and Guidelines which are available on CP's website at www.cpr.ca.

Governance Standards

Any significant differences between the Corporation's corporate governance practices and the corporate governance listing standards of the New York Stock Exchange ("NYSE Listing Standards") are set forth on CP's website at www.cpr.ca under About CP, "Executive Leadership & Governance".

Chief Executive Officer and Chief Financial Officer Certifications

The certifications of the Chief Executive Officer and the Executive Vice-President and Chief Financial Officer of each of Canadian Pacific Railway Limited and Canadian Pacific Railway Company required by Section 302 of the Sarbanes-Oxley Act of 2002 (the "302 Certifications") and the rules promulgated by the U.S. Securities and Exchange Commission ("SEC") thereunder, have been filed with the SEC as an exhibit to the 2013 Annual Report of Canadian Pacific Railway Limited and Canadian Pacific Railway Company on Form 40-F. The 302 Certifications have also been filed in fulfillment of the requirements of CSA National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings.

2014 Annual Meeting

The Annual Meeting of Shareholders will be held on Thursday, May 1, 2014, at the Telus Convention Centre, Calgary, Alberta.

Shareholder Services

Shareholders having inquiries or wishing to obtain copies of the Corporation's Annual Information Form may contact Shareholder Services at 1-866-861-4289 or (403) 319-7538, or by e-mail at shareholder@cpr.ca, or by writing to:

Shareholder Services
Office of the Corporate Secretary
7550 Ogden Dale Road S.E.
Calgary, Alberta, Canada T2C 4X9

Investor Information

Financial information is available under the "Invest in CP" section on CP's website at www.cpr.ca.

Communications and Public Affairs

Contact Communications and Public Affairs, Canadian Pacific 7550 Ogden Dale Road S.E., Calgary, Alberta, Canada T2C 4X9.

Table of Contents

CP
Canadian Pacific
7550 Ogden Dale Road S.E.
Calgary, AB T2C 4X9
Canada

EXHIBIT
H

40-F 1 d841857d40f.htm 40-F

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2014

CANADIAN PACIFIC RAILWAY LIMITED
(Commission File No. 1-01342)

CANADIAN PACIFIC RAILWAY COMPANY
(Commission File No. 1-15272)
(Exact name of Registrant as specified in its charter)

CANADA (Province or other jurisdiction of incorporation or organization)	**4011** (Primary Standard Industrial Classification Code Number)	**98-0355078** **(Canadian Pacific Railway Limited)** **98-0001377** **(Canadian Pacific Railway Company)** (I.R.S. Employer Identification Number)

7550 Ogden Dale Road S.E.,
Calgary, Alberta,
Canada, T2C 4X9
(403) 319-7000
(Address and telephone number of Registrant's principal executive offices)

CT Corporation System,
111 Eighth Avenue,
New York,
New York 10011,
(212) 894-8940
(Name, address (including zip code) and telephone number (including area code) of Agent for Service of Registrant in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, without par value, of Canadian Pacific Railway Limited	New York Stock Exchange
Common Share Purchase Rights of Canadian Pacific Railway Limited	New York Stock Exchange
Perpetual 4% Consolidated Debenture Stock of Canadian Pacific Railway Company	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
Debt Securities of Canadian Pacific Railway Company

Table of Contents

For annual reports, indicate by check mark the information filed with this form:

☒ **Annual information form** ☒ **Audited annual financial statements**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

At December 31, 2014**,** 166,120,981 Common Shares of Canadian Pacific Railway Limited ("CPRL") were issued and outstanding. At December 31, 2014, 347,170,009 Ordinary Shares of Canadian Pacific Railway Company ("CPRC") were issued and outstanding. All of the ordinary shares of CPRC are held by CPRL.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

YES ☒ NO ☐

Table of Contents

PRIOR FILINGS MODIFIED AND SUPERSEDED

The Registrants' Annual Report on Form 40-F for the year ended December 31, 2014, at the time of filing with the Securities and Exchange Commission (the "Commission"), modifies and supersedes all prior documents filed pursuant to Sections 13 and 15(d) of the Exchange Act for purposes of any offers or sales of any securities after the date of such filing pursuant to any Registration Statement under the Securities Act of 1933 of either Registrant which incorporates by reference such Annual Report, including without limitation the following: Form S-8 No. 333-13962 (Canadian Pacific Railway Limited); Form S-8 No. 333-127943 (Canadian Pacific Railway Limited); Form S-8 No. 333-140955 (Canadian Pacific Railway Limited); Form S-8 No. 333-183891 (Canadian Pacific Railway Limited); Form S-8 No. 333-183892 (Canadian Pacific Railway Limited); Form S-8 No. 333-183893 (Canadian Pacific Railway Limited); Form S-8 No. 333-188826 (Canadian Pacific Railway Limited); and Form S-8 No. 333-188827 (Canadian Pacific Railway Limited).

In addition, this Annual Report on Form 40-F is incorporated by reference into or as an exhibit to, as applicable, the Registration Statement on Form F-10 No. 333-189815 (Canadian Pacific Railway Company), and the Registration Statement on Form F-10 No. 333-190229 (Canadian Pacific Railway Limited).

ANNUAL INFORMATION FORM, CONSOLIDATED AUDITED ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

A. Annual Information Form

For the Annual Information Form of CPRL for the year ended December 31, 2014, see Table of Contents and pages 1 through 42 of CPRL's 2014 Annual Information Form incorporated by reference and included herein.

B. Audited Annual Financial Statements

For audited consolidated financial statements (U.S. GAAP), including the reports of the independent registered public accounting firm with respect thereto, see pages 67 through 109 of CPRL's 2014 Annual Report incorporated by reference and included herein.

C. Management's Discussion and Analysis

For management's discussion and analysis, see pages 20 through 66 of CPRL's 2014 Annual Report incorporated by reference and included herein.

For the purposes of this Annual Report on Form 40-F, only pages 20 through 109 of CPRL's 2014 Annual Report referred to above shall be deemed filed, and the balance of such 2014 Annual Report, except as it may be otherwise specifically incorporated by reference in CPRL's Annual Information Form, shall be deemed not filed with the Commission as part of this Annual Report on Form 40-F under the Exchange Act.

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2014, an evaluation was carried out under the supervision of and with the participation of the Registrants' management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Registrants' disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of December 31, 2014, to ensure that information required to be disclosed by the Registrants in reports that they file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Commission rules and forms and (ii) accumulated and communicated to the Registrants' management, including their Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

It should be noted that while the Registrants' Chief Executive Officer and Chief Financial Officer believe that the Registrants' disclosure controls and procedures and internal control over financial reporting provide

Table of Contents

a reasonable level of assurance that they are effective, they do not expect that the Registrants' disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

For management's report on internal control over financial reporting, see page 68 of the Registrant's 2014 Annual Report, incorporated by reference and included herein.

ATTESTATION REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The effectiveness of the Registrants' internal control over financial reporting as of December 31, 2014 has been audited by Deloitte LLP, Independent Registered Public Accounting Firm, as stated in their report on pages 69 through 70 of the Registrant's 2014 Annual Report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the period covered by this Annual Report on Form 40-F, no changes occurred in the Registrants' internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

NOTICES PURSUANT TO REGULATION BTR

None.

CODE OF ETHICS

The Registrants' Code of Business Ethics specifically addresses, among other things, conflicts of interest, protection and proper use of corporate assets and opportunities, confidentiality of corporate information, fair dealing with third parties, compliance with laws, rules and regulations and reporting of illegal or unethical behavior. The Code applies to all directors, officers and employees, both unionized and non-unionized, of the Registrants and their subsidiaries in Canada, the U.S. and elsewhere, and forms part of the terms and conditions of employment of all such individuals. All members of the board of directors of the Registrants have signed acknowledgements that they have read, understood and agree to comply with the Code, and they annually confirm compliance. Annually, officers and non-union employees are required to acknowledge that they have read, understood and agree to comply with the Code. Contractors engaged on behalf of the Registrants or their subsidiaries must undertake, as a condition of their engagement, to adhere to principles and standards of business conduct consistent with those set forth in the Code. The Code is available on the Registrants' web site at www.cpr.ca and in print to any shareholder who requests it. All amendments to the Code, and all waivers of the Code with respect to any director or executive officer of the Registrants, will be posted on the Registrants' web site and provided in print to any shareholder who requests them.

In addition, the Registrants have adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers. This code applies to the Registrants' Chief Executive Officer, Chief Financial Officer and Vice President and Controller. It is available on the Registrants' web site at www.cpr.ca and in print to any shareholder who requests it. All amendments to the code, and all waivers of the code with respect to any of the officers covered by it, will be posted on the Registrants' web site and provided in print to any shareholder who requests them.

Table of Contents

CORPORATE GOVERNANCE PRINCIPLES AND GUIDELINES

The Registrants have adopted their Corporate Governance Principles and Guidelines which pertain to such matters as, but are not limited to: director qualification standards and responsibilities; election of directors; discretionary term limits for service as board or board committee chairs; access by directors to management and independent advisors; director compensation; director retirement age; director orientation and continuing education; management succession; and annual performance evaluations of the board, including its committees and individual directors, and of the Chief Executive Officer. The Corporate Governance Principles and Guidelines are available on the Registrants' web site at www.cpr.ca and in print to any shareholder who requests them.

COMMITTEE TERMS OF REFERENCE

The terms of reference of each of the following committees of the Registrants are available on the Registrants' web site at www.cpr.ca and in print to any shareholder who requests them: the Audit Committee; the Corporate Governance and Nominating Committee; the Finance Committee; the Management Resources and Compensation Committee; and the Safety, Operations and Environment Committee.

DIRECTOR INDEPENDENCE

The boards of the Registrants have adopted standards for director independence: (a) prescribed by Section 10A(m)(3) of the Exchange Act and Rule 10A-3(b)(1) promulgated thereunder and National Instrument 52-110 for members of public company audit committees; and (b) set forth in the NYSE Listed Company Manual (the "NYSE Standards"), the Canadian corporate governance standards set forth in National Instrument 58-101 and National Instrument 52-110 in respect of public company directors. The boards also conducted a comprehensive assessment of each of their members as against these standards and determined that all current directors, except Mr. Harrison, have no material relationship with the Registrants and are independent. Mr. Harrison is not independent by virtue of the fact that he is the Chief Executive Officer of the Registrants.

EXECUTIVE SESSIONS OF NON-MANAGEMENT DIRECTORS

The independent directors met in executive sessions without management present at the regular and special meetings of the board of directors of CPRL and its standing committees in 2014. In fact, each regularly scheduled meeting's agenda included one or more such sessions during the meeting.

Interested parties may communicate directly with Mr. G.F. Colter, the Chair of the boards of the Registrants, who presided at such executive sessions, by writing to him at the following address, and all communications received at this address will be forwarded to him:

Office of the Corporate Secretary
Canadian Pacific Railway
7550 Ogden Dale Road S.E., Calgary, Alberta
Canada, T2C 4X9

Table of Contents

IDENTIFICATION OF AUDIT COMMITTEE AND AUDIT COMMITTEE FINANCIAL EXPERT

The following individuals comprise the current membership of the Registrants' Audit Committees ("Audit Committees"), which have been established in accordance with Section 3(a)(58)(A) of the Exchange Act:

Isabelle Courville
Paul Haggis
Linda J. Morgan
Andrew F. Reardon

Each of the aforementioned directors, with the exception of Ms. Morgan, has been determined by the boards of the Registrants to meet the audit committee financial expert criteria prescribed by the Commission and have been designated as an audit committee financial expert for the Audit Committees of the boards of both Registrants. Each of the aforementioned directors has been determined by the boards of the Registrants to be independent within the criteria referred to above under the subheading "Director Independence", including the NYSE Standards.

FINANCIAL LITERACY OF AUDIT COMMITTEE MEMBERS

The boards of the Registrants have determined that all members of the Audit Committees have "accounting or related financial management expertise" within the meaning of the NYSE Standards. The boards have determined that all members of the Audit Committees are financially literate within the definition contained in, and as required by, National Instrument 52-110 and the NYSE Standards.

SERVICE ON OTHER PUBLIC COMPANY AUDIT COMMITTEES

Each Registrant's board has determined that no director who serves on more than two public company audit committees in addition to its own Audit Committee shall be eligible to serve as a member of the Audit Committee of that Registrant, unless that Registrant's board determines that such simultaneous service would not impair the ability of such member to effectively serve on that Registrant's Audit Committee. For purposes of calculating the aggregate number of public company audit committees on which a director serves, each Registrant is counted as a separate public company.

No members of the Audit Committees of the Registrants serve on more than two public company audit committees in addition to the Audit Committee of each Registrant.

Table of Contents

PRINICIPAL ACCOUNTANT FEES AND SERVICES

In accordance with applicable laws and the requirements of stock exchanges and securities regulatory authorities, the Audit Committee of a company must pre-approve all audit and non-audit services to be provided by the independent auditors. Fees payable to Deloitte LLP for the years ended December 31, 2014, and December 31, 2013, totalled $2,885,400 and $2,213,000, respectively, as detailed in the following table:

For the year ended December 31	Total 2014 ($)	Total 2013 ($)
Audit Fees	**2,184,800**	1,943,000
Audit-Related Fees	**155,000**	228,500
Tax Fees	**295,600**	41,500
All Other Fees	**250,000**	—
TOTAL	**2,885,400**	2,213,000

The nature of the services provided under each of the categories indicated in the table is described below.

Audit Fees

Audit fees were for professional services rendered for the audit and interim reviews of the Registrants' annual financial statements and services provided in connection with statutory and regulatory filings or engagements, including the attestation engagement for the report from the independent registered public accounting firm on the effectiveness of internal controls over financial reporting, the audit or interim reviews of financial statements of certain subsidiaries and of various pension and benefits plans of the Registrants; special attestation services as may be required by various government entities; and general advice and assistance related to accounting and/or disclosure matters with respect to new and proposed U.S. accounting standards, securities regulations, and/or laws.

Audit-Related Fees

Audit-related fees were for assurance and related services reasonably related to the performance of the audit or review of the annual financial statements, but which are not reported under "Audit Fees" above. These services consisted of audit work related to securities filings; refinancing of subsidiary companies; and accounting training.

Tax Fees

Tax fees were for professional services related to tax compliance, tax planning and tax advice. These services consisted of: tax compliance including the review of tax returns; assistance with questions regarding corporate tax audits; tax planning and advisory services relating to common forms of domestic and international taxation (i.e. income tax, capital tax, goods and services tax, and value added tax); and access fees for taxation database resources.

All Other Fees

Fees disclosed under this category would be for products and services other than those described under "Audit Fees", "Audit-Related Fees" and "Tax Fees" above. These finance services consisted of advice with respect to an internal reorganization initiative. There were no such services in 2013.

Table of Contents

PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES PROVIDED BY INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of each Registrant has adopted a written policy governing the pre-approval of audit and non-audit services to be provided to the Registrants by their independent registered public accounting firm. The policy is reviewed annually and the audit and non-audit services to be provided by their independent registered public accounting firm, as well as the budgeted amounts for such services, are pre-approved at that time, including by the board of directors of the Registrant in respect of fees for audit services. The Comptroller of the Registrants must submit to the Audit Committee at least quarterly a report of all services performed or to be performed by the independent registered public accounting firm pursuant to the policy. Any additional non-audit services to be provided by the independent registered public accounting firm either not included among the pre-approved services or exceeding the budgeted amount for such pre-approved services by more than 10% must be individually pre-approved by the Audit Committee or its Chairman, who must report all such additional pre-approvals to the Audit Committee at its next meeting following the granting thereof. The independent registered public accounting firm's annual audit services engagement terms are subject to the specific pre-approval of the Audit Committee, with the associated fees being subject to approval by the board of directors of the Registrant. In addition, prior to the granting of any pre-approval, the Audit Committee or its Chairman, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of the independent registered public accounting firm. The Chief Internal Auditor for the Registrants monitors compliance with this policy.

OFF-BALANCE SHEET ARRANGEMENTS

A description of the Registrants' off-balance sheet arrangements is set forth on page 52 of the Registrants' 2014 Annual Report incorporated by reference and included herein.

TABLE OF CONTRACTUAL COMMITMENTS

The table setting forth the Registrants' contractual commitments is set forth on page 52 of the Registrants' 2014 Annual Report incorporated by reference and included herein.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

Each Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

B. Consent to Service of Process

Each Registrant has previously filed a Form F-X in connection with the class of securities to which the obligation to file this report arises. Any change to the name or address of the agent for service of process of either Registrant shall be communicated promptly to the Commission by an amendment to the Form F-X referencing the file number of such Registrant.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Exchange Act, each Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this Annual Report on Form 40-F to be signed on its behalf by the undersigned, thereto duly authorized, in the City of Calgary, Province of Alberta, Canada.

CANADIAN PACIFIC RAILWAY LIMITED
CANADIAN PACIFIC RAILWAY COMPANY
(Registrants)

/s/ Paul A. Guthrie

Name: Paul A. Guthrie
Title: Corporate Secretary

Date: February 23, 2015

Table of Contents

EXHIBITS

99.1	Consent of Deloitte LLP, Independent Registered Public Accounting Firm.
99.2	Certification by the Chief Executive Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
99.3	Certification by Chief Financial Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
99.4	Certification by the Chief Executive Officer of the Registrants furnished pursuant to 18 U.S.C. Section 1350.
99.5	Certification by the Chief Financial Officer of the Registrants filed pursuant to 18 U.S.C. Section 1350.
101	Interactive Data File

Table of Contents

ANNUAL INFORMATION FORM | 2014

FEBRUARY 23, 2015

Table of Contents

TABLE OF CONTENTS

February 23, 2015

Table of Contents

1. CORPORATE STRUCTURE

In this Annual Information Form ("AIF"), "our", "us", "we", "CP" and "the Company" refer to Canadian Pacific Railway Limited ("CPRL"), CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL's subsidiaries, as the context may require. All information in this AIF is stated as at December 31, 2014 and all financial statements were prepared in accordance with United States generally accepted accounting principles ("GAAP") unless otherwise indicated. Except where otherwise indicated, all financial information and references to "dollar" or "$" reflected herein are expressed in Canadian dollars.

1.1 Name, Address and Incorporation Information

Canadian Pacific Railway Limited was incorporated on June 22, 2001, as 3913732 Canada Inc. pursuant to the *Canada Business Corporations Act* ("the CBCA"). On July 20, 2001, CP amended its Articles of Incorporation to change its name to Canadian Pacific Railway Limited. On October 1, 2001, Canadian Pacific Limited ("CPL") completed an arrangement ("the Arrangement") pursuant to section 192 of the CBCA whereby it distributed to its common shareholders all of the shares of newly formed corporations holding the assets of four of CPL's five primary operating divisions. The transfer of Canadian Pacific Railway Company ("CPRC"), previously a wholly owned subsidiary of CPL, to CPRL was accomplished as part of a series of steps, pursuant to the terms of the Arrangement.

The Company's registered, executive and head office is located at 7550 Ogden Dale Road S.E., Calgary, Alberta T2C 4X9.

Table of Contents

2. INTERCORPORATE RELATIONSHIPS

2.1 Principal Subsidiaries

The table below sets out the Company's principal subsidiaries, including the jurisdiction of incorporation and the percentage of voting and non-voting securities CP currently own directly or indirectly:

Principal Subsidiary[1]	Incorporated under the Laws of	Percentage of Voting Securities Held Directly or Indirectly	Percentage of Non-Voting Securities Beneficially Owned, or over which Control or Direction is Exercised
Canadian Pacific Railway Company	Canada	100%	Not applicable
Soo Line Corporation[2]	Minnesota	100%	Not applicable
Soo Line Railroad Company[3]	Minnesota	100%	Not applicable
Dakota, Minnesota & Eastern Railroad Corporation[4]	Delaware	100%	Not applicable
Delaware and Hudson Railway Company, Inc.[3]	Delaware	100%	Not applicable
Mount Stephen Properties Inc.[5]	Canada	100%	Not applicable

(1) This table does not include all of the Company's subsidiaries. The assets and revenues of unnamed subsidiaries did not exceed 10% of the total consolidated assets or total consolidated revenues of CP individually, or 20% of the total consolidated assets or total consolidated revenues of CP in aggregate.
(2) Indirect wholly owned subsidiary of Canadian Pacific Railway Company.
(3) Wholly owned subsidiary of Soo Line Corporation.
(4) Indirect wholly owned subsidiary of Soo Line Corporation.
(5) Wholly owned subsidiary of Canadian Pacific Railway Company.

Table of Contents

3. GENERAL DEVELOPMENTS OF THE BUSINESS

3.1 Recent Developments

2014 Developments

On May 7, 2014, CP announced Chief Executive Officer E. Hunter Harrison agreed to a contract extension with the railway for an additional year, and will remain with the Company until 2017. Prior to the Company's shareholder meeting on May 1, 2014, it was announced that Mr. Richard Kelly would not stand for re-election as a member of the Company's Board of Directors. On May 1, 2014, the Company announced that Gary Colter was elected Chairman of the Company's Board of Directors. Effective May 20, 2014, the Hon. Jim Prentice resigned as a member of the Company's Board of Directors. Mr. Prentice had been appointed to the Board on June 7, 2013.

On October 1-2, 2014, the Company unveiled new growth targets extending to 2018. These financial expectations include:

- more than doubling diluted earnings per share ("EPS") over the next four years compared to 2014;
- growing annual revenue to $10 billion in 2018; and
- generating cumulative cash flow before dividends of $6 billion through 2018.

Over the course of 2014 and in early 2015, CP took a number of steps to optimize the Company's capital structure and lower cost of capital. Key initiatives included:

- on January 28, 2015, CP issued U.S. $700 million 2.900% 10-year Notes due 2025 for net proceeds of U.S.$694 million;
- during the fourth quarter of 2014, the Company established a commercial paper program which enabled it to issue commercial paper up to a maximum aggregate principal amount of U.S. $1 billion in the form of unsecured promissory notes. The commercial paper program is backed by a U.S. $1 billion committed, revolving credit facility, which matures on September 26, 2016. As at December 31, 2014, the Company had total commercial paper borrowings of U.S. $675 million (CDN $783 million) presented in Long-term debt on the Company's Consolidated Balance Sheets;
- at September 26, 2014, CP terminated its existing revolving credit facility agreement dated as of November 29, 2013. On the same day CP entered into a new revolving credit facility agreement with 15 highly rated financial institutions for a commitment amount of U.S. $2 billion. The facility includes a U.S. $1 billion five years portion and a U.S. $1 billion one year plus one year term out portion. The facility can accommodate draws of cash and/or letters of credit at market competitive pricing. At December 31, 2014, the facility was undrawn; and
- on March 17, 2014 the Company commenced a Normal Course Issuer Bid ("NCIB") to purchase, for cancellation up to 5.3 million common shares. On September 29, 2014, the Company announced the amendment of the NCIB to increase the maximum number of its Common Shares that could be purchased from 5.3 million to 12.7 million by March 16, 2015. From March 17, 2014 to December 31, 2014, the Company repurchased 10.5 million Common shares for $2,089 million at an average price of $199.42 per share.

As a result of the Company's improved financial position, CP received two ratings upgrades in 2014 from all three agencies. Standard & Poor's ("S&P"), Moody's Investors Services ("Moody's"), and Dominion Bond Rating Services ("DBRS") increased their ratings to BBB+, Baa1 and BBB (High), respectively, from BBB-, Baa3, and BBB (Low), respectively. In addition, the Company was assigned short-term ratings on its newly established U.S. commercial paper program. S&P, Moody's, and DBRS assigned ratings of A-2, P-2, and R-2 (High), respectively.

On November 17, 2014, the Company announced a proposed agreement with Norfolk Southern Corporation ("NS") for the sale of approximately 283 miles of the Delaware and Hudson Railway Company, Inc.'s line between Sunbury, Pennsylvania, and Schenectady, New York. The assets expected to be sold to NS upon completion of this transaction have been classified as Assets held for sale on the Company's Consolidated Balance Sheets. The assets continue to be reported at their carrying value as this is lower than their expected fair value. The sale to NS, when agreed, will be subject to regulatory approval

Table of Contents

by the U.S. Surface Transportation Board and is expected to close in 2015.

On January 2, 2014, the Company executed an agreement with Genesee & Wyoming Inc. ("G&W") for the sale of the Dakota, Minnesota, & Eastern ("DM&E") West tracks between Tracy, Minnesota and Rapid City, South Dakota, Colony, Wyoming and Crawford, Nebraska. DM&E West encompasses approximately 660 miles and the sale closed on May 30, 2014 for U.S. $218 million (CDN $236 million) in gross proceeds.

On January 20, 2015, CP announced it had an agreement to create a joint venture with DREAM Unlimited called DREAM Van Horne Properties. The joint venture was created to evaluate the Company's real estate, and to explore innovative ways to maximize value, including industrial, commercial and residential development.

2013 Developments

Effective February 5, 2013, Mr. Keith Creel was appointed as President and Chief Operating Officer as part of the Company's long-term succession plan. In connection to this appointment, Mr. E. Hunter Harrison remains Chief Executive Officer of the Company. On November 29, 2013, CP further announced the appointment of Mr. Bart W. Demosky as Executive Vice President and Chief Financial Officer effective December 28, 2013. Mr. Demosky replaced Mr. Brian Grassby, who retired from his role as Senior Vice President, Chief Financial Officer and Treasurer as announced on October 23, 2013. Mr. Grassby remained a key part of the senior management team until the end of 2013 to lead a successful transition.

Early in 2014, the Company executed an agreement with G&W for the sale of a portion of the DM&E line between Tracy, Minnesota and Rapid City, South Dakota, Colony, Wyoming and Crawford, Nebraska and connecting branch lines as result of the Company's 2012 initiative to assess the opportunities with this 660 mile portion of DM&E. The Company recorded an asset impairment charge and accruals for future associated costs totaling $435 million ($257 million after tax) which impacted diluted EPS by $1.46 in 2013.

2012 Highlights

During 2012, the Company experienced a number of other noteworthy events summarized below:

Proxy Contest

In January 2012, Pershing Square Capital Management, L.P. ("Pershing Square") launched a proxy contest in order to replace a minority of the Board of Directors of the Company (the "Board") and to advocate for management change (the "Proxy Contest"). The proxy contest was settled in May 2012 with changes described below in "Change in Board of Directors" and "Management transition".

Change in Board of Directors

On May 17, 2012, following the Proxy Contest Messrs. John Cleghorn, Tim Faithfull, Fred Green, Edmond Harris, Michael Phelps and Roger Phillips advised the Company that they did not intend to stand for re-election to the Board.

At the Company's annual shareholders meeting held on May 17, 2012, seven new directors were elected to the Board, namely Messrs. William Ackman, Gary Colter, Paul Haggis and Paul Hilal, Ms. Rebecca MacDonald, and Messrs. Anthony Melman and Stephen Tobias. In addition, Mr. Richard George, Ms. Krystyna Hoeg, Messrs. Tony Ingram and Richard Kelly, the Hon. John Manley, Mesdames Linda Morgan and Madeleine Paquin, and Messrs. David Raisbeck and Hartley Richardson were all re-elected to the Board at the May 17, 2012 meeting. Following the meeting, the new Board selected Ms. Paquin to serve as acting Chair of the Company. On June 4, 2012, Mr. Haggis was appointed Chairman of the Company's Board.

Subsequent to the May 17, 2012 shareholders meeting, Messrs. Raisbeck, George and Ingram resigned from the Board on June 11, June 26 and July 5, 2012, respectively. In addition, effective July 6, 2012, Mr. E. Hunter Harrison was appointed to the Board.

As a result of the aforementioned changes to the composition of the Board, certain accelerated vesting provisions for certain grants under the Company's management stock option incentive plan, performance share unit plan and deferred share unit plan were triggered effective June 26, 2012. The effect of such accelerated vesting on the Company's second quarter financial statements was a credit to Compensation and benefits of $8 million and the recognition of a related liability under the

Table of Contents

accelerated vesting provisions of these plans of $31 million, which liability was settled in full in the third quarter of 2012.

Management transition

On May 17, 2012, following the Proxy Contest, Mr. Fred Green left his position as President and Chief Executive Officer of the Company. That same day, Mr. Stephen Tobias, a new Board member elected at the Company's annual shareholders meeting held on May 17, 2012, was appointed by the Board as Interim Chief Executive Officer and served in that role until June 28, 2012. On June 28, 2012, Mr. E. Hunter Harrison was appointed by the Board as President and Chief Executive Officer. As a result of the appointment of Mr. Harrison, the Company recorded a charge of $38 million with respect to compensation and other transition costs, including $2 million of associated costs, in the second quarter of 2012. This charge was recorded in the Company's financial statements in Compensation and benefits and Purchased services and other, in the amounts of $16 million and $22 million respectively.

Included in this charge were amounts totaling $16 million in respect of deferred retirement compensation for Mr. Harrison and $20 million to Pershing Square and related entities. Pershing Square and related entities owned or controlled approximately 14% of the Company's outstanding shares as at December 31, 2012 and two Board members, Mr. William Ackman and Mr. Paul Hilal, are partners of Pershing Square. The amount paid to Pershing Square and related entities was to reimburse them, on behalf of Mr. Harrison, for certain amounts they had previously paid to, or incurred on behalf of, Mr. Harrison pursuant to an indemnity in favour of Mr. Harrison in connection with losses suffered in legal proceedings commenced against Mr. Harrison by his former employer. The terms of Pershing Square's indemnity required Mr. Harrison to return any funds advanced under the indemnity in the event he accepted employment at CP. As a result, Mr. Harrison made it a precondition of accepting the Company's offer of employment that CP assumes the indemnity obligations and returns the funds advanced by Pershing Square. As a result of the payment, the Company would have been entitled to enforce Mr. Harrison's rights in the aforementioned legal proceedings, allowing the Company to recover to the extent of Mr. Harrison's success in those proceedings; however, on February 3, 2013, the Company and Mr. Harrison settled the legal proceedings with Mr. Harrison's former employer, providing the Company with partial recovery (U.S. $9 million) of the amounts in dispute. The Company may receive repayment in other circumstances in the event of certain breaches by Mr. Harrison of his obligations under an employment agreement with the Company. In addition, the Company agreed to indemnify Mr. Harrison for certain other amounts sought for repayment by Mr. Harrison's former employer, to a maximum of $3 million plus legal fees, but as a result of the settlement of the aforementioned legal proceedings, such indemnity is no longer applicable.

The Company also recorded a charge of $4 million in the second quarter of 2012 with respect to a retirement allowance for Mr. Green.

Strike

On May 23, 2012, the Teamsters Canada Rail Conference Running Trade Employees ("TCRC-RTE") and the Rail Canada Traffic Controllers ("TCRC-RCTC"), representing 4,800 engineers, conductors and rail traffic controllers in Canada, commenced a strike that caused a nine-day Canadian work stoppage ("the strike"). Bill C-39, the Restoring Rail Service Act, was passed by the Parliament of Canada on May 31, 2012 and employees returned to work on June 1, 2012.

The strike caused a significant loss of revenue during the second quarter. Partly offsetting this revenue loss were cost savings in Compensation and benefits, Fuel, and Equipment rents. During the strike, CP took the opportunity to advance track and other maintenance including mechanical and engineering work.

Once the unions returned to work the Company quickly re-established service and reset the network.

Strategic update

On December 4-5, 2012, CP's Chief Executive Officer E. Hunter Harrison outlined the Company's plan for change to improve service, increase the railway's efficiency, lower cost and grow the business.

Table of Contents

Under the leadership of new management, the second half of 2012 included a rapid change agenda where progress was made on this plan. Highlights of CP's evolution to a more competitive railway include:

- a new executive leadership team in place, including a new Senior Operations lead team, with a mandate for centralized planning and decentralized execution, that eliminates bureaucracy to make service decisions faster and closer to the customer;
- revamped intermodal and merchandise train services which provide faster transit times for customers, such as the new intermodal services connecting Vancouver to Chicago or Toronto;
- the closure of hump-switching yards in Toronto, Winnipeg, Calgary and Chicago which provides significant cost savings and more efficient operating practices;
- the closure of intermodal terminals in Milwaukee, Obico (Toronto), and Schiller Park (Chicago) which reduced CP's footprint and operating expenses while also facilitating efficient operating practices and reduced end-to-end transit times;
- network design changes made after July 2012 allowed CP to reduce operating plan train miles by 39,000 per week, a 7 percent improvement, and crew starts by approximately 30 per day, a 5 percent improvement over previous designs from the first half of the year. Together, these design changes reduced annual operating costs, while increasing capacity; and
- a reduction of the Company's active locomotive fleet by more than 195 engines in the second half of 2012, with more than 460 locomotives stored, returned or declared surplus year-to-date. Over the course of 2012, CP provided return notification on 5,400 rail cars.

Asset impairment and labour restructuring charges

During the fourth quarter of 2012, the Company recorded a number of significant charges in part due to on-going efforts to improve the efficiency of the Company. These significant charges, included:

- $53 million labour restructuring charge ($39 million after tax), which unfavourably impacted diluted EPS by 22 cents;
- $185 million impairment of Powder River Basin ("PRB") and other investment ($111 million after tax), which unfavourably impacted diluted EPS by 64 cents; and
- $80 million asset impairment of certain locomotives ($59 million after tax), which unfavourably impacted diluted EPS by 34 cents.

Table of Contents

4. DESCRIPTION OF THE BUSINESS

4.1 Background and Network

CPRC was incorporated by Letters Patent in 1881 pursuant to an Act of the Parliament of Canada. CPRC is one of Canada's oldest corporations. From the Company's inception 134 years ago, CP has developed into a fully integrated and technologically advanced Class I railway (a railroad earning a minimum of U.S. $452.7 million in revenues annually as defined by the Surface Transportation Board in the U.S.) providing rail and intermodal freight transportation services over a 13,700 mile network serving the principal business centres of Canada, from Montreal, Quebec to Vancouver, British Columbia ("B.C."), and the U.S. Midwest and Northeast regions.

CP owns approximately 9,900 miles of track. An additional 3,800 miles of track are owned jointly, leased or operated under trackage rights. Of the total mileage operated, approximately 5,800 miles are located in western Canada, 2,300 miles in eastern Canada, 4,500 miles in the U.S. Midwest and 1,100 miles in the U.S. Northeast. The Company's business is based on funnelling railway traffic from feeder lines and connectors, including secondary and branch lines, onto the Company's high-density mainline railway network. CP has extended its network reach by establishing alliances and connections with other major Class I railways in North America, which allow the Company to provide competitive services and access to markets across North America beyond CP's own rail network. The Company also provides service to markets in Europe and the Pacific Rim through direct access to the Port of Montreal and the Port Metro Vancouver in Vancouver, B.C., respectively.

CP's network accesses the U.S. market directly through three wholly owned subsidiaries: Soo Line Railroad Company ("Soo Line"), a Class I railway operating in the U.S. Midwest; DM&E, a wholly owned subsidiary of the Soo Line, which operates in the U.S. Midwest; and the Delaware and Hudson Railway Company, Inc. ("D&H"), which operates between eastern Canada and major U.S. Northeast markets, including New York City, New York; Philadelphia, Pennsylvania; and Washington, D.C.

4.2 Strategy

Canadian Pacific is driving change as it moves through its transformational journey to become the best railroad in North America, while creating long-term value for shareholders. The Company is focused on providing customers with industry leading rail service; driving sustainable, profitable growth; optimizing our assets; and reducing costs, while remaining a leader in rail safety.

Looking forward, CP is executing its strategic plan to become the lowest cost rail carrier centred on five key foundations, which are the Company's performance drivers.

Provide Service: Providing efficient and consistent transportation solutions for the Company's customers. "Doing what we say we are going to do" is what drives CP by providing a reliable product with a lower cost operating model. Centralized planning aligned with local execution is bringing the Company closer to the customer and accelerating decision-making.

Control Costs: Controlling and removing unnecessary costs from the organization, eliminating bureaucracy and continuing to identify productivity enhancements are the keys to success.

Optimize Assets: Through longer sidings, improved asset utilization, and increased train lengths, the Company is moving increased volumes with fewer locomotives and cars while unlocking capacity for future growth potential.

Operate Safely: Each year, CP safely moves millions of carloads of freight across North America while ensuring the safety of our people and the communities through which we operate. Safety is never to be compromised. Continuous research and development in state-of-the-art safety technology and highly focused employees ensure our trains are built for safe, efficient operations across our network.

Develop People: CP recognizes that none of the other foundations can be achieved without its people. Every CP employee is a railroader and the Company is shaping a new culture focused on a passion for service with integrity in everything it does. Coaching and mentoring managers into becoming leaders will help drive CP forward.

Table of Contents

4.3 Partnerships, Alliances and Network Efficiency

Some customers' goods may have to travel on more than one railway to reach their final destination. The transfer of goods between railways can cause delays and service interruptions. The Company's rail network connects to other North American rail carriers and, through partnerships, the Company continues to co-develop processes and products designed to provide seamless and efficient scheduled train service to these customers.

CP continues to increase the capacity and efficiency of the Company's core franchise through infrastructure-sharing and joint-service programs with other railways and third parties, strategic capital investment programs, and operating plan strategies. Combined with the continued improvement of CP locomotive and rail car fleets, these strategies enable the Company to achieve more predictable and fluid train operations between major terminals.

Over the past few years, Class I railway initiatives have included:

- Co-operation initiatives with the Canadian National Railway Company ("CN") in the Port Metro Vancouver Terminal and B.C. Lower Mainland;
- Working very closely with all the Class I and other carriers that serve Chicago, Illinois under the Chicago Region Environmental and Transportation Efficiency ("CREATE") program. Class I's, Amtrak, Metra and switching carriers Indiana Harbor Belt Railroad ("IHB") and Belt Railway of Chicago ("BRC") have partnered in CREATE to construct operating and structural changes that will improve operating efficiency and fluidity in and around Chicago, the largest railroad hub in North America; and
- CP, working with the State Departments of Transportation of New York, Illinois, Wisconsin and Minnesota, to develop plans for improved track and road infrastructure to support intercity passenger rail. This infrastructure will support the fluidity of passenger and freight traffic on shared CP track.

CP also develops mutually beneficial arrangements with smaller railways, including shortline and regional carriers.

4.4 Network and Right-of-Way

The Company's 13,700-mile network extends from the Port Metro Vancouver on Canada's Pacific Coast to the Port of Montreal in eastern Canada, and to the U.S. industrial centres of Chicago; Detroit, Michigan; Newark, New Jersey; and Buffalo, New York; Kansas City, Missouri; and Minneapolis, Minnesota.

The Company's network is composed of four primary corridors: Western, Eastern, Central and the Northeast U.S.

Table of Contents

4.4.1 The Western Corridor: Vancouver to Thunder Bay

Overview – The Western Corridor links Vancouver with Thunder Bay, Ontario, which is the western Canadian terminus of the Company's Eastern corridor. With service through Calgary, Alberta the Western Corridor is an important part of the Company's routes between Vancouver and the U.S. Midwest, and between Vancouver and Eastern Canada. The Western Corridor provides access to the Port of Thunder Bay, Canada's primary Great Lakes bulk terminal.

Products – The Western Corridor is the Company's primary route for bulk and resource products traffic from western Canada to the Port Metro Vancouver for export. CP also handles significant volumes of international intermodal containers and domestic general merchandise traffic.

Feeder Lines – CP supports its Western Corridor with four significant feeder lines: the "Coal Route", which links southeastern B.C. coal deposits to the Western Corridor and to coal terminals at the Port Metro Vancouver; the "Edmonton-Calgary Route", which provides rail access to Alberta's Industrial Heartland in addition to the petrochemical facilities in central Alberta; the "Pacific CanAm Route", which connects Calgary and Medicine Hat, Alberta, with Pacific Northwest rail routes at Kingsgate, B.C. via the Crowsnest Pass; and the "North Main Line Route" that provides rail service to customers between Portage La Prairie, Manitoba and Wetaskiwin, Alberta, including intermediate points Yorkton and Saskatoon in Saskatchewan. This line is an important collector of Canadian grain and fertilizer, serving the potash mines located east and west of Saskatoon and many high-throughput grain elevator, processing and crude facilities. In addition, this line provides direct access to refining and upgrading facilities at Lloydminster, Alberta and western Canada's largest pipeline terminal at Hardisty, Alberta.

Connections – The Company's Western Corridor connects with the Union Pacific Railroad ("UP") at Kingsgate and with Burlington Northern Santa Fe, LLC ("BNSF") at Coutts, Alberta, and at New Westminster and Huntingdon in B.C. This corridor also connects with CN at many locations including Thunder Bay, Winnipeg, Regina and Saskatoon in Saskatchewan, Red Deer, Camrose, Calgary and Edmonton in Alberta and several locations in the Greater Vancouver area.

Yards and Repair Facilities – CP supports rail operations on the Western Corridor with main rail yards at Vancouver, Calgary, Edmonton, Moose Jaw in Saskatchewan, Winnipeg and Thunder Bay. CP also has major intermodal terminals at Vancouver, Calgary, Edmonton, Regina and Winnipeg. The Company has locomotive and rail car repair facilities at Golden, B.C., Vancouver, Calgary, Moose Jaw and Winnipeg.

4.4.2 The Central Corridor: Moose Jaw or Winnipeg to Chicago and Kansas City

Overview – The Central Corridor connects with the Western Corridor at Moose Jaw and Winnipeg. By running south to Chicago and Kansas City through the Twin Cities of Minneapolis and St. Paul, Minnesota and Milwaukee, Wisconsin, CP provides a direct, single-carrier route between western Canada and the U.S. Midwest, providing access to Great Lakes and Mississippi River ports. From La Crosse, Wisconsin, the Central Corridor continues south towards Kansas City via the Quad Cities, providing an efficient route for traffic destined for southern U.S. and Mexican markets. CP's Kansas City line also has a direct connection into Chicago and by extension to points east on CP's network such as Toronto, Ontario and the Port of Montreal.

Products – Traffic transported on the Central Corridor include intermodal containers from the Port Metro Vancouver, fertilizers, chemicals, crude, grain, automotive and other agricultural products.

Feeder Lines – The Company has operating rights over the BNSF line between Minneapolis and the twin ports of Duluth, Minnesota and Superior, Wisconsin. CP maintains its own yard facilities at the Twin Ports that provide an outlet for grain from the U.S. Midwest to the grain terminals at these ports, and a strategic entry point for large dimensional shipments that can be routed via CP's network to locations such as Alberta's Industrial Heartland to serve the needs of the oil sands and energy industry. The DM&E route from Winona, Minnesota to Tracy, Minnesota provides access to key agricultural and industrial commodities. CP's feeder line between Drake and Newtown in North Dakota is geographically situated in a highly-strategic region for Bakken oil production. CP also owns two significant feeder lines in North Dakota and western

Table of Contents

Minnesota operated by the Dakota Missouri Valley and Western Railroad, and the Northern Plains Railroad respectively. Both of these short lines are also active in providing service to agricultural and Bakken-oil related customers.

Connections – The Company's Central Corridor connects with all major railways at Chicago. Outside of Chicago, CP has major connections with BNSF at Minneapolis and at Minot, North Dakota and with UP at St. Paul. CP connects with CN at Milwaukee and Chicago. At Kansas City, CP connects with Kansas City Southern ("KCS"), BNSF, Norfolk Southern Corporation ("NS"), and UP. CP's Central Corridor also links to several shortline railways that primarily serve grain and coal producing areas in the U.S., and extend CP's market reach in the rich agricultural areas of the U.S. Midwest.

Yards and Repair Facilities – The Company supports rail operations on the Central Corridor with main rail yards in Chicago, Milwaukee, Wisconsin, St. Paul and Glenwood in Minnesota, and Mason City and Nahant in Iowa. CP owns 49% of the IHB, a switching railway serving Greater Chicago and northwest Indiana, and has a major intermodal terminal in Chicago and one in Minneapolis. In addition, CP has a major locomotive repair facility at St. Paul and car repair facilities at St. Paul and Chicago. CP shares a yard with KCS in Kansas City.

4.4.3 The Eastern Corridor: Thunder Bay to Montreal and Detroit

Overview – The Eastern Corridor extends from Thunder Bay through to its eastern terminus at Montreal and from Toronto to Chicago via Windsor/Detroit. The Company's Eastern Corridor provides shippers direct rail service from Toronto and Montreal to Calgary and Vancouver via the Company's Western Corridor and to the U.S. via the Central Corridor. This is a key element of the Company's transcontinental intermodal and other services, as well as truck trailers moving in drive-on/drive-off Expressway service between Montreal and Toronto. The corridor also supports the Company's market position at the Port of Montreal by providing one of the shortest rail routes for European cargo destined to the U.S. Midwest, using the CP-owned route between Montreal and Detroit, coupled with a trackage rights arrangement on NS tracks between Detroit and Chicago.

Products – Major traffic categories transported in the Eastern Corridor include forest, chemicals and plastics, crude, metals, minerals and consumer products, intermodal containers, automotive products and general merchandise.

Feeder Lines – A major feeder line that serves the steel industry at Hamilton, Ontario provides connections to both the Company's Northeast U.S. corridor and both CSXT Corporation ("CSXT") and NS at Buffalo.

Connections – The Eastern Corridor connects with a number of shortline railways including routes from Montreal to Quebec City, Quebec and Montreal to St. John, New Brunswick and Searsport, Maine. CP owns a route to Temiscaming, Quebec via North Bay, Ontario operated by short line Ottawa Valley Railway, where connections are made with the Ontario Northland Railway. Connections are also made with CN at a number of locations, including Sudbury, North Bay, Windsor, London, Hamilton, and Toronto in Ontario and Montreal and at Detroit and Buffalo with NS and CSXT.

Yards and Repair Facilities – CP supports its rail operations in the Eastern Corridor with major rail yards at Sudbury, Toronto, London and Montreal. The Company's largest intermodal facility is located in the northern Toronto suburb of Vaughan and serves the Greater Toronto and southwestern Ontario areas. CP also operates intermodal terminals at Montreal and Detroit. Terminals for the Company's Expressway service are located in Montreal and at Milton, Ontario in the Greater Toronto area.

The Company has locomotive repair facilities at Montreal and Toronto and car repair facilities at Thunder Bay, Toronto and Montreal.

4.4.4 The Northeast U.S. Corridor: Buffalo and Montreal to New York

Overview – The Northeast U.S. Corridor provides an important link between the major population centres of eastern Canada, the U.S. Midwest and the U.S. Northeast. The corridor extends from Montreal to Harrisburg, Pennsylvania and Buffalo, New York to Allentown, Pennsylvania and to Albany/Schenectady in New York's Capital District Region.

Products – Major traffic categories transported in the Northeast U.S. Corridor include lumber, ethanol, crude oil and consumer products.

Table of Contents

Feeder Lines – The Northeast U.S. Corridor connects with important feeder lines. The Company's route between Montreal and Harrisburg, Pennsylvania, in combination with trackage rights over other railways, provides the Company with direct access to Allentown, Pennsylvania. Agreements with NS provide CP with access to shippers and receivers in the Conrail "shared asset" regions of New Jersey. The "southern tier" route between Buffalo, New York and Binghamton, New York includes haulage rights over NS lines, links industrial southern Ontario with key U.S. connecting rail carriers at Buffalo and provides access to CP for short line carriers along the Buffalo to Binghamton, New York route.

Connections – CP has major connections with NS at Binghamton, and Harrisburg and Allentown, Pennsylvania, with CSXT at Albany, New York and with Pan Am Southern at Mechanicville, New York. Shortline connections exist with multiple players throughout the corridor.

Yards and Repair Facilities – CP supports its Northeast U.S. Corridor with a major rail yard in Binghamton. CP has locomotive and car repair facilities in Montreal and Binghamton.

4.4.5 Right-of-Way

The Company's rail network is standard gauge, which is used by all major railways in Canada, the U.S. and Mexico. Continuous welded rail is used on the core main line network.

CP uses different train control systems on portions of the Company's owned track, depending on the volume of rail traffic. Remotely controlled centralized traffic control signals are used to authorize the movement of trains. CP is currently in the development stage of its Positive Train Control strategy for portions of its U.S. network.

In other corridors, train movements are directed by written instructions transmitted electronically and by radio from rail traffic controllers to train crews. In some specific areas of intermediate traffic density, CP uses an automatic block signalling system in conjunction with written instructions from rail traffic controllers.

4.5 Quarterly Trends

Volumes and revenues from certain goods are stronger during different periods of the year. First-quarter revenues are typically lower mainly due to winter weather conditions, closure of the Great Lakes ports and reduced transportation of retail goods. Second and third-quarter revenues generally improve over the first quarter as fertilizer volumes are typically highest during the second quarter and demand for construction-related goods are generally highest in the third quarter. Revenues are typically strongest in the fourth quarter, primarily as a result of the transportation of grain after the harvest, fall fertilizer programs and increased demand for retail goods moved by rail. Operating income is also affected by seasonal fluctuations. Operating income is typically lowest in the first quarter due to lower freight revenue and higher operating costs associated with winter conditions. Net income is also influenced by seasonal fluctuations in customer demand and weather-related issues.

4.6 Business Categories

The following table compares the percentage of the Company's total freight revenue derived from each of the major business lines in 2014 compared with 2013 and 2012:

Business Category	2014	2013	2012
Bulk	42%	42%	41%
Merchandise	37%	36%	34%
Intermodal	21%	22%	25%

Table of Contents

4.7 Revenues

Freight revenues are earned from transporting bulk, merchandise and intermodal goods, and include fuel recoveries billed to CP customers. The following table summarizes the Company's annual freight revenues between 2012 and 2014:

Freight Revenues (in $ millions, except for percentages) Business Category	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Bulk					
Canadian grain	$ 988	$ 869	$ 767	14	13
U.S. grain	503	431	405	17	6
Coal	621	627	602	(1)	4
Potash	347	312	281	11	11
Fertilizers and sulphur	234	258	239	(9)	8
Total bulk	2,693	2,497	2,294	8	9
Merchandise					
Forest products	206	206	193	–	7
Chemicals and plastics	637	565	512	13	10
Crude	484	375	206	29	82
Metals, minerals, and consumer products	712	608	550	17	11
Automotive	357	403	425	(11)	(5)
Total merchandise	2,396	2,157	1,886	11	14
Intermodal					
Domestic intermodal	787	684	653	15	5
International intermodal	588	644	717	(9)	(10)
Total intermodal	1,375	1,328	1,370	4	(3)
Total freight revenues	$6,464	$5,982	$5,550	8	8

4.7.1 Bulk

The Company's bulk business represented approximately 42% of total freight revenues in 2014.

4.7.1.1 Canadian Grain

The Company's Canadian grain business accounted for approximately 15% of total freight revenues in 2014.

Canadian grain transported by CP consists of both whole grains, such as wheat, corn, soybeans, and canola, and processed products such as meals, oils, and flour.

This business is centred in the Canadian prairies (Alberta, Saskatchewan and Manitoba), with grain shipped primarily west to the Port Metro Vancouver and east to the Port of Thunder Bay for export. Grain is also shipped to the U.S., Mexico and to eastern Canada for domestic consumption.

Canadian grain includes a segment of business that is regulated by the Canadian government and set out in the Canadian Transportation Act ("CTA"). This regulated business is subject to a maximum revenue entitlement ("MRE"). Under this regulation, railroads can set their own rates for individual movements. However, the MRE governs aggregate revenue earned by the railroad based on a formula that factors in the total volumes, length of haul, average revenue per tonne and inflationary adjustments. The regulation applies to Western Canadian export grain shipments to the ports of Vancouver and Thunder Bay.

4.7.1.2 U.S. Grain

CP's U.S. grain business accounted for approximately 8% of total freight revenues in 2014.

U.S. grain transported by CP consists of both whole grains, such as wheat, corn, and soybeans, and processed products such as meals, oils, and flour.

This business is centred in the states of North Dakota, Minnesota, Iowa and South Dakota. Export grain traffic from this producing region is shipped to ports at Duluth and Superior. In partnership with other railways, CP also moves grain to export terminals in the U.S. Pacific Northwest and the Gulf of Mexico. Grain destined for domestic consumption moves east via Chicago to the U.S. Northeast or is

Table of Contents

interchanged with other carriers to the U.S. Southeast, Pacific Northwest and California markets.

4.7.1.3 Coal

The Company's coal business represented approximately 10% of total freight revenues in 2014.

CP handles mostly metallurgical coal destined for export through the Port Metro Vancouver for use in the steel-making process in the Pacific Rim, Europe and South America.

CP's Canadian coal traffic originates mainly from Teck Resource Limited's mines in southeastern B.C. They are considered to be among the most productive, highest-quality metallurgical coal mines in the world. CP moves coal west from these mines to port terminals for export to world markets, and east for the U.S. Midwest markets and for consumption in steel-making mills along the Great Lakes.

In the U.S., CP moves primarily thermal coal from connecting railways serving the thermal coal fields in the PRB in Montana and Wyoming. It is then delivered to power generating facilities in the Midwest U.S. CP also serves petroleum coke operations in Canada and the U.S. where the product is used for power generation and aluminum production.

4.7.1.4 Potash

Potash represented approximately 5% of total freight revenues in 2014.

The Company's potash traffic moves mainly from Saskatchewan to offshore markets through the ports of Vancouver, Thunder Bay and Portland, Oregon and to markets in the U.S. All potash shipments for export beyond Canada and the U.S. are marketed by Canpotex, a joint venture among Saskatchewan's potash producers. Independently, these producers move domestic potash with CP primarily to the U.S. Midwest for local application.

4.7.1.5 Fertilizers and sulphur

Fertilizers and sulphur business represented approximately 4% of total freight revenues in 2014.

Chemical fertilizers are transported to markets in Canada and the U.S. from key production areas in the Canadian prairies. Phosphate fertilizer is also transported from U.S. and Canadian producers to markets in Canada and the northern U.S. CP provides transportation services from major nitrogen production facilities in western Canada and have efficient routes to the major U.S. markets. CP also has direct service to key fertilizer distribution terminals, such as the barge facilities on the Mississippi River system at Minneapolis-St. Paul, as well as access to Great Lakes vessels at Thunder Bay.

Most sulphur is produced in Alberta as a by-product of processing sour natural gas, refining crude oil and upgrading bitumen produced in the Alberta oil sands. Sulphur is a raw material used primarily in the manufacturing of sulphuric acid, which is used most extensively in the production of phosphate fertilizers. Demand for elemental sulphur rises with demand for fertilizers. Sulphuric acid is also a key ingredient in industrial processes ranging from smelting and nickel leaching to paper production.

4.7.2 Merchandise

CP's merchandise business represented approximately 37% of total freight revenues in 2014.

Merchandise products move in trains of mixed freight and in a variety of car types. Service involves delivering products to many different customers and destinations. In addition to traditional rail service, CP moves merchandise traffic through a network of truck-rail transload facilities and provides logistics services.

4.7.2.1 Forest Products

The Company's forest products business represented approximately 3% of total freight revenues in 2014.

Forest products traffic includes wood pulp, paper, paperboard, newsprint, lumber, panel and oriented strand board shipped from key producing areas in B.C., northern Alberta, northern Saskatchewan, Ontario and Quebec to destinations throughout North America.

4.7.2.2 Chemicals and Plastics

The Company's chemicals and plastics business represented approximately 10% of total freight revenues in 2014.

Petroleum products represent the largest segment of this business, followed by chemicals and plastics, respectively.

Petroleum products consist of commodities such as liquid petroleum gas ("LPG"), gasoline, diesel, condensate, asphalt and lubricant oils. The majority of the Company's Western Canadian petroleum

Table of Contents

products traffic originates in Saskatchewan and in the Alberta Industrial Heartland, Canada's largest hydrocarbon processing region. The Bakken formation region in Saskatchewan and North Dakota is another source of condensate, LPG and natural gas liquids. Connectivity to several rail interline partners gives the Company access to refineries and export facilities in the Pacific Northwest, Northeast U.S. and Gulf Coast, as well as the Texas and Louisiana petrochemical corridor and port connections.

The Company's chemical traffic includes products such as ethylene glycol, styrene, sulphuric acid, methanol, sodium chlorate, caustic soda and soda ash. These shipments originate from Eastern Canada, Alberta, the U.S. Midwest and the Gulf of Mexico and move to end markets in Canada, the U.S. and overseas.

The most commonly shipped plastics products are polyethylene and polypropylene. Almost half of the Company's plastics originate in central and northern Alberta and move to various North American destinations.

4.7.2.3 Crude

The Company's crude business represented approximately 7% of total freight revenues in 2014.

Crude moves from origin facilities throughout Alberta, Saskatchewan and North Dakota. CP connects at these origin facilities with direct production as well as pipeline access. Oil sands products originating in Northern Alberta are delivered by pipeline systems to hub terminals in Edmonton, Hardisty and the Alberta Industrial Heartland, where rail and pipeline are the options for further transport. CP connects to numerous Saskatchewan oil plays, including Shaunavon, Lloydminster, Kerrobert and the Bakken, and CP has numerous facilities in the North Dakota Bakken oil producing zone.

CP's main crude unloading destination terminal is located in Albany, New York. This terminal is a rail-to-vessel operation that can reach refineries along the Canadian and U.S. East Coast, and the U.S. Gulf Coast. CP also accesses other refineries and terminals on the U.S. East Coast, Gulf Coast and West Coast through established foreign line partnerships.

4.7.2.4 Metals, Minerals and Consumer Products

The Company's metals, minerals and consumer products business represented approximately 11% of total freight revenues in 2014.

Metals, minerals and consumer products traffic include a wide array of commodities grouped under aggregates, steel, consumer products and non-ferrous metals.

Frac sand and cement are the dominant aggregates. Frac sand originates at mines located along the Company's network in Wisconsin and moves to a diverse set of shale plays across North America. The majority of the Company's cement traffic is shipped directly from production facilities in Alberta, Iowa and Ontario to energy and construction projects in North Dakota, Alberta, Manitoba and the U.S. Midwest.

CP transports steel in various forms from mills in Ontario, Saskatchewan and Iowa to a variety of industrial users. The Company carries base metals such as copper, lead, zinc and aluminum. CP also moves ores from mines to smelters and refineries for processing, and the processed metal to automobile and consumer products manufacturers.

Consumer products traffic consists of a diverse mix of goods, including food products, building materials, packaging products and waste products.

4.7.2.5 Automotive

The Company's automotive business represented approximately 6% of total freight revenues in 2014.

CP's automotive portfolio consists of four finished vehicle traffic segments: import vehicles that move through Port Metro Vancouver to Eastern Canadian markets; Canadian-produced vehicles that ship to the U.S. from Ontario production facilities; U.S.-produced vehicles that ship within the U.S. as well as cross-border into Canadian markets; and, Mexican-produced vehicles that ship to the U.S. and Canada. In addition to finished vehicles, CP ships automotive parts, machinery and pre-owned vehicles. A comprehensive network of automotive compounds is utilized to facilitate final delivery of vehicles to dealers throughout Canada and in the U.S.

4.7.3 Intermodal

The Company's intermodal business accounted for approximately 21% of total freight revenues in 2014.

Table of Contents

Domestic intermodal freight consists primarily of manufactured consumer products moving in fifty three foot containers within North America. International intermodal freight moves in marine containers to and from ports and North American inland markets.

4.7.3.1 Domestic Intermodal

The Company's domestic intermodal business represented approximately 12% of total freight revenues in 2014.

CP's domestic intermodal business covers a broad spectrum of industries including food, retail, less-than truckload shipping, trucking, forest products and various other consumer-related products. Key service factors in domestic intermodal include consistent on-time delivery, the ability to provide door-to-door service and the availability of value-added services. The majority of the Company's domestic intermodal business originates in Canada where CP markets its services directly to retailers, providing complete door-to-door service and maintaining direct relationships with its customers. In the U.S., the Company's service is delivered mainly through wholesalers.

4.7.3.2 International Intermodal

The Company's international intermodal business represented approximately 9% of total freight revenues in 2014.

CP's international intermodal business consists primarily of containerized traffic moving between the ports of Vancouver, Montreal and New York and inland points across Canada and the U.S.

CP is a major carrier of containers moving via the ports of Montreal and Vancouver. Import traffic from the Port Metro Vancouver is mainly long-haul business destined for eastern Canada and the U.S. Midwest and Northeast. The Company's trans-Pacific service offers the shortest route between the Port Metro Vancouver and Chicago. CP works closely with the Port of Montreal, a major year-round East Coast gateway to Europe, to serve markets primarily in Canada and the U.S. Midwest. The Company's U.S. Northeast service connects eastern Canada with the ports of New York, offering a competitive alternative to trucks.

4.7.4 Fuel Cost Recovery Program

The short-term volatility in fuel prices may adversely or positively impact expenses and revenues. CP employs a fuel cost recovery program designed to automatically respond to fluctuations in fuel prices and help reduce volatility to changing fuel prices. Fuel surcharge revenue is earned on individual shipments primarily based on On Highway Diesel ("OHD"); as such, fuel surcharge revenue is a function of freight volumes.

4.7.5 Other Revenue

Other revenue is generated from leasing certain assets, switching fees, other arrangements including logistical services and contracts with passenger service operators.

4.7.6 Significant Customers

For each of the twelve months ended December 31, 2014, 2013 and 2012, no customer comprised more than 10% of total revenues and accounts receivable.

Table of Contents

4.8 Railway Performance

CP focuses on safety, train operation productivity, increasing network efficiency and improving asset utilization. The following table summarizes the effect of the Company's Operating Plan based on industry-recognized performance indicators. Detailed definitions of the performance indicators listed below are included in Section 26, Glossary of Terms of the 2014 MD&A which is incorporated by reference herein.

For the year ended December 31[(1)]	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Operations Performance					
Freight gross ton-miles ("GTMs") (millions)	273,276	267,629	254,354	2	5
Revenue ton-miles ("RTMs") (millions)	149,849	144,249	135,032	4	7
Train miles (thousands)	36,625	37,817	40,270	(3)	(6)
Average train weight - excluding local traffic (tons)	8,046	7,573	6,709	6	13
Average train length - excluding local traffic (feet)	6,683	6,530	5,981	2	9
Average terminal dwell (hours)	8.7	7.1	7.5	23	(5)
Average train speed (mph)[(2)(3)]	18.1	18.4	N/A	(2)	N/A
Fuel efficiency (U.S. gallons of locomotive fuel consumed /1,000 GTMs)[(4)]	1.03	1.06	1.15	(3)	(8)
Total employees (average)[(5)(6)]	14,575	15,011	16,999	(3)	(12)
Workforce (end of period)[(7)]	14,698	14,977	16,907	(2)	(11)
Safety indicators					
FRA personal injuries per 200,000 employee-hours	1.67	1.71	1.56	(2)	10
FRA train accidents per million train-miles	1.26	1.80	1.69	(30)	7

(1) Certain prior period figures have been revised to conform with current presentation or have been updated to reflect new information.
(2) Incorporates a new reporting definition where average train speed measures the line-haul movement from origin to destination including terminal dwell hours, and excluding foreign railroad and customer delays.
(3) 2012 Average train speed information is not available for new reporting definition.
(4) Includes gallons of fuel consumed from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities.
(5) An employee is defined as an individual, including trainees, who has worked more than 40 hours in a standard biweekly pay period. This excludes part time employees, contractors, and consultants.
(6) 2012 average number of employees has been adjusted for a strike.
(7) Workforce is defined as total employees plus part time employees, contractors, and consultants.

GTMs for 2014 were 273,276 million, a 2% increase compared with 267,629 million in 2013. This improvement was primarily due to higher shipments in Canadian grain, Crude, Domestic intermodal, and Metals, minerals and consumer products.

RTMs for 2014 were 149,849 million, an increase of 4% compared with 144,249 million in 2013. RTMs are discussed further in Section 8, Lines of Business of the 2014 MD&A.

Train miles for 2014 decreased by 3% compared with 2013, reflecting improvements in operating efficiency from longer, heavier trains.

Average train weight increased in 2014 by 473 tons, or 6%, from 2013. Average train length increased in 2014 by 153 feet, or 2%, from 2013. Average train weight and length benefited significantly from improvements in operating plan efficiency and increased volumes of bulk traffic conveyed in longer, heavier trains. Both of these improvements leverage the siding extensions completed in 2013 and 2014.

Average terminal dwell, the average time a freight car resides in a terminal, increased by 23% in 2014 to 8.7 hours from 7.1 hours in 2013. The unfavourable increase was primarily due to operational challenges in the U.S. Midwest.

Average train speed was 18.1 miles per hour in 2014, a decrease of 2%, from 18.4 miles per hour in 2013. The unfavourable decrease was primarily due to operational challenges in the U.S. Midwest. This decrease was partially offset by speed improvements in the fourth quarter of 2014 through improved asset velocity, decreased terminal dwell, and successful execution of the Company's operating plan.

Fuel efficiency improved by 3% in 2014 compared to 2013. This improvement is primarily due to the continued execution of the Company's fuel

Table of Contents

conservation strategy and increased locomotive productivity from higher average train weights.

The average number of total employees for 2014 decreased by 436, or 3%, compared with 2013. This improvement was primarily due to job reductions as a result of continuing strong operational performance and natural attrition, partially offset by additional information technology ("IT") employees as a part of the Company's insourcing strategy.

The workforce on December 31, 2014 decreased by 279, or 2%, compared with December 31, 2013. This improvement was primarily due to job reductions as a result of continuing strong operational performance, natural attrition and fewer contractors.

Safety is discussed in Section 4.14, Safety.

4.9 Franchise Investment

Franchise investment is an integral part of the Company's multi-year capital program and supports growth initiatives. The Company's annual capital program typically includes investments in track and facilities (including rail yards and intermodal terminals); locomotives; IT; and freight cars and other equipment. On an accrual basis, CP invested approximately $3.9 billion in core assets from 2012 to 2014, with annual capital spending over this period averaging approximately 21% of revenues. This included approximately $2.6 billion invested in track and roadway, $500 million in rolling stock, $300 million in IT and $500 million in buildings and other.

4.9.1 Locomotive Fleet

The Company's locomotive fleet is comprised largely of high-adhesion alternating current ("AC") locomotives, which are more fuel efficient and reliable and have superior hauling capacity compared with standard direct current ("DC") locomotives. The Company's locomotive fleet now includes 827 AC locomotives. While AC locomotives represent approximately 70% of the Company's road-freight locomotive fleet, they handle approximately 89% of the workload. The Company's investment in AC locomotives has helped to improve service reliability and generate cost savings in fuel, equipment rents and maintenance. There was a reduction of the Company's active locomotive fleet by 24 locomotives during 2014.

Following is a synopsis of the Company's owned and leased locomotive fleet:

Number of Locomotives (owned and long-term leased) Age in Years	Road Freight AC	Road Freight DC	Road Switcher	Yard Switcher	Total
0-5	91	20	125	–	236
6-10	319	–	–	–	319
11-15	234	–	–	–	234
16-20	183	–	–	–	183
Over 20	–	328	235	43	606
Total	827	348	360	43	1,578

4.9.2 Railcar Fleet

CP owns, leases or manages approximately 45,700 freight cars. Approximately 20,800 are owned by CP, approximately 6,600 are hopper cars owned by Canadian federal and provincial government agencies, approximately 8,700 are leased on a short-term basis, 5,100 are held under long-term leases, and 4,500 in a railcar pool allocation. Short-term leases on approximately 1,700 cars are scheduled to expire during 2015, and the leases on approximately 11,300 additional cars are scheduled to expire before the end of 2019.

The Company's covered hopper car fleet, used for transporting grain for export, consists of owned, leased and managed cars. A portion of the fleet used to transport export grain is leased from the Government of Canada, with whom CP completed an operating agreement in 2007.

4.10 Operating Plan ("OP")

The Company's OP is the foundation for its scheduled railway operations, through which CP strives to provide quality service for customers and improve asset utilization to achieve high levels of efficiency. The key principles upon which the

Table of Contents

Company's OP is built include moving freight cars across the network with as few handlings as possible, creating balance in directional flow of trains in CP corridors by day of week, and minimizing the time that locomotives and freight cars are idle.

Under the Company's OP, trains are scheduled to run consistently at times agreed upon with customers. To accomplish this, CP establishes a plan for each rail car that covers its entire trip from point of origin to final destination. Cars with similar destinations are consolidated into blocks. This reduces delays at intermediate locations by simplifying processes for employees, eliminating the duplication of work and helping to ensure traffic moves fluidly through rail yards and terminals. These measures improve transit times for shipments throughout CP's network and increase car availability for customers. The Company's OP also increases efficiency by more effectively scheduling employee shifts, locomotive maintenance, track repair, track renewal and material supply.

CP has capitalized on the new capabilities of its network and upgraded locomotive fleet to safely operate longer and heavier trains. This has reduced associated expenses, simplified the departure of shipments from points of origin and provided lower-cost capacity for growth.

The Company is committed to continuously improve scheduled railway operations as a means to achieve additional efficiencies that will avoid significant capital expenditures to accommodate growth.

4.11 Information Technology

As a 24-hour-a-day, 7-day-a-week business, CP relies heavily on IT systems to schedule and manage planning and operational components safely and efficiently. IT applications map out complex interconnections of freight cars, locomotives, facilities, tracks and train crews to meet more than 10,000 individual customer service commitments every day. Across the network, CP's suite of operating systems manages the overall movement of customers' shipments and provides railway employees with reliable data on shipment performance, transit times, connections with other trains, train and yard capacities, and locomotive requirements. Within the yards, individual shipments are matched to freight car blocks, which in turn are matched to trains that are scheduled according to CP's operating plan. The Company's IT applications provide the information needed to ensure that shipments are handled according to commercial agreements while meeting all regulatory requirements to ensure the safe movement of freight throughout North America.

4.12 Business Risks and Enterprise Risk Management

In the normal course of operations, CP is exposed to various business risks and uncertainties that can have an effect on the Company's financial condition. CP's Enterprise Risk Management ("ERM") program targets strategic risk areas to determine additional prevention or mitigation plans that can be undertaken to either reduce risk or enable opportunities to be realized. The ERM process instils discipline in the approach to managing risk at CP and has been a contributing factor in providing focus on key areas. CP has managed to mitigate a number of strategic business risks using this focused approach.

The risks and enterprise risk management are discussed in more detail in Section 22, Business Risks of the Company's 2014 MD&A.

4.13 Indemnifications

Pursuant to a trust and custodial services agreement with the trustee of the Canadian Pacific Railway Company Pension Plan, CP has undertaken to indemnify and save harmless the trustee, to the extent not paid by the fund, from any and all taxes, claims, liabilities, damages, costs and expenses arising out of the performance of the trustee's obligations under the agreement, except as a result of misconduct by the trustee. The indemnity includes liabilities, costs or expenses relating to any legal reporting or notification obligations of the trustee with respect to the defined contribution option of the pension plans or otherwise with respect to the assets of the pension plans that are not part of the fund. The indemnity survives the termination or expiry of the agreement with respect to claims and liabilities arising prior to the termination or expiry. At December 31, 2014, CP had not recorded a liability associated with this indemnification, as the Company does not expect to make any payments pertaining to it.

Pursuant to the Company's by-laws, CP indemnifies all of its current and former directors and officers. In

Table of Contents

addition to the indemnity provided by the by-laws, CP also indemnifies its directors and officers pursuant to indemnity agreements. CP carries a liability insurance policy for directors and officers, subject to a maximum coverage limit and certain deductibles in cases where a director or officer is reimbursed for any loss covered by the policy.

4.14 Safety

Safety is a key priority and core strategy for the Company's management and Board of Directors. The Company's two main safety indicators – personal injuries and train accidents – follow strict U.S. Federal Railroad Administration ("FRA") reporting guidelines. Detailed definition of the safety indicators discussed below is included in Section 26, Glossary of Terms in the 2014 MD&A.

The FRA personal injury rate per 200,000 employee-hours for CP was 1.67 in 2014, compared with 1.71 in 2013 and 1.56 in 2012. The FRA train accident rate for CP in 2014 was 1.26 accidents per million train-miles, compared with 1.80 in 2013 and 1.69 in 2012. CP strives to continually improve its safety performance through the Company's key strategies and activities such as training and technology.

The Company's senior leaders in operations provide ongoing focus, leadership, commitment and support for efforts to improve the safety of the Company's operations as well as the safety and health of CP employees. The leadership team includes all of the Company's most senior representatives in operations from senior officers to leaders of different operation departments and is a key component of safety governance at CP. The Company's Safety Framework governs the safety management process, which involves more than 1,000 employees in planning and implementing safety-related activities. This management process, combined with planning that encompasses all operational functions, ensures a continuous and consistent focus on safety.

4.15 Environmental Protection

CP has implemented a comprehensive Environmental Management System, which uses the five elements of the ISO 14001 standard – policy, planning, implementation and operation, checking and corrective action, and management review – as described below. Further details are discussed in Section 22, Business Risks of the 2014 MD&A.

4.15.1 Policy

CP has adopted an Environmental Protection Policy and continues to develop and implement policies and procedures to address specific environmental issues and reduce environmental risk. Each policy is implemented with training for employees and a clear identification of roles and responsibilities.

CP is a partner in Responsible Care©, an initiative of the Chemistry Industry Association of Canada and the American Chemistry Council ("ACC") in the U.S., an ethic for the safe and environmentally sound management of chemicals throughout their life cycle. Partnership in Responsible Care© involves a public commitment to continually improve the industry's environmental, health and safety performance. CP completed its first Responsible Care© external verification in June 2002 and was granted "Responsible Care© practice-in-place" status. CP was successfully re-verified in 2005, 2008 and again in October of 2012. The next re-verification is planned for 2015.

4.15.2 Planning

CP prepares an annual Operations Environmental Plan, which include details of the Company's environmental goals and targets as well as high-level strategies. These plans are used by various departments to integrate key corporate environmental strategies into their business plans.

The Company also conducts comprehensive Risk Assessments on proposed new operations on CP property that have inherent environmental risk. The Risk Assessments identify appropriate mitigations to minimize risk and support the planning process.

4.15.3 Implementation and Operation

CP has developed specific environmental programs to address areas such as air emissions, wastewater,

Table of Contents

management of vegetation, chemicals and waste, storage tanks and fuelling facilities, and environmental impact assessment. The Company's environmental specialists and consultants lead these programs.

The Company's focus is on preventing spills and other incidents that have a negative impact on the environment. As a precaution, CP has established a Strategic Emergency Response Contractor network and located spill equipment kits across Canada and the U.S. to ensure a rapid and efficient response in the event of an environmental incident. In addition, CP regularly updates and test emergency preparedness and response plans.

4.15.4 Environmental Contamination

The Company continues to be responsible for remediation work on portions of a property in the State of Minnesota and continues to retain liability accruals for remaining future anticipated costs. The costs are expected to be incurred over a period of approximately 10 years. The state's voluntary investigation and remediation program will oversee the work to ensure it is completed in accordance with applicable standards. CP currently estimates the remaining liability associated with these areas to be U.S. $20 million.

4.15.5 Checking and Corrective Action

The Company's environmental audits comprehensively, systematically and regularly assess CP facilities for compliance with legal and regulatory requirements and conformance to the Company's policies, which are based on legal requirements and accepted industry standards. Audits are scheduled based on risk assessment for each facility and are led by third-party environmental audit specialists supported by the Company's environmental staff.

Audits are followed by a formal Corrective Action Planning process that ensures findings are addressed in a timely manner. Progress is monitored against completion targets and reported quarterly to senior management.

4.15.6 Management Review

The Environmental Accrual Lead Team, which includes members of the Company's senior officers and leaders of CP environmental teams, completes quarterly reviews of changes to and the progress of the Environmental Accrual program. Senior management leaders provide oversight of health, safety, security and environment issues on an ongoing basis throughout the year. The CP Board of Directors' Safety, Operations and Environment Committee meets five times per year and conducts a review of environmental issues.

4.15.7 Expenditures

The Company spent $34 million in 2014 for environmental management, including amounts spent on ongoing operations, fuel conservation, capital upgrades and remediation. The Company spent $36 million for environmental management in 2013.

4.16 Insurance

CP maintains insurance policies to protect the Company's assets and to protect against liabilities. The Company's insurance policies include, but are not limited to, liability insurance, director and officer liability insurance, automobile insurance and property insurance. The property insurance program includes business interruption coverage and contingent business interruption coverage, which would apply in the event of catastrophic damage to the Company's infrastructure and specified strategic assets in the transportation network. CP believes its insurance is adequate to protect it from known and unknown liabilities. However, in certain circumstances, certain losses may not be covered or completely covered by insurance and the Company may suffer losses, which could be material.

4.17 Competitive Conditions

For a discussion of CP's competitive conditions in which the Company operates, please refer to Section 22, Business Risks included in the Company's 2014 MD&A.

Table of Contents

5. DIVIDENDS

5.1 Declared Dividends and Dividend Policy

Dividends

Dividends declared by the Board of Directors in the last three years are as follows:

Dividend amount	Record date	Payment date
$0.3500	March 27, 2015	April 27, 2015
$0.3500	December 31, 2014	January 26, 2015
$0.3500	September 26, 2014	October 27, 2014
$0.3500	June 27, 2014	July 28, 2014
$0.3500	March 28, 2014	April 28, 2014
$0.3500	December 27, 2013	January 27, 2014
$0.3500	September 27, 2013	October 28, 2013
$0.3500	June 28, 2013	July 29, 2013
$0.3500	March 28, 2013	April 29, 2013
$0.3500	December 28, 2012	January 28, 2013
$0.3500	September 28, 2012	October 29, 2012
$0.3500	June 22, 2012	July 30, 2012
$0.3000	March 30, 2012	April 30, 2012

The Company's Board of Directors is expected to give consideration on a quarterly basis to the payment of future dividends. The amount of any future quarterly dividends will be determined based on a number of factors that may include the results of operations, financial condition, cash requirements and future prospects of the Company. The Board of Directors is, however, under no obligation to declare dividends and the declaration of dividends is wholly within their discretion. Further, the Company's Board of Directors may cease declaring dividends or may declare dividends in amounts that are different from those previously declared. Restrictions in the credit or financing agreements entered into by the Company or the provisions of applicable law may preclude the payment of dividends in certain circumstances.

Table of Contents

6. CAPITAL STRUCTURE

6.1 Description of Capital Structure

The Company is authorized to issue an unlimited number of Common Shares, an unlimited number of First Preferred Shares and an unlimited number of Second Preferred Shares. At December 31, 2014, no First or Second Preferred Shares had been issued.

1) The rights, privileges, restrictions and conditions attached to the Common Shares are as follows:

   a) Payment of Dividends: The holders of the Common Shares will be entitled to receive dividends if, as and when declared by CP's Board of Directors out of the assets of the Company properly applicable to the payment of dividends in such amounts and payable in such manner as the Board may from time to time determine. Subject to the rights of the holders of any other class of shares of the Company entitled to receive dividends in priority to or rateably with the holders of the Common Shares, the Board may in its sole discretion declare dividends on the Common Shares to the exclusion of any other class of shares of the Company.

   b) Participation upon Liquidation, Dissolution or Winding Up: In the event of the liquidation, dissolution or winding up of the Company or other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the Common Shares will, subject to the rights of the holders of any other class of shares of the Company entitled to receive the assets of the Company upon such a distribution in priority to or rateably with the holders of the Common Shares, be entitled to participate rateably in any distribution of the assets of the Company.

   c) Voting Rights: The holders of the Common Shares will be entitled to receive notice of and to attend all annual and special meetings of the shareholders of the Company and to one (1) vote in respect of each Common Share held at all such meetings, except at separate meetings of or on separate votes by the holders of another class or series of shares of the Company.

2) The rights, privileges, restrictions and conditions attaching to the First Preferred Shares are as follows:

   a) Authority to Issue in One or More Series: The First Preferred Shares may at any time or from time to time be issued in one (1) or more series. Subject to the following provisions, the Board may by resolution fix from time to time before the issue thereof the number of shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to the shares of each series of First Preferred Shares.

   b) Voting Rights: The holders of the First Preferred Shares will not be entitled to receive notice of or to attend any meeting of the shareholders of the Company and will not be entitled to vote at any such meeting, except as may be required by law.

   c) Limitation on Issue: The Board may not issue any First Preferred Shares if by so doing the aggregate amount payable to holders of First Preferred Shares as a return of capital in the event of the liquidation, dissolution or winding up of the Company or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs would exceed $500,000,000.

   d) Ranking of First Preferred Shares: The First Preferred Shares will be entitled to priority over the Second Preferred Shares and the Common Shares of the Company and over any other shares ranking junior to the First Preferred Shares with respect to the payment of dividends and the distribution of assets of the Company in the event of any liquidation, dissolution or winding up of the Company or other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs.

Table of Contents

e) Dividends Preferential: Except with the consent in writing of the holders of all outstanding First Preferred Shares, no dividend can be declared and paid on or set apart for payment on the Second Preferred Shares or the Common Shares or on any other shares ranking junior to the First Preferred Shares unless and until all dividends (if any) up to and including any dividend payable for the last completed period for which such dividend is payable on each series of First Preferred Shares outstanding has been declared and paid or set apart for payment.

3) The rights, privileges, restrictions and conditions attaching to the Second Preferred Shares are as follows:

a) Authority to Issue in One or More Series: The Second Preferred Shares may at any time or from time to time be issued in one (1) or more series. Subject to the following provisions, the Board may by resolution fix from time to time before the issue thereof the number of shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to the shares of each series of Second Preferred Shares.

b) Voting Rights: The holders of the Second Preferred Shares will not be entitled to receive notice of or to attend any meetings of the shareholders of the Company and will not be entitled to vote at any such meeting, except as may be required by law.

c) Limitation on Issue: The Board may not issue any Second Preferred Shares if by so doing the aggregate amount payable to holders of Second Preferred Shares as a return of capital in the event of the liquidation, dissolution or winding up of the Company or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs would exceed $500,000,000.

d) Ranking of Second Preferred Shares: The Second Preferred Shares will be entitled to priority over the Common Shares of the Company and over any other shares ranking junior to the Second Preferred Shares with respect to the payment of dividends and the distribution of assets of the Company in the event of the liquidation, dissolution or winding up of the Company or any other distribution of the assets of the Company among its shareholders for the purpose of winding up of its affairs.

e) Dividends Preferential: Except with the consent in writing of the holders of all outstanding Second Preferred Shares, no dividend can be declared and paid on or set apart for payment on the Common Shares or on any other shares ranking junior to the Second Preferred Shares unless and until all dividends (if any) up to and including any dividend payable for the last completed period for which such dividend is payable on each series of Second Preferred Shares outstanding has been declared and paid or set apart for payment.

6.2 Security Ratings

The following information relating to the Company's credit ratings is provided as it may relate to the Company's financing costs, liquidity and operations. Specifically, credit ratings affect the Company's ability to obtain short-term and long-term financing and/or the cost of such financing. Additionally, the ability of the Company to engage in certain collateralized business activities on a cost effective basis depends on the Company's credit ratings. A reduction in the current rating on the Company's debt by its rating agencies, particularly a downgrade below investment grade ratings, or a negative change in the Company's ratings outlook could adversely affect the Company's cost of financing and/or its access to sources of liquidity and capital. In addition, changes in credit ratings may affect the Company's ability to, and/or the associated costs of: (i) entering into ordinary course derivative or hedging transactions and may require the Company to post additional collateral under certain of its contracts, and (ii) entering into and maintaining ordinary course contracts with customers and suppliers on acceptable terms and (iii) ability to self-insure certain leased or financed rolling stock assets as per common industry practice.

Table of Contents

The Company's debt securities are rated by three approved rating organizations – Moody's, S&P and DBRS. The Company received two ratings upgrades in 2014 from all three agencies. In addition short-term ratings were assigned in 2014 to support a newly established U.S. commercial paper program. All ratings are shown in the table below:

Approved Rating Organization	Long-Term Debt Rating	Short-Term Debt Rating
Moody's Investors Service	Baa1	P-2
Standard & Poor's Corporation	BBB+	A-2
Dominion Bond Rating Service	BBB(High)	R-2(High)

As at December 31, 2014, the ratings provided by each of S&P, Moody's and DBRS have a stable outlook.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities and are indicators of the likelihood of payment and of the capacity and willingness of a company to meet its financial commitment on an obligation in accordance with the terms of the obligation. A description of the rating categories of each of the rating agencies in the table above is set out below.

Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor and may be subject to revision or withdrawal at any time by the rating agencies. Credit ratings may not reflect the potential impact of all risks on the value of securities. In addition, real or anticipated changes in the rating assigned to a security will generally affect the market value of that security. There can be no assurance that a rating will remain in effect for any given period of time or that a rating will not be revised or withdrawn entirely by a rating agency in the future.

In the last two years, the Company has paid the customary fees, including annual surveillance fees covering its long-term debt securities, to the aforementioned credit rating agencies for their rating services.

Table of Contents

The following table summarizes rating categories for respective rating agencies:

Moody's		S&P		DBRS		
Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	
Aaa	P-1	AAA	A-1+	AAA	R-1 (high)	
Aa1	P-1	AA+	A-1+	AA(high)	R-1 (high)	
Aa2	P-1	AA	A-1+	AA	R-1 (mid)	High Investment Grade
Aa3	P-1	AA-	A-1+	AA(low)	R-1 (mid)	
A1	P-1	A+	A-1	A(high)	R-1 (low)	
A2	P-1	A	A-1	A	R-1 (low)	
A3	P-2	A-	A-2	A(low)	R-1 (low)	
Baa1	P-2	BBB+	A-2	BBB(high)	R-2 (high)	
Baa2	P-2	BBB	A-2	BBB	R-2 (mid)	Investment Grade
Baa3	P-3	BBB-	A-3	BBB(low)	R-2 (low) or R-3	
Ba1	NP	BB+	B	BB(high)	R-4	
Ba2	NP	BB	B	BB	R-4	
Ba3	NP	BB-	B	BB(low)	R-4	
B1	NP	B+	C	B(high)	R-4	
B2	NP	B	C	B	R-5	Below Investment Grade
B3	NP	B-	C	B(low)	R-5	
Caa	NP	CCC	C	CCC	R-5	
Ca	NP	CC	C	CC	R-5	
C	NP	C	C	C	R-5	

Table of Contents

7. MARKET FOR SECURITIES

7.1 Stock Exchange Listings

The Common Shares of CP are listed on the Toronto Stock Exchange and the New York Stock Exchange under the symbol "CP".

7.2 Trading Price and Volume

The following table provides the monthly trading information for the Company's Common Shares on the Toronto Stock Exchange during 2014:

Toronto Stock Exchange Month	Opening Price per Share ($)	High Price per Share ($)	Low Price per Share ($)	Closing Price per Share ($)	Volume of Shares Traded
January	159.52	171.90	155.02	168.84	7,150,036
February	168.85	176.72	161.00	173.75	5,890,685
March	172.41	176.62	162.55	165.65	5,288,801
April	165.98	174.05	156.64	171.14	6,105,136
May	171.02	182.17	169.57	181.48	4,835,334
June	182.35	202.08	182.35	193.31	7,531,938
July	195.79	214.52	192.79	207.33	7,573,651
August	206.76	220.62	203.16	217.79	4,475,137
September	218.80	236.04	218.72	232.43	6,577,677
October	231.02	247.56	202.39	234.43	12,464,601
November	233.07	239.92	219.21	220.56	6,496,419
December	220.71	229.78	197.14	223.75	12,037,347

The following table provides the monthly composite trading information for the Company's Common Shares on the New York Stock Exchange during 2014:

New York Stock Exchange Month	Opening Price per Share ($)	High Price per Share ($)	Low Price per Share ($)	Closing Price per Share ($)	Volume of Shares Traded
January	150.23	153.86	139.37	151.48	16,400,279
February	151.47	159.05	145.01	157.00	12,589,533
March	155.40	159.77	147.15	150.43	12,382,110
April	150.64	158.47	142.73	155.97	16,853,845
May	155.29	167.90	155.20	167.52	13,605,727
June	168.24	186.00	167.81	181.14	21,736,548
July	181.20	199.65	179.90	189.95	15,360,040
August	189.32	201.23	186.09	200.60	11,123,289
September	200.84	210.87	198.42	207.47	14,124,063
October	205.51	220.20	180.13	207.68	32,875,428
November	207.30	212.19	192.09	193.16	14,191,326
December	193.76	198.50	170.51	192.69	27,334,064

Table of Contents

8. DIRECTORS AND OFFICERS

Following are the names and municipalities of residence of the directors and officers of the Company, their positions and principal occupations within the past five years, the period during which each director has served as director of the Company, and the date on which each director's term of office expires.

8.1 Directors

Name and Municipality of Residence	Position Held and Principal Occupation within the Preceding Five Years(1)	Year of Annual Meeting at which Term of Office Expires (Director Since)
Gary F. Colter Mississauga, Ontario, Canada	Chairman, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; President, CRS Inc. (Corporate restructuring and strategy consulting company)	2015 (2012)
William A. Ackman(3)(4) New York, New York, U.S.A.	Founder, Chief Executive Officer Pershing Square Capital Management, L.P. (investment advisor)	2015 (2012)
Isabelle Courville(2)(6) Rosemere, Quebec, Canada	Corporate Director	2015 (2013)
Paul G. Haggis(2)(4) Canmore, Alberta, Canada	Chairman, Alberta Enterprise Corporation (investment in venture capital funds)	2015 (2012)
E. Hunter Harrison(6) Wellington, Florida, U.S.A.	Chief Executive Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited	2015 (2012)
Paul C. Hilal(4)(5) New York, New York, U.S.A.	Partner, Pershing Square Capital Management, L.P. (investment advisor)	2015 (2012)
Krystyna T. Hoeg, C.A.(3)(5) Toronto, Ontario, Canada	Corporate Director	2015 (2007)
Rebecca MacDonald(3)(5) Toronto, Ontario, Canada	Founder, Executive Chair, Just Energy Group Inc. (independent marketer of deregulated gas and electricity)	2015 (2012)
Dr. Anthony R. Melman(4)(6) Toronto, Ontario, Canada	President and Chief Executive Officer, Acasta Capital (strategic and financial advisor)	2015 (2012)
Linda J. Morgan(2)(6) Bethesda, Maryland, U.S.A.	Partner, Nossaman LLP (law firm)	2015 (2006)
Andrew F. Reardon(2)(5) Marco Island, Florida, U.S.A.	Attorney, Reardon and Chasar LLP (law firm) Retired Chairman and CEO, TTX Company	2015 (2013)
Stephen C. Tobias(5)(6) Garnett, South Carolina, U.S.A.	Former Vice-Chairman and Chief Operating Officer, Norfolk Southern Corporation (U.S. Class I railroad)	2015 (2012)

(1) G. Colter has been President of CRS Inc. since 2002. I. Courville has been Chair of the Laurentian Bank of Canada since March 2013 and was President, Hydro Quebec Distribution from 2011 to 2013 and President, Hydro Quebec TransEnergie from 2007 to 2011. P.G. Haggis was Chairman of Canadian Pacific Railway Company and Canadian Pacific Railway Limited from May 2012 to May 2014 and was Chairman of the Board of C.A. Bancorp Inc. (now known as Crosswinds Holdings Inc.) from July 2011 to March 2013. E.H. Harrison was President and Chief Executive Officer of Canadian National Railway from 2003 to 2009. L.J. Morgan was Partner from 2003 to 2012 at Covington & Burling LLP. A.F. Reardon was Chairman and Chief Executive Officer in 2008 and President and Chief Executive Officer from 2001 to 2008 of TTX Company. S.C. Tobias was Vice-Chairman and Chief Operating Officer of Norfolk Southern Corporation from 1998 to 2009.
(2) Member of the Audit Committee.
(3) Member of the Corporate Governance and Nominating Committee.
(4) Member of the Finance Committee.
(5) Member of the Management Resources and Compensation Committee.
(6) Member of the Safety, Operations and Environment Committee.

Table of Contents

8.2 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Mr. Harrison was a director of Dynegy Inc. ("Dynegy") from March 9 to December 16, 2011 (Chairman from July 11 to December 16, 2011), as well as its Interim President and Chief Executive Officer from April 9 to July 11, 2011. On July 6, 2012, Dynegy filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code, such filing being primarily a technical step necessary to facilitate the restructuring of one or more Dynegy subsidiaries. Dynegy exited bankruptcy on October 1, 2012.

8.3 Senior Officers

As at February 23, 2015, the following were executive officers of CP:

Name and municipality of residence	Position held	Principal occupation within the preceding five years
E.H. Harrison Wellington, Florida, U.S.A.	Chief Executive Officer	Chief Executive Officer; President and Chief Executive Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chairman of the Board, Dynegy Inc.; Interim President and Chief Executive Officer, Dynegy Inc.; President and Chief Executive Officer, Canadian National Railway Company
K.E. Creel Chicago, Illinois, U.S.A.	President and Chief Operating Officer	President and Chief Operating Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Executive Vice-President and Chief Operating Officer; Executive Vice-President, Operations, Canadian National Railway Company
B.W. Demosky Calgary, Alberta, Canada	Executive Vice-President and Chief Financial Officer	Executive Vice-President and Chief Financial Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chief Financial Officer, Suncor Energy Inc.; Senior Vice-President of Business Services, Suncor Energy Inc.
P. J. Edwards Calgary, Alberta, Canada	Vice-President, Human Resources and Labour Relations	Vice-President, Human Resources and Labour Relations; Vice-President Human Resources, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President Human Resources, Canadian National Railway Company
T.E. Marsh Calgary, Alberta, Canada	Senior Vice-President Sales and Marketing	Senior Vice-President Sales and Marketing; Executive Vice-President North America Trade Division, COSCO Container Lines Americas, Inc.
P. A. Guthrie, Q.C. Municipal District of Rockyview, Alberta, Canada	Chief Legal Officer and Corporate Secretary	Chief Legal Officer and Corporate Secretary; Vice-President, Law and Risk Management; Vice-President Law, Canadian Pacific Railway Company and Canadian Pacific Railway Limited
L. J. Pitz McLean, Virginia, U.S.A	Vice-President and Chief Risk Officer	Vice-President and Chief Risk Officer; Vice-President Security and Risk Management, Canadian Pacific Railway Company; Vice-President Risk Mitigation, Canadian National Railway Company
M. Redeker St. Albert, Alberta, Canada	Vice-President and Chief Information Officer	Vice-President and Chief Information Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chief Information Officer; Chief Technology Officer, ATB Financial
M. Wallace Calgary, Alberta, Canada	Vice-President, Corporate Affairs and Chief of Staff	Vice-President, Corporate Affairs and Chief of Staff; Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chief of Staff – Office of the President and CEO, Canadian Pacific Railway Company; Client Partner, Longview Communications Inc.; Head of Investor Relations, Husky Injection Molding Systems Inc.; Assistant Vice-President Public Affairs, Canadian National Railway Company

8.4 Shareholdings of Directors and Officers

As at December 31, 2014, the directors and executive officers of CPRL owned or controlled a total of 14,173,510 shares representing approximately 8.53% of the outstanding shares at that date (166,120,981). Mr. Ackman exercises control over the voting and disposition of 13,940,890 of such shares which are beneficially owned by Pershing Square Capital Management, L.P. and its affiliates.

Table of Contents

9. LEGAL PROCEEDINGS AND REGULATORY ACTIONS

On July 6, 2013, a train carrying crude oil operated by Montreal Maine and Atlantic Railway ("MM&A") derailed and exploded in Lac-Mégantic, Quebec on a section of railway line owned by MM&A. The previous day CP had interchanged the train to MM&A, and after that interchange MM&A exercised exclusive control over the train.

Following this incident, the Minister of Sustainable Development, Environment, Wildlife and Parks of Quebec issued an order directing certain named parties to recover the contaminants and to clean up and decontaminate the derailment site. CP was added as a named party on August 14, 2013. CP is a party to an administrative appeal with respect to this order. No hearing date on the merits of CP's appeal has been scheduled.

A class action lawsuit has also been filed in the Superior Court of Quebec on behalf of a class of persons and entities residing in, owning or leasing property in, operating a business in or physically present in Lac-Mégantic. The lawsuit seeks damages caused by the derailment including for wrongful deaths, personal injuries, and property damages. CP was added as a defendant on August 16, 2013. The Superior Court of Quebec is not expected to release its judgment on the authorization of the class action before the end of February 2015.

In the wake of the derailment and ensuing litigation, MM&A filed for bankruptcy in Canada and the United States. In an Adversary Proceeding filed by the MM&A U.S. bankruptcy trustee against CP, Irving Oil and the World Fuel entities, CP has been accused of failing to ensure that World Fuel or Irving properly classified the oil lading and of not refusing to ship the oil in DOT-111 tank cars. CP intends to move to withdraw the bankruptcy court reference and will thereafter seek to have the claim against CP dismissed as federally preempted.

In addition, CP has received two damage to cargo notices of claims from the shipper of the oil on the derailed train, Western Petroleum. Western Petroleum has submitted U.S. and Canadian notices of claims for the same damages and, under the Carmack Amendment (the U.S. damage to cargo statute), seeks to recover for all injuries associated with, and indemnification for all claims arising from, the derailment. Both jurisdictions permit a shipper to recover the value of damaged lading against any carrier in the delivery chain, subject to limitations in the carrier's tariffs. CP's tariffs significantly restrict shipper damage claim rights.

At this early stage in the legal proceedings, any potential liability and the quantum of potential loss cannot be determined. Nevertheless, CP denies liability for MM&A's derailment and will vigorously defend itself in the proceedings described above and in any proceeding that may be commenced in the future.

Table of Contents

10. TRANSFER AGENTS AND REGISTRARS

10.1 Transfer Agent

Computershare Investor Services Inc., with transfer facilities in Montreal, Toronto, Calgary and Vancouver, serves as transfer agent and registrar for CP's Common Shares in Canada.

Computershare Trust Company NA, Canton, Massachusetts, serves as co-transfer agent and co-registrar for CP's Common Shares in the U.S.

Requests for information should be directed to:

Computershare Investor Services Inc.
100 University Avenue, 8th Floor
Toronto, Ontario Canada
M5J 2Y1

Table of Contents

11. INTERESTS OF EXPERTS

Deloitte LLP, Chartered Accountants, Calgary, Alberta, have issued their audit opinion dated February 23, 2015, in respect of the Company's consolidated financial statements as at December 31, 2014 and 2013 and for each of the years in the three-year period ended December 31, 2014. Deloitte LLP is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta and is independent within the meaning of the applicable rules and regulations adopted by the U.S. Securities and Exchange Commission and the Public Company Accounting Oversight Board (United States).

Table of Contents

12. AUDIT COMMITTEE

12.1 Composition of the Audit Committee and Relevant Education and Experience

The following individuals comprise the entire membership of the Audit Committee ("the Committee"). All of the members of the Committee are independent.

I. Courville – Ms. Courville is a Corporate Director. From 2011 to 2013 she served as President of Hydro-Québec Distribution and from 2006 to 2011 she was President of Hydro-Québec TransÉnergie, both divisions of Hydro-Québec. Previously, she served as President of the Enterprise Group of Bell Canada and as President and Chief Executive Officer of Bell Nordiq Group (Télébec NorthernTel), a subsidiary of Bell Canada. Ms. Courville is currently Chair of the Board of Laurentian Bank of Canada, a director of Group TVA Inc. and a director of École Polytechnique de Montréal. Prior board memberships include Miranda Technologies Inc., Chamber of Commerce of Metropolitan Montreal, NPCC (Northeast Power Coordinating Council) and St. Justine Hospital Foundation. Ms. Courville holds a Bachelor's degree in Engineering Physics from the École Polytechnique de Montréal and a Bachelor's degree in Civil Law from McGill University.

P.G. Haggis – Mr. Haggis is Chairman of the Alberta Enterprise Corporation, and served as Chairman of C.A. Bancorp Inc. until March 2013. He serves as a director of Advantage Oil & Gas Ltd. and as an advisor to the Insurance Corporation of British Columbia (ICBC) since retiring as a director. Previously, Mr. Haggis was President and CEO of Ontario Municipal Employees Retirement System (OMERS) and President and CEO of Alberta Treasury Branches. Mr. Haggis graduated from the University of Western Ontario and is certified as a Chartered Director through McMaster University.

L.J. Morgan – Ms. Morgan is a Partner at Nossaman LLP, a premier transportation infrastructure law firm based in the United States. Prior to joining Nossaman in September of 2011, she was a Partner at Covington & Burling LLP, a United States based international law firm, where she chaired its transportation and government affairs practices. She also serves on the Board of Visitors for the Georgetown University Law Centre and the Business Advisory Committee for Northwestern University's Transportation Centre. Ms. Morgan was previously Chairman of the United States Surface Transportation Board, and its predecessor the Interstate Commerce Commission, from March 1995 to December 2002. Prior to joining the Interstate Commerce Commission, Ms. Morgan served as General Counsel to the Senate Committee on Commerce, Science and Transportation. She graduated from Vassar College with an A.B. and the Georgetown University Law Centre with a J.D., and is an alumna of the Program for Senior Managers in Government at Harvard University's John F. Kennedy School of Government.

A. F. Reardon – Mr. Reardon was an attorney at the law firm of Reardon & Chasar, LPA, which he co-founded in 2009 until he retired in December 2011. Prior to that, Mr. Reardon served as Chairman and Chief Executive Officer, and President and Chief Executive Officer from 2001 to 2008, and Vice President, Law and Human Resources from 1992 to 2000 of TTX Company, the leading railcar leasing company in North America. Previously, he was a Presidential Appointee to the Railroad Retirement Board and was the Senior Vice President, Law and Administration for Illinois Central Railroad. He is currently a director of Appvion Inc., a global manufacturer of thermal and carbonless paper. Mr. Reardon was a Presidential Appointee confirmed by the U.S. Senate from 1990-1992. He has also served on various railroad industry boards including TTX, Terminal Railroad Association of St. Louis, and the Peoria and Pekin Union Railway. Mr. Reardon holds a Bachelor's Degree from the University of Notre Dame, a Juris Doctor Degree from the University of Cincinnati and a Master's Degree in Taxation from Washington University Law School. He served as an officer in the United States Navy from 1967 to 1971.

12.2 Pre-Approval of Policies and Procedures

The Committee has adopted a written policy governing the pre-approval of audit and non-audit services to be provided to CP by the Company's independent auditors. The policy is reviewed annually and the audit and non-audit services to be provided by the Company's independent auditors, as well as the budgeted amounts for such services, are pre-approved at that time. The Company's

Table of Contents

Comptroller must submit to the Committee at least quarterly a report of all services performed or to be performed by the Company's independent auditors pursuant to the policy. Any additional audit or non-audit services to be provided by the independent auditors either not included among the pre-approved services or exceeding the budgeted amount for such pre-approved services by more than 10% must be individually pre-approved by the Committee or its Chairman, who must report all such additional pre-approvals to the Committee at its next meeting following the granting thereof. The Company's independent auditors' annual audit services engagement terms and fees are subject to the specific pre-approval of the Committee. In addition, prior to the granting of any pre-approval, the Committee or its Chairman, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of the Company's independent auditors. The Company's Chief Internal Auditor monitors compliance with this policy.

12.3 Audit Committee Charter

The term "Corporation" herein shall refer to each of Canadian Pacific Railway Limited ("CPRL") and Canadian Pacific Railway Company ("CPRC"), and the terms "Board", "Directors", "Board of Directors" and "Committee" shall refer to the Board, Directors, Board of Directors, or Committee of CPRL or CPRC, as applicable.

A. Committee and Procedures

1. Purpose

The purposes of the Audit Committee (the "Committee") of the Board of Directors of the Corporation are to fulfill applicable public company audit committee legal obligations and to assist the Board of Directors in fulfilling its oversight responsibilities in relation to the disclosure of financial statements and information derived from financial statements, including:

- the review of the annual and interim financial statements of the Corporation;
- the integrity and quality of the Corporation's financial reporting and systems of internal control;
- the Corporation's compliance with applicable legal and regulatory requirements;
- the qualifications, independence, engagement, compensation and performance of the Corporation's external auditors; and
- the performance of the Corporation's internal audit function;

and to prepare, if required, an audit committee report for inclusion in the Corporation's annual management proxy circular, in accordance with applicable rules and regulations. In addition, the Committee will assist the Board with the identification of the principal risks of the Corporation's business and ensure the implementation of appropriate risk assessment and risk management policies and processes to manage these risks.

The Corporation's external auditors shall report directly to the Committee.

2. Composition of Committee

The members of the Committee of each of CPRL and CPRC shall be identical and shall be Directors of CPRL and CPRC, respectively. The Committee shall consist of not less than three and not more than the number of Directors who are not officers or employees of the Corporation, none of whom is either an officer or employee of the Corporation or any of its subsidiaries. Members of the Committee shall meet applicable requirements and guidelines for audit committee service, including requirements and guidelines with respect to being independent and unrelated to the Corporation and to having accounting or related financial management expertise and financial literacy, as set forth in applicable securities laws or the rules of any stock exchange on which the Corporation's securities are listed for trading. No Director shall be eligible to serve on the Committee if such Director currently serves on the audit committees of three public companies other than the Corporation, unless the Board of Directors has determined that such simultaneous service would not impair the ability of such member to effectively serve on the Committee. Determinations as to whether a

Table of Contents

particular Director satisfies the requirements for membership on the Committee shall be affirmatively made by the full Board, upon recommendation from the Corporate Governance and Nominating Committee.

3. Appointment of Committee Members

Members of the Committee shall be appointed from time to time by the Board and shall hold office at the pleasure of the Board.

4. Vacancies

Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board. The Board shall fill a vacancy whenever necessary to maintain a Committee membership of at least three Directors.

5. Committee Chair

The Board shall appoint a Chair for the Committee.

6. Absence of Committee Chair

If the Chair of the Committee is not present at any meeting of the Committee, one of the other members of the Committee who is present at the meeting shall be chosen by the Committee to preside at the meeting.

7. Secretary of Committee

The Committee shall appoint a Secretary who need not be a Director of the Corporation.

8. Meetings

The Committee shall meet at regularly scheduled meetings at least once every quarter and shall meet at such other times during each year as it deems appropriate, and as part of such meetings, shall meet in executive session without management being present. In addition, the Chair of the Committee or the Chairman of the Board or any two of its other members may call a meeting of the Committee at any time.

9. Quorum

Three members of the Committee shall constitute a quorum.

10. Notice of Meetings

Notice of the time and place of every meeting shall be given in writing by any means of transmitted or recorded communication, including facsimile, telex, telegram or other electronic means that produces a written copy, to each member of the Committee at least 24 hours prior to the time fixed for such meeting; provided however, that a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting constitutes a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

11. Attendance of Others at Meetings

At the invitation of the Chair of the Committee, other individuals who are not members of the Committee may attend any meeting of the Committee.

12. Procedure, Records and Reporting

Subject to any statute or the articles and by-laws of the Corporation, the Committee shall fix its own procedures at meetings, keep records of its proceedings and report to the Board when the Committee may deem appropriate (but not later than the next regularly scheduled meeting of the Board).

13. Delegation

The Committee may delegate from time to time to any person or committee of persons any of the Committee's responsibilities that may be lawfully delegated.

14. Report to Shareholders

The Committee shall prepare a report to shareholders or others, concerning the Committee's activities in the discharge of its

Table of Contents

responsibilities, when and as required by applicable laws or regulations.

15. Guidelines to Exercise of Responsibilities

The Board recognizes that meeting the responsibilities of the Committee in a dynamic business environment requires a degree of flexibility. Accordingly, the procedures outlined in these Terms of Reference are meant to serve as guidelines rather than inflexible rules, and the Committee may adopt such different or additional procedures as it deems necessary from time to time.

16. Use of Outside Legal, Accounting or Other Advisers; Appropriate Funding

The Committee may retain, at its discretion, outside legal, accounting or other advisors, at the expense of the Corporation, to obtain advice and assistance in respect of any matters relating to its duties, responsibilities and powers as provided for or imposed by these Terms of Reference or otherwise by law.

The Committee shall be provided by the Corporation with appropriate funding, as determined by the Committee, for payment of:

(i) compensation of any outside advisers as contemplated by the immediately preceding paragraph;

(ii) compensation of any independent auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation; or

(iii) ordinary administrative expenses that are necessary or appropriate in carrying out the Committee's duties.

All outside legal, accounting or other advisors retained to assist the Committee shall be accountable ultimately to the Committee.

17. Remuneration of Committee Members

No member of the Committee shall receive from the Corporation or any of its affiliates any compensation other than the fees to which he or she is entitled as a Director of the Corporation or a member of a committee of the Board. Such fees may be paid in cash and/or shares, options or other in-kind consideration ordinarily available to Directors.

B. Mandate of Committee

1. Committee Role:

The Committee's role is one of oversight. Management is responsible for preparing the interim and annual financial statements of the Corporation and for maintaining a system of risk assessment and internal controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly, for maintaining disclosure controls and procedures to ensure that it is informed on a timely basis of material developments and the Corporation complies with its public disclosure obligations, and for ensuring compliance by the Corporation with applicable legal and regulatory requirements. The external auditors are responsible for auditing the Corporation's financial statements.

In carrying out its oversight responsibilities: (i) each member of the Committee is entitled to, absent knowledge to the contrary, rely upon the accuracy and completeness of the Corporation's records and upon information, opinions, reports or statements presented by any of the Corporation's officers or employees, or consultants of the Corporation which the member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation; and (ii) the Committee and its members do not provide any professional certification or special assurance as to the Corporation's financial statements or the external auditors' work.

The Committee shall:

External Auditors' Report on Annual Audit

a) obtain and review annually prior to the completion of the external auditors' annual

Table of Contents

audit of the year-end financial statements a report from the external auditors describing:

(i) all critical accounting policies and practices to be used;

(ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors; and

(iii) other material written communications between the external auditors and management, such as any management letter or schedule of unadjusted differences;

Management's/Internal Auditors' Reports on External Audit Issues

b) review any reports on the above or similar topics prepared by management or the internal auditors and discuss with the external auditors any material issues raised in such reports;

Annual Financial Reporting Documents and External Auditors' Report

c) meet to review with management, the internal auditors and the external auditors the Corporation's annual financial statements, the report of the external auditors thereon, the related Management's Discussion and Analysis, and the information derived from the financial statements, as contained in the Annual Information Form and the Annual Report. Such review will include obtaining assurance from the external auditors that the audit was conducted in a manner consistent with applicable law and will include a review of:

(i) all major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting policies or principles;

(ii) all significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including the effects on the financial statements of alternative methods within generally accepted accounting principles;

(iii) the effect of regulatory and accounting issues, as well as off-balance sheet structures, on the financial statements;

(iv) all major issues as to the adequacy and effectiveness of the Corporation's internal controls and any special steps adopted in light of material control deficiencies and any consideration by the external auditors of fraud during the performance of the audit of the Corporation's annual financial statements; and

(v) the external auditors' judgment about the appropriateness and quality, not just the acceptability, of the accounting principles applied in the Corporation's financial reporting;

d) following such review with management and the external auditors, recommend to the Board whether to approve the audited annual financial statements of the Corporation and the related Management's Discussion and Analysis, and report to the Board on the review by the Committee of the information derived from the financial statements contained in the Annual Information Form and Annual Report;

Interim Financial Statements and MD&A

e) review with management, the internal auditors and the external auditors the Corporation's interim financial statements and its interim Management's Discussion and Analysis, and if thought fit, approve the interim financial statements and

Table of Contents

interim Management's Discussion and Analysis and the public release thereof by management;

Earnings Releases, Earnings Guidance

f) review and discuss earnings press releases, including the use of "pro forma" or "adjusted" information determined other than in accordance with generally accepted accounting principles, and the disclosure by the Corporation of earnings guidance and other financial information to the public including analysts and rating agencies, it being understood that such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and be satisfied that adequate procedures are in place for the review of such public disclosures and periodically assess the adequacy of those procedures;

Material Litigation, Tax Assessments, Etc.

g) review with management, the external auditors and, if necessary, legal counsel all legal and regulatory matters and litigation, claims or contingencies, including tax assessments, that could have a material effect upon the financial position of the Corporation, and the manner in which these matters may be, or have been, disclosed in the financial statements; and obtain reports from management and review with the Corporation's chief legal officer, or appropriate delegates, the Corporation's compliance with applicable legal and regulatory requirements;

Oversight of External Auditors

h) subject to applicable law relating to the appointment and removal of the external auditors, be directly responsible for the appointment, retention, termination and oversight of the external auditors; recommend to the Board the approval of compensation of the external auditors as such compensation relates to the provision of audit services; and be responsible for the resolution of disagreements between management and the external auditors regarding financial reporting;

Rotation of External Auditors' Audit Partners

i) review and evaluate the lead audit partner of the external auditors and assure the regular rotation of the lead audit partner and the audit partner responsible for reviewing the audit and other audit partners, as required by applicable law;

External Auditors' Internal Quality Control

j) obtain and review, at least annually, and discuss with the external auditors a report by the external auditors describing the external auditors' internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues;

External Auditors' Independence

k) review and discuss, at least annually (and prior to the engagement of any new external auditors), with the external auditors all relationships that the external auditors and their affiliates have with the Corporation and its affiliates in order to assess the external auditors' independence, including, without limitation:

   (i) obtaining and reviewing, at least annually, a formal written statement from the external auditors delineating all relationships that in the external auditors' professional judgment may reasonably be thought to bear on the independence of the external auditors with respect to the Corporation;

   (ii) discussing with the external auditors any disclosed relationships or services

Table of Contents

that may affect the objectivity and independence of the external auditors; and

(iii) recommending that the Board take appropriate action in response to the external auditors' report to satisfy itself as to the external auditors' independence;

Policies Regarding Hiring of External Auditors' Employees, Former Employees

l) set clear policies for the hiring by the Corporation of partners, employees and former partners and employees of the external auditors;

Pre-Approval of Audit and Non-Audit Services Provided by External Auditors

m) be solely responsible for the pre-approval of all audit and non-audit services to be provided to the Corporation and its subsidiary entities by the external auditors (subject to any prohibitions provided in applicable law), and of the fees paid for the non-audit services; provided however, that the Committee may delegate, to an independent member or members of the Committee, authority to pre-approve such non-audit services, and such member(s) shall report to the Committee at its next scheduled meeting following the granting any pre-approvals granted pursuant to such delegated authority;

n) review the external auditors' annual audit plan (including scope, staffing, location, reliance on management and internal controls and audit approach);

o) review the external auditors' engagement letter;

Oversight of Internal Audit

p) oversee the internal audit function by being directly responsible for the appointment or dismissal of the Chief Internal Auditor, who shall report directly to the Committee and administratively to the Chief Legal Officer and Corporate Secretary; afford the Chief Internal Auditor unrestricted access to the Committee; review the charter, activities, internal audit plan, organizational structure, and the skills and experience of the Internal Audit Department; discuss with management and the external auditors the competence, performance, resources, and cooperation of the internal auditors; and approve, after discussion with management and proper performance evaluation, the compensation of the Chief Internal Auditor;

q) review and consider, as appropriate, any significant reports and recommendations issued by the Corporation or by any external party relating to internal audit issues, together with management's response thereto;

Internal Controls and Financial Reporting Processes

r) review with management, the internal auditors and the external auditors, the Corporation's financial reporting processes and its internal controls;

s) review with the internal auditors the adequacy of internal controls and procedures related to any corporate transactions in which Directors or officers of the Corporation have a personal interest, including the expense accounts of officers of the Corporation at the level of Vice-President and above and officers' use of corporate assets, and consider the results of any reviews thereof by the internal or external auditors;

CEO and Chairman Expenses

t) review, at least annually, a report on the expense claims of the Chief Executive Officer, as approved by the Chairman of the Board, and the expense claims of the Chairman of the Board, as approved by the Chair of the Audit Committee;

Table of Contents

Complaints Processes

u) establish procedures for:

(i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and

(ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;

and review periodically with management and the internal auditors these procedures and any significant complaints received;

Separate Meetings with External Auditors, Internal Audit, Management

v) meet separately with management, the external auditors and the internal auditors periodically to discuss matters of mutual interest, including any audit problems or difficulties and management's response thereto, the responsibilities, budget and staffing of the Internal Audit Department and any matter that they recommend bringing to the attention of the full Board;

Enterprise Risk Management

w) discuss risk assessment and risk management policies and processes to be implemented for the Corporation, review with management and the Corporation's internal auditors the effectiveness and efficiency of such policies and processes and their compliance with other relevant policies of the Corporation, and make recommendations to the Board with respect to any outcomes, findings and issues arising in connection therewith;

x) review management's program to obtain appropriate insurance to mitigate risks;

y) oversee risks that may have a material impact on the Corporation's financial statements;

Tax

z) review the Corporation's tax status and monitor its approach to tax strategy that may have a material impact on the Corporation's financial statements, including tax reserves and potential reassessments and audits;

Codes of Ethics

aa) monitor compliance with the Corporation's code of business ethics and the code of ethics applicable to the Chief Executive Officer and senior financial officers of the Corporation, as well as waivers from compliance therefrom, and ensure that any issues relating to financial governance which are identified by the Directors are raised with management;

Review of Terms of Reference

bb) review and reassess the adequacy of these Terms of Reference annually or otherwise as it deems appropriate and recommend changes to the Board;

Other

cc) perform such other activities, consistent with these Terms of Reference, the Corporation's articles and by-laws and governing law, as the Committee or the Board deems appropriate; and

dd) report regularly to the Board of Directors on the activities of the Committee.

December 16, 2014

Table of Contents

12.4 Audit and Non-Audit Fees and Services

Deloitte LLP ("Deloitte") was appointed as the independent auditor of the Company in May 2011 commencing fiscal year 2011.

In accordance with applicable laws and the requirements of stock exchanges and securities regulatory authorities, the Audit Committee of the Company must pre-approve all audit and non-audit services to be provided by the independent auditors. Fees payable to Deloitte LLP for the years ended December 31, 2014, and December 31, 2013, totaled $2,885,400 and $2,213,000, respectively, as detailed in the following table:

	Year ended December 31, 2014	Year ended December 31, 2013
Audit Fees	$ 2,184,800	$ 1,943,000
Audit-Related Fees	155,000	228,500
Tax Fees	295,600	41,500
All Other Fees	250,000	–
TOTAL	$ 2,885,400	$ 2,213,000

The nature of the services provided under each of the categories indicated in the table is described below:

12.4.1 Audit Fees

Audit fees were for professional services rendered for the audit and interim reviews of the Registrants' annual financial statements and services provided in connection with statutory and regulatory filings or engagements, including the attestation engagement for the report from the independent registered public accounting firm on the effectiveness of internal controls over financial reporting, the audit or interim reviews of financial statements of certain subsidiaries and of various pension and benefits plans of the Registrants; special attestation services as may be required by various government entities; and general advice and assistance related to accounting and/or disclosure matters with respect to new and proposed U.S. accounting standards, securities regulations, and/or laws.

12.4.2 Audit-Related Fees

Audit-related fees were for assurance and related services reasonably related to the performance of the audit or review of the annual financial statements, but which are not reported under "Audit Fees" above. These services consisted of audit work related to securities filings; refinancing of subsidiary companies; and accounting training.

12.4.3 Tax Fees

Tax fees were for professional services related to tax compliance, tax planning and tax advice. These services consisted of: tax compliance including the review of tax returns; assistance with questions regarding corporate tax audits; tax planning and advisory services relating to common forms of domestic and international taxation (i.e. income tax, capital tax, goods and services tax, and value added tax); and access fees for taxation database resources.

12.4.4 All Other Fees

Fees disclosed under this category would be for products and services other than those described under "Audit Fees", "Audit-Related Fees" and "Tax Fees" above. These finance services consisted of advice with respect to an internal reorganization initiative. There were no such services in 2013.

Table of Contents

13. FORWARD-LOOKING INFORMATION

This AIF contains certain forward-looking statements within the meaning of the *Private Securities Litigation Reform Act of 1995* (U.S.) and other relevant securities legislation relating, but not limited to expected improvements in operating efficiency and fluidity, the ability of information technology to improve service and provide sophisticated billing options, the benefits of lean process and continuous improvement principles, the cost of environmental remediation and anticipated capital expenditures. Forward-looking information typically contains statements with words such as “anticipate”, “believe”, “expect”, “plan” or similar words suggesting future outcomes.

Readers are cautioned not to place undue reliance on forward-looking information because it is possible that the Company will not achieve predictions, forecasts, projections and other forms of forward-looking information. Current economic conditions render assumptions, although reasonable when made, subject to greater uncertainty. In addition, except as required by law, CP undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

By its nature, the Company’s forward-looking information involves numerous assumptions, inherent risks and uncertainties, including but not limited to the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks in agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demand; inflation; changes in laws and regulations, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions on the financial position of pension plans and investments; and various events that could disrupt operations, including severe weather, droughts, floods, avalanches and earthquakes as well as security threats and the governmental response to them, and technological changes.

There are more specific factors that could cause actual results to differ materially from those described in the forward-looking statements contained in this AIF. These more specific factors are identified and discussed in Section 22, Business Risks and elsewhere in the Company’s 2014 MD&A.

Table of Contents

14. ADDITIONAL INFORMATION

14.1 Additional Company Information

Additional information, including the Company's Consolidated Financial Statements, press releases and other required filing documents, are available on SEDAR at www.sedar.com in Canada, on EDGAR at www.sec.gov in the U.S. and on the Company website at www.cpr.ca. Copies of such documents, as well as the Company's Notice of Intention to Make a NCIB, may be obtained by contacting the Corporate Secretary's Office. The aforementioned information is issued and made available in accordance with legal requirements and is not incorporated by reference into this AIF except as specifically stated.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of CP securities and securities authorized for issuance under equity compensation plans, where applicable, is contained in the information circular for the Company's most recent annual meeting of shareholders at which directors were elected.

Additional financial information is provided in the Company's Consolidated Financial Statements and MD&A for the most recently completed financial year.

This information is also available on the Company's website at www.cpr.ca.

Table of Contents

Canadian Pacific
7550 Ogden Dale Road SE
Calgary Alberta
Canada T2C 4X9

TSX/NYSE: CP
www.cpr.ca

Table of Contents

IT'S SIMPLE.

CANADIAN PACIFIC ANNUAL REPORT | 2014

IT'S SIMPLE.
CANADIAN PACIFIC ANNUAL REPORT | 2014

Table of Contents

BEST SERVICE.

LOWEST COST.

The best service in the industry, with the lowest cost basis. That's the CP story. Period.

This is not just about 2014's record performance. Delivering the highest-quality service at the lowest cost in the industry is our story every year. That objective has driven the transformational change we've undergone over the past two-and-a-half years, and it will continue to guide us as we convert that change into growth going forward.

BEST SERVICE.
LOWEST COST.
The best service in the industry, with the lowest cost basis. That's the CP story. Period.
This is not just about 2014's record performance. Delivering the highest-quality service at the lowest cost in the industry is our story every year. That objective has driven the transformational change we've undergone over the past two-and-a-half years, and it will continue to guide us as we convert that change into growth going forward.

Table of Contents

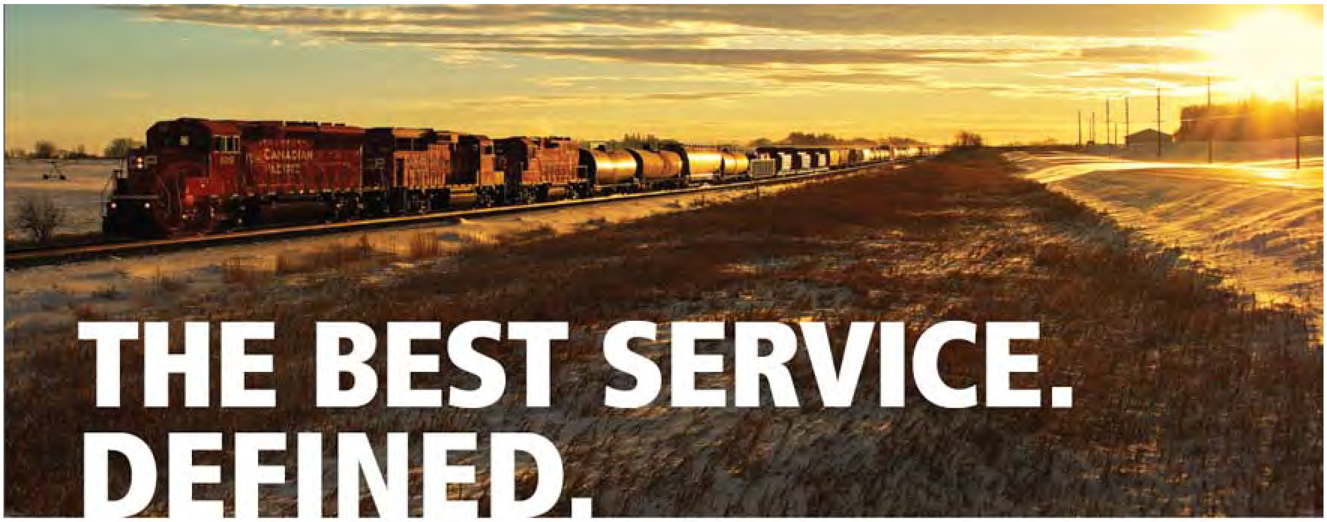
OPERATING RATIO IS JUST A NUMBER.

We achieved a 64.7 operating ratio for the full year 2014. That's excellent. We can and likely will do better in the future, but operating ratio is just a number.

We are not in this business to set operating ratio records. We are in this business to grow. The only meaningful way to do that is to serve customers better, at lower cost, than the competition. Safely. That's our focus.

OPERATING RATIO IS JUST A NUMBER We achieved a 64.7 operating ratio for the full year 2014. That's excellent. We can and likely will do better in the future, but operating ratio is just a number.
We are not in this business to set operating ratio records. We are in this business to grow. The only meaningful way to do that is to serve customers better, at lower cost, than the competition. Safely. That's our focus.

Table of Contents



While each customer has a unique mix of requirements, our definition of great service is the same for every customer: Do what you say you'll do. Very simple. Do exactly what you say you'll do, when you say you'll do it, every time.

Notice that we said simple, not easy. If it were easy, everyone would be doing it. We're not perfect, but we know this: When you consistently deliver as promised, customers will come to you, and stick with you. And so will smart shareholders.

THE BEST SERVICE. DEFINED.
While each customer has a unique mix of requirements, our definition of great service is the same for every customer: Do what you say you'll do. Very simple. Do exactly what you say you'll do, when you say you'll do it, every time. Notice that we said simple, not easy. If it were easy, everyone would be doing it. We're not perfect, but we know this: When you consistently deliver as promised, customers will come to you, and stick with you. And so will smart shareholders.

Table of Contents

When we say lowest cost, we don't mean lowest price. Delivering faster, better, more reliable service has value to our customers. We expect to be able to charge a fair price for that value.

Our service is not a commodity. Our prices are competitive, but we will walk away before we will compete solely on price. We are simply not interested in business we can't do at a fair profit. We have already proven our commitment to that philosophy. It will be our philosophy going forward.

LOWEST COST. NOT LOWEST PRICE.
When we say lowest cost, we don't mean lowest price. Delivering faster, better, more reliable service has value to our customers. We expect to be able to charge a fair price for that value.
Our service is not a commodity. Our prices are competitive, but we will walk away before we will compete solely on price. We are simply not interested in business we can't do at a fair profit. We have already proven our commitment to that philosophy. It will be our philosophy going forward.

Table of Contents

For CP, a lower cost basis does more than contribute to earnings. It gives us more flexibility. We can compete for business we couldn't even consider a few years ago, opening exciting new playing fields and expanding our options for driving the top line. And with a lower breakeven point, we are more durable in a downturn.

A low-cost position also allows us to be more agile. If one business declines, we can quickly re-purpose key assets or shift investments to serve other customers until it cycles back.

LOWEST COST MEANS MORE FLEXIBILITY
For CP, a lower cost basis does more than contribute to earnings. It gives us more flexibility. We can compete for business we couldn't even consider a few years ago, opening exciting new playing fields and expanding our options for driving the top line. And with a lower breakeven point, we are more durable in a downturn.
A low-cost position also allows us to be more agile. If one business declines, we can quickly re-purpose key assets or shift investments to serve other customers until it cycles back.
8 CP ANNUAL REPORT | 2014 9

Table of Contents

IT'S NOT ABOUT THE PRICE OF CRUDE.
Our story is not about crude oil prices. Or the weather, or the economy, or any other external force that's on people's minds at a given moment. We have built CP to thrive and grow in all market conditions. When we deliver the highest levels of service at the lowest cost, CP can weather any storm.
Remember that regardless of what's going on in the world, goods need to be moved. And when we execute our model, nobody, not even trucks, can move goods more efficiently and more reliably than CP.

Table of Contents

WE ARE FOCUSED ON GROWTH.

We have improved more rapidly, more profoundly, more dramatically, than any other Class 1 railroad in history. But that's old news now.

What excites us is growth. Serving our customers. Competing for business. Excelling at the fundamentals. Getting up early every day and being the best we can be as railroaders.

As we become more and more successful at taking our lower-cost, higher-quality rail offering to market, we will grow. Then, everybody wins. Shareholders and customers, company and employees, families and communities.

WE ARE FOCUSED ON GROWTH.
We have improved more rapidly, more profoundly, more dramatically, than any other Class 1 railroad in history. But that's old news now.
What excites us is growth. Serving our customers. Competing for business. Excelling at the fundamentals. Getting up early every day and being the best we can be as railroaders.
As we become more and more successful at taking our lower-cost, higher-quality rail offering to market, we will grow. Then, everybody wins. Shareholders and customers, company and employees, families and communities.

Table of Contents

SIMPLE.

BEST SERVICE. LOWEST COST.

If you remember nothing else from the 2014 CP Annual Report, remember these two simple concepts. Because boiled down to its essence, they have always been the CP story. And it is FAR from over.

SIMPLE. BEST SERVICE. LOWEST COST. If you remember nothing else from the 2014 CP Annual Report, remember these two simple concepts. Because boiled down to its essence, they have always been the CP story. And it is FAR from over.

Table of Contents

DEAR SHAREHOLDERS:

What we achieved in 2014 was powerful. I'm not just talking about our record-breaking results. In a little over two years, we've succeeded in building CP into an industry leader. We've become the railroad I knew we could be the day I took this job.

Our financial results in 2014 were phenomenal. In the fourth quarter, we grew revenues by 10 per cent while posting a sub-60 operating ratio, proving our ability to manage costs while growing the top line. Our full-year numbers were equally impressive – revenue hitting an all-time high of $6.62 billion; reported earnings per share reached $8.46, and adjusted EPS climbed 32 per cent to $8.50. Our full-year operating ratio for 2014 was 64.7 per cent, a 520 basis-point improvement on an adjusted basis.

But the CP story is not about last year's numbers.

CP is now an industry leader instead of an industry underachiever. We have solidified our company as a leading low-cost provider delivering premium quality service. Our story now is all about converting those two important strengths into growth.

NEW PLAN, NEW PRIORITY

Last fall, we announced our plan to reach an aggressive set of goals for 2018, focused on growing revenue, increasing EPS and generating cash. We put out some big numbers – $10 billion in full-year revenue, double our EPS, $6 billion in cumulative cash flow before dividends. The plan includes carefully managing capital to drive growth at low incremental cost and continuing to improve our operating ratio.

We are going to invest in infrastructure to support growth, including strategic siding extensions and Centralized Traffic Control (CTC) technology. Our objective is to increase our network velocity, build capacity and enhance our ability to operate safely as we grow.

We are going to assess new business opportunities on a case-by-case basis. While our premium quality service opens high-value markets for us in merchandise and intermodal segments, our low-cost base gives us new flexibility in other segments to profitably balance price with volume and cash flow.

CONFIDENCE IN THE PLAN

I know our investors are viewing the current low crude prices with great concern. Many are seeing an energy sector downturn as a major challenge standing in the way of us achieving our 2018 goals. We remain confident in our plan.

We are not pinning our success as a railroad on the energy sector. Ours is a solid, highly diverse franchise, with a multitude of exciting growth opportunities. And by investor standards, four years is a long-term strategy. A lot can happen during that time. When crude cycles back, we're in a great position to benefit, but we are not dependent on it.

A SIMPLE FOCUS: LOWEST COST. BEST SERVICE.

There are plenty of opportunities left to lower our costs, and trust me, I'm sure you could still find a customer or two who are not thrilled with our service. We're going to keep getting better at this. We have gotten to where we are today by improving cost and service simultaneously. Anyone who knows me knows that the process of uncovering opportunities to improve in both areas will never end. That's a given, not our story.

This is our story. Four simple words. Lowest cost, best service. As a business, when you focus on that, when you achieve that, consistently and over time, everything else takes care of itself. That's what we're going to do.

MAXIMIZING VALUE AND RETURNS FOR OUR SHAREHOLDERS

As we pursue our growth objectives over the next four years, we will also take every opportunity to deliver value and investment returns to you, our shareholders.

With an improved balance sheet we were able to repurchase approximately 10.5 million shares in 2014, demonstrating our belief in the long-term prospects of the company. We also entered into a joint venture with a leading real estate firm in January of 2015 to assess, develop and implement strategies for realizing maximum long-term shareholder value from surplus land.

NEXT: CONVERTING LEADERSHIP INTO GROWTH

We're shifting our focus from cost control to growth after transforming this company in record time. We will always work to improve efficiency, but we've turned the corner. This is the next phase: Grow the business. I'm sure there will be challenges ahead, but I have no doubt that we're going to continue to achieve and surpass our goals. I thank you for your confidence and continued support.

Sincerely,

E. Hunter Harrison
Chief Executive Officer

Table of Contents

EXECUTIVE LEADERSHIP

E. HUNTER HARRISON
Chief Executive Officer

KEITH CREEL
President and Chief Operating Officer

GUIDO DE CICCIO
Senior Vice-President Operations, Western Region

BART DEMOSKY
Executive Vice-President and Chief Financial Officer

PETER EDWARDS
Vice-President, Human Resources and Labour Relations

PAUL A. GUTHRIE
Chief Legal Officer and Corporate Secretary

ROBERT JOHNSON
Senior Vice-President Operations, Southern Region

SCOTT MACDONALD
Senior Vice-President Operations (System)

TONY MARQUIS
Senior Vice-President Operations, Eastern Region

LAIRD PITZ
Vice-President and Chief Risk Officer

MICHAEL REDEKER
Vice-President and Chief Information Officer

MARK WALLACE
Vice-President, Corporate Affairs and Chief of Staff

Table of Contents

TABLE OF CONTENTS

This Management's Discussion and Analysis ("MD&A") is provided in conjunction with the Consolidated Financial Statements and related notes for the year ended December 31, 2014 prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All information has been prepared in accordance with GAAP, except as described in Section 15, Non-GAAP Measures of this MD&A. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars.

February 23, 2015

In this MD&A, "our", "us", "we", "CP", "Canadian Pacific" and "the Company" refer to Canadian Pacific Railway Limited ("CPRL"), CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL's subsidiaries, as the context may require. Other terms not defined in the body of this MD&A are defined in Section 26, Glossary of Terms.

Unless otherwise indicated, all comparisons of results for 2014 and 2013 are against the results for 2013 and 2012, respectively. Unless otherwise indicated, all comparisons of results for the fourth quarter of 2014 are against the results for the fourth quarter of 2013.

1. BUSINESS PROFILE

Canadian Pacific Railway Limited, through its subsidiaries, operates a transcontinental railway in Canada and the United States ("U.S.") and provides logistics and supply chain expertise. CP provides rail and intermodal transportation services over a network of approximately 13,700 miles, serving the principal business centres of Canada from Montreal, Quebec, to Vancouver, British Columbia ("B.C."), and the U.S. Northeast and Midwest regions. Our railway feeds directly into the U.S. heartland from the East and West coasts. Agreements with other carriers extend the Company's market reach east of Montreal in Canada, throughout the U.S. and into Mexico. The Company transports bulk commodities, merchandise freight and intermodal traffic. Bulk commodities include Canadian grain, U.S. grain, coal, potash, and fertilizers and sulphur. Merchandise freight consists of finished vehicles and automotive parts, chemicals and plastics, crude oil, forest products, and metals, minerals, and consumer products. Intermodal traffic consists largely of high-value, time-sensitive retail goods in overseas containers that can be transported by train, ship and truck, and in domestic containers and trailers that can be moved by train and truck.

2. STRATEGY

Canadian Pacific is driving change as it moves through its transformational journey to become the best railroad in North America, while creating long-term value for shareholders. The Company is focused on providing customers with industry leading rail service; driving sustainable, profitable growth; optimizing our assets; and reducing costs, while remaining a leader in rail safety.

Looking forward, CP is executing its strategic plan to become the lowest cost rail carrier centred on five key foundations, which are the Company's performance drivers.

Provide Service: Providing efficient and consistent transportation solutions for the Company's customers. "Doing what we say we are going to do" is what drives CP by providing a reliable product with a lower cost operating model. Centralized planning aligned with local execution is bringing the Company closer to the customer and accelerating decision-making.

Control Costs: Controlling and removing unnecessary costs from the organization, eliminating bureaucracy and continuing to identify productivity enhancements are the keys to success.

Optimize Assets: Through longer sidings, improved asset utilization, and increased train lengths, the Company is moving increased volumes with fewer locomotives and cars while unlocking capacity for future growth potential.

Table of Contents

Operate Safely: Each year, CP safely moves millions of carloads of freight across North America while ensuring the safety of our people and the communities through which we operate. Safety is never to be compromised. Continuous research and development in state-of-the-art safety technology and highly focused employees ensure our trains are built for safe, efficient operations across our network.

Develop People: CP recognizes that none of the other foundations can be achieved without its people. Every CP employee is a railroader and the Company is shaping a new culture focused on a passion for service with integrity in everything it does. Coaching and mentoring managers into becoming leaders will help drive CP forward.

3. FORWARD-LOOKING INFORMATION

This MD&A and Annual Report contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 and other relevant securities legislation. These forward-looking statements include, but are not limited to, statements concerning the Company's defined benefit pension expectations for 2015 and through 2018, including our targeted revenues of $10 billion in 2018, our expected cumulative cash flow before dividends of $6 billion and our expected diluted EPS of more than double 2014 diluted EPS, as well as statements concerning the Company's operations, anticipated financial performance, business prospects and strategies, including statements concerning the anticipation that cash flow from operations and various sources of financing will be sufficient to meet debt repayments and obligations in the foreseeable future and concerning anticipated capital programs, statements regarding future payments including income taxes and pension contributions, and capital expenditures. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan" or similar words suggesting future outcomes.

Readers are cautioned not to place undue reliance on forward-looking information because it is possible that CP will not achieve predictions, forecasts, projections and other forms of forward-looking information. Current economic conditions render assumptions, although reasonable when made, subject to greater uncertainty. In addition, except as required by law, CP undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, including but not limited to the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks in agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demand; inflation; changes in laws and regulations, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions on the financial position of pension plans and investments; and various events that could disrupt operations, including severe weather, droughts, floods, avalanches and earthquakes as well as security threats and the governmental response to them, and technological changes.

There are more specific factors that could cause actual results to differ materially from those described in the forward-looking statements contained in this MD&A. These more specific factors are identified and discussed in Section 22, Business Risks and elsewhere in this MD&A. Other risks are detailed from time to time in reports filed by CP with securities regulators in Canada and the United States.

Financial Assumptions

Financial expectations for 2015

The Company expects revenue growth to be 7-8%, operating ratio below 62% and adjusted earnings per share ("EPS") growth to be 25% or greater from 2014 annual Diluted EPS, excluding significant items, of $8.50, discussed further in Section 15, Non-GAAP Measures. Key assumptions for full year 2015 financial expectations include:

- no assumption on share buybacks beyond current Normal Course Issuer Bid ("NCIB") program expiring March 16, 2015;
- Canadian dollar to U.S. dollar exchange rate of $1.20;
- an income tax rate of 27.5%;
- defined benefit pension expense of approximately $45 million, compared to 2014 pension income of $52 million;
- capital expenditures of approximately $1.5 billion;
- average On Highway Diesel ("OHD") price of U.S. $2.70;
- average WTI price of U.S. $46; and
- 140,000 crude carloads.

Table of Contents

Defined benefit pension expectations for 2015

Defined benefit pension contributions are currently estimated to be between $80 million and $90 million in 2015, and between $50 million and $100 million in each year from 2016 to 2018. This contribution level reflects the Company's intentions with respect to the rate at which CP applies the voluntary prepayments made in previous years to reduce contribution requirements. Defined benefit pension expense for 2015 is expected to be approximately $45 million. These pension contributions and pension expense estimates are based on a number of economic and demographic assumptions and are sensitive to changes in the assumptions or to actual experience differing from the assumptions. Pensions are discussed further in Section 23, Critical Accounting Estimates.

Financial expectations through 2018

CP is targeting to grow revenues to $10 billion in 2018. Over the 2015 to 2018 time frame, CP also expects to generate cumulative cash flow before dividends, discussed further in Section 15, Non-GAAP Measures, of $6 billion and for Diluted EPS to more than double compared to 2014. Key assumptions to reaching these goals include:

- annual capital spending in the range of $1.4 billion to $1.6 billion;
- average fuel cost of U.S. $3.50 per U.S. gallon;
- Canadian to U.S. dollar exchange rate of 1.10; and
- income tax rate of 27.5%.

Undue reliance should not be placed on these assumptions and other forward-looking information.

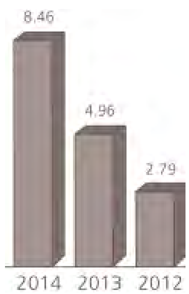
4. ADDITIONAL INFORMATION

Additional information, including the Company's Consolidated Financial Statements, press releases and other required filing documents, are available on SEDAR at www.sedar.com in Canada, on EDGAR at www.sec.gov in the U.S. and on the Company website at www.cpr.ca. Copies of such documents, as well as the Company's Notice of Intention to Make a NCIB, may be obtained by contacting the Corporate Secretary's Office. The aforementioned documents are issued and made available in accordance with legal requirements and are not incorporated by reference into this MD&A.

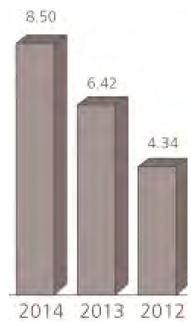
5. FINANCIAL HIGHLIGHTS

For the year ended December 31 (in millions, except percentages and per share data)	**2014**	2013	2012
Revenues	**$ 6,620**	$ 6,133	$ 5,695
Operating income	**2,339**	1,420	949
Operating income, excluding significant items(1)	**2,335**	1,844	1,309
Net income	**1,476**	875	484
Basic earnings per share	**8.54**	5.00	2.82
Diluted earnings per share	**8.46**	4.96	2.79
Diluted earnings per share, excluding significant items(1)	**8.50**	6.42	4.34
Dividends declared per share	**1.4000**	1.4000	1.3500
Return on capital employed ("ROCE")(2)	**14.9%**	9.5%	6.9%
Operating ratio	**64.7%**	76.8%	83.3%
Operating ratio, excluding significant items(1)	**64.7%**	69.9%	77.0%
Free cash(1)	**725**	530	93
Total assets at December 31	**16,640**	17,060	14,727
Total long-term financial liabilities at December 31(3)	**5,746**	4,784	4,735

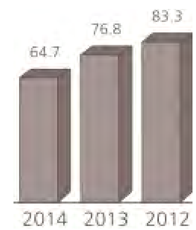
Table of Contents



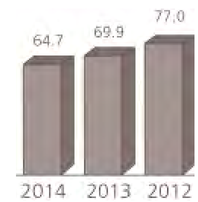
Diluted EPS ($)



Diluted EPS, excluding significant items ($)[(1)]



Operating ratio (%)



Operating ratio, excluding significant items (%)[(1)]

[(1)] These measures have no standardized meaning prescribed by GAAP and, therefore, unlikely to be comparable to similar measures of other companies. These earnings measures and significant items are discussed further in Section 15, Non-GAAP Measures along with a reconciliation of free cash to GAAP cash position.

[(2)] ROCE is defined as earnings before interest and taxes (“EBIT”), divided by the average for the year of total assets, less current liabilities, as measured under GAAP and it is discussed further in Section 15, Non-GAAP Measures.

[(3)] Total long-term financial liabilities excludes: deferred taxes of $2,773 million, $2,903 million and $2,092 million, and other non-financial long-term liabilities of $1,100 million, $898 million and $1,573 million for the years 2014, 2013 and 2012 respectively.

Table of Contents

6. OPERATING RESULTS

Income

Operating income was $2,339 million in 2014, an increase of $919 million, or 65%, from $1,420 million in 2013. This increase was primarily due to:

- an asset impairment charge in 2013;
- higher volumes of traffic, as measured by revenue ton-miles (“RTMs”), generating higher freight revenue;
- efficiency savings generated from improved operating performance, asset utilization and insourcing of certain Information Technology (“IT”) activities;
- lower pension expense;
- the favourable impact of the change in foreign exchange (“FX”); and
- lower casualty expense.

This increase in Operating income was partially offset by higher incentive and stock-based compensation resulting from improved corporate performance and higher wage and benefit inflation.

Operating income was $1,420 million in 2013, an increase of $471 million, or 50%, from $949 million in 2012. This increase was primarily due to:

- efficiency savings generated from improved operating performance, asset utilization and insourcing of certain IT activities;
- increased volumes of traffic, as measured by RTMs, generating higher freight revenue;
- higher freight rates;
- the net impact of a strike in the second quarter of 2012;
- labour restructuring charges in 2012 and associated experience gains in 2013;
- lower management transition costs and a favourable litigation settlement related to management transition in 2013; and
- the favourable impact of the change in FX.

This increase was partially offset by:

- a higher asset impairment charge in 2013 due to the anticipated sale of a portion of Dakota, Minnesota & Eastern (“DM&E”) line west of Tracy, Minnesota (“DM&E West”) compared to the impairment of various assets in 2012, discussed further in Section 9, Operating Expenses;
- higher volume variable expenses as a result of an increase in workload;
- higher incentive and stock-based compensation expenses;
- wage and benefit inflation; and
- higher depreciation and amortization expenses due to higher depreciable assets as a result of the Company’s capital program.

Net income was $1,476 million in 2014, an increase of $601 million, or 69%, from $875 million in 2013. This increase was primarily due to higher Operating income, partially offset by an increase in Income tax expense.

Net income was $875 million in 2013, an increase of $391 million, or 81%, from $484 million in 2012. This increase was primarily due to higher Operating income and a decrease in Other income and charges due to advisory fees related to shareholder matters in 2012 and was partially offset by higher Income tax expenses due to the impact of higher earnings.

Diluted Earnings per Share

Diluted earnings per share was $8.46 in 2014, an increase of $3.50, or 71% from $4.96 in 2013. Excluding the two significant items totaling $0.04 per share, discussed further in Section 15, Non-GAAP Measures, Diluted EPS, excluding significant items, was $8.50 in 2014, an increase of $2.08, or 32%, from $6.42 in 2013. These increases were primarily due to higher Net income and lower average outstanding shares due to the share repurchase program.

Diluted EPS was $4.96 in 2013, an increase of $2.17, or 78% from $2.79 in 2012. Excluding the five significant items totaling $1.46 per share, discussed further in Section 15, Non-GAAP Measures, Diluted EPS, excluding significant items, was $6.42 in 2013, an increase of $2.08, or 48%, from $4.34 in 2012. These increases were primarily due to higher Net income.

Diluted EPS, excluding significant items, has no standardized meaning prescribed by GAAP and, therefore, may not be comparable to similar measures presented by other companies.

Table of Contents

Operating Ratio

The operating ratio provides the percentage of revenues used to operate the railway, and is calculated as operating expenses divided by revenues. A lower percentage normally indicates higher efficiency in the operation of the railway. The Company's operating ratio was 64.7% in 2014, a decrease from 76.8% in 2013. This improvement was primarily due to an asset impairment charge in 2013, higher volumes of traffic generating higher freight revenues, and efficiency savings; partially offset by higher incentive and stock-based compensation resulting from improved corporate performance, and higher wage and benefit inflation.

The operating ratio, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was 64.7% in 2014, a decrease from 69.9% in 2013. This improvement was primarily due to higher volumes generating higher freight revenues and efficiency savings, partially offset by higher incentive and stock-based compensation resulting from improved corporate performance, and higher wage and benefit inflation.

The operating ratio was 76.8% in 2013, a decrease from 83.3% in 2012. This improvement was primarily due to efficiency savings, increased volumes of traffic and higher freight rates, partially offset by a higher asset impairment charge.

The operating ratio, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was 69.9% in 2013, a decrease from 77.0% in 2012. This improvement was primarily due to an increase in efficiency savings, increased volumes of traffic and higher freight rates.

Operating ratio, excluding significant items, has no standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies.

Return on Capital Employed

The calculation of ROCE utilizes Earnings Before Interest and Taxes ("EBIT") on a rolling twelve month basis. ROCE was 14.9% at December 31, 2014, compared with 9.5% in 2013. This improvement was primarily due to higher earnings. Excluding the significant items in 2014 and 2013 from EBIT, Adjusted ROCE was 14.9% at December 31, 2014, compared with 12.4% in 2013. This improvement was primarily due to higher earnings.

ROCE was 9.5% at December 31, 2013, compared with 6.9% in 2012. This improvement was primarily due to higher earnings partially offset by a higher asset impairment charge. Excluding the significant items in 2013 and 2012 from EBIT, Adjusted ROCE was 12.4% at December 31, 2013, compared with 9.8% in 2012. This improvement was primarily due to higher earnings.

ROCE, Adjusted ROCE, EBIT and Adjusted EBIT and significant items are discussed further in Section 15, Non-GAAP Measures.

Impact of Foreign Exchange on Earnings

Fluctuations in foreign exchange affect the Company's results because U.S. dollar-denominated revenues and expenses are translated into Canadian dollars. U.S. dollar-denominated revenues and expenses increase (decrease) when the Canadian dollar weakens (strengthens) in relation to the U.S. dollar.

Canadian to U.S. dollar Average exchange rates	**2014**	2013	2012
For the year ended – December 31	**$ 1.10**	$ 1.03	$ 1.00
For the three months ended – December 31	**$ 1.13**	$ 1.04	$ 0.99

Canadian to U.S. dollar Exchange rates	**2014**	2013	2012
Beginning of year – January 1	**$ 1.06**	$ 0.99	$ 1.02
Beginning of quarter – April 1	**$ 1.11**	$ 1.02	$ 1.00
Beginning of quarter – July 1	**$ 1.07**	$ 1.05	$ 1.02
Beginning of quarter – October 1	**$ 1.12**	$ 1.03	$ 0.98
End of quarter – December 31	**$ 1.16**	$ 1.06	$ 0.99

Average Fuel Price

(U.S. dollars per U.S. gallon)	**2014**	2013	2012
For the year ended – December 31	**$ 3.41**	$ 3.47	$ 3.45
For the three months ended – December 31	**$ 3.11**	$ 3.51	$ 3.47

Table of Contents

7. PERFORMANCE INDICATORS

For the year ended December 31[1]	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Operations Performance					
Freight gross ton-miles (“GTMs”) (millions)	**273,276**	267,629	254,354	2	5
Revenue ton-miles (“RTMs”) (millions)	**149,849**	144,249	135,032	4	7
Train miles (thousands)	**36,625**	37,817	40,270	(3)	(6)
Average train weight – excluding local traffic (tons)	**8,046**	7,573	6,709	6	13
Average train length – excluding local traffic (feet)	**6,683**	6,530	5,981	2	9
Average terminal dwell (hours)	**8.7**	7.1	7.5	23	(5)
Average train speed (mph)[2]	**18.1**	18.4	N/A	(2)	N/A
Fuel efficiency (U.S. gallons of locomotive fuel consumed /1,000 GTMs)	**1.03**	1.06	1.15	(3)	(8)
Total employees (average)[3]	**14,575**	15,011	16,999	(3)	(12)
Workforce (end of period)	**14,698**	14,977	16,907	(2)	(11)
Safety Indicators					
FRA personal injuries per 200,000 employee-hours	**1.67**	1.71	1.56	(2)	10
FRA train accidents per million train-miles	**1.26**	1.80	1.69	(30)	7

(1) Certain prior period figures have been revised to conform with current presentation or have been updated to reflect new information.
(2) 2012 average train speed information not available for new reporting definition.
(3) 2012 average number of employees has been adjusted for a strike.

The indicators listed in this table are key measures of the Company’s operating performance. Definitions of these performance indicators are provided in Section 26, Glossary of Terms.

Operations Performance

GTMs for 2014 were 273,276 million, a 2% increase compared with 267,629 million in 2013. This improvement was primarily due to higher shipments in Canadian grain, Crude, Domestic intermodal, and Metals, minerals and consumer products.

RTMs for 2014 were 149,849 million, an increase of 4% compared with 144,249 million in 2013. RTMs are discussed further in Section 8, Lines of Business.

Train miles for 2014 decreased by 3% compared with 2013, reflecting improvements in operating efficiency from longer, heavier trains.

Average train weight increased in 2014 by 473 tons, or 6%, from 2013. Average train length increased in 2014 by 153 feet, or 2%, from 2013. Average train weight and length benefited significantly from improvements in operating plan efficiency and increased volumes of bulk traffic conveyed in longer, heavier trains. Both of these improvements leverage the siding extensions completed in 2013 and 2014.

Average terminal dwell, the average time a freight car resides in a terminal, increased by 23% in 2014 to 8.7 hours from 7.1 hours in 2013. The unfavourable increase was primarily due to operational challenges in the U.S. Midwest.

Average train speed was 18.1 miles per hour in 2014, a decrease of 2%, from 18.4 miles per hour in 2013. The unfavourable decrease was primarily due to operational challenges in the U.S. Midwest. This decrease was partially offset by speed improvements in the fourth quarter of 2014 through improved asset velocity, decreased terminal dwell, and successful execution of the Company’s operating plan.

Fuel efficiency improved by 3% in 2014 compared to 2013. This improvement is primarily due to the continued execution of the Company’s fuel conservation strategy and increased locomotive productivity from higher average train weights.

The average number of total employees for 2014 decreased by 436, or 3%, compared with 2013. This improvement was primarily due to job reductions as a result of continuing strong operational performance and natural attrition, partially offset by additional IT employees as part of the Company’s insourcing strategy.

The workforce on December 31, 2014 decreased by 279, or 2%, compared with December 31, 2013. This improvement was primarily due to job reductions as a result of continuing strong operational performance, natural attrition and fewer contractors.

Safety Indicators

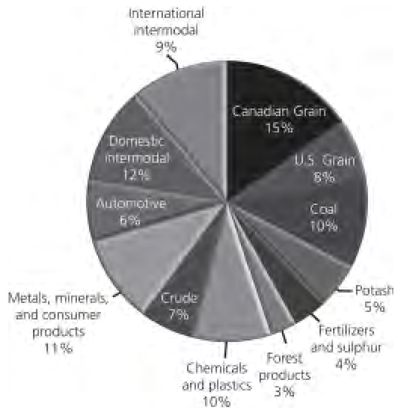
Safety is a key priority and core strategy for CP’s management, employees and Board of Directors. The Company’s two main safety indicators – personal injuries and train accidents – follow strict U.S. Federal Railroad Administration (“FRA”) reporting guidelines.

The FRA personal injury rate per 200,000 employee-hours for CP was 1.67 in 2014, 1.71 in 2013 and 1.56 in 2012.

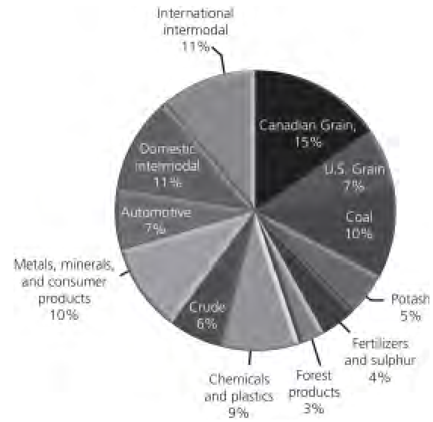
The FRA train accident rate for CP in 2014 was 1.26 accidents per million train-miles, compared with 1.80 in 2013 and 1.69 in 2012.

Table of Contents

8. LINES OF BUSINESS



2014 Freight Revenues



2013 Freight Revenues

Total Revenue, Volumes and Freight Rates

For the year ended December 31	**2014**	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Freight revenues (in millions)	**$ 6,464**	$ 5,982	$ 5,550	8	8
Other revenues (in millions)	**156**	151	145	3	4
Total revenues (in millions)	**$ 6,620**	$ 6,133	$ 5,695	8	8
Carloads (in thousands)	**2,684**	2,688	2,669	–	1
Revenue ton-miles (in millions)	**149,849**	144,249	135,032	4	7
Freight revenue per carload (dollars)	**$ 2,408**	$ 2,226	$ 2,079	8	7
Freight revenue per revenue ton-mile (cents)	**4.31**	4.15	4.11	4	1

The Company's revenues are primarily derived from transporting freight. Other revenue is generated from leasing of certain assets, switching fees, contracts with passenger service operators, and logistical management services. Changes in freight volumes generally contribute to corresponding changes in freight revenues and certain variable expenses, such as fuel, equipment rents and crew costs.

For each of the twelve months ended December 31, 2014, 2013 and 2012, no customer comprised more than 10% of total revenues and accounts receivable.

2014 TO 2013 COMPARATIVES

Freight Revenues

Freight revenues are earned from transporting bulk commodities, merchandise and intermodal goods, and include fuel recoveries billed to the Company's customers. Freight revenues were $6,464 million in 2014, an increase of $482 million, or 8% from $5,982 million in 2013. This increase was primarily due to:

- higher volumes in Canadian grain, Domestic intermodal, Crude, and Metals, minerals and consumer products;
- higher freight rates; and
- the favourable impact of the change in FX.

This increase was partially offset by:

- lower shipments in International intermodal and Automotive, primarily due to the exit of certain customer contracts;
- lower Fertilizers and sulphur shipments primarily due to sulphur production shutdowns; and
- lower shipments in certain lines of business in the first half of the year due to the impact of harsh winter operating conditions.

Table of Contents

In 2014, RTMs, measuring the relative weight and distance of rail freight moved by the Company, increased by approximately 5,600 million, or 4% compared to the same period of 2013. This increase was primarily due to higher:

- Canadian originating shipments of grain;
- volumes in energy related commodities and frac sand; and
- Domestic intermodal shipments.

This increase was partially offset by lower:

- International intermodal shipments;
- Fertilizers and sulphur shipments; and
- U.S. originating thermal coal shipments.

Fuel Cost Recovery Program

CP employs a fuel cost recovery program designed to automatically respond to fluctuations in fuel prices and help reduce volatility to changing fuel prices. Fuel surcharge revenue is earned on individual shipments primarily based on OHD; as such, fuel surcharge revenue is a function of freight volumes. Short-term volatility in fuel prices may adversely or positively impact expenses and revenues.

Canadian Grain

For the year ended December 31	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Freight revenues (in millions)	**$ 988**	$ 869	$ 767	14	13
Carloads (in thousands)	**291**	256	248	14	3
Revenue ton-miles (in millions)	**26,691**	22,864	22,149	17	3
Freight revenue per carload (dollars)	**$ 3,391**	$ 3,397	$ 3,089	–	10
Freight revenue per revenue ton-mile (cents)	**3.70**	3.80	3.46	(3)	10

CP's Canadian grain business consists of whole grains, oilseeds and grain products originating in the Canadian prairies, moving to export outlets on the west and east coasts, as well as processors in Canada, U.S. and Mexico for domestic use. Canadian grain revenue was $988 million in 2014, an increase of $119 million, or 14% from $869 million in 2013. This increase was primarily due to higher shipments as a result of strong export demand and record Canadian crop production, partially offset by reduced freight rates.

U.S. Grain

For the year ended December 31	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Freight revenues (in millions)	**$ 503**	$ 431	$ 405	17	6
Carloads (in thousands)	**173**	182	185	(5)	(2)
Revenue ton-miles (in millions)	**11,724**	11,119	10,933	5	2
Freight revenue per carload (dollars)	**$ 2,909**	$ 2,359	$ 2,188	23	8
Freight revenue per revenue ton-mile (cents)	**4.29**	3.87	3.70	11	5

CP's U.S. grain traffic originates in key Midwest grain producing states and moves over multiple gateways within the U.S. for domestic use and to export outlets in the Pacific Northwest, Northeast U.S. and Gulf of Mexico. U.S. Grain revenue was $503 million in 2014, an increase of $72 million, or 17% from $431 million in 2013. This increase was primarily due to:

- higher freight rates;
- increased volume to the Pacific Northwest, which has a longer length of haul, in the second half of the year; and
- the favourable impact of the change in FX.

This increase was partially offset by the impact of harsh winter operating conditions in the first quarter of 2014.

Table of Contents

Coal

For the year ended December 31	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Freight revenues (in millions)	**$ 621**	$ 627	$ 602	(1)	4
Carloads (in thousands)	**313**	330	337	(5)	(2)
Revenue ton-miles (in millions)	**22,443**	23,172	22,375	(3)	4
Freight revenue per carload (dollars)	**$ 1,985**	$ 1,904	$ 1,787	4	7
Freight revenue per revenue ton-mile (cents)	**2.77**	2.71	2.69	2	1

CP serves both the metallurgical and thermal coal markets. The Company's Canadian coal business consists primarily of metallurgical coal transported from Southeastern B.C. to the ports of Vancouver, B.C. and Thunder Bay, Ontario. CP's U.S. coal business consists primarily of the transportation of thermal coal and petroleum coke within the U.S. Midwest or for export through west coast ports. Coal revenue was $621 million in 2014, a decrease of $6 million, or 1% from $627 million in 2013. This decrease was primarily due to lower shipments of U.S. originating thermal coal, partially offset by higher Canadian originating shipments of metallurgical coal, and increased freight rates.

Potash

For the year ended December 31	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Freight revenues (in millions)	**$ 347**	$ 312	$ 281	11	11
Carloads (in thousands)	**118**	114	103	4	11
Revenue ton-miles (in millions)	**14,099**	13,231	12,221	7	8
Freight revenue per carload (dollars)	**$ 2,941**	$ 2,745	$ 2,711	7	1
Freight revenue per revenue ton-mile (cents)	**2.46**	2.36	2.29	4	3

The potash transported by CP originates in Saskatchewan and is shipped to the ports of Vancouver, B.C. and Portland, Oregon, as well as to other Canadian and U.S. destinations. Potash revenue was $347 million in 2014, an increase of $35 million, or 11% from $312 million in 2013. This increase was primarily due to:

- the favourable impact of the change in FX;
- higher shipments, driven by export volumes in the second half of 2014 and higher domestic shipments in the first half of 2014; and
- higher freight rates.

This increase was partially offset by the impact of harsh winter operating conditions in the first quarter of 2014.

Fertilizers and Sulphur

For the year ended December 31	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Freight revenues (in millions)	**$ 234**	$ 258	$ 239	(9)	8
Carloads (in thousands)	**61**	71	74	(14)	(4)
Revenue ton-miles (in millions)	**4,180**	4,939	4,837	(15)	2
Freight revenue per carload (dollars)	**$ 3,801**	$ 3,615	$ 3,213	5	13
Freight revenue per revenue ton-mile (cents)	**5.59**	5.22	4.96	7	5

Fertilizers and sulphur include chemical fertilizers shipped mainly from western Canada to various North American locations, and sulphur originating primarily in Alberta and moving to the Port Metro Vancouver, B.C. and a variety of U.S. and Canadian destinations. Fertilizers and sulphur revenue was $234 million in 2014, a decrease of $24 million, or 9% from $258 million in 2013. This decrease was primarily due to lower shipments resulting from weak demand and high inventory levels at destination, and a delayed return to full production of sulphur customer facilities. This decrease was partially offset by the favourable impacts of the change in FX and higher freight rates.

Table of Contents

Forest Products

For the year ended December 31	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Freight revenues (in millions)	**$ 206**	$ 206	$ 193	–	7
Carloads (in thousands)	**59**	66	67	(11)	(1)
Revenue ton-miles (in millions)	**3,956**	4,619	4,713	(14)	(2)
Freight revenue per carload (dollars)	**$ 3,493**	$ 3,132	$ 2,895	12	8
Freight revenue per revenue ton-mile (cents)	**5.20**	4.46	4.11	17	9

Forest products include wood pulp, paper products, lumber, and panel transported from key producing areas in western Canada, Ontario and Quebec to various destinations in North America. Forest products revenue was $206 million in 2014, unchanged from 2013. Increases within Forest products were due to:

- strong lumber demand with existing customers;
- the favourable impact of the change in FX; and
- higher freight rates.

These increases were offset by the exit of certain lumber customer contracts in Western Canada and lower pulp and paper shipments due to customer production issues.

Chemicals and Plastics

For the year ended December 31	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Freight revenues (in millions)	**$ 637**	$ 565	$ 512	13	10
Carloads (in thousands)	**198**	197	193	1	2
Revenue ton-miles (in millions)	**13,635**	13,573	13,233	–	3
Freight revenue per carload (dollars)	**$ 3,214**	$ 2,857	$ 2,649	12	8
Freight revenue per revenue ton-mile (cents)	**4.67**	4.15	3.87	13	7

The Company's chemicals and plastics business includes a wide range of commodities including petroleum products, chemicals, plastics, and liquid petroleum gas ("LPG") products that ship across the Company's network. Chemicals and plastics revenue was $637 million in 2014, an increase of $72 million, or 13% from $565 million in 2013. This increase was primarily due to:

- the favourable impact of the change in FX;
- higher freight rates; and
- an increase in volume from strong demand for liquefied petroleum gas, fuel oils, asphalt and plastics in the second half of 2014.

This increase was partially offset by lower shipments of biofuels in the first half of the year that resulted from supply chain issues.

Crude

For the year ended December 31	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Freight revenues (in millions)	**$ 484**	$ 375	$ 206	29	82
Carloads (in thousands)	**110**	90	54	22	67
Revenue ton-miles (in millions)	**16,312**	13,898	7,303	17	90
Freight revenue per carload (dollars)	**$ 4,419**	$ 4,144	$ 3,828	7	8
Freight revenue per revenue ton-mile (cents)	**2.97**	2.70	2.80	10	(4)

Table of Contents

The Company's crude origination franchise is located throughout Alberta, Saskatchewan and North Dakota and moves crude over connections with interline railroad partners to refining markets across North America. Crude revenue was $484 million in 2014, an increase of $109 million, or 29% from $375 million in 2013. This increase was primarily due to:

- increased shipments from Western Canada and the Bakken region;
- the favourable impact of the change in FX; and
- higher freight rates.

Metals, Minerals and Consumer Products

For the year ended December 31		2014		2013		2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Freight revenues (in millions)	**$**	**712**	$	608	$	550	17	11
Carloads (in thousands)		**253**		232		222	9	5
Revenue ton-miles (in millions)		**11,266**		10,404		9,933	8	5
Freight revenue per carload (dollars)	**$**	**2,814**	$	2,655	$	2,482	6	7
Freight revenue per revenue ton-mile (cents)		**6.32**		5.90		5.55	7	6

CP's metals, minerals and consumer products business is a diverse mix of input materials, such as aggregates, steel, consumer products and non-ferrous metals which are shipped throughout North America. Metals, minerals and consumer products revenue was $712 million in 2014, an increase of $104 million, or 17% from $608 million in 2013. This increase was primarily due to:

- higher volumes, primarily as a result of strong frac sand demand;
- the favourable impact of the change in FX; and
- higher freight rates.

Automotive

For the year ended December 31		2014		2013		2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Freight revenues (in millions)	**$**	**357**	$	403	$	425	(11)	(5)
Carloads (in thousands)		**134**		146		162	(8)	(10)
Revenue ton-miles (in millions)		**1,953**		2,329		2,482	(16)	(6)
Freight revenue per carload (dollars)	**$**	**2,670**	$	2,758	$	2,629	(3)	5
Freight revenue per revenue ton-mile (cents)		**18.26**		17.27		17.13	6	1

CP's automotive portfolio consists of four finished vehicle traffic segments: import vehicles that move through Port Metro Vancouver to Eastern Canadian markets; Canadian-produced vehicles that ship to the U.S. from Ontario production facilities; U.S.-produced vehicles that ship within the U.S. as well as cross-border into Canadian markets; and, Mexican-produced vehicles that ship to the U.S. and Canada. In addition to finished vehicles, CP ships automotive parts, machinery and pre-owned vehicles. Automotive revenue was $357 million in 2014, a decrease of $46 million, or 11% from $403 million in 2013. This decrease was primarily due to:

- a volume decline resulting from operational challenges in the U.S. Midwest following harsh winter operating conditions;
- the exit of a customer contract; and
- a reduction in long haul import traffic.

This decrease was partially offset by the favourable impact of the change in FX.

Table of Contents

Domestic Intermodal

For the year ended December 31	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Freight revenues (in millions)	**$ 787**	$ 684	$ 653	15	5
Carloads (in thousands)	**428**	370	347	16	7
Revenue ton-miles (in millions)	**11,867**	10,276	9,718	15	6
Freight revenue per carload (dollars)	**$ 1,837**	$ 1,850	$ 1,885	(1)	(2)
Freight revenue per revenue ton-mile (cents)	**6.63**	6.65	6.73	–	(1)

Domestic intermodal business primarily involves the distribution of container shipments from a broad spectrum of industries within North America. Domestic intermodal revenue was $787 million in 2014, an increase of $103 million, or 15% from $684 million in 2013. This increase was primarily due to higher volumes including short-haul expressway service between Toronto and Montreal.

International Intermodal

For the year ended December 31	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Freight revenues (in millions)	**$ 588**	$ 644	$ 717	(9)	(10)
Carloads (in thousands)	**546**	634	677	(14)	(6)
Revenue ton-miles (in millions)	**11,723**	13,825	15,135	(15)	(9)
Freight revenue per carload (dollars)	**$ 1,077**	$ 1,016	$ 1,058	6	(4)
Freight revenue per revenue ton-mile (cents)	**5.02**	4.66	4.73	8	(1)

International intermodal traffic involves the movement of ocean-carrier owned marine containers through North American ports to inland markets, as well as export shipments of goods through those ports to Asia, Europe and beyond. International intermodal revenue was $588 million in 2014, a decrease of $56 million, or 9% from $644 million in 2013. This decrease was due to lower volumes as a result of the exit of certain customer contracts. This decrease was partially offset by:

☐ higher transcontinental container volumes from existing customers;

☐ higher freight rates; and

☐ the favourable impact of the change in FX.

Other Revenue

Other revenue was $156 million in 2014, an increase of $5 million, or 3% from $151 million in 2013. This increase was primarily due to higher leasing revenues.

2013 TO 2012 COMPARATIVES

Revenue variances below compare 2013 to 2012 figures.

Freight Revenues

Freight revenues were $5,982 million in 2013, an increase of $432 million, or 8% from $5,550 million in 2012. This increase was primarily due to:

☐ higher shipments, as measured by RTMs, of Industrial and consumer products, Grain, Fertilizers and sulphur and Coal;

☐ increased freight rates;

☐ the favourable impact of the change in FX;

☐ the impact of a strike in 2012 on Canadian shipments; and

☐ higher fuel surcharge revenues due to an increase in traffic volumes with full margin coverage.

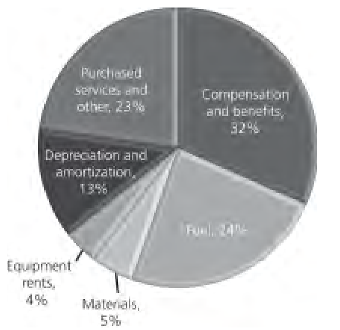
This increase was partially offset by lower shipments in Intermodal and Automotive and the impact of the network outages in the second quarter of 2013.

Other Revenue

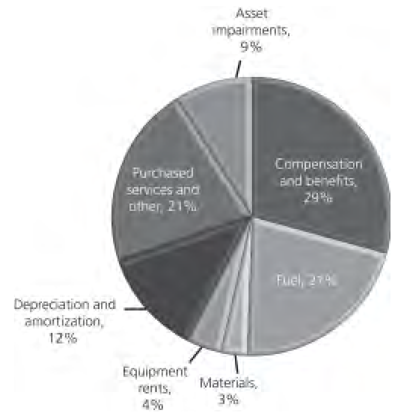
Other revenue was $151 million in 2013, an increase of $6 million, or 4% from $145 million in 2012. This increase was primarily due to higher leasing and interline switching revenues.

Table of Contents

9. OPERATING EXPENSES



2014 Operating expenses



2013 Operating expenses

For the year ended December 31 (in millions)		2014		2013		2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Operating expenses								
Compensation and benefits[1][2]	$	**1,352**	$	1,385	$	1,474	(2)	(6)
Fuel		**1,048**		1,004		999	4	1
Materials[2]		**193**		160		166	21	(4)
Equipment rents		**155**		173		206	(10)	(16)
Depreciation and amortization		**552**		565		539	(2)	5
Purchased services and other[1][2]		**985**		998		1,044	(1)	(4)
Asset impairments		**–**		435		265	(100)	64
Labour restructuring		**(4)**		(7)		53	43	–
Total operating expenses	**$**	**4,281**	$	4,713	$	4,746	(9)	(1)

[1] As a result of management transition, $20 million and $22 million were charged in Compensation and benefits and Purchased services and other, respectively in 2012. The U.S. $9 million recovery due to the favourable settlement of litigation recorded in first quarter of 2013 and $5 million management transition costs recorded in fourth quarter of 2013 were charged to Purchased services and other and Compensation and benefits, respectively.

[2] Billings to third parties for the recovery of costs incurred for freight car repairs and servicing have been reclassified from Purchased services and other to Compensation and benefits and Materials within Operating expenses.

Operating expenses were $4,281 million in 2014, a decrease of $432 million, or 9%, from $4,713 million in 2013. This decrease was primarily due to:

- an asset impairment charge in 2013;
- efficiencies generated from improved operating performance, asset utilization, and insourcing of certain IT activities;
- lower pension expense; and
- lower casualty expense.

This decrease was partially offset by:

- the unfavourable impact of the change in FX;
- higher stock-based and incentive compensation;
- wage and benefit inflation;
- higher material costs for freight car and locomotive repairs, and increased track maintenance activities; and
- higher volume variable expenses as a result of an increase in workload, as measured by GTMs.

Table of Contents

2014 TO 2013 COMPARATIVES

Compensation and Benefits

Compensation and benefits expense includes employee wages, salaries, fringe benefits and stock-based compensation. Compensation and benefits expense was $1,352 million in 2014, a decrease of $33 million, or 2%, from $1,385 million in 2013. This decrease was primarily due to:

- lower pension expense;
- lower costs achieved through a smaller workforce; and
- road and yard efficiencies as a result of continuing strong operational performance.

This decrease was partially offset by:

- higher incentive compensation;
- stock-based compensation primarily driven by the higher change in stock price;
- wage and benefit inflation;
- the unfavourable impact of the change in FX; and
- an increase in IT personnel as part of the Company's insourcing strategy, offset by efficiency savings recorded in Purchased services and other.

Fuel

Fuel expense consists mainly of fuel used by locomotives and includes provincial, state and federal fuel taxes. Fuel expense was $1,048 million in 2014, an increase of $44 million, or 4%, from $1,004 million in 2013. This increase was primarily due to the unfavourable change in FX and an increase in workload, as measured by GTMs.

This increase was partially offset by improvements in fuel efficiency as a result of increased train weights and focus on the fuel conservation strategies of the Company's operating plan, and reduced fuel prices.

Materials

Materials expense includes the cost of material used for track, locomotive, freight car, building maintenance and software sustainment. Materials expense was $193 million in 2014, an increase of $33 million or 21%, from $160 million in 2013. This increase was primarily due to increased freight car and locomotive repairs, and increased track maintenance activities.

Equipment Rents

Equipment rents expense includes the cost associated with using other companies' freight cars, intermodal equipment, and locomotives, net of rental income received from other railways for the use of CP's equipment. Equipment rents expense was $155 million in 2014, a decrease of $18 million or 10% from $173 million in 2013. This decrease is a result of operating efficiencies, resulting in the Company requiring fewer assets, thereby permitting the return or sublease of certain leased freight cars and locomotives. This decrease was offset by the unfavourable change in FX.

Depreciation and Amortization

Depreciation and amortization expense represents the charge associated with the use of track and roadway, buildings, rolling stock, information systems and other depreciable assets. Depreciation and amortization expense was $552 million for 2014, a decrease of $13 million, or 2%, from $565 million in the same period of 2013. This decrease was primarily due to:

- the favourable impact of depreciation studies implemented in 2014;
- a decrease in accelerated depreciation of IT assets; and
- lower depreciable assets resulting from the sale of DM&E West.

This decrease was partially offset by higher depreciable assets as a result of the Company's capital program as well as the change in FX.

Table of Contents

Purchased Services and Other

For the year ended December 31 (in millions)	**2014**	2013	2012	% Change 2014 vs 2013	% Change 2013 vs 2012
Purchased services and other					
Support and facilities	**$ 383**	$ 392	$ 420	(2)	(7)
Track and operations[1]	**210**	219	196	(4)	12
Intermodal	**167**	159	153	5	4
Equipment[1]	**178**	180	190	(1)	(5)
Casualty	**35**	63	80	(44)	(21)
Other[1]	**44**	23	28	91	(18)
Land sales	**(32)**	(38)	(23)	(16)	65
Total Purchased services and other	**$ 985**	$ 998	$ 1,044	(1)	(4)

[1] Billings to third parties for the recovery of costs incurred for freight car repairs and servicing have been reclassified from Purchased services and other to Compensation and benefits and Materials within Operating expenses.

Purchased services and other expense encompasses a wide range of costs, including expenses for joint facilities, personal injuries and damage, environmental remediation, property and other taxes, contractor and consulting fees, insurance, and gains on land sales. Purchased services and other expense was $985 million in 2014, a decrease of $13 million, or 1% from $998 million in 2013. This decrease was primarily due to:

- efficiencies generated mainly from insourcing of certain IT activities, included in Support and facilities;
- lower casualty expense; and
- lower locomotive overhauls as certain older locomotives undergo a life extension program, included in Equipment.

This decrease was partially offset by:

- the unfavourable impact of the change in FX;
- higher engineering maintenance work and dismantling costs, included in Track and operations;
- an insurance recovery in 2013, related to flooding in 2011, reported in Other;
- higher corporate sponsorships and donations, reported in Other;
- higher intermodal expenses related to pick up and delivery service, reported in Intermodal;
- a favourable settlement of litigation in 2013 related to management transition, included in Other; and
- higher legal fees, reported in Support and facilities.

Asset Impairments

On January 2, 2014, the Company executed an agreement with Genesee & Wyoming Inc ("G&W") for the sale of the DM&E West resulting in a 2013 charge of $435 million ($257 million after tax) for an asset impairment and accruals for costs associated with the sale. Upon closing on May 30, 2014, the sale generated U.S. $218 million in gross proceeds (CDN $236 million).

Labour Restructuring

In the fourth quarter of 2012, CP recorded a charge of $53 million ($39 million after tax) for a labour restructuring initiative. The majority of the resulting position reductions were completed in 2013 and 2014 with the remaining positions to be eliminated in 2015. As a result of favourable experience, the Company recorded a recovery of $4 million ($3 million after tax) in the first quarter of 2014 and $7 million ($5 million after tax) in the fourth quarter of 2013 for the labour restructuring initiative recorded in 2012.

2013 TO 2012 COMPARATIVES

Operating expense variances below compare 2013 to 2012 figures.

Table of Contents

Operating Expenses

Operating expenses were $4,713 million in 2013, a decrease of $33 million, or 1%, from $4,746 million in 2012. This decrease was primarily due to:

- efficiencies generated from improved operating performance, asset utilization, and insourcing of certain IT activities;
- higher labour restructuring charges in 2012 and associated experience gains in 2013;
- lower management transition costs, reflected in Compensation and benefits and Purchased services and other; and
- higher land sales in 2013.

This decrease was partially offset by:

- a higher asset impairment charge in 2013;
- higher volume variable expenses as a result of an increase in workload;
- the unfavourable impact of the change in FX;
- higher incentive compensation resulting from improved corporate performance and higher stock-based compensation;
- wage and benefit inflation; and
- higher depreciation and amortization expenses.

10. OTHER INCOME STATEMENT ITEMS

Other Income and Charges

Other income and charges consists of gains and losses from the change in foreign exchange on long-term debt ("FX on LTD") discussed further in Section 15, Non-GAAP Measures, and working capital, various costs related to financing, shareholder costs, equity income and other non-operating expenditures. Other income and charges was an expense of $19 million in 2014, compared with an expense of $17 million in 2013, an increase of $2 million, or 12%. This increase was primarily due to FX losses on U.S. denominated debt, partially offset by higher equity earnings.

Net Interest Expense

Net interest expense includes interest on long-term debt and capital leases. Net interest expense was $282 million in 2014, an increase of $4 million, or 1%, from $278 million in 2013. This increase was primarily due to the unfavourable impact of the change in FX rates on U.S. dollar denominated interest expense partially offset by higher interest income and the impact of principal repayments of debt securities.

Income Taxes

Income tax expense was $562 million in 2014, an increase of $312 million, or 125%, from $250 million in 2013. This increase was due to higher taxable earnings and a higher effective income tax rate in 2014.

The effective income tax rate for 2014 was 27.6%, compared with 22.2% for 2013.

The Company expects a normalized 2015 income tax rate of approximately 27.5%. The Company's 2015 outlook for its normalized income tax rate is based on certain assumptions about events and developments that may or may not materialize or that may be offset entirely or partially by other events and developments, discussed further in Section 22, Business Risks and Section 23, Critical Accounting Estimates. The Company expects to have an increase in cash tax payments in future years.

11. QUARTERLY FINANCIAL DATA

For the quarter ended	**2014**				2013			
(in millions, except per share data)	**Dec. 31[(1)]**	**Sep. 30**	**Jun. 30**	**Mar. 31[(2)]**	Dec. 31[(3)]	Sep. 30[(4)]	Jun. 30	Mar. 31[(5)]
Total revenue	**$ 1,760**	**$ 1,670**	**$ 1,681**	**$ 1,509**	$ 1,607	$ 1,534	$ 1,497	$ 1,495
Operating income	**708**	**621**	**587**	**423**	114	524	420	362
Net income	**451**	**400**	**371**	**254**	82	324	252	217
Basic earnings per share	**$ 2.66**	**$ 2.33**	**$ 2.13**	**$ 1.45**	$ 0.47	$ 1.85	$ 1.44	$ 1.25
Diluted earnings per share	**2.63**	**2.31**	**2.11**	**1.44**	0.47	1.84	1.43	1.24

(1) Significant item included in the fourth quarter of 2014 was a $12 million charge ($9 million after tax) due to foreign exchange translation on CP's U.S. dollar denominated long-term debt issued to facilitate the share repurchase program.

Table of Contents

(2) Significant item included in the first quarter of 2014 was a recovery of $4 million ($3 million after tax) of the Company's 2012 labour restructuring initiative due to favourable experience gains, recorded in Compensation and benefits.

(3) Significant items included in the fourth quarter of 2013 were an asset impairment charge and accruals for future costs related to the sale of DM&E West totaling $435 million ($257 million after tax), a recovery of $7 million ($5 million after tax) of the Company's 2012 labour restructuring initiative and $5 million ($4 million after tax) of management transition costs.

(4) Significant item included in the third quarter of 2013 was an Income tax expense of $7 million as a result of the change in the province of British Columbia's corporate income tax rate, which required the re-calculation of the Company's Deferred income tax liability as at January 1, 2013.

(5) Significant item included in the first quarter of 2013 was a recovery of U.S. $9 million (U.S. $6 million after tax) from a litigation settlement related to management transition.

Quarterly Trends

Volumes and revenues from certain goods are stronger during different periods of the year. First-quarter revenues are typically lower mainly due to winter weather conditions, closure of the Great Lakes ports and reduced transportation of retail goods. Second and third-quarter revenues generally improve over the first quarter as fertilizer volumes are typically highest during the second quarter and demand for construction-related goods are generally highest in the third quarter. Revenues are typically strongest in the fourth quarter, primarily as a result of the transportation of grain after the harvest, fall fertilizer programs and increased demand for retail goods moved by rail. Operating income is also affected by seasonal fluctuations. Operating income is typically lowest in the first quarter due to lower freight revenue and higher operating costs associated with winter conditions. Net income is also influenced by seasonal fluctuations in customer demand and weather-related issues.

12. FOURTH-QUARTER SUMMARY

For the three months ended December 31 (in millions)	**2014**	2013	% Change
Total freight revenues	**$ 1,719**	$ 1,570	9
Other revenues	**41**	37	11
Total revenues	**1,760**	1,607	10
Total operating expenses	**1,052**	1,493	(30)
Operating income	**708**	114	521
Operating income, excluding significant items(1)	**708**	547	29
Net income	**451**	82	450
Basic earnings per share	**2.66**	0.47	466
Diluted earnings per share	**2.63**	0.47	460
Diluted earnings per share, excluding significant items(1)	**2.68**	1.91	40
Operating Ratio	**59.8%**	92.9%	(3,310) bps
Operating Ratio, excluding significant items(1)	**59.8%**	65.9%	(610) bps

(1) These measures have no standardized meaning prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures of other companies. These significant items are discussed further in Section 15, Non-GAAP Measures.

Operating Results

Operating income was $708 million in the fourth quarter of 2014, an increase of $594 million, or 521%, from $114 million in the same period of 2013. This increase was primarily due to:

- an asset impairment charge in 2013;
- higher volumes of traffic, as measured by RTMs, generating higher freight revenue;
- efficiency savings generated from improved operating performance, asset utilization and insourcing of certain IT activities;
- lower fuel price; and
- the favourable impact of the change in FX.

This increase was partially offset by a reduction in Workers' Compensation Board ("WCB") liabilities mainly due to a higher discount rate and favourable claims experience in 2013, and higher wage and benefit inflation in 2014.

Table of Contents

Net income was $451 million in the fourth quarter of 2014, an increase of $369 million, or 450%, from $82 million in the same period of 2013. The increase was primarily due to higher Operating income, partially offset by an increase in Income tax expense and Other income and charges.

Diluted Earnings per Share

Diluted EPS was $2.63 in the fourth quarter of 2014, an increase of $2.16, or 460%, from $0.47 in the same period of 2013. Diluted EPS, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was $2.68 in fourth quarter of 2014, an increase of $0.77, or 40%, from $1.91 in the same period of 2013. These increases were primarily due to higher Net income and lower average outstanding shares due to the share repurchase program.

Operating Ratio

The operating ratio provides the percentage of revenues used to operate the railway, and is calculated as Total operating expenses divided by Total revenues. A lower percentage normally indicates higher efficiency in the operation of the railway. The operating ratio was 59.8% in the fourth quarter of 2014, compared with 92.9% in the same period of 2013. This improvement was primarily due to:

- an asset impairment charge in 2013;
- higher volumes generating higher freight revenues; and
- an increase in efficiency savings in 2014.

The operating ratio, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was 59.8% in the fourth quarter of 2014, compared with 65.9% in the same period of 2013. This improvement was primarily due to higher volumes generating higher freight revenues and efficiency savings.

Freight Revenues

Freight revenues were $1,719 million in the fourth quarter of 2014, an increase of $149 million, or 9%, from $1,570 million in the same period of 2013. This increase was primarily due to:

- higher shipments in Domestic intermodal, Potash, Metals, minerals and consumer products, and Crude;
- the favourable impact of the change in FX; and
- higher freight rates.

This increase was partially offset by lower shipments in International intermodal and Automotive due to the exit of certain customer contracts, and lower coal traffic in the U.S.

Other Revenue

Other revenue was $41 million in the fourth quarter of 2014, an increase of $4 million or 11%, from $37 million in the same period of 2013. This increase was primarily due to higher leasing and interline switching revenues.

Operating Expenses

Operating expenses were $1,052 million in the fourth quarter of 2014, a decrease of $441 million, or 30%, from $1,493 million in the same period of 2013. This decrease was primarily due to:

- an asset impairment charge in 2013;
- efficiencies generated from improved operating performance, asset utilization, and insourcing of certain IT activities;
- lower fuel price;
- lower stock-based compensation primarily due to a stock price reduction in the quarter, compared to a strong increase in the fourth quarter of 2013;
- lower pension expense; and
- lower depreciation expense.

This decrease was partially offset by:

- the unfavourable impact of the change in FX;
- higher volume variable expenses as a result of an increase in workload, as measured by GTMs;

Table of Contents

- higher wage and benefit inflation;
- a 2013 reduction in WCB liabilities mainly due to a higher discount rate and favourable claims experience; and
- an insurance recovery in the fourth quarter of 2013, related to flooding in 2011.

13. CHANGES IN ACCOUNTING POLICY

2014 Accounting Change

Unrecognized Tax Benefit Liability

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, an amendment to FASB Accounting Standards Codification ("ASC") Topic 740. The amendments require an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with certain exception applied. This ASU is effective prospectively for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this ASU is not expected to have a material impact to the Company's financial statements.

Future Accounting Changes

Reporting discontinued operations and disclosures of disposals of components

In April 2014, FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, an amendment to FASB ASC Topic 205 and Topic 360. The update amends the definition of a discontinued operation in Topic 205, expands disclosure requirements for transactions that meet the definition of a discontinued operation and requires entities to disclose information about individually significant components that are disposed of or held for sale and do not qualify as discontinued operations. In addition, an entity is required to separately present assets and liabilities of a discontinued operation for all comparative periods and separately present assets and liabilities of assets held for sale in the initial period in which the disposal group is classified as held for sale on the face of the consolidated balance sheets. For each period in which assets and liabilities are separately presented on the consolidated balance sheets, those amounts should not be offset and presented as a single amount. This ASU will be effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2014 and will be applied prospectively. The adoption of this ASU is not expected to have a material impact to the Company's financial statements.

Revenue from contracts with customers

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, a new FASB ASC Topic 606 which supersedes the revenue recognition requirements in Topic 605 and most industry-specific guidance throughout the Industry Topics of the Codification. This new standard requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires enhanced disclosures about revenue to help users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This ASU will be effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2016. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt the ASU. The Company has not, at this time, ascertained the full impact on the consolidated financial statements from the adoption of this new standard but does not expect the impact to be material.

14. LIQUIDITY AND CAPITAL RESOURCES

The Company believes adequate amounts of cash and cash equivalents are available in the normal course of business to provide for ongoing operations, including the obligations identified in the tables in Section 20, Contractual Commitments and Section 21, Future Trends and Commitments. The Company is not aware of any trends or expected fluctuations in the Company's liquidity that would create any deficiencies. Liquidity risk is discussed further in Section 22, Business Risks. The following discussion of operating, investing and financing activities describes the Company's indicators of liquidity and capital resources.

Operating Activities

Cash provided by operating activities was $2,123 million in 2014, an increase of $173 million from $1,950 million in 2013. This increase was largely due to improved earnings partially offset by higher income taxes paid and an increase in accounts receivable resulting from higher customer billings.

Investing Activities

Cash used in investing activities was $750 million in 2014, a decrease of $847 million from $1,597 million in 2013. This decrease was primarily due to a reduction in Restricted cash and cash equivalents related to the collateralizing of letters of credit, discussed further in Section 20, Business Risks. In addition the decrease reflects the proceeds received in 2014 from the sale of DM&E West, partially offset by higher additions to properties.

Table of Contents

Additions to properties ("capital programs") were $1,449 million in 2014, an increase of $213 million from $1,236 million in 2013. The increase, primarily in track and rolling stock investments, reflects CP's strategy of reinvesting in the plant, enhancing throughput and capacity, and optimizing existing assets.

Capital Programs

For the year ended December 31 (in millions, except for miles and crossties)	2014	2013	2012
Additions to properties			
Track and roadway	**$ 1,011**	$ 831	$ 744
Rolling stock	**219**	169	155
Information systems	**96**	110	105
Buildings and other	**150**	155	148
Total – accrued additions to properties	**1,476**	1,265	1,152
Less:			
Other non-cash transactions	**27**	29	4
Cash invested in additions to properties (per Consolidated Statements of Cash Flows)	**$ 1,449**	$ 1,236	$ 1,148
Track installation capital programs			
Track miles of rail laid (miles)	**492**	429	470
Track miles of rail capacity expansion (miles)	**21**	24	32
Crossties installed (thousands)	**1,040**	926	794

Track and roadway expenditures include the replacement and enhancement of the Company's track infrastructure. Of the $1,011 million additions in 2014, approximately $875 million was dedicated to the renewal of depleted assets; namely rail, ties, ballast, signals, bridges, and compliance with the Positive Train Control ("PTC") regulatory mandate. The remaining $136 million was targeted on network improvements to increase productivity, efficiency, and capacity.

Rolling stock investments encompass locomotives and freight cars. In 2014, expenditures on locomotives were approximately $123 million and were focused on the remanufacture of older four-axle yard units. Expenditures on freight cars were approximately $96 million and were largely acquisitions of existing units previously leased.

The remaining capital expenditures are allocated to information services, buildings, and other. In 2014, CP invested approximately $96 million in information systems primarily focused on insourcing, rationalizing, and modernizing core hardware and applications. Investments in buildings and other items were $117 million and included intermodal and automotive terminals, shop equipment, and facilities. Expenditures on intermodal containers were approximately $33 million and included replacement units for containers at the end of their service life and incremental units to meet growing demand.

Additions to properties ("capital programs") in 2015 are expected to be approximately $1.5 billion. Approximately 70% of planned capital programs are for track and roadway, 10% are for rolling stock assets, between 5% and 10% are for information services, and between 10% and 15% are for buildings and other.

CP intends to finance capital expenditures with available cash from operations, but may partially finance these expenditures with new debt, capital leases and temporary draws on the Company's credit facility. The Company's decisions on funding equipment acquisitions will be influenced by such factors as optimizing the Company's capital structure and maintaining the Company's debt covenants and investment grade rating, as well as the amount of cash flow CP believes can be generated from operations and prevailing capital market conditions.

Financing Activities

Cash used in financing activities was $1,630 million in 2014, as compared to $220 million in 2013. This increase was largely due to payments made to buy back shares under the share repurchase program, discussed further in Section 17, Shareholder Returns and a repayment of a capital lease. These uses of cash were partially offset by proceeds from the issuance of commercial paper of U.S. $675 million (CDN $771 million), discussed further in Section 22, Business Risks.

The Company has available, as sources of financing, up to U.S. $2 billion under its revolving credit facility and up to CDN $188 million under its bilateral letter of credit facilities, discussed further in Section 22, Business Risks.

Debt to Total Capitalization

Debt to total capitalization is the sum of long-term debt, long-term debt maturing within one year and short-term borrowing, divided by debt plus total Shareholders' equity as presented on the Company's Consolidated Balance Sheets. At December 31, 2014, the Company's debt to total

Table of Contents

capitalization increased to 50.8%, compared with 40.7% at December 31, 2013. This increase was largely due to the share repurchase program discussed further in Section 17, Shareholder Returns, and issuance of U.S. $675 million in commercial paper. These increases were partially offset by an increase in equity driven by increased earnings in 2014.

Interest Coverage Ratio

Interest coverage ratio is used in assessing the Company's debt servicing capabilities. This ratio provides an indicator of the Company's debt servicing capabilities, and how these have changed, period over period and in comparison to the Company's peers. Interest coverage ratio is measured, on a rolling twelve month basis, as EBIT divided by Net interest expense, discussed further in Section 15, Non-GAAP Measures. At December 31, 2014, the Company's interest coverage ratio was 8.2, compared with 5.0 at December 31, 2013. This improvement was primarily due to year over year improvement in EBIT. In 2014, EBIT was impacted by FX on LTD, discussed further in Section 15, Non-GAAP Measures, and the recovery of prior year labour restructuring charges, while in 2013 EBIT was impacted by the recovery of prior year labour restructuring charges, asset impairment charges, and management transition costs, discussed further in Section 15, Non-GAAP Measures.

Excluding these significant items from EBIT, Adjusted interest coverage ratio was 8.3 at December 31, 2014, compared with 6.6 at December 31, 2013. This increase was primarily due to an increase in Adjusted EBIT. Adjusted interest coverage ratio, Adjusted EBIT, and significant items are discussed further in Section 15, Non-GAAP Measures.

Credit Measures

Credit ratings provide information relating to the Company's financing costs, liquidity and operations and affect the Company's ability to obtain short-term and long-term financing and/or the cost of such financing.

A mid-investment grade credit rating is an important measure in assessing the Company's ability to maintain access to public financing and to minimize cost of capital. It also affects the ability of the Company to engage in certain collateralized business activities on a cost effective basis, which is discussed further in Section 22, Business Risks.

Credit ratings and outlooks are based on the rating agencies' methodologies and can change from time to time to reflect their views of CP. Their views are affected by numerous factors including, but not limited to, the Company's financial position and liquidity along with external factors beyond the Company's control.

On April 16, 2014, Standard & Poor's Ratings Services raised CP's long-term corporate credit rating to "BBB" from "BBB-" and assigned a positive outlook to the rating.

On April 24, 2014, Moody's Investors Service upgraded CP's senior unsecured ratings to Baa2 from Baa3 and assigned a positive outlook to the rating.

On June 5, 2014, Dominion Bond Rating Service Limited ("DBRS") upgraded CP's Issuer Rating, Unsecured Debentures and Medium-Term Notes ratings to "BBB" from "BBB (low)" and assigned a positive outlook to the ratings.

On October 27, 2014, DBRS upgraded CP's Issuer Rating, Unsecured Debentures and Medium-Term Notes ratings to "BBB (high)" and assigned a stable outlook to the ratings. On November 4, 2014, DBRS assigned an "R-2 (high)" rating to the Company's U.S. $1 billion commercial paper program.

On November 4, 2014, Standard & Poor's Rating Services raised CP's long-term corporate credit rating to "BBB+" from "BBB", senior secured debt rating to "A" from "A-", senior unsecured debt rating to "BBB+" from "BBB" and assigned stable outlook to the rating. Separately, Standard & Poor's Rating Service assigned its "A-2" short-term corporate credit rating, and assigned its "A-2" global scale relating to the Company's US$1 billion commercial paper program.

On November 7, 2014, Moody's Investor Service upgraded CP's senior unsecured ratings to Baa1 from Baa2 and assigned a stable outlook to the rating. Separately, Moody's Investor Service assigned a "P-2" rating to the Company's U.S. $1 billion commercial paper program.

Adjusted net debt to Adjusted earnings before interest, tax, depreciation and amortization ("EBITDA") is a non-GAAP measure that management uses to evaluate CP's financial discipline with respect to capital markets credit sensitivities. The Company's goal is to maintain a degree of continuity and predictability for investors by meeting a minimum threshold.

Adjusted net debt to adjusted EBITDA for the years ended December 31, 2014, 2013, and 2012 was 2.3, 2.2, and 3.2 times, respectively. The increase between 2013 and 2014 is due to additional debt issued under the commercial paper program, offset by the improved net income at December 31, 2014. The decrease of 1.0 between 2012 and 2013 reflects the Company's improved net income and a net asset position for the Company's main Canadian defined benefit pension plan at December 31, 2013. Adjusted net debt to Adjusted EBITDA is discussed further in Section 15, Non-GAAP Measures.

Free Cash

Free cash and cash flow before dividends are Non-GAAP measures that management considers to be indicators of liquidity. These measures are discussed further in Section 15, Non-GAAP Measures.

Table of Contents

CP generated positive free cash of $725 million in 2014, compared to $530 million in 2013. The improvement in free cash of $195 million was primarily due to improved earnings and proceeds received from the sale of DM&E West. This increase was partially offset by higher capital additions and higher income tax payments.

15. NON-GAAP MEASURES

The Company presents non-GAAP measures and cash flow information to provide a basis for evaluating underlying earnings and liquidity trends in the Company's business that can be compared with the results of operations in prior periods. In addition, these non-GAAP measures facilitate a multi-period assessment of long-term profitability allowing management and other external users of the Company's consolidated financial statements to compare profitability on a long-term basis with that of the Company's peers.

These non-GAAP measures exclude other significant items that are not among the Company's normal ongoing revenues and operating expenses. These non-GAAP measures have no standardized meaning and are not defined by GAAP and, therefore, may not be comparable to similar measures presented by other companies.

Operating expenses, excluding significant items, provide relevant and useful information for evaluating the effectiveness of the Company's operations and underlying business trends.

Operating income, excluding significant items, provides a measure of the profitability of the railway on an ongoing basis.

Income, excluding significant items, provides management with a measure of income on an ongoing basis.

Diluted earnings per share, excluding significant items, provides the same information on a per share basis.

Operating ratio, excluding significant items, calculated as operating expenses, excluding significant items divided by revenues, provides the percentage of revenues used to operate the railway on an ongoing basis.

Significant Items

Significant items are material transactions that may include, but are not limited to, restructuring and asset impairment charges, gains and losses on non-routine sales of assets and other items that are not normal course business activities.

In 2014, there were two significant items included in Net income as follows:

- in the fourth quarter, a $12 million charge ($9 million after tax) due to foreign exchange translation on CP's U.S. dollar denominated long-term debt issued to facilitate the share repurchase program; and
- in the first quarter, a recovery of $4 million ($3 million after tax) was recorded for CP's 2012 labour restructuring initiative due to favourable experience gains, recorded in Compensation and benefits.

In 2013, there were five significant items included in Net income as follows:

- in the fourth quarter, an asset impairment charge and accruals for future costs totaling $435 million ($257 million after tax) relating to the sale of DM&E West which closed in the second quarter of 2014;
- in the fourth quarter, management transition costs related to the retirement of the Company's Chief Financial Officer and the appointment of the new Chief Financial Officer of $5 million ($4 million after tax);
- in the fourth quarter, a recovery of $7 million ($5 million after tax) of the Company's 2012 labour restructuring initiative due to favourable experience gains, discussed further in Section 9, Operating Expenses;
- in the third quarter, an income tax expense of $7 million as a result of the change in the province of British Columbia's corporate income tax rate; and
- in the first quarter, a recovery of U.S. $9 million (U.S. $6 million after tax) related to settlement of certain management transition amounts which had been subject to legal proceedings.

In 2012, there were six significant items included in Net income as follows:

- in the fourth quarter, an asset impairment charge of $185 million ($111 million after tax) with respect to the option to build into the Powder River Basin and another investment;
- in the fourth quarter, an asset impairment charge of $80 million ($59 million after tax) related to a certain series of locomotives;
- in the fourth quarter, a labour restructuring charge of $53 million ($39 million after tax) as part of a restructuring initiative which was largely completed in 2013 and 2014, with the remaining positions to be eliminated in 2015, discussed further in Section 9, Operating Expenses;
- in the second quarter, a charge of $42 million ($29 million after tax) with respect to compensation and other management transition costs;

Table of Contents

- during the first and second quarters, advisory fees of $27 million ($20 million after tax) related to shareholder matters; and
- in the second quarter, an income tax expense of $11 million as a result of the change in the province of Ontario's corporate income tax rate.

Reconciliation of Non-GAAP measures to GAAP measures

(in millions)	For the year ended December 31 2014	2013	2012	For the three months ended December 31 2014	2013
Operating expenses, excluding significant items[1]	**$ 4,285**	$ 4,289	$ 4,386	**$ 1,052**	$ 1,060
Add significant items:					
Labour restructuring	**(4)**	(7)	53	**–**	(7)
Asset impairments	**–**	435	265	**–**	435
Management transition costs	**–**	(4)	42	**–**	5
Operating expenses as reported	**$ 4,281**	$ 4,713	$ 4,746	**$ 1,052**	$ 1,493
Operating income, excluding significant items[1]	**$ 2,335**	$ 1,844	$ 1,309	**$ 708**	$ 547
Add significant items:					
Labour restructuring	**4**	7	(53)	**–**	7
Asset impairments	**–**	(435)	(265)	**–**	(435)
Management transition costs	**–**	4	(42)	**–**	(5)
Operating income as reported	**$ 2,339**	$ 1,420	$ 949	**$ 708**	$ 114
Income, excluding significant items[1]	**$ 1,482**	$ 1,132	$ 753	**$ 460**	$ 338
Add significant items, net of tax:					
Labour restructuring	**3**	5	(39)	**–**	5
Asset impairments	**–**	(257)	(170)	**–**	(257)
Management transition costs	**–**	2	(29)	**–**	(4)
Advisory fees related to shareholder matters	**–**	–	(20)	**–**	–
Impact of foreign exchange translation on USD denominated debt	**(9)**	–	–	**(9)**	–
Income tax rate change	**–**	(7)	(11)	**–**	–
Net income as reported	**$ 1,476**	$ 875	$ 484	**$ 451**	$ 82

[1] These earnings measures have no standardized meanings prescribed by U.S. GAAP and, therefore, may not be comparable to similar measures presented by other companies. These earnings measures and other significant items are described in this section.

Diluted earnings per share	For the year ended December 31 2014	2013	2012	For the three months ended December 31 2014	2013
Excluding significant items	**$ 8.50**	$ 6.42	$ 4.34	**$ 2.68**	$ 1.91
Add significant items:					
Labour restructuring	**0.01**	0.03	(0.22)	**–**	0.03
Asset impairments	**–**	(1.46)	(0.98)	**–**	(1.45)
Management transition costs	**–**	0.01	(0.17)	**–**	(0.02)
Advisory fees related to shareholder matters	**–**	–	(0.12)	**–**	–
Impact of foreign exchange translation on USD denominated debt	**(0.05)**	–	–	**(0.05)**	–
Income tax rate change	**–**	(0.04)	(0.06)	**–**	–
Diluted earnings per share as reported	**$ 8.46**	$ 4.96	$ 2.79	**$ 2.63**	$ 0.47

Table of Contents

Operating ratio	For the year ended December 31 2014	2013	2012	For the three months ended December 31 2014	2013
Excluding significant items	**64.7%**	69.9%	77.0%	**59.8%**	65.9%
Add significant items:					
Labour restructuring	**–**	(0.1)%	0.9%	**–**	(0.4)%
Asset impairments	**–**	7.1%	4.7%	**–**	27.1%
Management transition costs	**–**	(0.1)%	0.7%	**–**	0.3%
Operating ratio as reported	**64.7%**	76.8%	83.3%	**59.8%**	92.9%

Free Cash

Free cash and cash flow before dividends are non-GAAP measures that management considers to be indicators of liquidity. The measures are used by management to provide information with respect to the relationship between cash provided by operating activities and investment decisions and provide comparable measures for period to period changes. Free cash is calculated as cash provided by operating activities, less cash used in investing activities, excluding changes in restricted cash and cash equivalents and investment balances used to collateralize letters of credit, and dividends paid, adjusted for changes in cash and cash equivalents balances resulting from FX fluctuations. Cash flows provided by financing activities, excluding dividend payments, are not included in the computation of free cash. Cash flow before dividends is calculated as cash provided by operating activities less cash used in investing activities, excluding changes in restricted cash and cash equivalents and investment balances used to collateralize letters of credit.

Reconciliation of free cash to GAAP cash position[1]

(in millions)	For the year ended December 31 2014	2013	2012
Cash provided by operating activities	**$ 2,123**	$ 1,950	$ 1,328
Cash used in investing activities	**(750)**	(1,597)	(1,011)
Change in restricted cash and cash equivalents used to collateralize letters of credit[2]	**(411)**	411	–
Dividends paid	**(244)**	(244)	(223)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	**7**	10	(1)
Free cash[1]	**$ 725**	$ 530	$ 93
Cash (used in) provided by financing activities, excluding dividend payment	**(1,386)**	24	193
Change in restricted cash and cash equivalents used to collateralize letters of credit[2]	**411**	(411)	–
(Decrease) increase in cash and cash equivalents, as shown on the Consolidated Statements of Cash Flows	**(250)**	143	286
Cash and cash equivalents at beginning of year	**476**	333	47
Cash and cash equivalents at end of year	**$ 226**	$ 476	$ 333

[1] Free cash and cash provided by financing activities, excluding dividend payment have no standardized meaning prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies.

[2] Changes in Restricted cash and cash equivalents related to collateralized letters of credit are discussed further in Section 22, Business Risks.

Interest Coverage Ratio

Interest coverage ratio is used in assessing the Company's debt servicing capabilities. This ratio provides an indicator of the Company's debt servicing capabilities, and how these have changed, period over period and in comparison to the Company's peers. The ratio, measured as EBIT divided by Net interest expense, is reported quarterly and is measured on a twelve month rolling basis. Interest coverage ratio is discussed further in Section 14, Liquidity and Capital Resources.

The interest coverage ratio, excluding significant items, also referred to as Adjusted interest coverage ratio, is calculated as Adjusted EBIT divided by Net interest expense. By excluding significant items which affect EBIT, Adjusted interest coverage ratio provides a metric that is more comparable on a period to period basis. Interest coverage ratio and Adjusted interest coverage ratio are discussed further in Section 14, Liquidity and Capital Resources.

Table of Contents

Calculation of Interest Coverage Ratio

(in millions, except for interest coverage ratio)	2014	2013	2012
EBIT[(1)]	$ 2,320	$ 1,403	$ 912
Adjusted EBIT[(1)]	$ 2,328	$ 1,827	$ 1,299
Net interest expense	$ 282	$ 278	$ 276
Interest coverage ratio[(1)]	**8.2**	5.0	3.3
Adjusted interest coverage ratio[(1)]	**8.3**	6.6	4.7

(1) Interest coverage ratio, Adjusted interest coverage ratio, EBIT and Adjusted EBIT have no standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures of other companies.

ROCE

ROCE is an all-encompassing measure of performance which measures how productively the Company uses its assets. ROCE is defined as EBIT (on a rolling twelve month basis) divided by the average for the twelve months of total assets, less current liabilities excluding the current portion of long-term debt. ROCE, excluding significant items, also referred to as Adjusted ROCE, is calculated as Adjusted EBIT divided by the average for the twelve months of total assets, less current liabilities excluding the current portion of long-term debt. By excluding significant items which affect EBIT, Adjusted ROCE provides a metric that is more comparable on a period to period basis. ROCE and Adjusted ROCE are discussed further in Section 6, Operating Results.

Calculation of Adjusted ROCE

(in millions, except for percentages)	2014	2013	2012
EBIT for the year ended December 31[(1)]	$ 2,320	$ 1,403	$ 912
Adjusted EBIT for the year ended December 31[(1)]	$ 2,328	$ 1,827	$ 1,299
Average for the twelve months of total assets, less current liabilities excluding the current portion of long-term debt	$ 15,617	$ 14,711	$ 13,251
ROCE[(1)]	**14.9%**	9.5%	6.9%
Adjusted ROCE[(1)(2)]	**14.9%**	12.4%	9.8%

(1) EBIT, Adjusted EBIT, ROCE and Adjusted ROCE have no standardized meaning prescribed by U.S. GAAP and, therefore, are unlikely to be comparable to similar measures of other companies.

(2) Adjusted ROCE is defined as Adjusted EBIT divided by the average for twelve months of Total assets, less current liabilities, excluding current portion of long-term debt, as measured under GAAP.

Table of Contents

Interest coverage ratio and ROCE include EBIT, a non-GAAP measure, which can be calculated as Operating income, less Other income and charges. Adjusted EBIT is calculated as Operating income, excluding significant items less Other income and charges, excluding significant items that are reported in Other income and charges on the Company's income statement. A reconciliation of Operating income to EBIT and Adjusted EBIT, each for the twelve months ended December 31, 2014 and 2013, is presented below:

Earnings before interest and tax (in millions)	**For the year ended December 31** **2014**	2013	2012
Adjusted EBIT(1)	**$ 2,328**	$ 1,827	$ 1,299
Add Significant items:			
Labour restructuring	**4**	7	(53)
Asset impairments	**–**	(435)	(265)
Management transition	**–**	4	(42)
Advisory costs related to shareholder matters	**–**	–	(27)
Impact of foreign exchange translation on USD denominated debt	**(12)**	–	–
EBIT(1)	**2,320**	1,403	912
Add:			
Other income and charges	**19**	17	37
Operating income as reported	**$ 2,339**	$ 1,420	$ 949

(1) EBIT and Adjusted EBIT have no standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies. These earnings measures and significant items are described in this section.

Adjusted Debt to Adjusted EBITDA

Adjusted net debt to Adjusted EBITDA is a non-GAAP measure that management uses to evaluate CP's financial discipline with respect to capital markets' credit sensitivities. Adjusted debt is defined as Long-term debt, Long-term debt maturing within one year and short-term borrowing as reported on the Company's Consolidated Balance Sheets adjusted for unfunded pension and other benefits liability, net of tax and the net present value of operating leases, which is discounted by the Company's effective interest rate for each of the years presented. Adjusted EBITDA is calculated as Adjusted EBIT plus Depreciation and amortization, adjusted for net periodic pension and other benefit cost and operating lease expense.

The following tables reconcile Adjusted debt to Long-term debt and Adjusted EBITDA to Adjusted EBIT for the years ended December 31, 2014, 2013, and 2012.

Reconciliation of Adjusted net debt to Long-term debt

(in millions)	**2014**	2013	2012
Adjusted debt as at December 31	**$ 6,605**	$ 5,394	$ 6,247
Add:			
Net unfunded pension and other benefits liability, net of tax	**(365)**	–	(1,042)
Net present value of operating leases(1)	**(447)**	(518)	(515)
Long-Term debt as at December 31	**$ 5,793**	$ 4,876	$ 4,690

(1) Operating leases were discounted at the Company's effective interest rate for each of the periods presented.

Table of Contents

Reconciliation of Adjusted EBITDA to Adjusted EBIT

(in millions)	2014	2013	2012
Adjusted EBITDA for the year ended December 31[(1)]	**$ 2,864**	$ 2,464	$ 1,957
Add:			
Adjustment for net periodic pension and other benefit cost	**137**	82	63
Operating lease expense	**(121)**	(154)	(182)
Depreciation and amortization	**(552)**	(565)	(539)
Adjusted EBIT for the year ended December 31[(1)]	**$ 2,328**	$ 1,827	$ 1,299

[(1)] Adjusted EBITDA and Adjusted EBIT have no standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies. These earnings measures and significant items are described in this section.

16. BALANCE SHEET

Financial position at December 31 ($ millions)	2014	2013	Change	%	Changes during the year ended December 31, 2014, include:
Current Assets					
Cash and cash equivalents	226	476	(250)	(53)	See section 14, Liquidity and Capital Resources.
Restricted cash and cash equivalents	–	411	(411)	(100)	2013 amount pledged as collateral to letters of credit.
Accounts receivable, net	702	580	122	21	Increase primarily due to freight receivables due to higher customer billings.
Materials and supplies	177	165	12	7	Increase in engineering materials for 2015 projects, partially offset by lower fuel inventory.
Deferred income taxes	56	344	(288)	(84)	Decrease due to the use of income tax loss carry forwards and tax credits.
Other current assets	116	53	63	119	Increase primarily due to higher prepaid income taxes.
Current Liabilities					
Accounts payable and accrued liabilities	1,277	1,189	88	7	Increase primarily due to higher income and other taxes payable as well as amounts payable for CP common shares repurchased, discussed further in Section 17, Shareholder Returns.
Long-term debt maturing within one year	134	189	(55)	(29)	Decrease is primarily due to debt repayments of $183 million, partially offset by amounts reclassed from long term debt.
Non-current assets					
Investments	112	92	20	22	Increase due to equity earnings and FX on U.S. investment balances.
Properties	14,438	13,327	1,111	8	Increase due to capital additions and FX, partially offset by depreciation and assets reclassed to Assets held for sale.
Assets held for sale	182	222	(40)	(18)	Decrease due to completion of DM&E West sale in 2014, partially offset by the transfer of certain assets of D&H from properties, discussed further in Section 21, Future Trends and Commitments.
Goodwill and intangible assets	176	162	14	9	Increase primarily due to FX.
Pension asset	304	1,028	(724)	(70)	Decrease primarily due to lower discount rates, partially offset by investment returns on plan assets greater than expected.
Other assets	151	200	(49)	(25)	

Decrease primarily due to settling of currency
forwards and various other reductions.

Table of Contents

Financial position at December 31 ($ millions)	2014	2013	Change	%	Changes during the year ended December 31, 2014, include:
Non-current liabilities					
Pension and other benefit liabilities	755	657	98	15	Increase primarily due to lower discount rates.
Other long-term liabilities	432	338	94	28	Increase due to higher share based liabilities from new grants and a higher share price compared to 2013.
Long-term debt	5,659	4,687	972	21	Increase due to the issuance of commercial paper, discussed further in Section 22, Business Risks, and FX, partially offset by amounts reclassed to current.
Deferred income taxes	2,773	2,903	(130)	(4)	Decrease primarily due to a recovery on other comprehensive loss, partially offset by deferred income tax expenses on earnings, utilization of loss carry-forwards, and FX.
Shareholders' equity					
Share capital	2,185	2,240	(55)	(2)	Decrease due to CP common shares repurchased, partially offset by shares issued under CP's stock option plans.
Additional paid-in capital	36	34	2	6	Increase due to stock option expense, partially offset by options exercised.
Accumulated other comprehensive loss	(2,219)	(1,503)	(716)	48	Increase primarily due to changes in pension and post-retirement defined benefit plans.
Retained earnings	5,608	6,326	(718)	(11)	Decrease due to CP common shares repurchased and dividends declared, partially offset by Net income.

17. SHAREHOLDER RETURNS

Share Capital

At February 20, 2015, 164,538,579 common shares and no preferred shares were issued and outstanding. In addition, CP has a Management Stock Option Incentive Plan ("MSOIP") under which key officers and employees are granted options to purchase CP shares. Each option granted can be exercised for one Common Share. At February 20, 2015, 2.6 million options were outstanding under the Company's MSOIP and Directors' Stock Option Plan, as well as stand-alone option agreements entered into with Mr. E. Hunter Harrison, Mr. Keith Creel and Mr. Bart Demosky. 2.5 million additional options may be issued in the future under the MSOIP and Directors' Stock Option Plan.

Stock Price

The market value per CP common share, as listed on the Toronto Stock Exchange was $223.75 at December 31, 2014, an increase of $63.10 per share from $160.65 at December 31, 2013. The market value per CP common share at December 31, 2013 was an increase of $59.75 per share from $100.90 at December 31, 2012.

Return on Capital Employed

ROCE is a measure of performance which measures how productively the Company uses its assets. ROCE was 14.9% at December 31, 2014, compared with 9.5% in the same period of 2013. This increase was primarily due to an increase in EBIT. ROCE is discussed further in Section 15, Non-GAAP Measures.

Cash Returned to Shareholders

On December 16, 2014, the Company's Board of Directors declared a quarterly dividend of $0.3500 per share, unchanged from 2013, on the outstanding common shares. The dividend is payable on January 26, 2015 to holders of record at the close of business on December 31, 2014.

Table of Contents

Dividends

Dividends declared by the Board of Directors in the last three years are as follows:

Dividend amount	Record date	Payment date
$0.3500	March 27, 2015	April 27, 2015
$0.3500	December 31, 2014	January 26, 2015
$0.3500	September 26, 2014	October 27, 2014
$0.3500	June 27, 2014	July 28, 2014
$0.3500	March 28, 2014	April 28, 2014
$0.3500	December 27, 2013	January 27, 2014
$0.3500	September 27, 2013	October 28, 2013
$0.3500	June 28, 2013	July 29, 2013
$0.3500	March 28, 2013	April 29, 2013
$0.3500	December 28, 2012	January 28, 2013
$0.3500	September 28, 2012	October 29, 2012
$0.3500	June 22, 2012	July 30, 2012
$0.3000	March 30, 2012	April 30, 2012

Share Repurchase Program

On March 11, 2014, the Company announced a new share repurchase program to implement a normal course issuer bid (“NCIB”) to purchase, for cancellation, up to 5.3 million common shares. On September 29, 2014, the Company announced the amendment of the bid to increase the maximum number of its Common Shares that may be purchased from 5.3 million to 12.7 million of its outstanding Common Shares, effective October 2, 2014. Under the filing, share purchases may be made during the twelve month period that began March 17, 2014, and ends March 16, 2015. The purchases are made at the market price on the day of purchase, with the net proceeds allocated to share capital up to the average carrying amount of the shares, and any excess allocated to retained earnings.

CP believes that the purchase of its shares from time to time is an appropriate and advantageous use of the Company’s funds to maximize shareholder value.

Purchases of the Company’s common shares may be made through the facilities of the TSX, the New York Stock Exchange (“NYSE”) and alternative trading platforms by means of open market transactions or by such other means as may be permitted by the TSX and under applicable securities laws, including by private agreement pursuant to issuer bid exemption orders issued by applicable securities regulatory authorities. The purchase price for any common shares under the share repurchase program will be the market price at the time of purchase or such other price as may be permitted by the TSX. Any private purchase made under an exemption order issued by a securities regulatory authority will generally be at a discount to the prevailing market price. The actual number of common shares repurchased under the NCIB and the timing of any such purchases will be determined by the Company and there cannot be any assurances as to how many common shares will ultimately be acquired under the NCIB. From October 2, 2014 to December 31, 2014 the Company repurchased 5.2 million common shares for $1,102 million at an average price of $211.67 per share. From March 17, 2014 to December 31, 2014, the Company repurchased 10.5 million Common shares for $2,089 million at an average price of $199.42 per share.

18. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The Company categorizes its financial assets and liabilities measured at fair value in line with the fair value hierarchy established by GAAP that prioritizes, with respect to reliability, the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of quoted prices (unadjusted) in active markets for identical assets and liabilities and gives the highest priority to these inputs. Level 2 and 3 inputs are based on significant other observable inputs and significant unobservable inputs, respectively, and gives lower priority to these inputs.

When possible, the estimated fair value is based on quoted market prices and, if not available, estimates from third party brokers. For non-exchange traded derivatives classified in Level 2, the Company uses standard valuation techniques to calculate fair value. Primary inputs to these techniques include observable market prices (interest, foreign exchange and commodity) and volatility, depending on the type of derivative and nature of the underlying risk. The Company uses inputs and data used by willing market participants when valuing derivatives and considers its own credit default swap spread as well as those of its counterparties in its determination of fair value.

Table of Contents

Carrying Value and Fair Value of Financial Instruments

The carrying values of financial instruments equal or approximate their fair values with the exception of long-term debt which has a fair value of approximately $6,939 million and a carrying value of $5,793 million at December 31, 2014. At December 31, 2013, long-term debt had a fair value of approximately $5,572 million and a carrying value of $4,876 million. The estimated fair value of current and long-term borrowings has been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Company at period end. All derivatives and long-term debt are classified as Level 2.

Financial Risk Management

Derivative Financial Instruments

Derivative financial instruments may be used to selectively reduce volatility associated with fluctuations in interest rates, foreign exchange rates, the price of fuel and stock-based compensation expense. Where derivatives are designated as hedging instruments, the relationship between the hedging instruments and their associated hedged items is documented, as well as the risk management objective and strategy for the use of the hedging instruments. This documentation includes linking the derivatives that are designated as fair value or cash flow hedges to specific assets or liabilities on the Consolidated Balance Sheets, commitments or forecasted transactions. At the time a derivative contract is entered into, and at least quarterly thereafter, an assessment is made whether the derivative item is effective in offsetting the changes in fair value or cash flows of the hedged items. The derivative qualifies for hedge accounting treatment if it is effective in substantially mitigating the risk it was designed to address.

It is not the Company's intent to use financial derivatives or commodity instruments for trading or speculative purposes.

Credit Risk Management

Credit risk refers to the possibility that a customer or counterparty will fail to fulfill its obligations under a contract and as a result create a financial loss for the Company.

The railway industry predominantly serves financially established customers and the Company has experienced limited financial losses with respect to credit risk. The credit worthiness of customers is assessed using credit scores supplied by a third party, and through direct monitoring of their financial well-being on a continual basis. The Company establishes guidelines for customer credit limits and should thresholds in these areas be reached, appropriate precautions are taken to improve collectability.

Counterparties to financial instruments expose the Company to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an on-going basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. The Company does not anticipate non-performance that would materially impact the Company's financial statements. In addition, the Company believes there are no significant concentrations of credit risk.

Foreign Exchange Management

The Company conducts business transactions and owns assets in both Canada and the United States. As a result, the Company is exposed to fluctuations in value of financial commitments, assets, liabilities, income or cash flows due to changes in FX rates. The Company may enter into foreign exchange risk management transactions primarily to manage fluctuations in the exchange rate between Canadian and U.S. currencies. FX exposure is primarily mitigated through natural offsets created by revenues, expenditures and balance sheet positions incurred in the same currency. Where appropriate, the Company may negotiate with customers and suppliers to reduce the net exposure.

Occasionally the Company will enter into short-term FX forward contracts as part of its cash management strategy.

Net Investment Hedge

The FX gains and losses on long-term debt are mainly unrealized and can only be realized when U.S. dollar denominated long-term debt matures or is settled. The Company also has long-term FX exposure on its investment in U.S. affiliates. The majority of the Company's U.S. dollar denominated long-term debt has been designated as a hedge of the net investment in foreign subsidiaries. This designation has the effect of mitigating volatility on net income by offsetting long-term FX gains and losses on U.S. dollar denominated long-term debt and gains and losses on its net investment.

Foreign Exchange Forward Contracts

The Company may enter into FX forward contracts to lock-in the amount of Canadian dollars it has to pay on U.S. dollar denominated debt maturities.

At December 31, 2014, the Company had no remaining FX forward contracts to fix the exchange rate on U.S. dollar denominated debt maturities. At December 31, 2013, the Company had FX forward contracts to fix the exchange rate on U.S. $100 million of principal outstanding on a capital lease due in January 2014, U.S. $175 million of its 6.50% Notes due in May 2018, and U.S. $100 million of its 7.25% Notes due in May 2019. These derivatives, which were accounted for as cash flow hedges, guaranteed the amount of Canadian dollars that the Company would repay when these obligations mature.

Table of Contents

During the three months ended March 31, 2014, the Company settled the FX forward contract related to the repayment of a capital lease due in January 2014 for proceeds of $8 million.

During the three months ended June 30, 2014, the Company de-designated and settled prior to maturity the FX forward contracts related to the repayment of its 6.5% Notes due in May 2018 and its 7.25% Notes due in May 2019 for proceeds of $17 million settled in the third quarter of 2014 with the offset recorded as realized gains of $3 million in Accumulated other comprehensive loss and $14 million in Retained earnings. Amounts remaining in Accumulated other comprehensive loss are being amortized to Other income and charges until the underlying debts, which were hedged, are repaid. The amount being amortized to Other income and charges in 2014 is not significant. At December 31, 2013, the unrealized gain derived from these FX forwards was $25 million of which $6 million was included in Other current assets and $19 million in Other assets with the offset reflected as an unrealized gain of $5 million in Accumulated other comprehensive loss and as an unrealized gain of $20 million in Retained earnings.

During 2014, the combined realized and unrealized foreign exchange gain was $3 million, recorded in Other income and charges relating to these settled derivatives, compared to an unrealized foreign exchange gain of $18 million in 2013. Gains recorded in Other income and charges were largely offset by unrealized losses on the underlying debt which the derivatives were designated to hedge.

Interest Rate Management

The Company is exposed to interest rate risk, which is the risk that the fair value or future cash flows of a financial instrument will vary as a result of changes in market interest rates. In order to manage funding needs or capital structure goals, the Company enters into debt or capital lease agreements that are subject to either fixed market interest rates set at the time of issue or floating rates determined by on-going market conditions. Debt subject to variable interest rates exposes the Company to variability in interest expense, while debt subject to fixed interest rates exposes the Company to variability in the fair value of debt.

To manage interest rate exposure, the Company accesses diverse sources of financing and manages borrowings in line with a targeted range of capital structure, debt ratings, liquidity needs, maturity schedule, and currency and interest rate profiles. In anticipation of future debt issuances, the Company may enter into forward rate agreements such as treasury rate locks, bond forwards or forward starting swaps, designated as cash flow hedges, to substantially lock in all or a portion of the effective future interest expense. The Company may also enter into swap agreements, designated as fair value hedges, to manage the mix of fixed and floating rate debt.

Forward Starting Swaps

During the fourth quarter of 2014, the Company entered into forward starting floating-to-fixed interest rate swap agreements (“forward starting swaps”) totaling a notional U.S. $1.4 billion to fix the benchmark rate on cash flows associated with highly probable forecasted issuances of long-term notes. The effective portion of changes in fair value on the forward starting swaps are recorded in Accumulated other comprehensive loss, net of tax, as cash flow hedges until the probable forecasted note is issued. Subsequent to the notes issuance, amounts in Accumulated other comprehensive loss are reclassified to Net interest expense. As at December 31, 2014, the unrealized loss derived from the forward starting swaps was $46 million of which $21 million was included in Accounts payable and accrued liabilities and $25 million in Other long-term liabilities with the offset reflected in Other comprehensive (loss) income on the Company’s Interim Consolidated Statements of Comprehensive Income (Loss).

Interest Rate Swaps

During the fourth quarter of 2014, the Company also entered into floating-to-fixed interest rate swap agreements totaling U.S. $600 million to hedge the variability in cash flow associated with fluctuations in interest rates on commercial paper issuances. These swaps expire in 2015 and are accounted for as a cash flow hedge. The effective portion of changes in fair value of the swaps is recorded in Accumulated other comprehensive loss, net of tax. Subsequent to the commercial paper issuance, the amounts recorded in Accumulated other comprehensive loss are reclassified to Net interest expense. At December 31, 2014, the unrealized gain, recorded in Other current assets on the Company’s Consolidated Balance Sheets, was not significant. The offset was reflected in Other comprehensive (loss) income on the Company’s Interim Consolidated Statements of Comprehensive Income (Loss).

At December 31, 2013, the Company had no outstanding interest rate swaps.

Treasury Rate Locks

At December 31, 2014, the Company had net unamortized losses related to interest rate locks, which are accounted for as cash flow hedges, settled in previous years totaling $21 million, as compared to net unamortized losses of $22 million at December 31, 2013. These amounts are composed of various unamortized gains and losses related to specific debts which are reflected in Accumulated other comprehensive loss and are amortized to Net interest expense in the period that interest on the related debt is charged. The amortization of these gains and losses resulted in a negligible increase to Net interest expense and Other comprehensive loss in 2014 and comparative periods.

Table of Contents

Fuel Price Management

The Company is exposed to commodity risk related to purchases of diesel fuel. CP employs a fuel cost recovery program designed to automatically respond to fluctuations in fuel prices and help reduce volatility to changing fuel prices, and the potential reduction in net income due to increases in the price of diesel. Fuel expense constitutes a large portion of the Company's operating costs and volatility in diesel fuel prices can have a significant impact on the Company's income. Items affecting volatility in diesel prices include, but are not limited to, fluctuations in world markets for crude oil and distillate fuels, which can be affected by supply disruptions and geopolitical events.

The impact of variable fuel expense is mitigated substantially through fuel cost recovery programs which apportion incremental changes in fuel prices to shippers through price indices, tariffs, and by contract, within agreed upon guidelines. While these programs provide effective and meaningful coverage, residual exposure remains as the fuel expense risk may not be completely recovered from shippers due to timing and volatility in the market. In the past, to address the residual portion of CP's fuel costs not mitigated by its fuel cost recovery programs, CP had a systematic hedge program. As a result of improving coverage from its fuel cost recovery programs, CP exited its hedging program during the first quarter of 2013.

19. OFF-BALANCE SHEET ARRANGEMENTS

Guarantees

At December 31, 2014, the Company had residual value guarantees on operating lease commitments of $120 million. The maximum amount that could be payable under these and all of the Company's other guarantees cannot be reasonably estimated due to the nature of certain guarantees. All or a portion of amounts paid under certain guarantees could be recoverable from other parties or through insurance. The Company has accrued for all guarantees that it expects to pay. As at December 31, 2014, these accruals amounted to $3 million compared with $6 million as at December 31, 2013.

20. CONTRACTUAL COMMITMENTS

The accompanying table indicates the Company's obligations and commitments to make future payments for contracts, such as debt, capital lease and commercial arrangements.

Contractual Commitments

At December 31, 2014

Payments due by period (in millions)	Total	2015	2016 & 2017	2018 & 2019	2020 & beyond
Contractual commitments					
Long-term debt	**$ 5,673**	$ 131	$ 845	$ 1,164	$ 3,533
Capital lease	**150**	3	7	8	132
Operating lease(1)	**569**	114	155	98	202
Supplier purchase	**1,396**	217	266	208	705
Other long-term liabilities(2)	**648**	114	126	114	294
Total contractual commitments	**$ 8,436**	$ 579	$ 1,399	$ 1,592	$ 4,866

(1) Residual value guarantees on certain leased equipment with a maximum exposure of $120 million, discussed further in Section 19, Off-Balance Sheet Arrangements, are not included in the minimum payments shown above, as management believes that CP will not be required to make payments under these residual guarantees.

(2) Includes expected cash payments for restructuring, environmental remediation, asset retirement obligations, post-retirement benefits, workers' compensation benefits, long-term disability benefits, pension benefit payments for the Company's non-registered supplemental pension plan, deferred income tax liabilities and certain other long-term liabilities. Projected payments for post-retirement benefits, workers' compensation benefits and long-term disability benefits include the anticipated payments for years 2015 to 2024. Pension contributions for the Company's registered pension plans are not included due to the volatility in calculating them. Pension payments are discussed further in Section 23, Critical Accounting Estimates. Deferred income tax liabilities may vary resulting from changes in tax rates, tax regulations and the operating results of the Company. As the cash impact in any particular year cannot be reasonably determined, all long-term deferred tax liabilities have been reflected in the "2020 & beyond" category in this table. Deferred income taxes are discussed further in Section 23, Critical Accounting Estimates.

21. FUTURE TRENDS AND COMMITMENTS

Agreements and Recent Developments

Resolution of certain legal proceedings

In 2013, CP provided an interest free loan pursuant to a court order in the amount of $20 million to a corporation owned by a court appointed trustee ("the judicial trustee") to facilitate the acquisition of a building. The building was held in trust during the legal proceedings with regard to

Table of Contents

CP's entitlement to an exercised purchase option of the building ("purchase option"). As at December 31, 2014, the loan of $20 million and the purchase option, book value of $8 million, were recorded as Other assets in the Company's Consolidated Balance Sheets.

In January 2015, CP reached a settlement with a third party that, following the sale of the building to an arm's length third party in February 2015, will result in CP receiving net proceeds of $59 million for the sale of the building and resolution of legal proceedings. The net proceeds would include repayment of the aforementioned loan to the judicial trustee. CP expects to record a gain of approximately $31 million ($27 million after-tax) to Purchased services and other in the first quarter of 2015.

Issuance of long-term debt and settlement of forward starting swaps

On January 28, 2015, CP announced the issuance of U.S. $700 million 2.900% 10-year Notes due February 1, 2025 for net proceeds of U.S. $694 million. This transaction closed on February 2, 2015. The net proceeds will be used for general corporate purposes, capital investments, and share repurchases.

On January 28, 2015, the Company settled a notional U.S. $700 million of forward starting swaps, designated as a cash flow hedge related to the issuance of the notes described above. The fair value of these derivative instruments was a loss of U.S. $50 million at the time of the settlement. Effective hedge losses were deferred in Accumulated other comprehensive loss and will be amortized to Net interest expense until the underlying notes, which were hedged, are repaid.

Joint venture with DREAM Unlimited

On January 20, 2015, CP announced it had an agreement to create a joint venture with DREAM Unlimited called DREAM Van Horne Properties. The joint venture was created to evaluate the Company's real estate, and to explore innovative ways to maximize value, including industrial, commercial and residential development.

Sale of the Delaware and Hudson Railway Company

On November 17, 2014, the Company announced a proposed agreement with Norfolk Southern Corporation ("NS") for the sale of approximately 283 miles of the Delaware and Hudson Railway Company Inc.'s line between Sunbury, Pennsylvania, and Schenectady, New York. The assets expected to be sold to NS upon completion of this transaction have been classified as Assets held for sale on the Company's Consolidated Balance Sheets. The assets continue to be reported at their carrying value as this is lower than their expected fair value. The sale to NS, when agreed, will be subject to regulatory approval by the U.S. Surface Transportation Board and is expected to close in 2015.

Legal Proceedings Related To Lac-Mégantic Rail Accident

On July 6, 2013, a train carrying crude oil operated by Montreal Maine and Atlantic Railway ("MM&A") derailed and exploded in Lac-Mégantic, Quebec on a section of railway line owned by MM&A. The previous day CP had interchanged the train to MM&A, and after that interchange MM&A exercised exclusive control over the train.

Following this incident, the Minister of Sustainable Development, Environment, Wildlife and Parks of Quebec issued an order directing certain named parties to recover the contaminants and to clean up and decontaminate the derailment site. CP was added as a named party on August 14, 2013. CP is a party to an administrative appeal with respect to this order. No hearing date on the merits of CP's appeal has been scheduled.

A class action lawsuit has also been filed in the Superior Court of Quebec on behalf of a class of persons and entities residing in, owning or leasing property in, operating a business in or physically present in Lac-Mégantic. The lawsuit seeks damages caused by the derailment including for wrongful deaths, personal injuries, and property damages. CP was added as a defendant on August 16, 2013. The Superior Court of Quebec is not expected to release its judgment on the authorization of the class action before the end of February 2015.

In the wake of the derailment and ensuing litigation, MM&A filed for bankruptcy in Canada and the United States. In an Adversary Proceeding filed by the MM&A U.S. bankruptcy trustee against CP, Irving Oil and the World Fuel entities, CP has been accused of failing to ensure that World Fuel or Irving Oil properly classified the oil lading and of not refusing to ship the oil in DOT-111 tank cars. CP intends to move to withdraw the bankruptcy court reference and will thereafter seek to have the claim against CP dismissed as federally preempted.

In addition, CP has received two damage to cargo notices of claims from the shipper of the oil on the derailed train, Western Petroleum. Western Petroleum has submitted U.S. and Canadian notices of claims for the same damages and, under the Carmack Amendment (the U.S. damage to cargo statute), seeks to recover for all injuries associated with, and indemnification for all claims arising from, the derailment. Both jurisdictions permit a shipper to recover the value of damaged lading against any carrier in the delivery chain, subject to limitations in the carrier's tariffs. CP's tariffs significantly restrict shipper damage claim rights.

At this early stage in the legal proceedings, any potential liability and the quantum of potential loss cannot be determined. Nevertheless, CP denies liability for MM&A's derailment and will vigorously defend itself in the proceedings described above and in any proceeding that may be commenced in the future.

Table of Contents

Sale of the Dakota, Minnesota & Eastern Railroad West End

CP announced its intention to explore strategic options for a portion of its main line track of the DM&E, west of Tracy, Minnesota, on December 4, 2012. On January 2, 2014, the Company executed an agreement with G&W for the sale of DM&E West tracks between Tracy, Minnesota and Rapid City, South Dakota, and between Colony, Wyoming and Crawford, Nebraska. DM&E West encompasses approximately 660 miles and the sale closed on May 30, 2014 for U.S. $218 million (CDN $236 million) in gross proceeds.

Changes in Executive Officers

On May 7, 2014, CP announced Chief Executive Officer E. Hunter Harrison agreed to a contract extension with the railway for an additional year, and will remain with the Company until 2017. Effective October 29, 2014, Mr. Laird Pitz was appointed Vice-President and Chief Risk Officer. On January 21, 2015, the Company announced the appointment of Mr. Timothy Marsh as Senior Vice-President Sales and Marketing. Mr. Marsh replaces Jane O'Hagan who left the Company on May 29, 2014. On February 11, 2015, the Company announced that Executive Vice President and Chief Financial Officer Bart Demosky had decided to leave the Company. Mr. Demosky has agreed to stay on until May 31, 2015.

Changes in Board of Directors

Prior to the Company's shareholder meeting on May 1, 2014, it was announced that Mr. Richard Kelly would not stand for re-election as a member of the Company's Board of Directors. On May 1, 2014, the Company announced that Gary Colter was elected Chairman of the Company's Board of Directors. Mr. Colter replaced Paul Haggis who continues to serve as a director of the Company. Effective May 20, 2014, the Hon. Jim Prentice resigned as a member of the Company's Board of Directors. Mr. Prentice had been appointed to the Board on June 7, 2013.

Environmental

Cash payments related to the Company's environmental remediation program, described in Section 23, Critical Accounting Estimates, totaled $8 million in 2014, compared with $9 million in 2013 and $11 million in 2012. Cash payments for environmental initiatives are estimated to be approximately $16 million in 2015, $11 million in 2016, $9 million in 2017 and a total of approximately $57 million over the remaining years through 2024, which will be paid in decreasing amounts. All payments will be funded from general operations.

CP continues to be responsible for remediation work on portions of a property in the State of Minnesota and continues to retain liability accruals for remaining future expected costs. The costs are expected to be incurred over approximately 10 years. The state's voluntary investigation and remediation program will oversee the work to ensure it is completed in accordance with applicable standards.

Certain Other Financial Commitments

In addition to the financial commitments mentioned previously in Section 19, Off-Balance Sheet Arrangements and Section 20, Contractual Commitments, the Company is party to certain other financial commitments set forth in the table and discussed below.

Letters of Credit

Letters of credit are obtained mainly to provide security to third parties under the terms of various agreements, including workers' compensation and supplemental pension. CP is liable for these contractual amounts in the case of non-performance under these agreements. Letters of credit are accommodated through a revolving credit facility and the Company's bi-lateral letter of credit facility.

Capital Commitments

The Company remains committed to maintaining the current high level of plant quality and renewing the franchise. As part of this commitment, CP has entered into contracts with suppliers to make various capital purchases related to track programs. Payments for these commitments are due in 2015 through 2032. These expenditures are expected to be financed by cash generated from operations or by issuing new debt.

At December 31, 2014

Amount of commitments per period (in millions)	**Total**	2015	2016 & 2017	2018 & 2019	2020 & beyond
Commitments					
Letters of credit	**$ 412**	$ 412	$ –	$ –	$ –
Capital commitments	**427**	288	100	21	18
Total commitments	**$ 839**	$ 700	$ 100	$ 21	$ 18

Pension Plan Surplus and Deficit

A description of future expectations related to the Company's pension plans are included in Section 23, Critical Accounting Estimates.

Table of Contents

Restructuring

Cash payments related to severance under all restructuring initiatives totaled $21 million in 2014, compared with $33 million in 2013 and $22 million in 2012. Cash payments for restructuring initiatives are estimated to be approximately $12 million in 2015, $6 million in 2016, $3 million in 2017, and a total of approximately $5 million over the remaining years through 2025. These amounts include residual payments to protected employees for previous restructuring plans that have been completed.

22. BUSINESS RISKS

In the normal course of operations, the Company is exposed to various business risks and uncertainties that can have an effect on financial condition. While some financial exposures are reduced through risk management strategies including the insurance and hedging programs CP has in place, there are certain circumstances where the financial risks are not fully insurable or are driven by external factors beyond the Company's influence or control.

As part of the preservation and delivery of value to the Company's shareholders, CP has developed an integrated Enterprise Risk Management framework to support consistent achievement of key business objectives through daily pro-active management of risk. The objective of the program is to actively manage those potential events that are identified through a thorough evaluation of risks. Each event identified is assessed based on the potential impact and likelihood, taking account of financial, environmental, and reputational impacts, and existing management control. Risk mitigation strategies are formulated to accept, treat, transfer, or eliminate the exposure to the identified events. Readers are cautioned that the following is not an exhaustive list of all the risks to which CP is exposed, nor will the Company's mitigation strategies eliminate all risks listed.

Competition

The Company faces significant competition for freight transportation in Canada and the U.S., including competition from other railways, pipelines, trucking and barge companies. Competition is based mainly on price, quality of service and access to markets. Competition with the trucking industry is generally based on freight rates, flexibility of service and transit time performance. The cost structure and service of competitors could impact the Company's competitiveness and have a materially adverse impact on business or operating results. Certain aspects of competition in Canada are also subject to regulation and are discussed further in Regulatory Authorities below.

To mitigate competition risk, the Company's strategies include:

- creating long-term value for customers and shareholders by profitably growing through collaborative supply chain solutions and aligned investments with customers, delivering competitive and reliable service, developing markets that are consistent with the network's strengths, enhancing network capability, and selective use of long-term contracts;
- renewing and maintaining infrastructure to enable safe and efficient operations;
- driving efficiency through the operating plan to reduce costs and enhance the quality and reliability of service; and
- exercising a disciplined yield approach to competitive contract renewals and bids.

Liquidity

Revolving Credit Facility

On September 26, 2014, CP terminated its existing revolving credit facility agreement dated November 29, 2013. On the same day, CP entered into a new revolving credit facility (the "facility") agreement with 15 highly rated financial institutions for a commitment amount of U.S. $2 billion. The facility includes a U.S. $1 billion five years portion and a U.S. $1 billion one year plus one year term out portion. The facility can accommodate draws of cash and/or letters of credit at market competitive pricing. At December 31, 2014, the facility was undrawn. The facility agreement requires the Company not to exceed a maximum debt to total capitalization ratio. At December 31, 2014, the Company satisfied the threshold stipulated in this financial covenant.

Commercial Paper Program

During the fourth quarter of 2014, the Company established a commercial paper program which enabled it to issue commercial paper up to a maximum aggregate principal amount of U.S. $1 billion in the form of unsecured promissory notes. The commercial paper program is backed by a U.S. $1 billion committed, revolving credit facility, which matures on September 26, 2016. As at December 31, 2014, the Company had total commercial paper borrowings of U.S. $675 million ($783 million in Canadian dollars) presented in Long-term debt on the Consolidated Balance Sheets as the Company has the intent and the ability to renew these borrowings on a long-term basis. The weighted-average interest rate on these borrowings was 0.44%. CP did not have a commercial paper program in 2013.

The Company presents issuances and repayments of commercial paper in the Consolidated Statements of Cash Flows on a net basis, all of which have a maturity of less than 90 days.

Table of Contents

Bilateral Letter of Credit Facilities

During 2013, the Company entered into a series of committed and uncommitted bilateral letter of credit facility agreements with financial institutions to support its requirement to post letters of credit in the ordinary course of business. The agreements have varying expiration dates with the earliest expiry in August 2014. Under these agreements, the Company has the option to post collateral in the form of cash or cash equivalents, equal at least to the face value of the letter of credit issued. Collateral provided includes highly liquid investments purchased three months or less from maturity and is stated at cost, which approximates market value and is shown separately on the balance sheet as Restricted cash and cash equivalents on the Consolidated Balance Sheets.

At December 31, 2014, under its bilateral facilities the Company had letters of credit drawn of $412 million from a total available amount of $600 million. The Company can largely withdraw this collateral during any month.

Regulatory Authorities

The Company's railway operations are subject to extensive federal laws, regulations and rules in both Canada and the U.S. which directly affect how operations and business activities are managed.

Operations are subject to economic and safety regulation in Canada primarily by the Canadian Transportation Agency ("the Agency"), Transport Canada, the Canada Transportation Act ("CTA") and the Railway Safety Act. The CTA provides shipper rate and service remedies, including Final Offer Arbitration, competitive line rates and compulsory inter-switching in Canada. The Agency regulates the maximum revenue entitlement for the movement of grain, commuter and passenger access, charges for ancillary services and noise-related disputes. Transport Canada regulates safety-related aspects of railway operations in Canada.

The Company's U.S. operations are subject to economic and safety regulation by the STB and Federal Railroad Administration ("FRA"). The STB is an economic regulatory body with jurisdiction over railroad rate and service issues and reviewing proposed railroad mergers and other transactions. The FRA regulates safety-related aspects of CP's railway operations in the U.S. under the Federal Railroad Safety Act, as well as rail portions of other safety statutes.

Various other regulators directly and indirectly affect the Company's operations in areas such as health, safety, security, environmental and other matters. To mitigate statutory and regulatory impacts, CP is actively and extensively engaged throughout the different levels of government and regulators, both directly and indirectly through industry associations, including the Association of American Railroads ("AAR") and the Railway Association of Canada. No assurance can be given to the content, timing or effect on CP of any anticipated legislation or further legislative action.

Regulatory Change

On May 29, 2014, the Canadian Federal Government enacted the "Fair Rail for Grain Farmers Act" (the "Fair Rail Act"). This legislation requires the Company and Canadian National Railway Company to move a minimum amount of grain, which amount is determined by and may be adjusted by the federal cabinet. The federal cabinet has ordered continued weekly grain volume minimums for the period from November 30, 2014 to March 28, 2015. In addition, the Fair Rail Act expands the terms and conditions associated with the inter-switching provisions of the CTA in the provinces of Alberta, Saskatchewan and Manitoba, provides that the Agency make regulations specifying what constitutes operational terms that may be subject to service agreement arbitration and gives the Agency the power to order a railway to compensate any person who has incurred expenses because of a failure to meet obligations under Sections 113 and 114 of the CTA, or does not meet its obligations under the terms of a confidential contract that includes a compensation clause. Bill C-30 also amends the Canada Grain Act to permit the regulation of contracts relating to grain and the arbitration of disputes respecting the provisions of those contracts.

After the tragic accident in Lac-Mégantic, Quebec in July of 2013 involving a non-related short-line railroad, the Government of Canada implemented several measures pursuant to the Rail Safety Act and the Transportation of Dangerous Goods Act. These modifications implemented changes with respect to rules associated with securing unattended trains, the classification of crude oil being imported, handled, offered for transport or transported and the provision of information to municipalities through which dangerous goods are transported by rail. The U.S. federal government has taken similar actions. These changes do not have a material impact on CP's operating practices.

On November 19, 2013, the Agency initiated consultation on the current approach to determining the adequacy of railway third party liability coverage and solicited input on possible improvements to the current regulatory framework. The consultation period ended on May 9, 2014. The Company provided responses to the request for consultation. Based on the input received, the Agency may make changes to its administration of the current regulatory framework, propose revisions to the regulatory framework or consult again with stakeholders on any proposed regulatory changes with respect to railway third party liability coverage.

There is ongoing discussion with Canadian and American regulators concerning amendments to the regulation for the transportation of hazardous commodities including the tank cars used for the transportation of crude oil. The U.S. Pipeline and Hazardous Materials Safety Administration ("PHMSA"), in coordination with the FRA, issued a Notice of Proposed Rulemaking requesting comments on various possible new operational requirements and enhanced tank car standards for trains hauling large volumes of certain flammable liquids. Among other things, PHMSA's proposal calls for rail routing risk assessments; notification to state emergency response commissions; reduced operating speeds; enhanced braking; and enhanced standards for both new and existing tank cars. The AAR filed comments on behalf of the Class I railroads on September 30, 2014.

Table of Contents

Transport Canada also issued its proposal to revise tank car standards for comments. It was generally consistent with the U.S. approach but did not include as many varied operating requirements. The Railway Association of Canada filed comments on behalf of its members, including CP, on August 29, 2014. CP does not own any tank cars used for commercial transportation of hazardous commodities.

Security

CP is subject to statutory and regulatory directives in Canada and the U.S. that address security concerns. CP plays a critical role in the North American transportation system. Rail lines, facilities, and equipment, including rail cars carrying hazardous materials, could be direct targets or indirect casualties of terrorist attacks. Regulations by the Department of Transportation and the Department of Homeland Security in the U.S. include speed restrictions, chain of custody and security measures which can impact service and increase costs for the transportation of hazardous materials, especially toxic inhalation materials. Legislative changes in Canada to the Transportation of Dangerous Goods Act are expected to add new security regulatory requirements similar to those in the U.S. In addition, insurance premiums for some or all of the Company's current coverage could increase significantly, or certain coverage may not be available to the Company in the future. While CP will continue to work closely with Canadian and U.S. government agencies, future decisions by these agencies on security matters or decisions by the industry in response to security threats to the North American rail network could have a materially adverse effect on business or operating results.

As the Company strives to ensure customers have unlimited access to North American markets, CP has taken the following steps to provide enhanced security and reduce the risks associated with the cross-border transportation of goods:

- to strengthen the overall supply chain and border security, the Company is a certified carrier in voluntary security programs, such as the Customs-Trade Partnership Against Terrorism and Partners in Protection;
- to streamline clearances at the border, CP has implemented several regulatory security frameworks that focus on the provision of advanced electronic cargo information and improved security technology at border crossings, including the implementation of the Vehicle and Cargo Inspection System at five of the Company's border crossings;
- to strengthen railway security in North America, the Company signed a revised voluntary Memorandum of Understanding with Transport Canada and worked with the AAR to develop and put in place an extensive industry-wide security plan to address terrorism and security-driven efforts seeking to restrict the routings and operational handlings of certain hazardous materials;
- to reduce toxic inhalation risk in high threat urban areas, CP works with the Transportation Security Administration; and
- to comply with U.S. regulations for rail security sensitive materials, CP has implemented procedures to maintain positive chain of custody and are performing annual route assessments to select and use the route posing the least overall safety and security risk.

Positive Train Control

In the U.S., the Rail Safety Improvement Act requires Class I railroads to implement, by December 31, 2015, interoperable PTC on main track in the U.S. that has passenger rail traffic or toxic inhalant hazard commodity traffic. The legislation defines PTC as a system designed to prevent train-to-train collisions, over-speed derailments, incursions into established work zone limits, and the movement of a train through a switch left in the wrong position. The FRA has issued rules and regulations for the implementation of PTC, and CP filed its PTC Implementation Plans in April 2010, which outlined the Company's solution for interoperability as well as its consideration of relative risk in the deployment plan. The Company is participating in industry and government working groups to evaluate the scope of effort that will be required to comply with these regulatory requirements, and to further the development of an industry standard interoperable solution that can be supplied in time to complete deployment. At this time CP estimates the cost to implement PTC as required for railway operations in the U.S. to be up to U.S. $328 million. As at December 31, 2014, total expenditures related to PTC were approximately $210 million, including approximately $26 million and $64 million for the fourth quarter and full year of 2014 respectively, discussed further in Section 14, Liquidity and Capital Resources.

Labour Relations

At December 31, 2014, approximately 77% of CP's workforce was unionized and approximately 75% of its workforce is located in Canada. Unionized employees are represented by a total of 39 bargaining units. Agreements are in place with all seven bargaining units that represent employees in Canada and all 32 bargaining units that represent employees in the Company's U.S. operations.

Canada

All of the Canadian bargaining agreements are in place through at least December 31, 2014. Agreements with unions representing Canadian running trades employees, Teamsters Canada Rail Conference ("TCRC"), and Canadian car and locomotive repair employees, Unifor, expired at the end of 2014. On February 14, 2015, a tentative 4-year agreement was reached with Unifor. On February 16, 2015, the Company and TCRC agreed to enter into binding arbitration after a day and a half work stoppage.

A tentative six year settlement was reached with the Canadian Rail Traffic Controllers on July 17, 2014. This agreement was ratified on August 27, 2014 and comes into effect on January 1, 2015. Agreements with the other four Canadian bargaining units expire at the end of 2017.

Table of Contents

U.S.

The Company is party to collective agreements with fourteen bargaining units of the Soo Line subsidiary, thirteen bargaining units of the D&H subsidiary, and five bargaining units of the DM&E subsidiary.

Contracts with all fourteen bargaining units on Soo Line representing train service employees, car repair employees, locomotive engineers, yard supervisors, clerks, machinists, boilermakers and blacksmiths, electricians, sheet metal workers, and mechanical labourers are open for negotiation on January 1, 2015. Meetings have been scheduled with those bargaining units which have served formal notices, which to date include the International Association of Machinist and Aerospace Workers ("IAMAW") (machinists), the Transportation and Communications Union ("TCU") (clerical), the Brotherhood of Locomotive Engineers and Trainmen ("BLE&T") (engineers) and the Sheet Metal Air Rail Transportation – Transportation Division ("SMART-TD") (conductors).

On the D&H, contracts for all thirteen bargaining units, including locomotive engineers, train service employees, car repair employees, signal maintainers, yardmasters, electricians, machinists, mechanical labourers, track maintainers, clerks, police, engineering supervisors and mechanical supervisors are open for negotiation January 1, 2015. Meetings have been scheduled with those bargaining units which have served formal notices, including IAMAW (machinists), TCU (clerical, police, and mechanical and engineering supervisors) and BLE&T (engineers).

Agreements with three of the five bargaining units which cover all DM&E signal and communication workers, mechanics and maintenance of way workers open for negotiation on January 1, 2015. Negotiations, which opened January 1, 2014, continue for the agreement covering engineers and conductors on the former Iowa, Chicago, and Eastern Railroad ("IC&E") portion of DM&E.

An hourly rated agreement was ratified and implemented December 1, 2014 with SMART-TD, and will be amendable on January 1, 2018.

Environmental Laws and Regulations

The Company's operations and real estate assets are subject to extensive federal, provincial, state and local environmental laws and regulations governing emissions to the air, discharges to waters and the handling, storage, transportation and disposal of waste and other materials. If the Company is found to have violated such laws or regulations it could materially affect the Company's business or operating results. In addition, in operating a railway, it is possible that releases of hazardous materials during derailments or other accidents may occur that could cause harm to human health or to the environment. Costs of remediation, damages and changes in regulations could materially affect the Company's operating results and reputation.

The Company has implemented a comprehensive Environmental Management System to facilitate the reduction of environmental risk. CP's annual corporate Operations Environmental Plan states the current environmental goals, objectives and strategies.

Specific environmental programs are in place to address areas such as air emissions, wastewater, management of vegetation, chemicals and waste, storage tanks and fuelling facilities. CP has also undertaken environmental impact assessments and risk assessments to identify, prevent and mitigate environmental risks. There is continued focus on preventing spills and other incidents that have a negative impact on the environment. There is an established Strategic Emergency Response Contractor network and spill equipment kits are located across Canada and the U.S. to ensure a rapid and efficient response in the event of an environmental incident. In addition, emergency preparedness and response plans are regularly updated and tested.

The Company has developed an environmental audit program that comprehensively, systematically and regularly assesses the Company's facilities for compliance with legal requirements and the Company's policies for conformance to accepted industry standards. Included in this is a corrective action follow-up process and semi-annual review by the Safety, Operations and Environment Committee established by the Board of Directors.

CP focuses on key strategies, identifying tactics and actions to support commitments to the community. The Company's strategies include:

- protecting the environment;
- ensuring compliance with applicable environmental laws and regulations;
- promoting awareness and training;
- managing emergencies through preparedness; and
- encouraging involvement, consultation and dialogue with communities along the Company's lines.

Climate Change

In both Canada and the U.S., the federal governments have not designated railway transportation as a large final emitter with respect to greenhouse gas ("GHG") emissions. The railway transportation industry is currently not regulated with respect to GHG emissions, nor does CP operate under a regulated cap of GHG emissions. Growing support for climate change legislation is likely to result in changes to the regulatory framework in Canada and the U.S., however, the timing and specific nature of those changes are difficult to predict. Specific instruments such as carbon taxes, and technical and fuel standards have the ability to significantly affect the Company's capital and operating costs. Restrictions, caps and/or taxes on the emissions of GHG could also affect the markets for, or the volume of, the goods the Company transports.

Table of Contents

The fuel efficiency of railways creates a significant advantage over trucking, which currently handles a majority of the market share of ground transportation. Although trains are already three times more fuel efficient than trucks on a per ton-mile basis, the Company continues to adopt new technologies to minimize the Company's fuel consumption and GHG emissions.

Potential physical risks associated with climate change include damage to railway infrastructure due to extreme weather effects, (e.g. increased flooding or winter storms). Improvements to infrastructure design and planning are used to mitigate the potential risks posed by weather events. The Company maintains flood plans, winter operating plans, an avalanche risk management program and geotechnical monitoring of slope stability.

Financial Risks

Pension Funding Volatility

A description of pension funding volatility related to the Company's pension plans are included in Section 23, Critical Accounting Estimates.

Fuel Cost Volatility

Fuel expense constitutes a significant portion of CP's operating costs and can be influenced by a number of factors, including, without limitation, worldwide oil demand, international politics, weather, refinery capacity, unplanned infrastructure failures, labour and political instability and the ability of certain countries to comply with agreed-upon production quotas.

The Company's mitigation strategy consists of fuel cost recovery programs which reflect changes in fuel costs that are included in freight rates. Freight rates will increase when fuel prices rise and will decrease when fuel costs decrease. While fluctuations in fuel cost are mitigated, the risk cannot be completely eliminated due to timing and the volatility in the market.

In the past, to address the residual portion of fuel costs not mitigated by fuel cost recovery programs, CP had an automatic hedging program. As a result of improving coverage from the Company's fuel cost recovery programs, CP exited its hedging program during the first quarter of 2013. Fuel price management is discussed further in Section 18, Financial Instruments.

Foreign Exchange Risk

Although CP conducts business primarily in Canada, a significant portion of its revenues, expenses, assets and liabilities including debt are denominated in U.S. dollars. The value of the Canadian dollar is affected by a number of domestic and international factors, including, without limitation, economic performance, and Canadian, U.S. and international monetary policies. Consequently, the Company's results are affected by fluctuations in the exchange rate between these currencies. On average, a $0.01 weakening (or strengthening) of the Canadian dollar increases (or reduces) EPS by approximately $0.07 per share. On an annualized basis, a $0.01 weakening (or strengthening) of the Canadian dollar positively (or negatively) impacts Freight revenues by approximately $35 million and negatively (or positively) impacts Operating expenses by approximately $16 million. Foreign exchange translation on the Company's U.S. dollar denominated long-term debt is excluded from these sensitivities. To manage this exposure to fluctuations in exchange rates between Canadian and U.S. dollars, CP may sell or purchase U.S. dollar forwards at fixed rates in future periods. In addition, changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and may in turn positively or negatively affect revenues. Foreign exchange management is discussed further in Section 18, Financial Instruments.

Interest Rate Risk

In order to meet the Company's capital structure requirements, CP may enter into long-term debt agreements. These debt agreements expose CP to increased interest costs on future fixed debt instruments and existing variable rate debt instruments should market rates increase. In addition, the present value of the Company's assets and liabilities will also vary with interest rate changes. To manage interest rate exposure, CP may enter into forward rate agreements such as treasury rate locks or bond forwards that lock in rates for a future date, thereby protecting against interest rate increases. CP may also enter into swap agreements whereby one party agrees to pay a fixed rate of interest while the other party pays a floating rate. Contingent on the direction of interest rates, the Company may incur higher costs depending on the contracted rate. Interest rate management is discussed further in Section 18, Financial Instruments.

General and Other Risks

Transportation of Dangerous Goods and Hazardous Materials

Railways, including CP, are legally required to transport dangerous goods and hazardous materials as part of their common carrier obligations regardless of risk or potential exposure of loss. A train accident involving hazardous materials, including toxic inhalation of hazardous commodities such as chlorine and anhydrous ammonia could result in catastrophic losses from personal injury and property damage, which could have a material adverse effect on CP's operations, financial condition and liquidity.

Legal Proceedings Related to Lac-Mégantic Rail Accident

Legal proceedings related to the tragic accident at Lac-Mégantic, Quebec are discussed in Section 21, Future Trends and Commitments.

Table of Contents

Supply Chain Disruptions

The North American transportation system is integrated. CP's operations and service may be negatively impacted by service disruptions of other transportation links such as ports, handling facilities, customer facilities, and other railways. A prolonged service disruption at one of these entities could have a material adverse effect on CP's operations, financial condition and liquidity.

Reliance on Technology and Technological Improvements

Information technology is critical to all aspects of the Company's business. While the Company has business continuity and disaster recovery plans in place, a significant disruption or failure of one or more of the information technology or communications systems could result in service interruptions or other failures and deficiencies which could have a material adverse effect on results of operations, financial condition and liquidity. If CP is unable to acquire or implement new technology, the Company may suffer a competitive disadvantage, which could also have an adverse effect on results of operations, financial condition and liquidity.

Qualified Personnel

Changes in employee demographics, training requirements, and the availability of qualified personnel, particularly locomotive engineers and train-persons, could negatively impact the Company's ability to meet demand for rail service. The Company has workforce planning tools and programs in place and are undertaking technological improvements to assist with manual tasks. Unpredictable increases in the demand for rail services may increase the risk of having insufficient numbers of trained personnel, which could have a material adverse effect on the Company's results of operations, financial condition and liquidity. In addition, changes in operations and other technology improvements may significantly impact the number of employees.

Severe Weather

CP is exposed to severe weather conditions including floods, avalanches, mudslides, extreme temperatures and significant precipitation that may cause business interruptions that can adversely affect the Company's entire rail network and result in increased costs, increased liabilities, and decreased revenue, which could have a material adverse effect on CP's operations, financial condition and liquidity.

Supplier Concentration

Due to the complexity and specialized nature of rail equipment and infrastructure, there can be a limited number of suppliers of this equipment and material available. Should these specialized suppliers cease production or experience capacity or supply shortages, this concentration of suppliers could result in CP experiencing cost increases or difficulty in obtaining rail equipment and materials. While CP manages this risk by sourcing key products and services from multiple suppliers whenever possible, widespread business failures of suppliers could have a material adverse effect on CP's operations, financial condition and liquidity.

General Risks

There are factors and developments that are beyond the influence or control of the railway industry generally and CP specifically which may have a material adverse effect on the Company's business or operating results. The Company's freight volumes and revenues are largely dependent upon the performance of the North American and global economies, which remains uncertain, and other factors affecting the volumes and patterns of international trade. CP's bulk traffic is dominated by grain, metallurgical coal, fertilizers and sulphur. Factors outside of CP's control which affect bulk traffic include:

- with respect to grain volumes, domestic production-related factors such as weather conditions, acreage plantings, yields and insect populations;
- with respect to coal volumes, global steel production;
- with respect to fertilizer volumes, grain and other crop markets, with both production levels and prices being important factors; and
- with respect to sulphur volumes, gas production levels in southern Alberta, industrial production and fertilizer production, both in North America and abroad.

The merchandise commodities transported by the Company include those relating to the forestry, energy, industrial, automotive and other consumer spending sectors. Factors outside of CP's control which affect this portion of CP's business include the general state of the North American economy, with North American industrial production, business investment and consumer spending being the general sources of economic demand. Housing, auto production and energy development are also specific sectors of importance. Factors outside of CP's control which affect the Company's intermodal traffic volumes include North American consumer spending and a technological shift toward containerization in the transportation industry that has expanded the range of goods moving by this means.

Adverse changes to any of the factors outside of CP's control which affect CP's bulk traffic, the merchandise commodities transported by CP or CP's intermodal traffic volumes or adverse changes to fuel prices could have a material adverse effect on CP's operations, financial condition and liquidity.

CP is also sensitive to factors including, but not limited to, natural disasters, security threats, commodity pricing, global supply and demand, and supply chain efficiency. Other business risks include: potential increases in maintenance and operational costs, uncertainties of litigation, risks and liabilities arising from derailments and technological changes.

Table of Contents

23. CRITICAL ACCOUNTING ESTIMATES

To prepare consolidated financial statements that conform with GAAP, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Using the most current information available, the Company reviews estimates on an ongoing basis, including those related to environmental liabilities, pensions and other benefits, property, plant and equipment, deferred income taxes, legal and personal injury liabilities and goodwill.

The development, selection and disclosure of these estimates, and this MD&A, have been reviewed by the Board of Directors' Audit Committee, which is comprised entirely of independent directors.

Environmental Liabilities

CP estimates the probable cost to be incurred in the remediation of property contaminated by past railway use. The Company screens and classifies sites according to typical activities and scale of operations conducted, and develops remediation strategies for each property based on the nature and extent of the contamination, as well as the location of the property and surrounding areas that may be adversely affected by the presence of contaminants. CP also considers available technologies, treatment and disposal facilities and the acceptability of site-specific plans based on the local regulatory environment. Site-specific plans range from containment and risk management of the contaminants through to the removal and treatment of the contaminants and affected soils and ground water. The details of the estimates reflect the environmental liability at each property. The Company is committed to fully meeting regulatory and legal obligations with respect to environmental matters.

Liabilities for environmental remediation may change from time to time as new information about previously untested sites becomes known. The net liability may also vary as the courts decide legal proceedings against outside parties responsible for contamination. These potential charges, which cannot be quantified at this time, are not expected to be material to the Company's financial position, but may materially affect income in the period in which a charge is recognized. Material increases to costs would be reflected as increases to Other long-term liabilities and Accounts payable and accrued liabilities on the Company's Consolidated Balance Sheets and to Purchased services and other within Operating expenses on the Consolidated Statements of Income.

At December 31, 2014 and 2013, the accrual for environmental remediation on the Company's Consolidated Balance Sheets amounted to $91 million and $90 million respectively, of which the long-term portion amounting to $75 million in 2014 and $76 million in 2013 was included in Other long-term liabilities and the short-term portion amounting to $16 million in 2014 and $14 million in 2013 was included in Accounts payable and accrued liabilities. Total payments were $8 million in 2014 and $9 million in 2013. The U.S. dollar-denominated portion of the liability was affected by the change in FX, resulting in an increase in environmental liabilities of $6 million in 2014 and $4 million in 2013.

Pensions and Other Benefits

CP has defined benefit and defined contribution pension plans. Other benefits include post-retirement medical and life insurance for pensioners, and some post-employment workers' compensation and long-term disability benefits in Canada. Workers' compensation and long-term disability benefits are discussed in the Legal and Personal Injury Liabilities section below. Pension and post-retirement benefits liabilities are subject to various external influences and uncertainties.

Pension costs are actuarially determined using the projected-benefit method prorated over the credited service periods of employees. This method incorporates best estimates of expected plan investment performance, salary escalation and retirement ages of employees. The expected return on fund assets is calculated using market-related asset values developed from a five-year average of market values for the fund's public equity securities and absolute return strategies (with each prior year's market value adjusted to the current date for assumed investment income during the intervening period) plus the market value of the fund's fixed income, real estate and infrastructure securities, subject to the market-related asset value not being greater than 120% of the market value nor being less than 80% of the market value.

The discount rate used to determine the benefit obligation is based on market interest rates on high-quality corporate debt instruments with matching cash flows. Unrecognized actuarial gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of plan assets are amortized over the expected average remaining service period of active employees expected to receive benefits under the plan (approximately 10 years). Prior service costs arising from collectively bargained amendments to pension plan benefit provisions are amortized over the term of the applicable union agreement. Prior service costs arising from all other sources are amortized over the expected average remaining service period of active employees who were expected to receive benefits under the plan at the date of amendment.

The obligations with respect to post-retirement benefits, including health care and life insurance, are actuarially determined and are accrued using the projected-benefit method prorated over the credited service periods of employees. The obligations with respect to post-employment benefits, including some workers' compensation and long-term disability benefits in Canada are the actuarial present value of benefits payable to employees with existing claims for injuries or disability.

Pension Liabilities and Pension Assets

The Company included pension benefit liabilities of $279 million in Pension and other benefit liabilities and $9 million in Accounts payable and accrued liabilities on the Company's December 31, 2014 Consolidated Balance Sheets. The Company also included post-retirement benefits accruals

Table of Contents

of $387 million in Pension and other benefit liabilities and $20 million in Accounts payable and accrued liabilities on the Company's December 31, 2014 Consolidated Balance Sheets. Accruals for self-insured workers compensation and long-term disability benefit plans, including $89 million in Pension and other benefit liabilities, are discussed in the Legal and Personal Injury Liabilities section below.

The Company included pension benefit assets of $304 million in Pension assets on the Company's December 31, 2014 Consolidated Balance Sheets.

Net Periodic Benefit Costs

Net periodic benefit costs for pensions and post-retirement benefits were included in Compensation and benefits on the December 31, 2014 Consolidated Statement of Income. Combined net periodic benefit credits for pensions and post-retirement benefits (excluding self-insured workers compensation and long-term disability benefits) were $19 million in 2014, compared with net periodic benefit costs of $77 million in 2013.

Net periodic benefit credits for pensions were $44 million in 2014, compared with net periodic benefit costs of $50 million in 2013. The benefit credit portion related to defined benefit pensions was $52 million in 2014, compared with the benefit cost portion of $43 million in 2013. The benefit cost portion related to defined contribution pensions (equal to contributions) was $8 million in 2014, compared with $7 million for 2013. Net periodic benefit costs for post-retirement benefits were $25 million in 2014, compared with $27 million in 2013.

CP estimates net periodic benefit costs for defined benefit pensions to be approximately $45 million in 2015, and net periodic benefit costs for defined contribution pensions to be approximately $8 million in 2015. Net periodic benefit costs for post-retirement benefits in 2015 are not expected to differ materially from the 2014 costs.

Pension Plan Contributions

The Company made contributions of $80 million to the defined benefit pension plans in 2014, compared with $98 million in 2013.

The Company's main Canadian defined benefit pension plan accounts for 96% of CP's pension obligation and can produce significant volatility in pension funding requirements, given the pension fund's size, the many factors that drive the pension plan's funded status, and Canadian statutory pension funding requirements. 2011, 2010 and 2009 contributions included voluntary prepayments of $600 million in December 2011, $650 million in September 2010 and $500 million in December 2009 to the Company's main Canadian defined benefit pension plan. CP continues to have significant flexibility with respect to the rate at which these voluntary prepayments are applied to reduce future years' pension contribution requirements, which allows us to manage the volatility of future pension funding requirements.

CP estimates its aggregate pension contributions, including its defined benefit and defined contribution plan, to be in the range of $90 million to $100 million in 2015, and in the range of $60 million to $110 million per year from 2016 to 2018. These estimates reflect the Company's current intentions with respect to the rate at which CP will apply the 2009, 2010 and 2011 voluntary prepayments against contribution requirements in the next few years.

Future pension contributions will be highly dependent on the Company's actual experience with such variables as investment returns, interest rate fluctuations and demographic changes, on the rate at which previous years' voluntary prepayments are applied against pension contribution requirements, and on any changes in the regulatory environment. CP will continue to make contributions to the pension plans that, at a minimum, meet pension legislative requirements.

Pension Plan Risks

Fluctuations in the liability and net periodic benefit costs for pensions result from favourable or unfavourable investment returns and changes in long-term interest rates. The impact of favourable or unfavourable investment returns is moderated by the use of a market-related asset value for the main Canadian defined benefit pension plan's public equity securities and absolute return strategies. The impact of changes in long-term rates on pension obligations is partially offset by their impact on the pension funds' investments in fixed income assets.

The plans' investment policy provides a target allocation of approximately 46% of the plans' assets to be invested in public equity securities. As a result, stock market performance is a key driver in determining the pension funds' asset performance. If the rate of investment return on the plans' public equity securities in 2014 had been 10 percentage points higher (or lower) than the actual 2014 rate of investment return on such securities, 2015 net periodic benefit costs for pensions would be lower (or higher) by $22 million.

Changes in bond yields can result in changes to discount rates and to changes in the value of fixed income assets. If the discount rate as at December 31, 2014 had been higher (or lower) by 0.1% with no related changes in the value of the pension funds' investment in fixed income assets, 2015 net periodic benefit costs for pensions would be lower (or higher) by $13 million. However, a change in bond yields would also lead to a change in the value of the pension funds' investment in fixed income assets, and this change would partially offset the impact to net periodic benefit costs noted above.

The Company estimates that an increase in the discount rate of 0.1% would decrease the defined benefit pension plans' projected benefit obligations by approximately $155 million, and estimates that a decrease in the discount rate of 0.1% would increase the defined benefit pension plans' projected benefit obligations by approximately $158 million. Similarly, for every 0.1% the actual return on assets varies above (or below) the estimated return for the year, the value of the defined benefit pension plans' assets would increase (or decrease) by approximately $11 million.

Table of Contents

Adverse experience with respect to these factors could eventually increase funding and pension expense significantly, while favourable experience with respect to these factors could eventually decrease funding and pension expense significantly.

Fluctuations in the post-retirement benefit obligation also can result from changes in the discount rate used. A 0.1% increase (decrease) in the discount rate would decrease (increase) the obligation by approximately $6 million.

CP continues to review its pensioner mortality experience to ensure that the mortality assumption continues to be appropriate, or to determine what changes to the assumption is needed.

In 2014, the Canadian Institute of Actuaries and the Society of Actuaries each published updated mortality tables based on broad pension plan experience in Canada and the U.S., respectively. CP's obligations for defined benefit pension and post-retirement benefit plans at December 31, 2014 are based on these new mortality tables, with adjustments to reflect actual plan mortality experience to the extent that credible experience data was available. The changes to the new mortality tables increased the obligations for pensions and post-retirement benefits by approximately $225 million.

During 2014, the Board of Directors' Finance Committee approved changes to the asset allocation policy, including new allocation ranges of 35% to 55% public equity, 20% to 40% fixed income, 4% to 20% real estate and infrastructure, and up to 18% absolute return strategies.

Property, Plant and Equipment

The Company follows the group depreciation method under which a single depreciation rate is applied to the total cost in a particular class of property, despite differences in the service life or salvage value of individual properties within the same class. CP performs depreciation studies of each property group approximately every three years to update depreciation rates. The depreciation studies are based on statistical analysis of historical retirements of properties in the group and incorporate engineering estimates of changes in current operations and of technological advances. CP depreciates the cost of properties, net of salvage, on a straight-line basis over the estimated useful life of the property group. The estimates of economic lives are uncertain and can vary due to technological changes or in the rate of wear. Additionally, the depreciation rates are updated to reflect the change in residual values of the assets in the class. Under the group depreciation method, retirements or disposals of properties in the normal course of business are accounted for by charging the cost of the property less any net salvage to accumulated depreciation. For the sale or retirement of larger groups of depreciable assets that are unusual and were not included in the Company's depreciation studies, CP records a gain or loss for the difference between net proceeds and net book value of the assets sold or retired.

Due to the capital intensive nature of the railway industry, depreciation represents a significant part of operating expenses. The estimated useful lives of properties have a direct impact on the amount of depreciation recorded as a component of Properties on the Company's Consolidated Balance Sheets. At December 31, 2014 and 2013, accumulated depreciation was $6,505 million and $6,184 million respectively.

Revisions to the estimated useful lives and net salvage projections for properties constitute a change in accounting estimate and are addressed prospectively by amending depreciation rates. It is anticipated that there will be changes in the estimates of weighted average useful lives and net salvage for each property group as assets are acquired, used and retired. Substantial changes in either the useful lives of properties or the salvage assumptions could result in significant changes to depreciation expense. For example, if the estimated average life of road locomotives, the largest asset group, increased (or decreased) by 5%, annual depreciation expense would decrease (or increase) by approximately $3 million.

The Company reviews the carrying amounts of properties when circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows. When such properties are determined to be impaired, recorded asset values are revised to their fair values and an impairment loss is recognized.

Deferred Income Taxes

CP accounts for deferred income taxes based on the liability method. This method focuses on a Company's balance sheet and the temporary differences otherwise calculated from the comparison of book versus tax values. It is assumed that such temporary differences will be settled in the deferred income tax assets and liabilities at the balance sheet date.

In determining deferred income taxes, the Company makes estimates and assumptions regarding deferred tax matters, including estimating the timing of the realization and settlement of deferred income tax assets (including the benefit of tax losses) and liabilities. Deferred income taxes are calculated using enacted federal, provincial, and state future income tax rates, which may differ in future periods.

A deferred income tax expense of $354 million was included in Income tax expense for 2014 and $212 million was included in Income tax expense in 2013. The increase in deferred income tax expense in 2014 was primarily due to higher pre-tax income and the asset impairment charge in 2013. At December 31, 2014 and 2013, deferred income tax liabilities of $2,773 million and $2,903 million, respectively, were recorded as a long-term liability and are comprised largely of temporary differences related to accounting for properties. Deferred income tax benefits of $56 million realizable within one year were recorded as a current asset, compared to $344 million in 2013.

Legal and Personal Injury Liabilities

The Company is involved in litigation in Canada and the U.S. related to CP's business. Management is required to establish estimates of the potential liability arising from incidents, claims and pending litigation, including personal injury claims and certain occupation-related and property damage claims.

Table of Contents

Accruals for incidents, claims and litigation, including WCB accruals, totaled $156 million, net of insurance recoveries, at December 31, 2014 and $158 million at December 31, 2013. At December 31, 2014 and 2013 respectively, the total accrual included $89 million and $89 million in Pension and other benefit liabilities, $15 million and $14 million in Other long-term liabilities and $53 million and $63 million in Accounts payable and accrued liabilities, partially offset by $nil and $7 million in Accounts receivable, and $1 million and $1 million in Other assets.

Legal Liabilities

These estimates are determined on a case-by-case basis. They are based on an assessment of the actual damages incurred and current legal advice with respect to settlements in other similar cases. CP employs experienced claims adjusters who investigate and assess the validity of individual claims made against us and estimate the damages incurred.

A provision for incidents, claims or litigation is recorded based on the facts and circumstances known at the time. CP accrues for likely claims when the facts of an incident become known and investigation results provide a reasonable basis for estimating the liability. The lower end of the range is accrued if the facts and circumstances permit only a range of reasonable estimates and no single amount in that range is a better estimate than any other. Additionally, for administrative expediency, a general provision for lesser value injury cases is kept. Facts and circumstances related to asserted claims can change, and a process is in place to monitor accruals for changes in accounting estimates.

Personal Injury Liabilities

With respect to claims related to occupational health and safety in the provinces of Quebec, Ontario, Manitoba and B.C., claims administered through the WCB are actuarially determined. In the provinces of Saskatchewan and Alberta, the Company is assessed for an annual WCB contribution. As a result, this amount is not subject to estimation by management.

Railway employees in the U.S. are not covered by a workers' compensation program, but are covered by U.S. federal law for railway employees. For accrual purposes, a combination of case-by-case analysis and statistical analysis is utilized.

Provisions for incidents, claims and litigation charged to income, which are included in Purchased services and other on the Consolidated Statements of Income, amounted to $29 million in 2014 and $40 million in 2013.

Goodwill

As part of the acquisition of DM&E in 2007, CP recognized goodwill of U.S. $147 million on the allocation of the purchase price, determined as the excess of the purchase price over the fair value of the net assets acquired. Since the acquisition, the operations of DM&E have been integrated with CP's U.S. operations and the related goodwill is allocated to CP's U.S. reporting unit. Goodwill is tested for impairment at least once per year as at October 1st. The goodwill impairment test determines if the fair value of the reporting unit continues to exceed its net book value, or whether an impairment charge is required. The fair value of the reporting unit is affected by projections of its profitability including estimates of revenue growth, which are inherently uncertain.

The 2014 and 2013 annual test for impairment determined that the fair value of CP's U.S. reporting unit exceeded the carrying value of the allocated goodwill by approximately 102% and 47%, respectively.

The impairment test was performed primarily using an income approach based on discounted cash flows. A discount rate of 10.0% was used, based on the Company's weighted average cost of capital. The 2013 impairment test also used a discount rate of 10.0%. A change in discount rates of 0.25% would change the valuation by 4.0% to 4.4%. The valuation used revenue growth projections ranging from 4.0% to 14.8% annually. The revenue growth projection in the 2013 impairment test was 4.0% to 7.4%. A change in the long term growth rate of 0.25% would change the valuation by 2.5% to 2.75%. A secondary approach used in the valuation was a market approach which included a comparison of implied earnings multiples of CP U.S. to trading earnings multiples of comparable companies. The derived value of CP U.S. using the income approach compared favourably with the trading multiples of other Class I railroads. The income approach was chosen over the market approach; however, both approaches conclude that the assets of CP U.S. are fairly valued.

Decreases to the profit projections, which could be caused by a prolonged economic recession, or increases to the discount rate used in the valuation, could require an impairment in future periods. The carrying value of CP's goodwill changes from period to period due to changes in the exchange rate. At December 31, 2014, goodwill was $164 million and was $150 million in 2013, the increase was primarily due to the favourable impact of the change in FX partially offset by the portion of goodwill effectively disposed with the sale of the DM&E West, discussed further in Section 9, Operating Expenses.

24. SYSTEMS, PROCEDURES AND CONTROLS

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the U.S. Securities Exchange Act of 1934 (as amended)) to ensure that material information relating to the Company is made known to them. The Chief Executive Officer and Chief Financial Officer have a process to evaluate these disclosure controls and are satisfied that they are effective for ensuring that such material information is made known to them.

Table of Contents

25. 2014 GUIDANCE UPDATES

2014 Guidance

In the 2013 annual MD&A, the Company outlined that it expected revenue growth to be 6-7%, operating ratio to be 65% or lower and Diluted earnings per share ("EPS") growth to be 30% or greater from 2013 annual Diluted EPS, excluding significant items, of $6.42. CP also outlined that it expected to spend approximately $1.2 billion to $1.3 billion on capital programs in 2014.

Variance from 2014 Guidance

The Company's 2014 actual results for revenue growth, Operating ratio, and adjusted EPS growth were in line with the latest guidance as disclosed by the Company. Revenue growth was 8%, operating ratio was 64.7%, and adjusted EPS was $8.50, an increase of 32%. Adjusted operating ratio and adjusted EPS are discussed further in Section 15, Non-GAAP Measures. Capital expenditures of $1.4 billion were higher than guidance, discussed further in Section 14, Liquidity and Capital Resources.

26. GLOSSARY OF TERMS

AAR: Association of American Railroads, representing North America's freight railroads and Amtrak.

Agency: The Canadian Transportation Agency, a regulatory agency under the Canada Transportation Act ("CTA"). The Agency regulates the grain revenue cap, commuter and passenger access, Final Offer Arbitration, and charges for ancillary services and railway noise.

Average terminal dwell: The average time a freight car resides within terminal boundaries expressed in hours. The timing starts with a train arriving in the terminal, a customer releasing the car to the Company, or a car arriving that is to be transferred to another railway. The timing ends when the train leaves, a customer receives the car from CP or the freight car is transferred to another railway. Freight cars are excluded if they are being stored at the terminal or used in track repairs.

Average train length – excluding local traffic: The average train length is the sum of each car and locomotive's equipment length multiplied by the distance travelled, divided by train miles. Local trains are excluded from this measure.

Average train speed: The average speed measures the line-haul movement from origin to destination including terminal dwell hours calculated by dividing the total train miles traveled by the total hours operated. This calculation does not include delay time related to customer or foreign railways and excludes the travel time and distance traveled by: i) trains used in or around CP's yards; ii) passenger trains; and iii) trains used for repairing track.

Average train weight – excluding local traffic: The average gross weight of CP trains, both loaded and empty. This excludes trains in short haul service, work trains used to move CP's track equipment and materials and the haulage of other railways' trains on CP's network.

Car miles per car day: The total car-miles for a period divided by the total number of active cars. Total car-miles include the distance travelled by every car on a revenue-producing train and a train used in or around the Company's yards. A car-day is assumed to equal one active car-day. An active car is a revenue-producing car that is generating costs to CP on an hourly or mileage basis. Excluded from this count are i) cars that are not on the track or are being stored; ii) cars that are in need of repair; iii) cars that are used to carry materials for track repair; iv) cars owned by customers that are on the customer's tracks; and v) cars that are idle and waiting to be reclaimed by CP.

Carloads: Revenue-generating shipments of containers, trailers and freight cars.

Casualty expenses: Includes costs associated with personal injuries, freight and property damages, and environmental mishaps.

Class I railroads: a railroad earning a minimum of U.S. $452.7 million in revenues annually as defined by the Surface Transportation Board in the United States.

CP, the Company: CPRL, CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL's subsidiaries, as the context may require.

CPRL: Canadian Pacific Railway Limited.

D&H: Delaware and Hudson Railway Company, Inc., a wholly owned indirect U.S. subsidiary of CPRL.

DM&E: Dakota, Minnesota & Eastern Railroad Corporation, a wholly owned indirect U.S. subsidiary of CPRL.

Employee: An individual, including trainees, who has worked more than 40 hours in a standard biweekly pay period. This excludes part time employees, contractors, and consultants.

FRA: U.S. Federal Railroad Administration, a regulatory agency whose purpose is to promulgate and enforce rail safety regulations; administer railroad assistance programs; conduct research and development in support of improved railroad safety and national rail transportation policy; provide for the rehabilitation of Northeast Corridor rail passenger service; and consolidate government support of rail transportation activities.

Table of Contents

FRA personal injury rate per 200,000 employee-hours: The number of personal injuries multiplied by 200,000 and divided by total employee hours. Personal injuries are defined as injuries that require employees to lose time away from work, modify their normal duties or obtain medical treatment beyond minor first aid. FRA Employee-hours are the total hours worked, excluding vacation and sick time, by all employees, excluding contractors.

FRA train accidents rate: The number of train accidents, multiplied by 1,000,000 and divided by total train-miles. Train accidents included in this metric meet or exceed the FRA reporting threshold of U.S. $10,500 or CDN $11,000 in damage.

Freight revenue per carload: The amount of freight revenue earned for every carload moved, calculated by dividing the freight revenue for a commodity by the number of carloads of the commodity transported in the period.

Freight revenue per RTM: The amount of freight revenue earned for every RTM moved, calculated by dividing the total freight revenue by the total RTMs in the period.

FX or Foreign Exchange: The value of the Canadian dollar relative to the U.S. dollar (exclusive of any impact on market demand).

GAAP: Accounting principles generally accepted in the United States of America.

GTMs or gross ton-miles: The movement of total train weight over a distance of one mile. Total train weight is comprised of the weight of the freight cars, their contents and any inactive locomotives. An increase in GTMs indicates additional workload.

Locomotive productivity: The daily average GTMs divided by the active road horsepower. Active road horsepower excludes locomotives in yard and short haul service, in repair status, in storage and in use on other railways.

Operating income: Calculated as total revenues less total operating expenses and is a common measure of profitability used by management.

Operating ratio: The ratio of total operating expenses to total revenues. A lower percentage normally indicates higher efficiency.

RTMs or revenue ton-miles: The movement of one revenue-producing ton of freight over a distance of one mile.

Soo Line: Soo Line Railroad Company, a wholly owned indirect U.S. subsidiary of CPRL.

STB: U.S. Surface Transportation Board, a regulatory agency with jurisdiction over railway rate and service issues and rail restructuring, including mergers and sales.

U.S. gallons of locomotive fuel consumed per 1,000 GTMs: The total fuel consumed in freight and yard operations, including yard and commuter service, but excluding fuel used in capital projects and other non-freight activities, for every 1,000 GTMs traveled. This is calculated by dividing the total amount of fuel issued to the Company's locomotives, by the total freight-related GTMs. The result indicates how efficiently CP is using fuel.

Workforce: The total employees plus part time employees, contractors and consultants.

Table of Contents

Canadian Pacific Railway Limited
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

Accounting Principles Generally Accepted
In the United States of America

Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars

Table of Contents

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The information in this report is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include some amounts based on management's best estimates and careful judgment. The consolidated financial statements include the accounts of Canadian Pacific Railway Limited, Canadian Pacific Railway Company and all of its subsidiaries (the "Company" or "CP"). The financial information of the Company included in the Company's Annual Report is consistent with that in the consolidated financial statements. The consolidated financial statements have been approved by the Board of Directors.

Our Board of Directors is responsible for reviewing and approving the consolidated financial statements and for overseeing management's performance of its financial reporting responsibilities. The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee (the "Audit Committee"), consisting of four members, all of whom are independent directors. The Audit Committee reviews the consolidated financial statements with management and the Independent Registered Public Accounting Firm prior to submission to the Board for approval. The Audit Committee meets regularly with management, internal auditors, and the Independent Registered Public Accounting Firm to review accounting policies, and financial reporting. The Audit Committee also reviews the recommendations of both the Independent Registered Public Accounting Firm and the Company's internal auditors for improvements to internal controls, as well as the actions of management to implement such recommendations. The internal auditors and Independent Registered Public Accounting Firm have full access to the Audit Committee, with or without the presence of management.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the Company's internal control over financial reporting in accordance with the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *"Internal Control-Integrated Framework (2013)"*. Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2014.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2014 has been audited by Deloitte LLP, Independent Registered Public Accounting Firm, as stated in their report, which is included herein.

/s/ Bart Demosky
Bart Demosky
Executive Vice-President and
Chief Financial Officer

February 23, 2015

/s/ E. Hunter Harrison
E. Hunter Harrison
Chief Executive Officer

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Canadian Pacific Railway Limited:

We have audited the accompanying consolidated financial statements of Canadian Pacific Railway Limited and subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of cash flows, and consolidated statements of changes in shareholders' equity for each of the years in the three-year period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canadian Pacific Railway Limited and subsidiaries as at December 31, 2014 and December 31, 2013 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte LLP
Chartered Accountants
February 23, 2015
Calgary, Canada

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Canadian Pacific Railway Limited:

We have audited the internal control over financial reporting of Canadian Pacific Railway Limited and subsidiaries (the "Company") as of December 31, 2014, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as at and for the year ended December 31, 2014 of the Company and our report dated February 23, 2015 expressed an unmodified opinion on those financial statements.

/s/ Deloitte LLP
Chartered Accountants
February 23, 2015
Calgary, Canada

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME

Year ended December 31 (in millions of Canadian dollars)	2014	2013	2012
Revenues			
Freight	$ 6,464	$ 5,982	$ 5,550
Other	156	151	145
Total revenues	6,620	6,133	5,695
Operating expenses			
Compensation and benefits (Note 31)	1,352	1,385	1,474
Fuel	1,048	1,004	999
Materials (Note 31)	193	160	166
Equipment rents	155	173	206
Depreciation and amortization	552	565	539
Purchased services and other (Note 31)	985	998	1,044
Asset impairments (Note 3)	–	435	265
Labour restructuring (Note 4)	(4)	(7)	53
Total operating expenses	4,281	4,713	4,746
Operating income	2,339	1,420	949
Less:			
Other income and charges (Note 5)	19	17	37
Net interest expense (Note 6)	282	278	276
Income before income tax expense	2,038	1,125	636
Income tax expense (Note 7)	562	250	152
Net income	$ 1,476	$ 875	$ 484
Earnings per share (Note 8)			
Basic earnings per share	$ 8.54	$ 5.00	$ 2.82
Diluted earnings per share	$ 8.46	$ 4.96	$ 2.79
Weighted-average number of shares (millions) (Note 8)			
Basic	172.8	174.9	171.8
Diluted	174.4	176.5	173.2

See Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year ended December 31 (in millions of Canadian dollars)	**2014**	2013	2012
Net income	**$ 1,476**	$ 875	$ 484
Net (loss) gain in foreign currency translation adjustments, net of hedging activities	**(32)**	3	11
Change in derivatives designated as cash flow hedges	**(49)**	(1)	9
Change in pension and post-retirement defined benefit plans	**(941)**	1,681	(50)
Other comprehensive (loss) income before income taxes	**(1,022)**	1,683	(30)
Income tax recovery (expense) on above items (Note 9)	**306**	(418)	–
Equity accounted investments	**–**	–	(2)
Other comprehensive (loss) income (Note 9)	**(716)**	1,265	(32)
Comprehensive income	**$ 760**	$ 2,140	$ 452

See Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED BALANCE SHEETS

As at December 31 (in millions of Canadian dollars except common shares)	**2014**	2013
Assets		
Current assets		
Cash and cash equivalents (Note 11)	**$ 226**	$ 476
Restricted cash and cash equivalents (Note 19)	**–**	411
Accounts receivable, net (Note 12)	**702**	580
Materials and supplies	**177**	165
Deferred income taxes (Note 7)	**56**	344
Other current assets	**116**	53
	1,277	2,029
Investments (Note 14)	**112**	92
Properties (Note 15)	**14,438**	13,327
Assets held for sale (Notes 3 and 13)	**182**	222
Goodwill and intangible assets (Note 16)	**176**	162
Pension asset (Note 24)	**304**	1,028
Other assets (Notes 17 and 32)	**151**	200
Total assets	**$ 16,640**	$ 17,060
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 18)	**$ 1,277**	$ 1,189
Long-term debt maturing within one year (Note 19)	**134**	189
	1,411	1,378
Pension and other benefit liabilities (Note 24)	**755**	657
Other long-term liabilities (Note 21)	**432**	338
Long-term debt (Note 19)	**5,659**	4,687
Deferred income taxes (Note 7)	**2,773**	2,903
Total liabilities	**11,030**	9,963
Shareholders' equity		
Share capital (Note 23)	**2,185**	2,240
Authorized unlimited common shares without par value. Issued and outstanding are 166.1 million and 175.4 million at December 31, 2014 and 2013, respectively.		
Authorized unlimited number of first and second preferred shares; none outstanding.		
Additional paid-in capital	**36**	34
Accumulated other comprehensive loss (Note 9)	**(2,219)**	(1,503)
Retained earnings	**5,608**	6,326
	5,610	7,097
Total liabilities and shareholders' equity	**$ 16,640**	$ 17,060

Commitments and contingencies (Note 27)

See Notes to Consolidated Financial Statements.

Approved on behalf of the Board:

/s/ Gary F. Colter
Gary F. Colter, Director,
Chair of the Board

/s/ Isabelle Courville
Isabelle Courville, Director,
Chair of the Audit Committee

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 (in millions of Canadian dollars)	**2014**	2013	2012
Operating activities			
Net income	**$ 1,476**	$ 875	$ 484
Reconciliation of net income to cash provided by operating activities:			
Depreciation and amortization	**552**	565	539
Deferred income taxes (Note 7)	**354**	212	140
Pension funding in excess of expense (Note 24)	**(132)**	(55)	(61)
Asset impairments (Note 3)	**–**	435	265
Labour restructuring, net (Note 4)	**(17)**	(29)	50
Other operating activities, net	**14**	(51)	(84)
Change in non-cash working capital balances related to operations (Note 10)	**(124)**	(2)	(5)
Cash provided by operating activities	**2,123**	1,950	1,328
Investing activities			
Additions to properties (Note 15)	**(1,449)**	(1,236)	(1,148)
Proceeds from the sale of west end of Dakota, Minnesota and Eastern Railroad (Note 3)	**236**	–	–
Proceeds from sale of properties and other assets	**52**	73	145
Change in restricted cash and cash equivalents used to collateralize letters of credit (Note 19)	**411**	(411)	–
Other	**–**	(23)	(8)
Cash used in investing activities	**(750)**	(1,597)	(1,011)
Financing activities			
Dividends paid	**(244)**	(244)	(223)
Issuance of common shares (Note 23)	**62**	83	198
Purchase of CP Common shares (Note 23)	**(2,050)**	–	–
Issuance of long-term debt, excluding commercial paper (Note 19)	**–**	–	71
Repayment of long-term debt, excluding commercial paper (Note 19)	**(183)**	(56)	(50)
Net issuance of commercial paper (Note 19)	**771**	–	–
Settlement of foreign exchange forward on long-term debt (Note 20)	**17**	–	–
Net decrease in short-term borrowing (Note 19)	**–**	–	(27)
Other	**(3)**	(3)	1
Cash used in financing activities	**(1,630)**	(220)	(30)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	**7**	10	(1)
Cash position			
(Decrease) increase in cash and cash equivalents	**(250)**	143	286
Cash and cash equivalents at beginning of year	**476**	333	47
Cash and cash equivalents at end of year (Note 11)	**$ 226**	$ 476	$ 333

Supplemental disclosures of cash flow information:			
Income taxes paid (refunded)	**$ 226**	$ 31	$ (3)
Interest paid	**$ 309**	$ 295	$ 278

See Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in millions of Canadian dollars except per share data)	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at December 31, 2011	$ 1,854	$ 86	$ (2,736)	$ 5,445	$ 4,649
Net income	–	–	–	484	484
Other comprehensive loss (Note 9)	–	–	(32)	–	(32)
Dividends declared ($1.3500 per share)	–	–	–	(232)	(232)
Effect of stock-based compensation expense	–	25	–	–	25
Shares issued under stock option plan (Note 23)	273	(70)	–	–	203
Balance at December 31, 2012	2,127	41	(2,768)	5,697	5,097
Net income	–	–	–	875	875
Other comprehensive income (Note 9)	–	–	1,265	–	1,265
Dividends declared ($1.4000 per share)	–	–	–	(246)	(246)
Effect of stock-based compensation expense	–	17	–	–	17
Shares issued under stock option plan (Note 23)	113	(24)	–	–	89
Balance at December 31, 2013	2,240	34	(1,503)	6,326	7,097
Net income	–	–	–	1,476	1,476
Other comprehensive loss (Note 9)	–	–	(716)	–	(716)
Dividends declared ($1.4000 per share)	–	–	–	(241)	(241)
Effect of stock-based compensation expense	–	19	–	–	19
CP Common Shares repurchased (Note 23)	(136)	–	–	(1,953)	(2,089)
Shares issued under stock option plan (Note 23)	81	(17)	–	–	64
Balance at December 31, 2014	**$ 2,185**	**$ 36**	**$ (2,219)**	**$ 5,608**	**$ 5,610**

See Notes to Consolidated Financial Statements.

Table of Contents

CANADIAN PACIFIC RAILWAY LIMITED
Notes to Consolidated Financial Statements
December 31, 2014

Canadian Pacific Railway Limited ("CPRL"), through its subsidiaries (collectively referred to as "CP" or "the Company"), operates a transcontinental railway in Canada and the United States. CP provides rail and intermodal transportation services over a network of approximately 13,700 miles, serving the principal business centres of Canada from Montreal, Quebec, to Vancouver, British Columbia, and the U.S. Northeast and Midwest regions. CP's railway network feeds directly into the U.S. heartland from the East and West coasts. Agreements with other carriers extend the Company's market reach east of Montreal in Canada, throughout the U.S. and into Mexico. CP transports bulk commodities, merchandise freight and intermodal traffic. Bulk commodities include grain, coal, fertilizers and sulphur. Merchandise freight consists of finished vehicles and automotive parts, as well as forest and industrial and consumer products. Intermodal traffic consists largely of retail goods in overseas containers that can be transported by train, ship and truck, and in domestic containers and trailers that can be moved by train and truck.

1 Summary of significant accounting policies

Generally accepted accounting principles in the United States of America ("GAAP")

These consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with GAAP.

Principles of consolidation

These consolidated financial statements include the accounts of CP and all its subsidiaries. The Company's investments in which it has significant influence are accounted for using the equity method. All intercompany accounts and transactions have been eliminated.

Use of estimates

The preparation of these consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the year, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Management regularly reviews its estimates, including those related to environmental liabilities, pensions and other benefits, depreciable lives of properties, goodwill, deferred income tax assets and liabilities, as well as legal and personal injury liabilities based upon currently available information. Actual results could differ from these estimates.

Principal subsidiaries

The following list sets out CPRL's principal railway operating subsidiaries, including the jurisdiction of incorporation. All of these subsidiaries are wholly owned, directly or indirectly, by CPRL as at December 31, 2014.

Principal subsidiary	Incorporated under the laws of
Canadian Pacific Railway Company	Canada
Soo Line Railroad Company ("Soo Line")	Minnesota
Delaware and Hudson Railway Company, Inc. ("D&H")	Delaware
Dakota, Minnesota & Eastern Railroad Corporation ("DM&E")	Delaware
Mount Stephen Properties Inc. ("MSP")	Canada

Revenue recognition

Railway freight revenues are recognized based on the percentage of completed service method. The allocation of revenue between reporting periods is based on the relative transit time in each reporting period with expenses recognized as incurred. Volume rebates to customers are accrued as a reduction of freight revenues based on estimated volume and contract terms as freight service is provided. Other revenues, including passenger revenue, revenue from leasing certain assets, switching fees, and revenue from logistics services, are recognized as service is performed or contractual obligations are met. Revenues are presented net of taxes collected from customers and remitted to government authorities.

Cash and cash equivalents

Cash and cash equivalents include highly-liquid short-term investments that are readily convertible to cash with original maturities of three months or less, but exclude cash and cash equivalents subject to restrictions.

Table of Contents

Restricted cash and cash equivalents

Cash and cash equivalents that are restricted as to withdrawal or usage, in accordance with specific agreements, are presented as restricted cash and cash equivalents on the balance sheets.

Foreign currency translation

Assets and liabilities denominated in foreign currencies, other than those held through foreign subsidiaries, are translated into Canadian dollars at the year-end exchange rate for monetary items and at the historical exchange rates for non-monetary items. Foreign currency revenues and expenses are translated at the exchange rates in effect on the dates of the related transactions. Foreign exchange gains and losses, other than those arising from the translation of the Company's net investment in foreign subsidiaries, are included in income.

The accounts of the Company's foreign subsidiaries are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average exchange rates during the year for revenues, expenses, gains and losses. Foreign exchange gains and losses arising from the translation of these foreign subsidiaries' accounts are included in "Other comprehensive (loss) income". The majority of U.S. dollar-denominated long-term debt has been designated as a hedge of the net investment in foreign subsidiaries. As a result, unrealized foreign exchange ("FX") gains and losses on U.S. dollar-denominated long-term debt, designated as a hedge, are offset against foreign exchange gains and losses arising from the translation of foreign subsidiaries' accounts in "Other comprehensive (loss) income".

Pensions and other benefits

Pension costs are actuarially determined using the projected-benefit method prorated over the credited service periods of employees. This method incorporates management's best estimates of expected plan investment performance, salary escalation and retirement ages of employees. The expected return on fund assets is calculated using market-related asset values developed from a five-year average of market values for the fund's public equity securities and absolute return strategies (with each prior year's market value adjusted to the current date for assumed investment income during the intervening period) plus the market value of the fund's fixed income, real estate and infrastructure securities, subject to the market-related asset value not being greater than 120% of the market value nor being less than 80% of the market value. The discount rate used to determine the projected benefit obligation is based on blended market interest rates on high-quality corporate debt instruments with matching cash flows. Unrecognized actuarial gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of plan assets are amortized over the expected average remaining service period of active employees expected to receive benefits under the plan (approximately 10 years). Prior service costs arising from collectively bargained amendments to pension plan benefit provisions are amortized over the term of the applicable union agreement. Prior service costs arising from all other sources are amortized over the expected average remaining service period of active employees who are expected to receive benefits under the plan at the date of amendment.

Costs for post-retirement and post-employment benefits other than pensions, including post-retirement health care and life insurance and some workers' compensation and long-term disability benefits in Canada, are actuarially determined on a basis similar to pension costs.

The over or under funded status of defined benefit pension and other post-retirement benefit plans are measured as the difference between the fair value of the plan assets and the benefit obligation, and are recognized on the balance sheets. In addition, any unrecognized actuarial gains and losses and prior service costs and credits that arise during the period are recognized as a component of "Other comprehensive (loss) income", net of tax.

Gains and losses on post-employment benefits that do not vest or accumulate, including some workers' compensation and long-term disability benefits in Canada, are included immediately in income as "Compensation and benefits".

Materials and supplies

Materials and supplies are carried at the lower of average cost or market and consist primarily of fuel and parts used in the repair and maintenance of track structures, equipment, locomotives and freight cars.

Properties

Fixed asset additions and major renewals are recorded at cost, including direct costs, attributable indirect costs and carrying costs, less accumulated depreciation and any impairment. When there is a legal obligation associated with the retirement of property, a liability is initially recognized at its fair value and a corresponding asset retirement cost is added to the gross book value of the related asset and amortized to expense over the estimated term to retirement. The Company reviews the carrying amounts of its properties whenever changes in circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows. When such properties are determined to be impaired, recorded asset values are revised to their fair value.

The Company recognizes expenditures as additions to properties or operating expenses based on whether the expenditures increase the output or service capacity, lower the associated operating costs or extend the useful life of the properties and whether the expenditures exceed minimum physical and financial thresholds.

Table of Contents

Much of the additions to properties, both new and replacement properties, are self-constructed. These are initially recorded at cost, including direct costs and attributable indirect costs, overheads and carrying costs. Direct costs include, among other things, labour costs, purchased services, equipment costs and material costs. Attributable indirect costs and overheads include incremental long-term variable costs resulting from the execution of capital projects. Indirect costs include largely local crew facilities, highway vehicles, work trains and area management costs. Overheads primarily include a portion of the cost of the Company's engineering department which plans, designs and administers these capital projects. These costs are allocated to projects by applying a measure consistent with the nature of the cost based on cost studies. For replacement properties, the project costs are allocated to dismantling and installation based on cost studies. Dismantling work is performed concurrently with the installation.

Ballast programs including undercutting, shoulder ballasting and renewal programs which form part of the annual track program are capitalized as this work, and the related added ballast material, significantly improves drainage which in turn extends the life of ties and other track materials. These costs are tracked separately from the underlying assets and depreciated over the period to the next estimated similar ballast program. Spot replacement of ballast is considered a repair which is expensed as incurred.

The costs of large refurbishments are capitalized and locomotive overhauls are expensed as incurred, except where overhauls represent a betterment of the locomotive in which case costs are capitalized.

The Company capitalizes development costs for major new computer systems.

The Company follows group depreciation which groups assets which are similar in nature and have similar economic lives. The property groups are depreciated on a straight-line basis reflecting their expected economic lives determined by studies of historical retirements of properties in the group and engineering estimates of changes in current operations and of technological advances. Actual use and retirement of assets may vary from current estimates, which would impact the amount of depreciation expense recognized in future periods. Rail and other track material in the U.S. are depreciated based directly on usage.

When depreciable property is retired or otherwise disposed of in the normal course of business, the book value, less net salvage proceeds, is charged to accumulated depreciation and if different than the assumptions under the depreciation study could potentially result in adjusted depreciation expense over a period of years. However, when removal costs exceed the salvage value on assets and the Company has no legal obligation to remove the assets, the removal costs incurred are charged to income in the period in which the assets are removed and are not charged to accumulated depreciation.

For the sale or retirement of larger groups of depreciable assets that are unusual and were not considered in depreciation studies, CP records a gain or loss for the difference between net proceeds and net book value of the assets sold or retired.

Equipment under capital lease is included in Properties and depreciated over the period of expected use.

Assets held for sale

Assets to be disposed that meet the held for sale criteria are reported at the lower of their carrying amount and fair value, less costs to sell, and are no longer depreciated.

Goodwill and intangible assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets upon acquisition of a business. Goodwill is assigned to the reporting units that are expected to benefit from the business acquisition which, after integration of operations with the railway network, may be different than the acquired business.

The carrying value of goodwill, which is not amortized, is assessed for impairment annually in the fourth quarter of each year, or more frequently as economic events dictate. The fair value of the reporting unit is compared to its carrying value, including goodwill. If the fair value of the reporting unit is less than its carrying value goodwill is potentially impaired. The impairment charge that would be recognized is the excess of the carrying value of the goodwill over the fair value of the goodwill, determined in the same manner as in a business combination.

Intangible assets with finite lives are amortized on a straight-line basis over the estimated useful lives of the respective assets. Favourable leases, customer relationships and interline contracts have amortization periods ranging from 15 to 20 years. When there is a change in the estimated useful life of an intangible asset with a finite life, amortization is adjusted prospectively.

Financial instruments

Financial instruments are contracts that give rise to a financial asset of one party and a financial liability or equity instrument of another party.

Financial instruments are recognized initially at fair value, which is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

Subsequent measurement depends on how the financial instruments have been classified. Accounts receivable and investments, classified as loans and receivables, are measured at amortized cost, using the effective interest method. Certain equity investments, classified as available for sale, are

Table of Contents

recognized at cost as fair value cannot be reliably established. Cash and cash equivalents are classified as held for trading and are measured at fair value. Accounts payable, accrued liabilities, short-term borrowings, dividends payable, other long-term liabilities and long-term debt, classified as other liabilities, are also measured at amortized cost.

Derivative financial instruments

Derivative financial and commodity instruments may be used from time to time by the Company to manage its exposure to risks relating to foreign currency exchange rates, stock-based compensation, interest rates and fuel prices. When CP utilizes derivative instruments in hedging relationships, CP identifies, designates and documents those hedging transactions and regularly tests the transactions to demonstrate effectiveness in order to continue hedge accounting.

All derivative instruments are classified as held for trading and recorded at fair value. Any change in the fair value of derivatives not designated as hedges is recognized in the period in which the change occurs in the Consolidated Statements of Income in the line item to which the derivative instrument is related. On the Consolidated Balance Sheets they are classified in “Other assets”, “Other long-term liabilities”, “Other current assets” or “Accounts payable and accrued liabilities” as applicable. Gains and losses arising from derivative instruments affect the following income statement lines: “Revenues”, “Compensation and benefits”, “Fuel”, “Other income and charges”, and “Net interest expense”.

For fair value hedges, the periodic changes in values are recognized in income, on the same line as the changes in values of the hedged items are also recorded. For a cash flow hedge, the change in value of the effective portion is recognized in “Other comprehensive (loss) income”. Any ineffectiveness within an effective cash flow hedge is recognized in income as it arises in the same income account as the hedged item. Should a cash flow hedging relationship become ineffective, previously unrealized gains and losses remain within “Accumulated other comprehensive loss” until the hedged item is settled and, prospectively, future changes in value of the derivative are recognized in income. The change in value of the effective portion of a cash flow hedge remains in “Accumulated other comprehensive loss” until the related hedged item settles, at which time amounts recognized in “Accumulated other comprehensive loss” are reclassified to the same income or balance sheet account that records the hedged item.

In the Consolidated Statements of Cash Flows, cash flows relating to derivative instruments designated as hedges are included in the same line as the related hedged items.

The Company from time to time enters into foreign exchange forward contracts to hedge anticipated sales in U.S. dollars, the related accounts receivable and future capital acquisitions. Foreign exchange translation gains and losses on foreign currency-denominated derivative financial instruments used to hedge anticipated U.S. dollar-denominated sales are recognized as an adjustment of the revenues when the sale is recorded. Those used to hedge future capital acquisitions are recognized as an adjustment of the property amount when the acquisition is recorded.

The Company from time to time enters into foreign exchange forward contracts as part of its short-term cash management strategy. These contracts are not designated as hedges due to their short-term nature and are carried on the Consolidated Balance Sheets at fair value. Changes in fair value are recognized in income in the period in which the changes occur.

The Company from time to time enters into interest rate swaps to manage the risk related to interest rate fluctuations. These swap agreements require the periodic exchange of payments without the exchange of the principal amount on which the payments are based. Interest expense on the debt is adjusted to include the payments owing or receivable under the interest rate swaps. These agreements are usually accounted for as cash flow hedges with gains and losses recorded in “Accumulated other comprehensive loss” and amortized to “Net interest expense” in the period that interest on the related debt is charged.

The Company from time to time enters into forward rate agreements to fix interest rates for anticipated issuances of debt. These agreements are usually accounted for as cash flow hedges with gains and losses recorded in “Accumulated other comprehensive loss” and amortized to “Net interest expense” in the period that interest on the related debt is charged.

Restructuring accrual

Restructuring liabilities are recorded at their present value. The discount related to liabilities is amortized to “Compensation and benefits” over the payment period. Provisions for labour restructuring are recorded in “Other long-term liabilities”, except for the current portion, which is recorded in “Accounts payable and accrued liabilities”.

Environmental remediation

Environmental remediation accruals, recorded on an undiscounted basis unless a reliably determinable estimate as to amount and timing of costs can be established, cover site-specific remediation programs. The accruals are recorded when the costs to remediate are probable and reasonably estimable. Certain future costs to monitor sites are discounted at a risk free rate. Provisions for environmental remediation costs are recorded in “Other long-term liabilities”, except for the current portion, which is recorded in “Accounts payable and accrued liabilities”.

Income taxes

The Company follows the liability method of accounting for income taxes. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Table of Contents

The effect of a change in income tax rates on deferred income tax assets and liabilities is recognized in income in the period during which the change occurs.

When appropriate, the Company records a valuation allowance against deferred tax assets to reflect that these tax assets may not be realized. In determining whether a valuation allowance is appropriate, CP considers whether it is more likely than not that all or some portion of CP's deferred tax assets will not be realized, based on management's judgment using available evidence about future events.

At times, tax benefit claims may be challenged by a tax authority. Tax benefits are recognized only for tax positions that are more likely than not sustainable upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely to be realized upon settlement. A liability for "unrecognized tax benefits" is recorded for any tax benefits claimed in CP's tax returns that do not meet these recognition and measurement standards.

Investment and other similar tax credits are deferred on the Consolidated Balance Sheets and amortized to "Income tax expense" as the related asset is recognized in income.

Earnings per share

Basic earnings per share are calculated using the weighted average number of Common Shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method for determining the dilutive effect of options.

Stock-based compensation

CP follows the fair value based approach to account for stock options. Compensation expense and an increase in additional paid-in capital are recognized for stock options over their vesting period, or over the period from the grant date to the date employees become eligible to retire when this is shorter than the vesting period, based on their estimated fair values on the grant date, as determined using the Black-Scholes option-pricing model.

Any consideration paid by employees on exercise of stock options is credited to share capital when the option is exercised and the recorded fair value of the option is removed from additional paid-in capital and credited to share capital.

Compensation expense is also recognized for deferred share units ("DSUs"), performance share units ("PSUs") and restricted share units ("RSUs") using the fair value method. Compensation expense is recognized over the vesting period, or for PSUs and DSUs only, over the period from the grant date to the date employees become eligible to retire when this is shorter than the vesting period. Forfeitures of DSUs, PSUs and RSUs are estimated at issuance and subsequently at the balance sheet date.

The employee share purchase plan ("ESPP") gives rise to compensation expense that is recognized using the issue price by amortizing the cost over the vesting period or over the period from the grant date to the date employees become eligible to retire when this is shorter than the vesting period.

2 Accounting changes

Implemented in 2014

Unrecognized Tax Benefit Liability

In July 2013, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, an amendment to FASB Accounting Standards Codification ("ASC") Topic 740. The amendments require an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with certain exceptions. This ASU is effective prospectively for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this ASU did not have a material impact to the Company's financial statements.

Future changes

Reporting discontinued operations and disclosures of disposals of components

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, an amendment to FASB ASC Topic 205 and Topic 360. The update amends the definition of a discontinued operation in Topic 205, expands disclosure requirements for transactions that meet the definition of a discontinued operation and requires entities to disclose information about individually significant components that are disposed of or held for sale and do not qualify as discontinued operations. In addition, an entity is required to separately present assets and liabilities of a discontinued operation for all comparative periods and separately present assets and liabilities of assets held for sale in the initial period in which the disposal group is classified as held for sale on the face of the consolidated balance sheets. For each period in which assets and liabilities are separately presented on the consolidated balance sheets, those amounts should not be offset and presented as a single amount. This ASU will be effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2014, and will be applied prospectively. The adoption of this ASU is not expected to have a material impact to the Company's financial statements.

Table of Contents

Revenue from contracts with customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, a new FASB ASC, Topic 606, which supersedes the revenue recognition requirements in Topic 605 and most industry-specific guidance throughout the Industry Topics of the Codification. This new standard requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires enhanced disclosures about revenue to help users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This ASU will be effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2016. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt the ASU. The Company has not, at this time, ascertained the full impact on the consolidated financial statements from the adoption of this new standard but does not expect the impact to be material.

3 Asset impairments

(in millions of Canadian dollars)		2013	2012
Dakota, Minnesota & Eastern Railroad – West	(a)	$ 435	$ –
Powder River Basin impairment and other investment[1]	(b)	–	185
Impairment loss on locomotives	(c)	–	80
Asset impairment, before tax		$ 435	$ 265

[1] Includes impairment of other investment of $5 million.

(a) Dakota, Minnesota & Eastern Railroad – West

On January 2, 2014, the Company executed an agreement with Genesee & Wyoming Inc. (“G&W”) for the sale of a portion of CP’s DM&E line between Tracy, Minnesota and Rapid City, South Dakota, Colony, Wyoming and Crawford, Nebraska and connecting branch lines (“DM&E West”). The sale was subject to regulatory approval by the U.S. Surface Transportation Board (“STB”).

At December 31, 2013, CP classified DM&E West as an asset held for sale carried at CDN$222 million, being its estimated fair value less estimated direct selling costs. As a result, the Company recorded an asset impairment charge and accruals for future costs associated with the sale totaling CDN$435 million ($257 million after-tax) in 2013. The components of the asset impairment charge and charge for the accruals, which are subject to closing adjustments, that were recorded against income as “Asset impairments” are as follows:

(in millions of Canadian dollars)	2013
Property, plant and equipment	$ 426
Intangible assets	2
Goodwill (Note 16)	6
Total asset impairment charge	434
Accruals for future costs	1
Total charge	$ 435

On May 30, 2014, the Company completed the sale of DM&E West to G&W for net proceeds of U.S. $218 million (CDN$236 million).

Table of Contents

(b) Powder River Basin impairment

As part of the acquisition of DM&E in 2007, CP acquired the option to build a 260 mile extension of its network into coal mines in the Powder River Basin (“PRB”).

Due to continued deterioration in the market for domestic thermal coal, including a sharp deterioration in 2012, in 2012 CP deferred plans to extend its rail network into the PRB coal mines indefinitely. As a result of this decision and in light of the declined market conditions, CP evaluated the recoverability of the carrying amount of PRB assets and determined that this exceeded the estimated fair value by $180 million. The estimated fair value represents the expected proceeds from the sale of the acquired land, as determined by a comparable market assessment. Other costs associated with the acquisition of DM&E accumulated by CP since acquisition have been written down to $nil. The amount of impairment associated with this indefinite deferral was $180 million ($107 million after-tax). The components of the PRB impairment that were charged against income as “Asset impairments” in 2012 are as follows:

(in millions of Canadian dollars)	2012
Option impairment	$ 26
Construction plans, including capitalized interest	134
Land, land option appraisals, including capitalized interest	20
Total impairment	$ 180

(c) Impairment loss on locomotives

In 2012, CP reached a decision to dispose of a certain series of locomotives to improve operating efficiencies, and accordingly performed an impairment test on these assets. The impairment test determined that the net book value of these locomotives exceeded their estimated fair value by $80 million. The estimated fair value represented the expected future cashflows from the disposal of these locomotives at that time. The impairment charge of $80 million ($59 million after-tax) was recorded in “Asset impairments” and charged against income.

The Company has determined no further impairment is required.

4 Labour restructuring

CP recorded a recovery of $4 million in 2014 ($3 million after-tax) (2013 – a recovery of $7 million, $5 million after tax; 2012 – a charge of $53 million, $39 million after tax) for a labour restructuring initiative in 2012 which was included in “Labour restructuring” in the Consolidated Statements of Income, and “Accounts payable and accrued liabilities” and “Other long-term liabilities” in the Consolidated Balance Sheets. The resulting position reductions were largely achieved by the end of 2014 with a small number expected to be completed in 2015.

At December 31, 2014, the provision for restructuring was $24 million (2013 – $50 million; 2012 – $89 million). The restructuring accrual was primarily for labour liabilities arising for restructuring plans, including those from prior year initiatives. Payments are expected to continue in diminishing amounts until 2025.

Set out below is a reconciliation of CP’s liabilities associated with its restructuring accrual:

(in millions of Canadian dollars)	**2014**	2013	2012
Opening balance, January 1	**$ 50**	$ 89	$ 55
Accrued[(1)]	**(7)**	(8)	54
Payments	**(21)**	(33)	(22)
Amortization of discount[(2)]	**2**	2	2
Closing balance, December 31	**$ 24**	$ 50	$ 89

(1) Includes recoveries of $4 million in the first quarter of 2014 and of $7 million in 2013 related to the fourth quarter 2012 labour restructuring initiative charge of $53 million.
(2) Amortization of discount is charged to income as “Compensation and benefits”.

Table of Contents

5 Other income and charges

(in millions of Canadian dollars)	2014	2013	2012
Foreign exchange loss (gain) on long-term debt	**$ 11**	$ 2	$ (2)
Accretion income on long-term floating rate notes	**–**	–	(3)
Loss in fair value of long-term floating rate notes	**–**	–	1
Other foreign exchange losses (gains)	**–**	2	(1)
Advisory fees (related to shareholder matters)	**–**	–	27
Other	**8**	13	15
Total other income and charges	**$ 19**	$ 17	$ 37

6 Net interest expense

(in millions of Canadian dollars)	2014	2013	2012
Interest cost	**$ 301**	$ 296	$ 294
Interest capitalized to Properties	**(15)**	(13)	(15)
Interest expense	**286**	283	279
Interest income	**(4)**	(5)	(3)
Net interest expense	**$ 282**	$ 278	$ 276

Interest expense includes interest on capital leases of $12 million for the year ended December 31, 2014 (2013 – $19 million; 2012 – $19 million).

7 Income taxes

The following is a summary of the major components of the Company's income tax expense:

(in millions of Canadian dollars)	2014	2013	2012
Current income tax expense	**$ 208**	$ 38	$ 12
Deferred income tax expense			
Origination and reversal of temporary differences	**317**	183	144
Effect of tax rate increases	**–**	7	11
Effect of hedge of net investment in foreign subsidiaries	**42**	29	(9)
Tax credits	**–**	–	(4)
Other	**(5)**	(7)	(2)
Total deferred income tax expense	**354**	212	140
Total income taxes	**$ 562**	$ 250	$ 152
Income before income tax expense			
Canada	**$ 1,269**	$ 1,019	$ 464
Foreign	**769**	106	172
Total income before income tax expense	**$ 2,038**	$ 1,125	$ 636
Income tax expense			
Current			
Canada	**$ 50**	$ 4	$ 6
Foreign	**158**	34	6
Total current income tax expense	**208**	38	12
Deferred			
Canada	**292**	256	120
Foreign	**62**	(44)	20
Total deferred income tax expense	**354**	212	140
Total income taxes	**$ 562**	$ 250	$ 152

Table of Contents

The provision for deferred income taxes arises from temporary differences in the carrying values of assets and liabilities for financial statement and income tax purposes and the effect of loss carry forwards. The items comprising the deferred income tax assets and liabilities are as follows:

(in millions of Canadian dollars)	**2014**	2013
Deferred income tax assets		
Restructuring liability	**$ 7**	$ 16
Amount related to tax losses carried forward	**28**	96
Liabilities carrying value in excess of tax basis	**214**	66
Future environmental remediation costs	**32**	31
Tax credits carried forward including minimum tax	**20**	72
Other	**69**	46
Total deferred income tax assets	**370**	327
Deferred income tax liabilities		
Properties carrying value in excess of tax basis	**3,052**	2,847
Other long-term assets carrying value in excess of tax basis	**–**	9
Other	**35**	30
Total deferred income tax liabilities	**3,087**	2,886
Total net deferred income tax liabilities	**2,717**	2,559
Current deferred income tax assets	**56**	344
Long-term deferred income tax liabilities	**$ 2,773**	$ 2,903

The Company's consolidated effective income tax rate differs from the expected statutory tax rates. Expected income tax expense at statutory rates is reconciled to income tax expense as follows:

(in millions of Canadian dollars, except percentage)	**2014**	2013	2012
Statutory federal and provincial income tax rate	**26.31%**	26.32%	26.09%
Expected income tax expense at Canadian enacted statutory tax rates	**$ 536**	$ 296	$ 166
Increase (decrease) in taxes resulting from:			
Items not subject to tax	**(5)**	(6)	(4)
Canadian tax rate differentials	**(1)**	(1)	(1)
Foreign tax rate differentials	**36**	(36)	(17)
Effect of tax rate increases	**–**	7	11
Tax credits	**–**	–	(4)
Other	**(4)**	(10)	1
Income tax expense	**$ 562**	$ 250	$ 152

The Company has no unrecognized tax benefits from capital losses at December 31, 2014 and 2013.

The Company has not provided a deferred liability for the income taxes, if any, which might become payable on any temporary difference associated with its foreign investments because the Company intends to indefinitely reinvest in its foreign investments and has no intention to realize this difference by a sale of its interest in foreign investments.

During the third quarter of 2013, legislation was enacted to increase the province of British Columbia's corporate income tax rate. As a result, the Company recalculated its deferred income taxes as at January 1, 2013 based on this change and recorded an income tax expense of $7 million in the third quarter of 2013.

During the second quarter of 2012, legislation was enacted to cancel the previously planned province of Ontario's corporate income tax rate reductions. As a result of these changes, the Company recorded an income tax expense of $11 million in the second quarter of 2012, based on its deferred income tax balances as at January 1, 2012.

At December 31, 2014, the Company had income tax operating losses carried forward of $94 million, which have been recognized as a deferred tax asset. Certain of these losses carried forward will begin to expire in 2026, with the majority expiring between 2029 and 2034. The Company also has minimum tax credits of approximately $15 million that will begin to expire in 2016 as well as investment tax credits of $5 million, certain of which will begin to expire in 2018.

Table of Contents

It is more likely than not that the Company will realize the majority of its deferred income tax assets from the generation of future taxable income, as the payments for provisions, reserves and accruals are made and losses and tax credits carried forward are utilized.

The following table provides a reconciliation of uncertain tax positions in relation to unrecognized tax benefits for Canada and the United States for the year ended December 31, 2014:

(in millions of Canadian dollars)	**2014**	2013	2012
Unrecognized tax benefits at January 1	**$ 16**	$ 19	$ 19
Increase in unrecognized:			
Tax benefits related to the current year	**2**	4	2
Dispositions:			
Gross uncertain tax benefits related to prior years	**(1)**	(7)	(2)
Unrecognized tax benefits at December 31	**$ 17**	$ 16	$ 19

If these uncertain tax positions were recognized, all of the amount of unrecognized tax positions as at December 31, 2014 would impact the Company's effective tax rate.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense in the Company's Consolidated Statements of Income. The total amount of accrued interest and penalties in 2014 was $1 million (2013 – credit of $1 million; 2012 – $nil). The total amount of accrued interest and penalties associated with the unrecognized tax benefit at December 31, 2014 was $5 million (2013 – $4 million; 2012 – $5 million).

The Company and its subsidiaries are subject to either Canadian federal and provincial income tax, U.S. federal, state and local income tax, or the relevant income tax in other international jurisdictions. The Company has substantially concluded all Canadian federal and provincial income tax matters for the years through 2009. The federal and provincial income tax returns filed for 2010 and subsequent years remain subject to examination by the taxation authorities.

All U.S. federal income tax returns and generally all U.S. state and local income tax returns are closed to 2007. The income tax returns for 2008 and subsequent years continue to remain subject to examination by the taxation authorities.

The Company does not anticipate any material changes to the unrecognized tax benefits previously disclosed within the next twelve months as at December 31, 2014.

8 Earnings per share

Basic earnings per share have been calculated using net income for the year divided by the weighted average number of shares outstanding during the year.

Diluted earnings per share have been calculated using the treasury stock method which assumes that any proceeds received from the exercise of in-the-money options would be used to purchase Common Shares at the average market price for the period. For purposes of this calculation, at December 31, 2014, there were 3.1 million dilutive options outstanding (2013 – 3.2 million; 2012 – 4.2 million).

The number of shares used in the earnings per share calculations is reconciled as follows:

(in millions)	**2014**	2013	2012
Weighted average basic shares outstanding	**172.8**	174.9	171.8
Dilutive effect of weighted average number of stock options	**1.6**	1.6	1.4
Weighted average diluted shares outstanding	**174.4**	176.5	173.2

In 2014, the number of options excluded from the computation of diluted earnings per share because their effect was not dilutive was 0.1 million (2013 – nil; 2012 – 0.2 million).

Table of Contents

9 Other comprehensive (loss) income and accumulated other comprehensive loss

The components of "Accumulated other comprehensive loss", net of tax, are as follows:

(in millions of Canadian dollars)	2014	2013
Unrealized foreign exchange gain (loss) on translation of the net investment in U.S. subsidiaries	$ 199	$ (88)
Unrealized foreign exchange (loss) gain on translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	(84)	193
Deferred losses on settled hedge instruments	(16)	(16)
Unrealized effective (losses) gains on cash flow hedges	(34)	3
Amounts for defined benefit pension and other post-retirement plans not recognized in income	(2,282)	(1,593)
Equity accounted investments	(2)	(2)
Accumulated other comprehensive loss	$ (2,219)	$ (1,503)

Components of other comprehensive (loss) income and the related tax effects are as follows:

(in millions of Canadian dollars)	Before tax amount	Income tax recovery (expense)	Net of tax amount
For the year ended December 31, 2014			
Unrealized foreign exchange gain (loss) on:			
Translation of the net investment in U.S. subsidiaries	$ 287	$ –	$ 287
Translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries (Note 20)	(319)	42	(277)
Change in derivatives designated as cash flow hedges:			
Realized loss on cash flow hedges recognized in income	(3)	–	(3)
Unrealized loss on cash flow hedges	(46)	12	(34)
Change in pension and other benefits actuarial gains and losses	(873)	234	(639)
Change in prior service pension and other benefit costs	(68)	18	(50)
Other comprehensive loss	$ (1,022)	$ 306	$ (716)
For the year ended December 31, 2013			
Unrealized foreign exchange gain (loss) on:			
Translation of the net investment in U.S. subsidiaries	$ 220	$ –	$ 220
Translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries (Note 20)	(217)	28	(189)
Change in derivatives designated as cash flow hedges:			
Realized loss on cash flow hedges recognized in income	(19)	–	(19)
Unrealized gain on cash flow hedges	18	–	18
Change in pension and other benefits actuarial gains and losses	1,603	(427)	1,176
Change in prior service pension and other benefit costs	78	(19)	59
Other comprehensive income	$ 1,683	$ (418)	$ 1,265

Table of Contents

(in millions of Canadian dollars)	Before tax amount	Income tax recovery (expense)	Net of tax amount
For the year ended December 31, 2012			
Unrealized foreign exchange (loss) gain on:			
Translation of the net investment in U.S. subsidiaries	$ (58)	$ –	$ (58)
Translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries (Note 20)	69	(9)	60
Change in derivatives designated as cash flow hedges:			
Realized gain on cash flow hedges recognized in income	6	(1)	5
Unrealized gain on cash flow hedges	3	–	3
Change in pension and other benefits actuarial gains and losses	(62)	12	(50)
Change in prior service pension and other benefit costs	12	(2)	10
Equity accounted investments	(2)	–	(2)
Other comprehensive loss	$ (32)	$ –	$ (32)

Changes in accumulated other comprehensive loss (AOCL) by component:

(in millions of Canadian dollars)	Foreign currency net of hedging activities[(1)]	Derivatives and other[(1)]	Pension and post-retirement defined benefit plans[(1)]	Total[(1)]
Opening balance, 2014	**$ 105**	**$ (15)**	**$ (1,593)**	**$ (1,503)**
Other comprehensive income (loss) before reclassifications	**10**	**(34)**	**(781)**	**(805)**
Amounts reclassified from accumulated other comprehensive loss	**–**	**(3)**	**92**	**89**
Net current-period other comprehensive income (loss)	**10**	**(37)**	**(689)**	**(716)**
Closing balance, 2014	**$ 115**	**$ (52)**	**$ (2,282)**	**$ (2,219)**
Opening balance, 2013	$ 74	$ (14)	$ (2,828)	$ (2,768)
Other comprehensive income (loss) before reclassifications	31	17	1,078	1,126
Amounts reclassified from accumulated other comprehensive loss	–	(18)	157	139
Net current-period other comprehensive income (loss)	31	(1)	1,235	1,265
Closing balance, 2013	$ 105	$ (15)	$ (1,593)	$ (1,503)

(1) Amounts are presented net of tax.

Amounts in Pension and post-retirement defined benefit plans reclassified from Accumulated other comprehensive loss

	2014	2013
Amortization of prior service costs[(a)]	**$ (68)**	$ (58)
Recognition of net actuarial loss[(a)]	**192**	272
Total before income tax	**$ 124**	$ 214
Income tax recovery	**(32)**	(57)
Net of income tax	**$ 92**	$ 157

(a) Impacts Compensation and benefits on the Consolidated Statements of Income.

10 Change in non-cash working capital balances related to operations

(in millions of Canadian dollars)	**2014**	2013	2012
(Use) source of cash:			
Accounts receivable, net	**$ (112)**	$ (29)	$ (40)
Materials and supplies	**7**	(19)	7
Other current assets	**(75)**	5	15
Accounts payable and accrued liabilities	**56**	41	13
Change in non-cash working capital	**$ (124)**	$ (2)	$ (5)

Table of Contents

11 Cash and cash equivalents

(in millions of Canadian dollars)	2014	2013
Cash	$ 226	$ 109
Short-term investments:		
Deposits with financial institutions	–	367
Total cash and cash equivalents	$ 226	$ 476

12 Accounts receivable, net

(in millions of Canadian dollars)	2014	2013
Freight	$ 535	$ 408
Non-freight	189	192
	724	600
Allowance for doubtful accounts	(22)	(20)
Total accounts receivable, net	$ 702	$ 580

The Company maintains an allowance for doubtful accounts based on expected collectability of accounts receivable. Credit losses are based on specific identification of uncollectible accounts, the application of historical percentages by aging category and an assessment of the current economic environment. At December 31, 2014, allowances of $22 million (2013 – $20 million) were recorded in “Accounts receivable, net”. During 2014, provisions of $2 million of accounts receivable (2013 – $3 million; 2012 – $3 million) were recorded within “Purchased services and other”.

13 Assets held for sale

On November 17, 2014, the Company announced a proposed agreement with Norfolk Southern Corporation (“NS”) for the sale of approximately 283 miles of the Delaware and Hudson Railway Company, Inc.’s line between Sunbury, Pennsylvania, and Schenectady, New York. The assets expected to be sold to NS upon completion of this transaction have been classified as “Assets held for sale” on the Company’s Consolidated Balance Sheets. The assets continue to be reported at their carrying value as this is lower than their expected fair value. The sale to NS, when agreed, will be subject to regulatory approval by the STB and is expected to close in 2015.

14 Investments

(in millions of Canadian dollars)	2014	2013
Rail investments accounted for on an equity basis	$ 82	$ 67
Other investments	30	25
Total investments	$ 112	$ 92

15 Properties

	2014	2014			2013		
(in millions of Canadian dollars)	Average annual depreciation rate	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Track and roadway	2.5%	$ 14,515	$ 4,126	$ 10,389	$ 13,459	$ 3,877	$ 9,582
Buildings	3.1%	571	150	421	535	138	397
Rolling stock	2.3%	3,737	1,414	2,323	3,466	1,338	2,128
Information systems(1)	12.4%	631	297	334	679	338	341
Other	4.5%	1,489	518	971	1,372	493	879
Total		$ 20,943	$ 6,505	$ 14,438	$ 19,511	$ 6,184	$ 13,327

(1) During 2014, CP capitalized costs attributable to the design and development of internal-use software in the amount of $69 million (2013 – $85 million; 2012 – $105 million). Current year depreciation expense related to internal use software was $70 million (2013 – $84 million; 2012 – $78 million).

Table of Contents

Capital leases included in properties

	2014			2013		
(in millions of Canadian dollars)	**Cost**	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
Buildings	**$ 1**	**$ 1**	**$ –**	$ 1	$ 1	$ –
Rolling stock	**311**	**87**	**224**	511	195	316
Total assets held under capital lease	**$ 312**	**$ 88**	**$ 224**	$ 512	$ 196	$ 316

16 Goodwill and intangible assets

(in millions of Canadian dollars)	Goodwill	Cost	Intangible assets accumulated amortization	Net carrying amount
Balance at December 31, 2012	$ 146	$ 24	$ (9)	$ 15
Amortization	–	–	(1)	(1)
Foreign exchange impact	10	–	–	–
DM&E West impairment (Note 3)	(6)	(2)	–	(2)
Balance at December 31, 2013	$ 150	$ 22	$ (10)	$ 12
Amortization	–	–	(1)	(1)
Foreign exchange impact	14	–	1	1
Balance at December 31, 2014	**$ 164**	**$ 22**	**$ (10)**	**$ 12**

As part of the acquisition of DM&E in 2007, CP recognized goodwill of U.S. $147 million on the allocation of the purchase price, determined as the excess of the purchase price over the fair value of the net assets acquired. Since the acquisition, the operations of DM&E have been integrated with CP's U.S. operations and the related goodwill is allocated to CP's U.S. reporting unit. Goodwill is tested for impairment at least once per year as at October 1st. The goodwill impairment test determines if the fair value of the reporting unit continues to exceed its net book value, or whether an impairment charge is required. The fair value of the reporting unit is affected by projections of its profitability including estimates of revenue growth, which are inherently uncertain.

Intangible assets of $12 million (2013 – $12 million), acquired in the acquisition of DM&E, include favourable leases, customer relationships and interline contracts.

The estimated amortization expense for intangible assets for 2015 to 2019 is insignificant each year.

17 Other assets

(in millions of Canadian dollars)	**2014**	2013
Unamortized fees on long-term debt	**$ 43**	$ 44
Long-term materials	**30**	31
Long-term receivables	**28**	28
Contracted customer incentives	**9**	6
Prepaid leases	**9**	9
Deferred hedging gains (Note 20)	–	19
Other	**32**	63
Total other assets	**$ 151**	$ 200

Fees on long-term debt and contracted customer incentives are amortized to income over the term of the related debt and over the term of the related revenue contract, respectively.

Table of Contents

18 Accounts payable and accrued liabilities

(in millions of Canadian dollars)	2014	2013
Trade payables	$ 407	$ 358
Accrued charges	324	343
Income and other taxes payable	95	46
Accrued interest	75	79
Payroll-related accruals	72	67
Accrued vacation	66	67
Dividends payable	58	62
Personal injury and other claims provision	45	57
Purchase of CP Common shares	39	–
Provision for environmental remediation (Note 21)	16	14
Stock-based compensation liabilities	14	20
Provision for restructuring (Note 4)	11	29
Other	55	47
Total accounts payable and accrued liabilities	$ 1,277	$ 1,189

19 Debt

(in millions of Canadian dollars)	Maturity	Currency in which payable	2014	2013
6.500% 10-year Notes (A)	May 2018	U.S.$	$ 319	$ 292
6.250% 10-year Medium Term Notes (A)	June 2018	CDN$	374	374
7.250% 10-year Notes (A)	May 2019	U.S.$	405	371
9.450% 30-year Debentures (A)	Aug. 2021	U.S.$	290	266
5.100% 10-year Medium Term Notes (A)	Jan. 2022	CDN$	125	125
4.500% 10-year Notes (A)	Jan. 2022	U.S.$	287	262
4.450% 12.5-year Notes (A)	Mar. 2023	U.S.$	405	371
7.125% 30-year Debentures (A)	Oct. 2031	U.S.$	406	372
5.750% 30-year Debentures (A)	Mar. 2033	U.S.$	282	258
5.950% 30-year Notes (A)	May 2037	U.S.$	515	471
6.450% 30-year Notes (A)	Nov. 2039	CDN$	400	400
5.750% 30-year Notes (A)	Jan. 2042	U.S.$	284	260
Secured Equipment Loan (B)	Aug. 2015	CDN$	62	80
5.41% Senior Secured Notes (C)	Mar. 2024	U.S.$	121	116
6.91% Secured Equipment Notes (D)	Oct. 2024	CDN$	156	167
5.57% Senior Secured Notes (E)	Dec. 2024	U.S.$	65	62
7.49% Equipment Trust Certificates (F)	Jan. 2021	U.S.$	96	96
3.88% Senior Secured Notes Series A & B (G)	Oct./Dec. 2026	U.S.$	148	140
4.28% Senior Secured Notes (H)	Mar. 2027	U.S.$	77	73
Other long-term loans (nil% – 5.50%)	2015 - 2025	U.S.$	2	2
Obligations under capital leases (6.313% – 6.99%) (I)	2022 - 2026	U.S.$	147	277
Obligations under capital leases (12.77%) (I)	Jan. 2031	CDN$	3	3
Commercial paper (J)		U.S.$	783	–
			5,752	4,838
Perpetual 4% Consolidated Debenture Stock (K)		U.S.$	35	32
Perpetual 4% Consolidated Debenture Stock (K)		G.B.£	6	6
			5,793	4,876
Less: Long-term debt maturing within one year			134	189
			$ 5,659	$ 4,687

Table of Contents

At December 31, 2014, the gross amount of long-term debt denominated in U.S. dollars was U.S. $4,047 million (2013 – U.S. $3,527 million).

Annual maturities and principal repayments requirements, excluding those pertaining to capital leases, for each of the five years following 2014 are (in millions): 2015 – $131; 2016 – $816; 2017 – $29; 2018 – $725; 2019 – $439.

A. These debentures and notes pay interest semi-annually and are unsecured, but carry a negative pledge.

B. The Secured Equipment Loan is collateralized by specific locomotive units with a carrying value of $63 million at December 31, 2014. The floating interest rate is calculated based on a six-month average Canadian Dollar Offered Rate (calculated based on an average of Bankers' Acceptance rates) plus 53 basis points (2014 – 1.89%; 2013 – 1.93%; 2012 – 1.97%). The Company makes blended payments of principal and interest semi-annually. Final repayment of the remaining principal balance of $53 million is due in August 2015.

C. The 5.41% Senior Secured Notes are collateralized by specific locomotive units with a carrying value of $135 million at December 31, 2014. The Company pays equal blended semi-annual payments of principal and interest. Final repayment of the remaining principal of U.S. $44 million is due in March 2024.

D. The 6.91% Secured Equipment Notes are full recourse obligations of the Company collateralized by a first charge on specific locomotive units with a carrying value of $131 million at December 31, 2014. The Company pays equal blended semi-annual payments of principal and interest up to and including October 2024.

E. The 5.57% Senior Secured Notes are secured by specific locomotive units and other rolling stock with a combined carrying value of $57 million at December 31, 2014. The Company pays equal blended semi-annual payments of principal and interest up to and including December 2024. Final repayment of the remaining principal of U.S. $33 million is due in December 2024.

F. The 7.49% Equipment Trust Certificates are secured by specific locomotive units with a carrying value of $110 million at December 31, 2014. The Company makes semi-annual payments that vary in amount and are interest-only payments or blended principal and interest payments. Final repayment of the remaining principal of U.S. $11 million is due in January 2021.

G. These Notes are secured by locomotives previously acquired by the Company with a carrying value of $127 million at December 31, 2014. The Company pays equal blended semi-annual payments of principal and interest up to and including December 2026. Final repayment of the remaining principal of U.S. $69 million is due in the fourth quarter of 2026.

H. These Notes are secured by locomotives previously acquired by the Company with a carrying value of $66 million at December 31, 2014. The Company pays equal blended semi-annual payments of principal and interest up to and including March 2027. Final repayment of the remaining principal of U.S. $35 million is due in March 2027.

I. At December 31, 2014, capital lease obligations included in long-term debt were as follows:

(in millions of Canadian dollars)	Year	Capital leases
Minimum lease payments in:		
	2015	$ 14
	2016	14
	2017	14
	2018	14
	2019	14
	Thereafter	160
Total minimum lease payments		230
Less: Imputed interest		(80)
Present value of minimum lease payments		150
Less: Current portion		(3)
Long-term portion of capital lease obligations		$ 147

During 2014, the Company had no additions to property, plant and equipment under capital lease obligations (2013 – $nil; 2012 – $nil).

The carrying value of the assets collateralizing the capital lease obligations was $224 million at December 31, 2014.

J. During the fourth quarter of 2014, the Company established a commercial paper program which enabled it to issue commercial paper up to a maximum aggregate principal amount of U.S. $1 billion in the form of unsecured promissory notes. The commercial paper program is backed by a U.S. $1 billion committed, revolving credit facility, which matures on September 26, 2016. As at December 31, 2014, the Company had total commercial paper borrowings of U.S. $675 million (CDN $783 million) presented in "Long-term debt" on the Consolidated Balance Sheets (2013 – $nil) as the Company has the intent and the ability to renew these borrowings on a long-term basis. The weighted-average interest rate on these borrowings was 0.44%.

Table of Contents

The Company presents issuances and repayments of commercial paper in the Consolidated Statements of Cash Flows on a net basis, all of which have a maturity less than 90 days.

K. The Consolidated Debenture Stock, authorized by an Act of Parliament of 1889, constitutes a first charge upon and over the whole of the undertaking, railways, works, rolling stock, plant, property and effects of the Company, with certain exceptions.

L. During November 2013, CP extended its revolving credit agreement with 13 highly rated financial institutions and also contains an uncommitted accordion feature. At December 31, 2013, the facility was undrawn.

At September 26, 2014, the Company terminated its existing revolving credit facility agreement dated as of November 29, 2013. On the same day, CP entered into a new revolving credit facility (the “facility”) agreement with 15 highly rated financial institutions for a commitment amount of U.S. $2 billion. The facility includes a U.S. $1 billion five year portion and a U.S. $1 billion one year plus one year term out portion. The facility can accommodate draws of cash and/or letters of credit at market competitive pricing. At December 31, 2014, the facility is undrawn. The agreement requires the Company not to exceed a maximum debt to total capitalization ratio. At December 31, 2014, the Company satisfied this threshold stipulated in the financial covenant.

The weighted average annualized interest rate of the facility for drawn funds was not applicable in 2014 and 2013 compared to 2.94% in 2012.

During 2013, the Company entered into a series of committed and uncommitted bilateral letter of credit facility agreements with financial institutions to support its requirement to post letters of credit in the ordinary course of business. Under these agreements, the Company had the option to post collateral in the form of cash or cash equivalents, equal at least to the face value of the letter of credit issued.

In October 2014, CP terminated its existing uncommitted demand bilateral letter of credit facility agreements and entered into bilateral letter of credit facility agreements with six highly rated financial institutions to support its requirement to post letters of credit in the ordinary course of business. Under these agreements, the Company has the option to post collateral in the form of cash or cash equivalents, equal at least to the face value of the letter of credit issued. These new agreements permit CP to withdraw amounts posted as collateral at any time; therefore, the amounts posted as collateral are presented as “Cash and cash equivalents” on the Company’s Consolidated Balance Sheet.

At December 31, 2014, under its bilateral facilities the Company had letters of credit drawn of $412 million from a total available amount of $600 million. Prior to these bilateral agreements, letters of credit were drawn under the Company’s revolving credit facility. At December 31, 2014, under the terms of the new bilateral letter of credit facilities, no cash and cash equivalents was recorded as “Restricted cash and cash equivalents” (2013 – $411 million).

20 Financial instruments

A. Fair values of financial instruments

The Company categorizes its financial assets and liabilities measured at fair value in line with the fair value hierarchy established by GAAP that prioritizes, with respect to reliability, the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of quoted prices (unadjusted) in active markets for identical assets and liabilities and give the highest priority to these inputs. Level 2 and 3 inputs are based on significant other observable inputs and significant unobservable inputs, respectively, and give lower priority to these inputs.

When possible, the estimated fair value is based on quoted market prices and, if not available, estimates from third party brokers. For non-exchange traded derivatives classified in Level 2, the Company uses standard valuation techniques to calculate fair value. Primary inputs to these techniques include observable market prices (interest, foreign exchange and commodity) and volatility, depending on the type of derivative and nature of the underlying risk. The Company uses inputs and data used by willing market participants when valuing derivatives and considers its own credit default swap spread as well as those of its counterparties in its determination of fair value.

The carrying values of financial instruments equal or approximate their fair values with the exception of long-term debt which has a fair value of approximately $6,939 million at December 31, 2014 (December 31, 2013 – $5,572 million) with a carrying value of $5,793 million (December 31, 2013 – $4,876 million). The estimated fair value of current and long-term borrowings has been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Company at period end. All derivatives and long-term debt are classified as Level 2.

B. Fair values of non-financial assets

At December 31, 2013, CP classified DM&E West as an asset held for sale carried at its estimated fair value less estimated direct selling costs (Note 3). The sale of DM&E West was completed during 2014. During 2012, CP reviewed certain properties for impairment (Note 3) and estimated the fair values of those properties. These estimated fair values were based on measurements classified as Level 3 which resulted in the recording of a total impairment charge in 2013 of $434 million and in 2012 of $265 million (Note 3). CP used third party information that was corroborated with other internal information to estimate the fair value of these properties.

Table of Contents

C. Financial risk management

Derivative financial instruments

Derivative financial instruments may be used to selectively reduce volatility associated with fluctuations in interest rates, foreign exchange (“FX”) rates, the price of fuel and stock-based compensation expense. Where derivatives are designated as hedging instruments, the relationship between the hedging instruments and their associated hedged items is documented, as well as the risk management objective and strategy for the use of the hedging instruments. This documentation includes linking the derivatives that are designated as fair value or cash flow hedges to specific assets or liabilities on the Consolidated Balance Sheets, commitments or forecasted transactions. At the time a derivative contract is entered into and at least quarterly thereafter, an assessment is made whether the derivative item is effective in offsetting the changes in fair value or cash flows of the hedged items. The derivative qualifies for hedge accounting treatment if it is effective in substantially mitigating the risk it was designed to address.

It is not the Company’s intent to use financial derivatives or commodity instruments for trading or speculative purposes.

Credit risk management

Credit risk refers to the possibility that a customer or counterparty will fail to fulfil its obligations under a contract and as a result create a financial loss for the Company.

The railway industry predominantly serves financially established customers and the Company has experienced limited financial losses with respect to credit risk. The credit worthiness of customers is assessed using credit scores supplied by a third party, and through direct monitoring of their financial well-being on a continual basis. The Company establishes guidelines for customer credit limits and should thresholds in these areas be reached, appropriate precautions are taken to improve collectability.

Counterparties to financial instruments expose the Company to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an on-going basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. The Company does not anticipate non-performance that would materially impact the Company’s financial statements. In addition, the Company believes there are no significant concentrations of credit risk.

Foreign exchange management

The Company conducts business transactions and owns assets in both Canada and the United States. As a result the Company is exposed to fluctuations in value of financial commitments, assets, liabilities, income or cash flows due to changes in FX rates. The Company may enter into foreign exchange risk management transactions primarily to manage fluctuations in the exchange rate between Canadian and U.S. currencies. FX exposure is primarily mitigated through natural offsets created by revenues, expenditures and balance sheet positions incurred in the same currency. Where appropriate, the Company may negotiate with customers and suppliers to reduce the net exposure.

Occasionally the Company will enter into short-term FX forward contracts as part of its cash management strategy.

Net investment hedge

The FX gains and losses on long-term debt are mainly unrealized and can only be realized when U.S. dollar denominated long-term debt matures or is settled. The Company also has long-term FX exposure on its investment in U.S. affiliates. The majority of the Company’s U.S. dollar denominated long-term debt has been designated as a hedge of the net investment in foreign subsidiaries. This designation has the effect of mitigating volatility on net income by offsetting long-term FX gains and losses on U.S. dollar denominated long-term debt and gains and losses on its net investment. The effective portion recognized in “Other comprehensive income” in 2014 was an unrealized foreign exchange loss of $319 million (2013 – unrealized loss of $217 million; 2012 – unrealized gain of $69 million) (Note 9). The ineffectiveness during 2014 was negligible (2013 – $nil; 2012 – $nil).

Foreign exchange forward contracts

The Company may enter into FX forward contracts to lock-in the amount of Canadian dollars it has to pay on U.S. denominated debt maturities.

At December 31, 2014, the Company had no remaining FX forward contracts to fix the exchange rate on U.S. denominated debt maturities. During 2014, the Company settled the FX forward contract related to the repayment of a capital lease due in January 2014 for proceeds of $8 million. The Company also settled, prior to maturity, the FX forward contracts related to the repayment of the 6.50% Notes due in May 2018 and its 7.25% Notes due in May 2019 for proceeds of $17 million with the offset recorded as realized gains of $3 million in “Accumulated other comprehensive loss” and $14 million in “Retained earnings”. Amounts remaining in “Accumulated other comprehensive loss” are being amortized to “Other income and charges” until the underlying debts, which were hedged, are repaid.

During 2014, the combined realized and unrealized foreign exchange gains were $3 million and were recorded in “Other income and charges” (2013 – unrealized gain of $18 million; 2012 – unrealized loss of $4 million) in relation to these derivatives. Gains recorded in “Other income and charges” were largely offset by unrealized losses on the underlying debt which the derivatives were designated to hedge. Similarly, losses were largely offset by unrealized gains on the underlying debt.

Table of Contents

At December 31, 2014, the Company expected that, during the next 12 months, a negligible amount of pre-tax gain would be reclassified to “Other income and charges”.

At December 31, 2013, the unrealized gain derived from these FX forwards was $25 million of which $6 million was included in “Other current assets” and $19 million in “Other assets” with the offset reflected as unrealized gains of $5 million in “Accumulated other comprehensive loss” and $20 million in “Retained earnings”.

Interest rate management

The Company is exposed to interest rate risk, which is the risk that the fair value or future cash flows of a financial instrument will vary as a result of changes in market interest rates. In order to manage funding needs or capital structure goals, the Company enters into debt or capital lease agreements that are subject to either fixed market interest rates set at the time of issue or floating rates determined by on-going market conditions. Debt subject to variable interest rates exposes the Company to variability in interest expense, while debt subject to fixed interest rates exposes the Company to variability in the fair value of debt.

To manage interest rate exposure, the Company accesses diverse sources of financing and manages borrowings in line with a targeted range of capital structure, debt ratings, liquidity needs, maturity schedule, and currency and interest rate profiles. In anticipation of future debt issuances, the Company may enter into forward rate agreements, that are designated as cash flow hedges, to substantially lock in all or a portion of the effective future interest expense. The Company may also enter into swap agreements, designated as fair value hedges, to manage the mix of fixed and floating rate debt.

Forward starting swaps

During the fourth quarter of 2014, the Company entered into forward starting floating-to-fixed interest rate swap agreements (“forward starting swaps”) totaling a notional U.S. $1.4 billion to fix the benchmark rate on cash flows associated with highly probable forecasted issuances of long-term notes. The effective portion of changes in fair value on the forward starting swaps is recorded in “Accumulated other comprehensive loss”, net of tax, as cash flow hedges until the probable forecasted notes are issued. Subsequent to the notes issuance, amounts in “Accumulated other comprehensive loss” are reclassified to “Net interest expense”. As at December 31, 2014, the unrealized loss derived from the forward starting swaps was $46 million of which $21 million was included in “Accounts payable and accrued liabilities” and $25 million in “Other long-term liabilities” with the offset reflected in “Other comprehensive (loss) income” on the Consolidated Statements of Comprehensive Income.

Interest rate swaps

During the fourth quarter of 2014, the Company entered into floating-to-fixed interest rate swap agreements totaling U.S. $600 million to hedge the variability in cash flow associated with fluctuations in interest rates on commercial paper issuances. These swaps expire in 2015 and are accounted for as a cash flow hedge. The effective portion of changes in fair value of the swaps is recorded in “Accumulated other comprehensive loss”, net of tax. Subsequent to the commercial paper issuance, the amounts recorded in “Accumulated other comprehensive loss” are reclassified to “Net interest expense”. At December 31, 2014, the unrealized gain recorded in “Other current assets” on the Consolidated Balance Sheets, was not significant. The offset was reflected in “Other comprehensive (loss) income” on the Consolidated Statements of Comprehensive Income. At December 31, 2013, the Company had no outstanding interest rate swaps, nor did it enter into or unwind any such transactions during 2013.

Treasury rate locks

At December 31, 2014, the Company had net unamortized losses related to interest rate locks, which are accounted for as cash flow hedges, settled in previous years totaling $21 million (December 31, 2013 – $22 million). This amount is composed of various unamortized gains and losses related to specific debts which are reflected in “Accumulated other comprehensive loss” and are amortized to “Net interest expense” in the period that interest on the related debt is charged. The amortization of these gains and losses resulted in a negligible increase to “Net interest expense” and “Other comprehensive income” in 2014 (2013 – negligible; 2012 – negligible). At December 31, 2014, the Company expected that, during the next 12 months, a negligible amount of loss related to these previously settled derivatives would be reclassified to “Net interest expense”.

Fuel price management

The Company is exposed to commodity risk related to purchases of diesel fuel and the potential reduction in net income due to increases in the price of diesel. Fuel expense constitutes a large portion of the Company’s operating costs and volatility in diesel fuel prices can have a significant impact on the Company’s income. Items affecting volatility in diesel prices include, but are not limited to, fluctuations in world markets for crude oil and distillate fuels, which can be affected by supply disruptions and geopolitical events.

The impact of variable fuel expense is mitigated substantially through fuel cost recovery programs which apportion incremental changes in fuel prices to shippers through price indices, tariffs, and by contract, within agreed upon guidelines. While these programs provide effective and meaningful coverage, residual exposure remains as the fuel expense risk may not be completely recovered from shippers due to timing and volatility in the market.

Table of Contents

21 Other long-term liabilities

(in millions of Canadian dollars)	2014	2013
Provision for environmental remediation, net of current portion[(1)]	$ 75	$ 76
Provision for restructuring, net of current portion[(2)] (Note 4)	13	21
Deferred gains on sale leaseback transactions	25	31
Deferred revenue on rights-of-way license agreements, net of current portion	33	31
Stock-based compensation liabilities, net of current portion	145	69
Asset retirement obligations (Note 22)	23	24
Deferred retirement compensation	24	16
Deferred hedging losses (Note 20)	25	–
Other, net of current portion	69	70
Total other long-term liabilities	$ 432	$ 338

(1) As at December 31, 2014, the aggregate provision for environmental remediation, including the current portion was $91 million (2013 – $90 million).

(2) As at December 31, 2014, the aggregate provision for restructuring, including the current portion was $24 million (2013 – $50 million).

The deferred revenue on rights-of-way license agreements, and deferred gains on sale leaseback transactions are being amortized to income on a straight-line basis over the related lease terms. Deferred income credits are being amortized over the life of the related asset.

Environmental remediation accruals

Environmental remediation accruals cover site-specific remediation programs. The estimate of the probable costs to be incurred in the remediation of properties contaminated by past railway use reflects the nature of contamination at individual sites according to typical activities and scale of operations conducted. CP has developed remediation strategies for each property based on the nature and extent of the contamination, as well as the location of the property and surrounding areas that may be adversely affected by the presence of contaminants, considering available technologies, treatment and disposal facilities and the acceptability of site-specific plans based on the local regulatory environment. Site-specific plans range from containment and risk management of the contaminants through to the removal and treatment of the contaminants and affected soils and ground water. The details of the estimates reflect the environmental liability at each property. Provisions for environmental remediation costs are recorded in “Other long-term liabilities”, except for the current portion which is recorded in “Accounts payable and accrued liabilities”. Payments are expected to be made over 10 years to 2024.

The accruals for environmental remediation represent CP’s best estimate of its probable future obligation and include both asserted and unasserted claims, without reduction for anticipated recoveries from third parties. Although the recorded accruals include CP’s best estimate of all probable costs, CP’s total environmental remediation costs cannot be predicted with certainty. Accruals for environmental remediation may change from time to time as new information about previously untested sites becomes known, environmental laws and regulations evolve and advances are made in environmental remediation technology. The accruals may also vary as the courts decide legal proceedings against outside parties responsible for contamination. These potential charges, which cannot be quantified at this time, may materially affect income in the particular period in which a charge is recognized. Costs related to existing, but as yet unknown, or future contamination will be accrued in the period in which they become probable and reasonably estimable. Changes to costs are reflected as changes to “Other long-term liabilities” or “Accounts payable and accrued liabilities” on the Consolidated Balance Sheets and to “Purchased services and other” within operating expenses on the Consolidated Statements of Income. The amount charged to income in 2014 was $4 million (2013 – $6 million; 2012 – $4 million).

22 Asset retirement obligations

Asset retirement obligations are recorded in “Other long-term liabilities”. The majority of these liabilities are discounted at 6.25%. Accretion expense is included in “Depreciation and amortization” on the Consolidated Statements of Income.

(in millions of Canadian dollars)	2014	2013
Opening balance, January 1	$ 24	$ 23
Accretion	1	1
Liabilities settled	(1)	–
Revision to estimated cash flows	(1)	–
Closing balance, December 31	$ 23	$ 24

Table of Contents

Upon the ultimate retirement of grain-dependent branch lines, the Company has to pay a fee, levied under the Canada Transportation Act, of $30,000 per mile of abandoned track. The undiscounted amount of the liability was $38 million at December 31, 2014 (2013 – $39 million), which, when present valued, was $20 million at December 31, 2014 (2013 – $21 million). The payments are expected to be made in the 2015 – 2044 period.

The Company also has a liability for a joint facility that will have to be settled upon retirement based on a proportion of use during the life of the asset. The estimate of the obligation at December 31, 2014, was $21 million (2013 – $20 million), which, when present valued, was $3 million at December 31, 2014 (2013 – $3 million). For purposes of estimating this liability, the payment related to the retirement of the joint facility is anticipated to be made in 30 years.

23 Shareholders' equity

Authorized and issued share capital

The Company is authorized to issue an unlimited number of Common Shares, an unlimited number of First Preferred Shares and unlimited number of Second Preferred Shares. At December 31, 2014, no First or Second Preferred Shares had been issued.

An analysis of Common Share balances is as follows:

(number of shares in millions)	**2014**	2013	2012
Share capital, January 1	**175.4**	173.9	170.0
CP common shares repurchased	**(10.3)**	–	–
Shares issued under stock option plan	**1.0**	1.5	3.9
Share capital, December 31	**166.1**	175.4	173.9

The change in the "Share capital" balances includes $3 million (2013 – $5 million; 2012 – $6 million) related to the cancellation of the TSARs liability on exercise of tandem stock options, and $17 million (2013 – $24 million; 2012 – $70 million) of stock-based compensation transferred from "Additional paid-in capital".

Share repurchase

On February 20, 2014, the Board of Directors of the Company approved a share repurchase program, and in March 2014, the Company filed a new normal course issuer bid ("bid") to purchase, for cancellation, up to 5.3 million of its outstanding Common Shares. On September 29, 2014, the Company announced the amendment of the bid to increase the maximum number of its Common Shares that may be purchased from 5.3 million to 12.7 million of its outstanding Common Shares, effective October 2, 2014. Under the filing, share purchases may be made during the twelve month period that began March 17, 2014, and ends March 16, 2015. The purchases are made at the market price on the day of purchase, with consideration allocated to share capital up to the average carrying amount of the shares, and any excess allocated to retained earnings. The following table provides the activities under the share repurchase program:

		2014
Number of common shares repurchased		**10,476,074**
Weighted-average price per share[(1)]	**$**	**199.42**
Amount of repurchase (in millions)[(1)]	**$**	**2,089**

[(1)] Includes brokerage fees.

24 Pensions and other benefits

The Company has both defined benefit ("DB") and defined contribution ("DC") pension plans. At December 31, 2014, the Canadian pension plans represent approximately 99% of total combined pension plan assets and approximately 98% of total combined pension plan obligations.

The DB plans provide for pensions based principally on years of service and compensation rates near retirement. Pensions for Canadian pensioners are partially indexed to inflation. Annual employer contributions to the DB plans, which are actuarially determined, are made on the basis of being not less than the minimum amounts required by federal pension supervisory authorities.

CP reached agreements with all of the unions which it had been bargaining with in Canada in 2012. The new agreements introduced amendments to pension plans. Among other changes, the amendments established a cap on pension for each year of pensionable service, including a cap on some non-union employees' pensions. Under the amendments, plan participants will continue to earn additional pensionable years of service as before, but with a dollar limit on the pension amount for each year earned. Plan amendments resulting from collective bargaining are accounted for in the periods the new agreements are ratified. The plan amendments resulting from the December 2012 arbitration award were contingent on CP

Table of Contents

making plan amendments for non-union employees, and consequently were accounted for in the period CP made such amendments. As a result of the plan amendments, the projected benefit obligation decreased by $135 million from December 31, 2012, with a corresponding increase to "Other comprehensive (loss) income" and a reduction of "Accumulated other comprehensive loss" as prior service credits. The prior service credits are recognized in net periodic pension expense over the remaining terms of the applicable union agreements (averaging approximately two years), and over the expected average remaining service life of non-union employees.

The Company has other benefit plans including post-retirement health and life insurance for pensioners, and post-employment long-term disability and workers' compensation benefits, which are based on Company-specific claims. At December 31, 2014, the Canadian other benefits plans represent approximately 96% of total combined other plan obligations.

The Finance Committee of the Board of Directors has approved an investment policy that establishes long-term asset mix targets which take into account the Company's expected risk tolerances. Pension plan assets are managed by a suite of independent investment managers, with the allocation by manager reflecting these asset mix targets. Most of the assets are actively managed with the objective of outperforming applicable benchmarks. In accordance with the investment policy, derivative instruments may be used to hedge or adjust existing or anticipated exposures.

To develop the expected long-term rate of return assumption used in the calculation of net periodic benefit cost applicable to the market-related value of assets, the Company considers the expected composition of the plans' assets, past experience and future estimates of long-term investment returns. Future estimates of investment returns reflect the expected annual yield on applicable fixed income capital market indices, and the long-term return expectation for public equity, real estate, infrastructure and absolute return investments and the expected added value (relative to applicable benchmark indices) from active management of pension fund assets.

The Company has elected to use a market-related value of assets for the purpose of calculating net periodic benefit cost, developed from a five-year average of market values for the plans' public equity and absolute return investments (with each prior year's market value adjusted to the current date for assumed investment income during the intervening period) plus the market value of the plans' fixed income, real estate and infrastructure securities.

The benefit obligation is discounted using a discount rate that is a blended interest rate for a portfolio of high-quality corporate debt instruments with matching cash flows. The discount rate is determined by management with the aid of third-party actuaries.

Net periodic benefit cost

The elements of net periodic benefit cost for DB pension plans and other benefits recognized in the year included the following components:

	Pensions			Other benefits		
(in millions of Canadian dollars)	**2014**	2013	2012	**2014**	2013	2012
Current service cost (benefits earned by employees in the year)	**$ 106**	$ 135	$ 131	**$ 14**	$ 16	$ 19
Interest cost on benefit obligation	**477**	445	452	**23**	21	24
Expected return on fund assets	**(757)**	(746)	(752)	**–**	–	–
Recognized net actuarial loss (gain)	**190**	267	208	**(2)**	(11)	3
Amortization of prior service costs	**(68)**	(58)	2	**–**	–	–
Net periodic benefit cost (recovery)	**$ (52)**	$ 43	$ 41	**$ 35**	$ 26	$ 46

Projected benefit obligation, fund assets, and funded status

Information about the Company's DB pension plans and other benefits, in aggregate, is as follows:

	Pensions		Other benefits	
(in millions of Canadian dollars)	**2014**	2013	**2014**	2013
Change in projected benefit obligation:				
Benefit obligation at January 1	**$ 9,921**	$ 10,647	**$ 483**	$ 535
Current service cost	**106**	135	**14**	16
Interest cost	**477**	445	**23**	21
Employee contributions	**51**	50	**–**	–
Benefits paid	**(579)**	(602)	**(27)**	(33)
Foreign currency changes	**15**	13	**2**	2
Plan amendments and other	**–**	(135)	**–**	–
Actuarial loss (gain)	**1,369**	(632)	**22**	(58)
Projected benefit obligation at December 31	**$ 11,360**	$ 9,921	**$ 517**	$ 483

Table of Contents

(in millions of Canadian dollars)	Pensions 2014	Pensions 2013	Other benefits 2014	Other benefits 2013
Change in fund assets:				
Fair value of fund assets at January 1	**$ 10,722**	$ 9,763	**$ 8**	$ 9
Actual return on fund assets	**1,088**	1,404	**–**	–
Employer contributions	**80**	98	**26**	32
Employee contributions	**51**	50	**–**	–
Benefits paid	**(579)**	(602)	**(27)**	(33)
Foreign currency changes	**14**	9	**–**	–
Fair value of fund assets at December 31	**$ 11,376**	$ 10,722	**$ 7**	$ 8
Funded status – plan surplus (deficit)	**$ 16**	$ 801	**$ (510)**	$ (475)

	2014 Pension plans in surplus	2014 Pension plans in deficit	2013 Pension plans in surplus	2013 Pension plans in deficit
Projected benefit obligation at December 31	**$ (10,878)**	**$ (482)**	$ (9,533)	$ (388)
Fair value of fund assets at December 31	**11,182**	**194**	10,561	161
Funded Status	**$ 304**	**$ (288)**	$ 1,028	$ (227)

All Other benefits plans were in a deficit position at December 31, 2014 and 2013.

Pension asset and liabilities in the Company's Consolidated Balance Sheets

Amounts recognized in the Company's Consolidated Balance Sheets are as follows:

(in millions of Canadian dollars)	Pensions 2014	Pensions 2013	Other benefits 2014	Other benefits 2013
Pension asset	**$ 304**	$ 1,028	**$ –**	$ –
Accounts payable and accrued liabilities	**(9)**	(9)	**(34)**	(36)
Pension and other benefit liabilities	**(279)**	(218)	**(476)**	(439)
Total amount recognized	**$ 16**	$ 801	**$ (510)**	$ (475)

The defined benefit pension plans' accumulated benefit obligation as at December 31, 2014 was $10,975 million (2013 – $9,578 million). The accumulated benefit obligation is calculated on a basis similar to the projected benefit obligation, except no future salary increases are assumed in the projection of future benefits.

The measurement date used to determine the plan assets and the accrued benefit obligation is December 31. The most recent actuarial valuation for pension funding purposes for the Company's main Canadian pension plan was performed as at January 1, 2014. During 2015, the Company expects to file a new valuation with the pension regulator.

Accumulated other comprehensive losses

Amounts recognized in accumulated other comprehensive losses are as follows:

(in millions of Canadian dollars)	Pensions 2014	Pensions 2013	Other benefits 2014	Other benefits 2013
Net actuarial loss:				
Other than deferred investment gains	**$ 3,895**	$ 2,982	**$ 86**	$ 61
Deferred investment gains	**(803)**	(738)	**–**	–
Prior service cost	**(20)**	(88)	**5**	5
Deferred income tax	**(858)**	(613)	**(23)**	(16)
Total (Note 9)	**$ 2,214**	$ 1,543	**$ 68**	$ 50

Table of Contents

The unamortized actuarial loss and the unamortized prior service cost included in “Accumulated other comprehensive loss” that are expected to be recognized in net periodic benefit cost during 2015 are $264 million and a recovery of $5 million, respectively, for pensions and $4 million and $1 million, respectively, for other post-retirement benefits.

Actuarial assumptions

Weighted-average actuarial assumptions used were approximately:

(percentages)	**2014**	2013	2012
Benefit obligation at December 31:			
Discount rate	**4.09**	4.90	4.28
Projected future salary increases	**3.00**	3.00	3.00
Health care cost trend rate	**7.00**(1)	8.00(2)	8.00(2)
Benefit cost for year ended December 31:			
Discount rate	**4.90**	4.28	4.55
Expected rate of return on fund assets	**7.75**	7.75	7.75
Projected future salary increases	**3.00**	3.00	3.00
Health care cost trend rate	**7.50**(2)	8.00(2)	8.00(2)

(1) The health care cost trend rate is assumed to be 7.00% in 2015 and 2016, and then decreasing by 0.50% per year to an ultimate rate of 5.00% per year in 2020 and thereafter.
(2) The health care cost trend rate was previously assumed to be 7.00% in 2015 (7.50% in 2014), and then decreasing by 0.50% per year to an ultimate rate of 5.00% per year in 2019 and thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

(in millions of Canadian dollars) Favourable (unfavourable)	**One percentage point increase**	**One percentage point decrease**
Effect on the total of service and interest costs	$ –	$ –
Effect on post-retirement benefit obligation	(6)	6

In 2014, the Canadian Institute of Actuaries and the Society of Actuaries each published updated mortality tables based on broad pension plan experience in Canada and the U.S., respectively. CP’s obligations for defined benefit pension and post-retirement benefit plans at December 31, 2014 are based on these new mortality tables, with adjustments to reflect actual plan mortality experience to the extent that credible experience data was available. The changes to the new mortality tables increased the obligations for pensions and post-retirement benefits by approximately $225 million.

Plan assets

Plan assets are recorded at fair value. The major asset categories are public equity securities, debt securities, real estate, infrastructure and absolute return investments. The fair values of the public equity and debt securities are primarily based on quoted market prices. Real estate values are based on annual valuations performed by external parties, taking into account current market conditions and recent sales transactions where practical and appropriate. Infrastructure values are based on the fair value of each fund’s assets as calculated by the fund manager, generally using a discounted cash flow analysis that takes into account current market conditions and recent sales transactions where practical and appropriate. Absolute return investments are a portfolio of units of externally managed hedge funds and are valued by the fund administrators.

The Company’s pension plan asset allocation, the current weighted average asset allocation targets and the current weighted average policy range for each major asset class, were as follows:

Asset allocation (percentage)	**Current asset allocation target**	**Current policy range**	**Percentage of plan assets at December 31**	
			2014	2013
Cash and cash equivalents	0.5	0 – 5	**1.7**	4.1
Fixed income	29.5	20 – 40	**21.9**	20.6
Public equity	46.0	35 – 55	**52.5**	49.6
Real estate and infrastructure	12.0	4 – 20	**7.6**	10.8
Absolute return	12.0	0 – 18	**16.3**	14.9
Total	100.0		**100.0**	100.0

Table of Contents

Summary of the assets of the Company's DB pension plans at fair values

The following is a summary of the assets of the Company's DB pension plans at fair values at December 31, 2014 and 2013:

(in millions of Canadian dollars)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
December 31, 2014				
Cash and cash equivalents	**$ 106**	**$ 83**	**$ –**	**$ 189**
Government bonds[1]	**–**	**1,180**	**–**	**1,180**
Corporate bonds[1]	**–**	**1,229**	**–**	**1,229**
Mortgages[2]	**–**	**77**	**–**	**77**
Public equities				
• Canada	**1,448**	**48**	**–**	**1,496**
• U.S. and international	**4,454**	**27**	**–**	**4,481**
Real estate[3]	**–**	**–**	**654**	**654**
Infrastructure[4]	**–**	**–**	**208**	**208**
Absolute return[5]				
• Funds of hedge funds	**–**	**–**	**652**	**652**
• Multi-strategy funds	**–**	**–**	**473**	**473**
• Credit funds	**–**	**–**	**490**	**490**
• Equity funds	**–**	**116**	**130**	**246**
Derivative assets[6]	**–**	**1**	**–**	**1**
	$ 6,008	**$ 2,761**	**$ 2,607**	**$ 11,376**
December 31, 2013				
Cash and cash equivalents	$ 155	$ 282	$ –	$ 437
Government bonds[1]	–	1,314	–	1,314
Corporate bonds[1]	–	849	–	849
Mortgages[2]	–	52	–	52
Public equities				
• Canada	1,304	37	–	1,341
• U.S. and international	3,979	20	–	3,999
Real estate[3]	–	–	847	847
Infrastructure[4]	–	–	314	314
Absolute return[5]				
• Funds of hedge funds	–	–	563	563
• Multi-strategy funds	–	–	403	403
• Credit funds	–	–	434	434
• Equity funds	–	–	193	193
Derivative liabilities[6][7]	–	(24)	–	(24)
	$ 5,438	$ 2,530	$ 2,754	$ 10,722

[1] Government & Corporate Bonds:
Fair values for bonds are based on market prices supplied by independent sources as of the last trading day.

[2] Mortgages:
The fair value measurement of $77 million (2013 – $52 million) of mortgages categorized as Level 2 is based on current market yields of financial instruments of similar maturity, coupon and risk factors.

[3] Real Estate:
The fair value of real estate investments of $654 million (2013 – $847 million) is based on property appraisals which use a number of approaches that typically include a discounted cash flow analysis, a direct capitalization income method and/or a direct comparison approach. Appraisals of real estate investments are generally performed semi-annually by qualified external accredited appraisers. There are no unfunded commitments for real estate as at December 31, 2014.

Table of Contents

(4) Infrastructure:
Infrastructure fund values of $208 million (2013 – $314 million) are based on the fair value of the fund assets as calculated by the fund manager, generally using a discounted cash flow analysis that takes into account current market conditions and recent sales transactions where practical and appropriate. As at December 31, 2014, unfunded commitments for infrastructure was negligible (2013 – $23 million).

(5) Absolute Return:
The fair value of absolute return fund investments is based on the net asset value reported by the fund administrators. The funds have different redemption policies and periods. All hedge fund investments have contractual redemption frequencies, ranging from monthly to tri-annually, and redemption notice periods varying from 30 to 95 days. Hedge fund investments that have redemption dates less frequent than every four months or have restrictions on contractual redemption features at the reporting date are classified as Level 3. There are no unfunded commitments for absolute return investments as at December 31, 2014.

- Fund of hedge funds invest in a portfolio of hedge funds that allocate capital across a broad array of funds and/or investment managers.
- Multi-strategy funds include funds that invest in broadly diversified portfolios of equity, fixed income and derivative instruments.
- Credit funds invest in an array of fixed income securities.
- Equity funds invest primarily in U.S. and global equity securities.

(6) The Company's pension funds may utilize the following derivative instruments: equity futures to replicate equity index returns (Level 2); currency forwards to partially hedge foreign currency exposures (Level 2); bond forwards to reduce asset/liability interest rate risk exposures (Level 2); interest rate swaps to manage duration and interest rate risk (Level 2); credit default swaps to manage credit risk (Level 2); and options to manage interest rate risk and volatility (Level 2).

(7) At December 31, 2013, derivatives were primarily being used to partially hedge foreign currency exposures.

Portion of the assets of the Company's DB pension plans measured at fair value using unobservable inputs (Level 3)

During 2013 and 2014 the portion of the assets of the Company's DB pension plans measured at fair value using unobservable inputs (Level 3) changed as follows:

(in millions of Canadian dollars)	Real Estate	Infrastructure	Absolute Return	Total
As at January 1, 2013	$ 779	$ 333	$ –	$ 1,112
Contributions	–	–	1,500	1,500
Disbursements	(22)	(42)	–	(64)
Net realized gains	22	3	(2)	23
Increase in net unrealized gains	68	20	95	183
As at December 31, 2013	$ 847	$ 314	$ 1,593	$ 2,754
Contributions	–	–	29	29
Disbursements	(236)	(97)	–	(333)
Net transfer out of Level 3	–	–	(116)	(116)
Net realized gains	67	–	–	67
Increase (decrease) in net unrealized gains	(24)	(9)	239	206
As at December 31, 2014	**$ 654**	**$ 208**	**$ 1,745**	**$ 2,607**

Level 3 fair value measurements for absolute return, real estate and infrastructure investments are based on the net asset value reported by the fund administrator, property appraisals and discounted cash flow analysis, of which there are no reasonable alternative assumptions. Therefore it is not practicable to provide a sensitivity analysis.

Additional plan assets information

The Company's expected long-term target return is 7.75%, net of all fees and expenses. In identifying the asset allocation ranges, consideration was given to the long-term nature of the underlying plan liabilities, the solvency and going-concern financial position of the plan, long-term return expectations and the risks associated with key asset classes as well as the relationships of returns on key asset classes with each other, inflation and interest rates. When advantageous and with due consideration, derivative instruments may be utilized, provided the total value of the underlying assets represented by financial derivatives, excluding currency forwards, is limited to 30% of the market value of the fund.

When investing in foreign securities, the plans are exposed to foreign currency risk; the effect of which is included in the valuation of the foreign securities. The plans were 41% exposed to the U.S. dollar, 13% exposed to European currencies, and 5% exposed to various other currencies, as at December 31, 2014.

At December 31, 2014, fund assets consisted primarily of listed stocks and bonds, including 184,392 of the Company's Common Shares (2013 –129,444) at a market value of $41 million (2013 – $21 million) and 6.25% Unsecured Notes issued by the Company at a par value of $2 million (2013 – $2 million) and a market value of $2 million (2013 – $2 million).

Table of Contents

Cash flows

In 2014, the Company contributed $88 million to its pension plans (2013 – $105 million; 2012 – $107 million), including $8 million to the DC plans (2013 – $7 million; 2012 – $5 million), $67 million to the Canadian registered and U.S. qualified DB pension plans (2013 – $86 million; 2012 – $89 million), and $13 million to the Canadian non-registered supplemental pension plan (2013 – $12 million; 2012 – $13 million). In addition, the Company made payments directly to employees, their beneficiaries or estates or to third-party benefit administrators of $26 million in 2014 (2013 – $32 million; 2012 – $35 million) with respect to other benefits.

Estimated future benefit payments

The estimated future defined benefit pension and other benefit payments to be paid by the plans for each of the next five years and the subsequent five-year period are as follows:

(in millions of Canadian dollars)	Pensions	Other benefits
2015	$ 562	$ 36
2016	579	35
2017	595	35
2018	610	34
2019	624	34
2020 – 2024	3,272	162

The benefit payments from the Canadian registered and U.S. qualified DB pension plans are payable from their respective pension funds. Benefit payments from the supplemental pension plan and from the other benefits plans are payable directly from the Company.

Defined contribution plan

Canadian non-unionized employees hired prior to July 1, 2010 had the option to participate in the Canadian DC plan. All Canadian non-unionized employees hired after such date must participate in this plan. Employee contributions are based on a percentage of salary. The Company matches employee contributions to a maximum percentage each year.

Effective July 1, 2010, a new U.S. DC plan was established. All U.S. non-unionized employees hired after such date must participate in this plan. Employees do not contribute to the plan. The Company annually contributes a percentage of salary.

The DC plans provide a pension based on total employee and employer contributions plus investment income earned on those contributions.

In 2014, the net cost of the DC plans, which generally equals the employer's required contribution, was $8 million (2013 – $7 million; 2012 – $5 million).

Contributions to multi-employer plans

Some of the Company's unionized employees in the U.S. are members of a U.S. national multi-employer benefit plan. Contributions made by the Company to this plan in 2014 in respect of post-retirement medical benefits were $4 million (2013 – $5 million; 2012 – $6 million).

25 Stock-based compensation

At December 31, 2014, the Company had several stock-based compensation plans, including stock option plan, various cash settled liability plans and an employee stock savings plan. These plans resulted in an expense in 2014 of $110 million (2013 – $92 million; 2012 – $64 million).

Accelerated vesting due to changes in the composition of the Board of Directors

Most of the stock-based compensation plans include a provision whereby vesting is accelerated should certain changes in the composition of the Board of Directors occur. These provisions were triggered on June 26, 2012 and the recognition of the revised vesting terms as outlined in the stock-based compensation plans resulted in a credit to "Compensation and benefits" of $8 million in the second quarter of 2012. From February 28, 2012, accelerated vesting will only occur when the definition of change of control under the stock-based compensation plans is triggered and the holder of the award is terminated without cause.

Table of Contents

A. Stock Option Plan

Summary of stock options

The following table summarizes the Company's stock option plan as of December 31:

	Options outstanding		Nonvested options	
	Number of options	Weighted average exercise price	Number of options	Weighted average grant date fair value
Outstanding, January 1, 2014	3,360,483	$ 77.15	1,733,846	$ 25.35
New options granted	426,020	173.98	426,020	48.70
Exercised	(941,492)	64.76	–	–
Vested	–	–	(632,532)	23.58
Forfeited	(97,359)	132.67	(94,809)	36.71
Expired	(8,963)	102.52	(8,563)	28.63
Outstanding at December 31, 2014	2,738,689	94.35	1,423,962	32.35
Vested or expected to vest at December 31, 2014[1]	2,729,773	$ 94.19	N/A	N/A
Exercisable at December 31, 2014	1,314,727	$ 70.25	N/A	N/A

(1) As at December 31, 2014, the weighted average remaining term of vested or expected to vest options was 5.3 years with an aggregate intrinsic value of $355 million.

The following table provides the number of stock options outstanding and exercisable as at December 31, 2014 by range of exercise price and their related intrinsic aggregate value, and for options outstanding, the weighted-average years to expiration. The table also provides the aggregate intrinsic value for in-the-money stock options, which represents the amount that would have been received by option holders had they exercised their options on December 31, 2014 at the Company's closing stock price of $223.75.

	Options outstanding				Options exercisable		
Range of exercise prices	Number of options	Weighted average years to expiration	Weighted average exercise price	Aggregate intrinsic value (millions)	Number of options	Weighted average exercise price	Aggregate intrinsic value (millions)
$36.29 – $69.50	596,055	3.5	$ 55.63	$ 100	596,055	$ 55.63	$ 100
$69.51 – $74.55	794,950	6.7	73.08	120	469,950	72.87	71
$74.56 – $117.48	614,608	6.8	89.65	83	168,128	86.24	23
$117.49 – $222.88	733,076	8.7	152.84	52	80,594	129.76	8
Total[1]	2,738,689	6.5	$ 94.35	$ 355	1,314,727	$ 70.25	$ 202

(1) As at December 31, 2014, the total number of in-the-money stock options outstanding was 2,738,689 with a weighted-average exercise price of $94.35. The weighted-average year to expiration of exercisable stock options is 5.2 years.

Under the fair value method, the fair value of options at the grant date was approximately $21 million for options issued in 2014 (2013 – $20 million; 2012 – $28 million). The weighted average fair value assumptions were approximately:

	2014	2013	2012
Expected option life (years)[1]	**5.98**	6.25	6.03
Risk-free interest rate[2]	**1.66%**	1.60%	1.47%
Expected stock price volatility[3]	**29%**	30%	31%
Expected annual dividends per share[4]	**$ 1.40**	$ 1.40	$ 1.40
Estimated forfeiture rate[5]	**1.2%**	1.2%	1.2%
Weighted average grant date fair value of options granted during the year	**$ 48.88**	$ 35.40	$ 19.04

(1) Represents the period of time that awards are expected to be outstanding. Historical data on exercise behaviour or, when available, specific expectations regarding future exercise behaviour were used to estimate the expected life of the option.

Table of Contents

(2) Based on the implied yield available on zero-coupon government issues with an equivalent remaining term at the time of the grant.
(3) Based on the historical stock price volatility of the Company's stock over a period commensurate with the expected term of the option.
(4) Determined by the current annual dividend at the time of grant. The Company does not employ different dividend yields throughout the contractual term of the option.
(5) The Company estimated forfeitures based on past experience. The rate is monitored on a periodic basis.

Certain of the Company's stock option plan are subject to post-vesting restrictions prior to expiry. The discount for these restrictions resulted in a reduction of the fair value at grant date of options issued in 2012 of $2 million. This discount was estimated using the fair value of put options that, together with the granted call options, mimicked the characteristics of the post-vesting restriction. The post-vesting restrictions do not relate to grants in 2013 and 2014.

In 2014, the expense for stock options (regular and performance) was $18 million (2013 – $17 million; 2012 – $24 million). At December 31, 2014, there was $16 million of total unrecognized compensation related to stock options which is expected to be recognized over a weighted-average period of approximately 1.3 years.

The total fair value of shares vested for the stock option plan during 2014 was $15 million (2013 – $5 million; 2012 – $34 million).

The following table provides information related to all options exercised in the stock option plan during the years ended December 31:

(in millions of Canadian dollars)	**2014**	2013	2012
Total intrinsic value	**$ 115**	$ 103	$ 118
Cash received by the Company upon exercise of options	**62**	83	198

B. Other Share-based Plans

Performance share units plan

During 2014, the Company issued 165,500 PSUs with a grant date fair value of $25 million. These units attract dividend equivalents in the form of additional units based on the dividends paid on the Company's Common Shares. PSUs vest and are settled in cash, or in CP common shares approximately three years after the grant date, contingent upon CP's performance (performance factor). The fair value of PSUs is measured, both on the grant date and each subsequent quarter until settlement, using a Monte Carlo simulation model. The model utilizes multiple input variables that determine the probability of satisfying the performance and market conditions stipulated in the grant.

In the second quarter of 2012, changes to the Board resulted in the immediate vesting of a pro-rata portion of all unvested PSUs with a total pay out of $31 million in 2012.

The performance period for the PSUs issued in 2014 is January 1, 2014 to December 31, 2016. The performance factors for these PSUs are Operating ratio, Free cash flow, Total Shareholder Return ("TSR") compared to the S&P/TSX60 index, and TSR compared to Class I railways. Beginning with PSUs granted in 2014, grant recipients who are eligible to retire and have provided six months of service during the performance period are entitled to the full award. Previous to 2014, only a pro-rata share of units was retained at retirement.

The performance period for the PSUs issued in the fourth quarter of 2012 and in 2013 is January 1, 2013 to December 31, 2015. The performance factors for these PSUs are Operating ratio, Free cash flow, Total Shareholder Return ("TSR") compared to the S&P/TSX60 index, and TSR compared to Class I railways.

The following table summarizes information related to the Company's PSUs as at December 31:

	2014	2013
Outstanding, January 1	**349,925**	200,702
Granted	**165,500**	206,405
Units, in lieu of dividends	**3,296**	3,498
Forfeited	**(57,938)**	(60,680)
Outstanding, December 31	**460,783**	349,925

In 2014, the expense for PSUs was $50 million (2013 – expense of $25 million; 2012 – expense recovery of $1 million). At December 31, 2014, there was $50 million of total unrecognized compensation related to PSUs which is expected to be recognized over a weighted-average period of approximately 1.4 years.

Deferred share units plan

The Company established the DSU plan as a means to compensate and assist in attaining share ownership targets set for certain key employees and Directors. A DSU entitles the holder to receive, upon redemption, a cash payment equivalent to the market value of a Common Share at the redemption date. DSUs vest over various periods of up to 48 months and are only redeemable for a specified period after employment is terminated.

Table of Contents

Senior managers may elect to receive DSUs in lieu of cash payments for certain incentive programs. In addition, senior managers will be granted with a 25% company match of the amount elected when acquiring Common Shares to meet ownership targets. The election to receive eligible payments in DSUs is no longer available to a participant when the value of the participant's DSUs is sufficient to meet the Company's stock ownership guidelines. Senior managers have five years to meet their ownership targets.

An expense to income for DSUs is recognized over the vesting period for both the initial subscription price and the change in value between reporting periods.

The following table summarizes information related to the DSUs as of December 31:

	2014	2013
Outstanding, January 1	**332,221**	357,740
Granted	**58,460**	76,035
Units, in lieu of dividends	**2,572**	4,145
Forfeited	**(711)**	(2,372)
Redeemed	**(84,095)**	(103,327)
Outstanding, December 31	**308,447**	332,221

During 2014, the Company granted 58,460 DSUs with a grant date fair value of $9 million. In 2014, the expense for DSUs was $28 million (2013 – $32 million; 2012 – $23 million). At December 31, 2014, there was $3 million of total unrecognized compensation related to DSUs which is expected to be recognized over a weighted-average period of approximately 0.7 years.

Restricted share units plan

The Company issued 16,325 RSUs in 2014 with a grant date fair value of $3 million. The RSUs are notional full value shares that attract dividend equivalents in the form of additional units based on the dividends paid on the Company's Common Shares. RSUs have no performance factors attached to them and are subject to time vesting over various periods of up to 36 months. RSUs are settled in cash up to three years after the grant date. An expense to income for RSUs is recognized over the vesting period for both the initial subscription price and the change in value between reporting periods. In 2014, the expense for RSUs was $9 million (2013 – $10 million; 2012 – $7 million). At December 31, 2014, there was $3 million of total unrecognized compensation related to RSUs which is expected to be recognized over a weighted-average period of approximately 2.0 years.

The following table summarizes information related to the Company's RSUs as at December 31:

	2014	2013
Outstanding, January 1	**92,333**	173,234
Granted	**16,325**	–
Units, in lieu of dividends	**700**	1,304
Exercised	**(53,964)**	(70,211)
Forfeited	**(7,874)**	(11,994)
Outstanding, December 31	**47,520**	92,333

Summary of share based liabilities paid

The following table summarizes the total share based liabilities paid for each of the years ended December 31:

(in millions of Canadian dollars)	**2014**	2013	2012
Plan			
DSUs	**$ 17**	$ 17	$ 19
PSUs	**–**	–	55
RSUs	**12**	9	–
Total	**$ 29**	$ 26	$ 74

Table of Contents

C. Employee share purchase plan

The Company has an employee share purchase plan whereby both employee and Company contributions are used to purchase shares on the open market for employees. The Company's contributions are expensed over the one-year vesting period. Under the plan, the Company matches $1 for every $3 contributed by employees up to a maximum employee contribution of 6% of annual salary.

The total number of shares purchased in 2014 on behalf of participants, including the Company contribution, was 176,906 (2013 – 271,934; 2012 – 445,951). In 2014, the Company's contributions totalled $5 million (2013 – $5 million; 2012 – $4 million) and the related expense was $5 million (2013 – $5 million; 2012 – $4 million).

26 Variable interest entities

The Company leases equipment from certain trusts, which have been determined to be variable interest entities financed by a combination of debt and equity provided by unrelated third parties. The lease agreements, which are classified as operating leases, have a fixed price purchase option which create the Company's variable interest and result in the trusts being considered variable interest entities.

Responsibility for maintaining and operating the leased assets according to specific contractual obligations outlined in the terms of the lease agreements and industry standards is the Company's. The rigor of the contractual terms of the lease agreements and industry standards are such that the Company has limited discretion over the maintenance activities associated with these assets. As such, the Company concluded these terms do not provide the Company with the power to direct the activities of the variable interest entities in a way that has a significant impact on the entities' economic performance.

The financial exposure to the Company as a result of its involvement with the variable interest entities is equal to the fixed lease payments due to the trusts. In 2014, lease payments after tax were $10 million. Future minimum lease payments, before tax, of $209 million will be payable over the next 16 years (Note 27).

The Company does not guarantee the residual value of the assets to the lessor; however, it must deliver to the lessor the assets in good operating condition, subject to normal wear and tear, at the end of the lease term.

As the Company's actions and decisions do not significantly affect the variable interest entities' performance, and the Company's fixed price purchase option is not considered to be potentially significant to the variable interest entities, the Company is not considered to be the primary beneficiary, and does not consolidate these variable interest entities.

27 Commitments and contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions it considers to be adequate for such actions. While the final outcome with respect to actions outstanding or pending at December 31, 2014, cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

Commitments

At December 31, 2014, the Company had committed to total future capital expenditures amounting to $427 million and operating expenditures relating to supplier purchase obligations, such as locomotive maintenance and overhaul agreements, as well as agreements to purchase other goods and services amounting to approximately $1.4 billion for the years 2015-2032 of which CP estimates approximately $700 million will be incurred in the next 5 years.

As at December 31, 2014, the Company's commitments under operating leases were estimated at $569 million in aggregate, with minimum annual payments in each of the next five years and thereafter as follows:

(in millions of Canadian dollars)	Operating leases
2015	$ 114
2016	88
2017	67
2018	55
2019	43
Thereafter	202
Total minimum lease payments	$ 569

Expenses for operating leases for the year ended December 31, 2014, were $121 million (2013 – $154 million; 2012 – $182 million).

Table of Contents

Legal proceedings related to Lac-Mégantic rail accident

On July 6, 2013, a train carrying crude oil operated by Montreal Maine and Atlantic Railway (“MM&A”) derailed and exploded in Lac-Mégantic, Quebec on a section of railway line owned by MM&A. The previous day CP had interchanged the train to MM&A, and after that interchange MM&A exercised exclusive control over the train.

Following this incident, the Minister of Sustainable Development, Environment, Wildlife and Parks of Quebec issued an order directing certain named parties to recover the contaminants and to clean up and decontaminate the derailment site. CP was added as a named party on August 14, 2013. CP is a party to an administrative appeal with respect to this order. No hearing date on the merits of CP’s appeal has been scheduled.

A class action lawsuit has also been filed in the Superior Court of Quebec on behalf of a class of persons and entities residing in, owning or leasing property in, operating a business in or physically present in Lac-Mégantic. The lawsuit seeks damages caused by the derailment including for wrongful deaths, personal injuries, and property damages. CP was added as a defendant on August 16, 2013. The Superior Court of Quebec is not expected to release its judgment on the authorization of the class action before the end of February 2015.

In the wake of the derailment and ensuing litigation, MM&A filed for bankruptcy in Canada and the United States. In an Adversary Proceeding filed by the MM&A U.S. bankruptcy trustee against CP, Irving Oil and the World Fuel entities, CP has been accused of failing to ensure that World Fuel or Irving properly classified the oil lading and of not refusing to ship the oil in DOT-111 tank cars. CP intends to move to withdraw the bankruptcy court reference and will thereafter seek to have the claim against CP dismissed as federally preempted.

In addition, CP has received two damage to cargo notices of claims from the shipper of the oil on the derailed train, Western Petroleum. Western Petroleum has submitted U.S. and Canadian notices of claims for the same damages and, under the Carmack Amendment (the U.S. damage to cargo statute), seeks to recover for all injuries associated with, and indemnification for all claims arising from, the derailment. Both jurisdictions permit a shipper to recover the value of damaged lading against any carrier in the delivery chain, subject to limitations in the carrier’s tariffs. CP’s tariffs significantly restrict shipper damage claim rights.

At this early stage in the legal proceedings, any potential liability and the quantum of potential loss cannot be determined. Nevertheless, CP denies liability for MM&A’s derailment and will vigorously defend itself in the proceedings described above and in any proceeding that may be commenced in the future.

28 Guarantees

In the normal course of operating the railway, the Company enters into contractual arrangements that involve providing certain guarantees, which extend over the term of the contracts. These guarantees include, but are not limited to:

- residual value guarantees on operating lease commitments of $120 million at December 31, 2014;
- guarantees to pay other parties in the event of the occurrence of specified events, including damage to equipment, in relation to assets used in the operation of the railway through operating leases, rental agreements, easements, trackage and interline agreements; and
- indemnifications of certain tax-related payments incurred by lessors and lenders.

The maximum amount that could be payable under these guarantees, excluding residual value guarantees, cannot be reasonably estimated due to the nature of certain of these guarantees. All or a portion of amounts paid under guarantees to other parties in the event of the occurrence of specified events could be recoverable from other parties or through insurance. The Company has accrued for all guarantees that it expects to pay. At December 31, 2014, these accruals amounted to $3 million (2013 – $6 million), recorded in “Accounts payable and accrued liabilities”.

Indemnifications

Pursuant to a trust and custodial services agreement with the trustee of the Canadian Pacific Railway Company Pension Plan, the Company has undertaken to indemnify and save harmless the trustee, to the extent not paid by the fund, from any and all taxes, claims, liabilities, damages, costs and expenses arising out of the performance of the trustee’s obligations under the agreement, except as a result of misconduct by the trustee. The indemnity includes liabilities, costs or expenses relating to any legal reporting or notification obligations of the trustee with respect to the defined contribution option of the pension plans or otherwise with respect to the assets of the pension plans that are not part of the fund. The indemnity survives the termination or expiry of the agreement with respect to claims and liabilities arising prior to the termination or expiry. At December 31, 2014, the Company had not recorded a liability associated with this indemnification, as it does not expect to make any payments pertaining to it.

29 Management transition

On May 17, 2012, following a proxy contest, Mr. Fred Green left his position as President and Chief Executive Officer of the Company. That same day, Mr. Stephen Tobias, a new Board member elected at the Company’s annual shareholders meeting held on May 17, 2012, was appointed by the Board as Interim Chief Executive Officer and served in that role until June 28, 2012.

Table of Contents

On June 28, 2012, Mr. E. Hunter Harrison was appointed by the Board as President and Chief Executive Officer. As a result of the appointment of Mr. Harrison, the Company recorded a charge of $38 million with respect to compensation and other transition costs, including $2 million of associated costs, in the second quarter of 2012. This charge was recorded in the Company's financial statements in "Compensation and benefits" and "Purchased services and other", in the amounts of $16 million and $22 million, respectively.

Included in this charge were amounts totalling $16 million in respect of deferred retirement compensation for Mr. Harrison and $20 million to Pershing Square Capital Management, L.P. ("Pershing Square") and related entities. In 2012, Pershing Square and related entities owned or control approximately 14% of the Company's outstanding shares, and two Board members, Mr. William Ackman and Mr. Paul Hilal, are partners of Pershing Square. The amount payable to Pershing Square and related entities was to reimburse them, on behalf of Mr. Harrison, for certain amounts they had previously paid to or incurred on behalf of Mr. Harrison pursuant to an indemnity in favour of Mr. Harrison in connection with losses suffered in legal proceedings commenced against Mr. Harrison by his former employer. The terms of Pershing Square's indemnity required Mr. Harrison to return any funds advanced under the indemnity in the event he accepted employment at CP. As a result, Mr. Harrison made it a precondition of accepting the Company's offer of employment that CP assumes the indemnity obligations and return the funds advanced by Pershing Square. As a result of the payment, the Company would have been entitled to enforce Mr. Harrison's rights in the aforementioned legal proceedings, allowing it to recover to the extent of Mr. Harrison's success in those proceedings; however on February 3, 2013 the Company and Mr. Harrison settled the legal proceedings with Mr. Harrison's former employer, providing the Company with partial recovery (U.S. $9 million) of the amounts in the dispute. The Company may receive repayment in other circumstances in the event of certain breaches by Mr. Harrison of his obligations under an employment agreement with the Company. Mr. Harrison was also granted stock options and DSUs upon commencing employment that had a grant date fair value of $12 million (Note 25).

In addition, the Company agreed to indemnify Mr. Harrison for certain other amounts, to a maximum of $3 million plus legal fees, but as a result of the settlement of the aforementioned legal proceedings, such indemnity is no longer applicable. Accordingly, no amount was accrued at December 31, 2012.

The Company also recorded a charge of $4 million in the second quarter of 2012 with respect to a retirement allowance for Mr. Green.

On February 5, 2013, as part of its long-term succession plan, the Company appointed Mr. Keith Creel as President and Chief Operating Officer. In connection with this appointment, Mr. Harrison's title changed to Chief Executive Officer.

30 Segmented information

Operating segment

The Company operates in only one operating segment: rail transportation. Operating results by geographic areas, railway corridors or other lower level components or units of operation are not reviewed by the Company's chief operating decision maker to make decisions about the allocation of resources to, or the assessment of performance of, such geographic areas, corridors, components or units of operation.

In the years ended December 31, 2014, 2013 and 2012, no one customer comprised more than 10% of total revenues and accounts receivable.

Geographic information

(in millions of Canadian dollars)	Canada	United States	Total
2014			
Revenues	**$ 4,655**	**$ 1,965**	**$ 6,620**
Long-term assets excluding financial instruments, mortgages receivable and deferred tax assets	**$ 10,114**	**$ 4,733**	**$ 14,847**
2013			
Revenues	$ 4,330	$ 1,803	$ 6,133
Long-term assets excluding financial instruments, mortgages receivable and deferred tax assets	$ 9,842	$ 4,237	$ 14,079
2012			
Revenues	$ 4,095	$ 1,600	$ 5,695
Long-term assets excluding financial instruments, mortgages receivable and deferred tax assets	$ 9,138	$ 4,249	$ 13,387

Table of Contents

31 Reclassification of comparative figures

Billings to third parties for the recovery of costs incurred for freight car repairs and servicing have been reclassified from “Purchased services and other” to “Compensation and benefits” and “Materials” within “Operating expenses” in the Consolidated Statements of Income, in order to match the billings with the costs incurred on behalf of third parties. As a result, the changes to these components of “Operating expenses” for the year ended December 31, 2013 and 2012 are noted below. “Operating expenses” in total were unchanged as a result of this reclassification.

(in millions of Canadian dollars)	Compensation and benefits	Material	Purchased services and other
For the year ended December 31, 2013			
As previously reported	$ 1,418	$ 249	$ 876
(Decrease) increase	(33)	(89)	122
As reclassified	$ 1,385	$ 160	$ 998
For the year ended December 31, 2012			
As previously reported	$ 1,506	$ 238	$ 940
(Decrease) increase	(32)	(72)	104
As reclassified	$ 1,474	$ 166	$ 1,044

32 Subsequent events

Issuance of long-term debt and settlement of forward starting swaps

On January 28, 2015, CP announced the issuance of U.S. $700 million 2.900% 10-year Notes due February 1, 2025 for net proceeds of U.S. $694 million. This transaction closed on February 2, 2015.

On January 28, 2015, the Company settled a notional U.S. $700 million of forward starting swaps, designated as a cash flow hedge related to the issuance of the notes described above. The fair value of these derivative instruments was a loss of U.S. $50 million at the time of the settlement. Effective hedge losses were deferred in “Accumulated other comprehensive loss” and will be amortized to “Net interest expense” until the underlying notes, which were hedged, are repaid.

Resolution of certain legal proceedings

In 2013, CP provided an interest free loan pursuant to a court order in the amount of $20 million to a corporation owned by a court appointed trustee (“the judicial trustee”) to facilitate the acquisition of a building. The building was held in trust during the legal proceedings with regard to CP’s entitlement to an exercised purchase option of the building (“purchase option”). As at December 31, 2014, the loan of $20 million and the purchase option, book value of $8 million, were recorded as “Other assets” in the Company’s Consolidated Balance Sheets.

In January 2015, CP reached a settlement with a third party that, following the sale of the building to an arm’s length third party in February 2015, will result in CP receiving net proceeds of $59 million for the sale of the building and resolution of legal proceedings. The net proceeds would include repayment of the aforementioned loan to the judicial trustee. CP expects to record a gain of approximately $31 million ($27 million after-tax) to Purchased services and other in the first quarter of 2015.

Table of Contents

CP HAS HEART

THE ARTERIES OF A NATION, THE PULSE OF COMMITMENT.

CP's new "CP Has Heart" community investment program has already contributed $1.97 million toward heart health education, medical advances and better quality care.

The vast majority of people today have at least one risk factor for heart disease. By 2020, experts believe heart disease will be the leading cause of death in the world, and CP has decided to step up and do something to help.

PUTTING OUR HEART INTO AN IMPORTANT CAUSE

"A railroad serves as the arteries of a nation, but at its heart is community." This is the sentiment behind our new CP Has Heart community investment program, formed to unify companywide efforts around a single cause to make a positive impact on the countless communities CP touches.

We launched the program through a partnership with the Heart and Stroke Foundation, tied to the Spruce Meadows Canadian Pacific Grand Prix and Canadian Pacific International, two world-class equestrian show jumping events. With every jump cleared, CP funded placement of automated external defibrillators and lifesaving training in locations where Calgary-area youth learn, gather and play.

Other 2014 program initiatives included a $1.3 million contribution to support paediatric cardiology research and care at the Children's Hospital, London Health Sciences Centre in Ontario, in association with the LPGA Canadian Pacific Women's Open golf tournament, and sponsorship of the CFL Grey Cup CP Has Heart Touchdown program, raising funds for critical cardiac care equipment. The sum total of contributions toward saving lives and improving heart health in 2014: $1.97 million.

THE START OF SOMETHING GREAT

Through CP Has Heart, we are excited about our potential to make a real difference in this highly preventable and increasingly treatable disease. Our activities and contributions in 2014 are just a start – we have many exciting initiatives and programs in the pipeline for 2015 and beyond.

CP HAS HEART

Paediatric cardiology patients, Owen Gillet and Rachael Wright, stand with Dr. Kambiz Norozi, Chief of Paediatric Cardiology in the brand new Canadian Pacific Healthy Hearts Lab at Children's Hospital, London Health Sciences Centre.

Table of Contents

CHAIRMAN'S MESSAGE

DEAR FELLOW SHAREHOLDERS,

The year 2014 marked an important milestone for CP. It was the year in which we reached or surpassed the majority of the financial and operating goals the company set forth when we put a new management team in place in 2012.

The Board could not be more pleased with CP's progress. Thanks to the leadership and vision of CEO E. Hunter Harrison, the skills and experience of his management team, and the dedication of the entire CP workforce, the company achieved its objectives two years ahead of plan and has an ambitious growth strategy in place for 2018.

I was proud to be elected by the Board to be its new Chairman in May of 2014, as my friend and colleague Paul G. Haggis completed his term. The Board would like to express its heartfelt gratitude for Paul's fine leadership during a time of profound change at CP. We are fortunate that he has chosen to remain on the Board, serving on our Audit and Finance committees.

We would also like to express our appreciation to Jim Prentice, who left the CP Board after winning the Alberta Progressive Conservative leadership election to become Alberta's 16th premier in late 2014. Needless to say, Jim brought extraordinary leadership qualities along with a strong combination of government and corporate experience to his role on the Board. We will miss both his enthusiasm and wise counsel.

This is an exciting time to be associated with CP. It is a great honour to serve as Chairman of this great Canadian icon, once again an industry leader. We are confident in the company's continued success as it begins its next phase of growth.

With sincere appreciation,

Gary F. Colter
Chairman of the Board

CANADIAN PACIFIC BOARD OF DIRECTORS

E. HUNTER HARRISON (5)
Chief Executive Officer
Canadian Pacific Railway Limited
Wellington, Florida

GARY F. COLTER
Chairman of the Board
Canadian Pacific Railway Limited
President CRS Inc.
Mississauga, Ontario

WILLIAM A. ACKMAN (2)(3)
Founder, Chief Executive Officer
Pershing Square Capital
Management, L.P.
New York, New York

ISABELLE COURVILLE (1)*(5)
Corporate Director
Montreal, Quebec

PAUL G. HAGGIS (1)(3)
Chairman Alberta Enterprise Corporation
Canmore Alberta

PAUL C. HILAL (3)(4)*
Partner
Pershing Square Capital
Management, L.P.
New York, New York

KRYSTYNA T. HOEG, C.A. (2)*(4)
Former President and
Chief Executive Officer
Corby Distilleries Limited
Corporate Director
Toronto, Ontario

REBECCA MACDONALD (2)(4)
Founder, Executive Chair
Just Energy Group Inc.
Toronto, Ontario

DR. ANTHONY R. MELMAN (2)*(3)
President and Chief Executive Officer
Acasta Capital
Toronto, Ontario

LINDA J. MORGAN (1)(5)
Partner
Nossaman LLP
Bethesda, Maryland

ANDREW F. REARDON (1)(4)
Retired Chairman
and Chief Executive Officer, TTX
Corporate Director
Marco Island, Florida

STEPHEN C. TOBIAS (4)(5)*
Former Vice-Chairman
and Chief Operating Officer
Norfolk Southern Corporation
Garrett, South Carolina

(1) Audit Committee (2) Corporate Governance and Nominating Committee (3) Finance Committee (4) Management Resources and Compensation Committee (5) Safety, Operations and Environment Committee
*Denotes Chair of the Committee

Table of Contents

SHAREHOLDER INFORMATION

COMMON SHARE MARKET PRICES

TORONTO STOCK EXCHANGE

	2014		2013	
(Canadian dollars)	High	Low	High	Low
1st Quarter	**176.72**	**155.02**	132.50	102.14
2nd Quarter	**202.08**	**156.64**	144.43	118.25
3rd Quarter	**236.04**	**192.79**	138.90	121.89
4th Quarter	**247.56**	**197.14**	161.00	126.42
Year	**247.56**	**155.02**	161.00	102.14

NEW YORK STOCK EXCHANGE

	2014		2013	
(U.S. dollars)	High	Low	High	Low
1st Quarter	**159.77**	**139.37**	130.81	103.82
2nd Quarter	**186.00**	**142.73**	138.99	113.82
3rd Quarter	**210.87**	**179.90**	129.81	115.54
4th Quarter	**220.20**	**170.51**	156.96	122.50
Year	**220.20**	**139.37**	156.96	103.82

Number of registered shareholders at year end: **15,550**

Closing market prices at year end:
Toronto Stock Exchange: **$223.75 (CDN)**
New York Stock Exchange: **$192.69 (US)**

SHAREHOLDER ADMINISTRATION

Common Shares

Computershare Investor Services Inc., with transfer facilities in Montreal, Toronto, Calgary and Vancouver, serves as transfer agent and registrar for the Common Shares in Canada. Computershare Trust Company NA, Canton, Massachusetts, serves as co-transfer agent and co-registrar for the Common Shares in the United States.

For information concerning dividends, lost share certificates, estate transfers or for change in share registration or address, please contact the transfer agent and registrar by telephone at 1-877-4-CP-RAIL (1-877-427-7245) toll free North America or international (514) 982-7555, visit their website at www.investorcentre.com/cp; or write to:

Computershare Investor Services Inc.

100 University Avenue, 8th Floor
Toronto, Ontario, Canada M5J 2Y1

INFORMATION REGARDING DIRECT REGISTRATION

The Direct Registration System, or DRS, allows registered holders to hold securities in "book entry" form without having a physical certificate issued as evidence of ownership. Instead, securities are held in the name of the registered holder and registered electronically on the issuer's records maintained by the issuer's transfer agent. If you are a registered holder of shares and wish to hold your shares using the DRS, please contact the transfer agent at the phone number or address shown above.

For more information about direct registration, log on to Computershare's website at www.investorcentre.com/cp and click on "Got a question? Ask Penny".

DIRECT DEPOSIT OF DIVIDENDS

Registered shareholders are offered the option of having their Canadian and U.S. dollar dividends directly deposited into their personal bank accounts in Canada and the United States on the dividend payment dates. Shareholders can enroll for direct deposit either by phone or by completing a direct deposit enrolment form. For more information about direct deposit, please contact Computershare Investor Services Inc. at 1-877-4-CP-RAIL (1-877-427-7245).

4% CONSOLIDATED DEBENTURE STOCK

Inquiries with respect to Canadian Pacific Railway Company's 4% Consolidated Debenture Stock should be directed as follows:

For stock denominated in U.S. currency – The Bank of New York Mellon at (212) 815-2719 or by e-mail at lesley.daley@bnymellon.com; and

For stock denominated in pounds Sterling – BNY Trust Company of Canada at (416) 933-8504 or by e-mail at marcia.redway@bnymellon.com.

MARKET FOR SECURITIES

The Common Shares of Canadian Pacific Railway Limited are listed on the Toronto and New York stock exchanges. The Debenture Stock of Canadian Pacific Railway Company is listed on the London Stock Exchange (UK pounds sterling) and on the New York Stock Exchange (U.S. currency).

TRADING SYMBOL

Common Shares – CP

DUPLICATE ANNUAL REPORTS

While every effort is made to avoid duplication, some Canadian Pacific Railway Limited registered shareholders may receive multiple copies of shareholder information mailings such as this Annual Report. Registered shareholders who wish to consolidate any duplicate accounts which are registered in the same name are requested to write to Computershare Investor Services Inc.

CORPORATE GOVERNANCE

CP's Board of Directors and management are committed to a high standard of corporate governance. They believe effective corporate governance calls for the establishment of processes and structures that contribute to the sound direction and management of the Corporation's business, with a view to enhancing shareholder value.

A detailed description of CP's approach to corporate governance is contained in its Management Proxy Circular issued in connection with the Corporation's Annual Meeting of Shareholders and in its Corporate Governance Principles and Guidelines which are available on CP's website at www.cpr.ca.

Table of Contents

GOVERNANCE STANDARDS

Any significant differences between the Corporation's corporate governance practices and the corporate governance listing standards of the New York Stock Exchange ("NYSE Listing Standards") are set forth on CP's website at www. cpr.ca under About CP, "Corporate governance".

CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER CERTIFICATION

The certifications of the Chief Executive Officer and the Executive Vice-President and Chief Financial Officer of each of Canadian Pacific Railway Limited and Canadian Pacific Railway Company required by Section 302 of the Sarbanes-Oxley Act of 2002 (the "302 Certifications") and the rules promulgated by the U.S. Securities and Exchange Commission ("SEC") thereunder, have been filed with the SEC as an exhibit to the 2014 Annual Report of Canadian Pacific Railway Limited and Canadian Pacific Railway Company on Form 40-F. The 302 Certifications have also been filed in fulfillment of the requirements of CSA National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings.

2015 ANNUAL AND SPECIAL MEETING

The Annual and Special Meeting of Shareholders will be held on Thursday, May 14, 2015 in Calgary, Alberta.

SHAREHOLDER SERVICES

Shareholders having inquiries or wishing to obtain copies of the Corporation's Annual Information Form may contact Shareholder Services at 1-866-861-4289 or (403) 319-7538, or by e-mail at shareholder@cpr.ca, or by writing to:

Shareholder Services

Office of the Corporate Secretary
7550 Ogden Dale Road S.E.
Calgary, Alberta, Canada T2C 4X9

INVESTOR INFORMATION

Financial information is available under the "Investors" section on CP's website at www.cpr.ca.

COMMUNICATIONS AND PUBLIC AFFAIRS

Contact:
Communications and Public Affairs
Canadian Pacific
7550 Ogden Dale Road S.E.
Calgary, Alberta, Canada T2C 4X9

Table of Contents

Canadian Pacific
7550 Ogden Dale Road S.E.
Calgary, Alberta, Canada T2C 4X9
www.cpr.ca

TRANSPORTATION OF DANGEROUS GOODS REGULATIONS

TABLE OF CONTENTS

SCHEDULES

PART 1

COMING INTO FORCE, REPEAL, INTERPRETATION, GENERAL PROVISIONS AND SPECIAL CASES

TABLE OF CONTENTS

COMING INTO FORCE, REPEAL, INTERPRETATION, GENERAL PROVISIONS AND SPECIAL CASES

1.1 Coming into Force

These Regulations come into force 12 months after the day on which they are published in Part II of the Canada Gazette.

1.2 Repeal

On the day these Regulations come into force**,** the "Transportation of Dangerous Goods Regulations", as made by Order in Council P.C. 1985-147 dated January 17, 1985 and registered as SOR/85-77, are repealed.

1.3 Interpretation

(1) Anything written in italics in these Regulations is not part of the Regulations.

(2) In these Regulations,

(a) "must" is imperative and "may" is permissive;

(b) the words "on", "in" or "by" are synonymous when they are associated with the defined term "road vehicle", "railway vehicle", "ship" or "aircraft"; ***SOR/2008-34***

(c) pressure expressed in kPa is gauge pressure unless designated as absolute pressure, except for vapour pressure, which is always absolute pressure;

(d) shipping names listed in Schedule 1 may be

(i) written in the singular or plural,

(ii) written in upper or lower case letters, except that when the shipping name is followed by the descriptive text associated with the shipping name the descriptive text must be in lower case letters and the shipping name must be in upper case letters (capitals),
SOR/2008-34

(iii) in English only, put in a different word order as long as the full shipping name is used and the word order is a commonly used one; and
SOR/2008-34

For example, "AMMONIA, ANHYDROUS" may be written "ANHYDROUS AMMONIA" and "SULPHUR, MOLTEN" may be written "MOLTEN SULPHUR".

(iv) for solutions and mixtures, followed by the word "SOLUTION" or "MIXTURE", as appropriate, and may include the concentration of the solution or mixture;
SOR/2008-34

Examples are ACETONE SOLUTION or ACETONE 75% SOLUTION.
SOR/2008-34

(e) a symbol set out in column 1 of the following table represents the corresponding unit of measure set out in column 2:
SOR/2008-34

Table

Column 1 Symbol	Column 2 Unit of Measure	Column 1 Symbol	Column 2 Unit of Measure
Bq	becquerel	LD	lethal dose
°C	degree Celsius	m	metre
ft^3	cubic feet	m^3	cubic metre
g	gram	mg	milligram
h	hour	mg/kg	milligrams per kilogram
Hz	hertz	mg/L	milligrams per litre
J	joule	mL	millilitre
J/g	joules per gram	mL/m^3	millilitres per cubic metre
kg	kilogram	mm	millimetre
kBq/kg	kilobecquerels per kilogram	mph	miles per hour
km	kilometre	MPa	megapascal
km/h	kilometres per hour	mSv/h	millisieverts per hour
kPa	kilopascal	psig	pounds per square inch, gauge
L	litre	µSv/h	microsieverts per hour
L/kg	litres per kilogram	µm	micrometre
LC	lethal concentration		

(f) when the word “placard” is used, it refers to a specific placard illustrated in the Appendix to Part 4, Dangerous Goods Safety Marks, but when a placard is required to be displayed, the singular includes the plural and it means the appropriate number of that placard required by Part 4;
SOR/2008-34

(g) the word “or” is used in the inclusive sense unless the associated text clearly indicates otherwise;
SOR/2008-34

For example, condition “A or B” is satisfied if A is satisfied, if B is satisfied or if both A and B are satisfied. Similarly, condition “A, B, C or D” is satisfied if one or more of the four conditions is satisfied.
SOR/2008-34

(h) when a shipping document or a document is required, the requirement refers to

(i) the original shipping document or original document, or

(ii) a copy of the shipping document or document;

SOR/2008-34

(i) when it is necessary to convert between number of articles and net explosives quantity, one kilogram net explosives quantity must be counted as 100 articles and each 100 articles must be counted as one kilogram net explosives quantity;
SOR/2008-34

(j) when dangerous goods are in a means of containment, it is the minimum required means of containment if

(i) all other means of containment containing it are removed, the means of containment and the dangerous goods it contains would be in compliance with the Act and these Regulations for the purposes of handling, offering for transport or transporting, and

(ii) all other means of containment containing it and the means of containment itself are removed, some of the dangerous goods it contains would no longer be in a means of containment that is in compliance with the Act and these Regulations for the purposes of handling, offering for transport or transporting;

SOR/2008-34

A railway boxcar containing propane in one or more cylinders would not be the minimum required means of containment for that propane because, if the railway boxcar (plus any means of containment containing the boxcar) were removed, the propane would still be in means of containment in compliance with the Act and the Regulations.

SOR/2008-34

Another example is dangerous goods contained in a combination packaging that is in compliance with the Act and the Regulations, such as a Type 1A means of containment for infectious substances. The outer packaging is the minimum required means of containment because, if it and all means of containment containing it were removed, the dangerous goods would no longer be in means of containment in compliance with the Act and these Regulations.
SOR/2008-34

In most cases, the identification of the minimum required means of containment is obvious. The only situations in which it is not immediately obvious are situations involving "nested" means of containment, that is, where a first means of containment is contained in a second means of containment which may be contained in a third means of containment, and so on.
SOR/2008-34

The identification of the minimum required means of containment is essential in determining gross mass. It is also useful in some situations to clarify when dangerous goods safety marks do not need to be displayed on means of containment inside the minimum required means of containment. See the definition of "gross mass", which is relevant in sections 1.6, 1.15, 1.16, 1.17, 1.19.1, 1.19.2, 1.29 and 7.1.
SOR/2008-34

(k) when the words "means of containment" are used, they refer to the minimum required means of containment unless the associated text clearly indicates otherwise; and
SOR/2008-34

For example, the means of containment referred to in section 4.15 may contain dangerous goods that are included in different classes so that the means of containment may or may not be the minimum means of containment. Consequently, section 4.15 is not restricted to minimum means of containment.
SOR/2008-34

(l) the words "gross mass of all dangerous goods" in sections 1.15**,** 1.16, 1.21 and 1.22 refer to dangerous goods that require shipping documents or that are intended to be transported in accordance with those sections.
SOR/2008-34

1.3.1 Table of Safety Standards and Safety Requirement Documents
SOR/2008-34

A document set out in column 2 of the following table is a safety standard or a safety requirement that is cited in these Regulations by its corresponding short form set out in column 1:
SOR/2008-34

The corresponding item number in the French-language table is shown in parentheses under the English-language item number.
SOR/2008-34

Table

Item	Column 1 Short Form	Column 2 Safety Standard or Safety Requirement
1 (22)	ASTM Corrosion Test ***SOR/2002-306***	ASTM G 31-72, "Standard Practice for Laboratory Immersion Corrosion Testing of Metals", May 30, 1972, as reapproved in 1995, published by the American Society for Testing and Materials (ASTM)
2 (1)	ASTM D 1200 ***SOR/2002-306***	ASTM D 1200-94, "Standard Test Method for Viscosity by Ford Viscosity Cup", August 15, 1994, published by the American Society for Testing and Materials (ASTM)
3 (2)	ASTM D 4359 ***SOR/2002-306***	ASTM D 4359-90, "Standard Test Method for Determining Whether a Material Is a Liquid or a Solid", July 1990, published by the American Society for Testing and Materials (ASTM)
4 (3)	ASTM F 852 ***SOR/2002-306***	ASTM F 852-86, "Standard Specification for Portable Gasoline Containers for Consumer Use", June 1986, published by the American Society for Testing and Materials (ASTM)
5 (4)	49 CFR ***SOR/2008-34***	Parts 171 to 180 of Title 49 of the "Code of Federal Regulations" of the United States, 2006, but does not include Parts 172.800 to 172.804 and does not include Subpart B of Part 107 when it is referenced in Parts 171 to 180

Table

Item	Column 1 Short Form	Column 2 Safety Standard or Safety Requirement
6 (5)	CGA P-20 ***SOR/2008-34***	"Standard for Classification of Toxic Gas Mixtures", Third Edition, 2003, published by the Compressed Gas Association, Inc. (CGA)
7 (6)	CGSB-32.301 ***SOR/2002-306***	National Standard of Canada CAN/CGSB-32.301-M87, "Canola Meal", April 1987, published by the Canadian General Standards Board (CGSB)
8 (7)	CGSB-43.123 ***SOR/2002-306***	National Standard of Canada CAN/CGSB-43.123-M86, "Containers, Metal, Aerosol (TC-2P, TC-2Q)", April 1986, published by the Canadian General Standards Board (CGSB)
9 (8)	CGSB-43.125 ***SOR/2002-306***	National Standard of Canada CAN/CGSB-43.125-99, "Packaging of Infectious Substances, Diagnostic Specimens, Biological Products and Biomedical Waste for Transport", May 1999, published by the Canadian General Standards Board (CGSB)
10 (9)	CGSB-43.126 ***SOR/2011-60***	Canadian General Standards Board CGSB-43.126-2008, "Reconditioning, Remanufacturing and Repair of Drums Used for the Transportation of Dangerous Goods", September 2008, published by the Canadian General Standards Board (CGSB)
11 (10)	CGSB-43.146 ***SOR/2002-306***	National Standard of Canada CAN/CGSB-43.146-2002, "Design, Manufacture and Use of Intermediate Bulk Containers for the Transportation of Dangerous Goods", January 2002, published by the Canadian General Standards Board (CGSB)
12 (11)	CGSB-43.147 ***SOR/2011-60***	National Standard of Canada CAN/CGSB-43.147-2005, "Construction, Modification, Qualification, Maintenance, and Selection and Use of Means of Containment for the Handling, Offering for Transport or Transporting of Dangerous Goods by Rail", May 2005, as amended in July 2008, published by the Canadian General Standards Board (CGSB)
13 (12)	CGSB-43.150 ***SOR/2002-306***	National Standard of Canada CAN/CGSB-43.150-97, "Performance Packagings for Transportation of Dangerous Goods", December 1997, published by the Canadian General Standards Board (CGSB)
14 (13)	CGSB-43.151 ***DORS/2002-306***	National Standard of Canada CAN/CGSB-43.151-97, "Packing of Explosives (Class 1) for Transportation", December 1997, published by the Canadian General Standards Board (CGSB)
15 (16)	CSA B339 ***SOR/2005-216***	National Standard of Canada CAN/CSA B339-02, "Cylinders, Spheres and Tubes for the Transportation of Dangerous Goods", October 2002, as amended in November 2003 and February 2005, published by the Canadian Standards Association (CSA)
16 (17)	CSA B340 ***SOR/2005-216***	National Standard of Canada CAN/CSA B340-02, "Selection and Use of Cylinders, Spheres, Tubes, and Other Containers for the Transportation of Dangerous Goods, Class 2", October 2002, as amended in January 2004 and February 2005, published by the Canadian Standards Association (CSA)
17 (18)	CSA B616 ***SOR/2002-306***	CSA Preliminary Standard B616-M1989, "Rigid Polyethylene Intermediate Bulk Containers for the Transportation of Dangerous Goods", May 1989, published by the Canadian Standards Association (CSA)
18 (19)	CSA B620 ***SOR/2008-34***	CSA Standard B620-03, "Highway Tanks and Portable Tanks for the Transportation of Dangerous Goods", July 2003, as amended in February 2006, published by the Canadian Standards Association (CSA)
19 (20)	CSA B621 ***SOR/2007-179***	National Standard of Canada CAN/CSA B621-03, "Selection and Use of Highway Tanks, Portable Tanks, Cargo Compartments, and Containers for the Transportation of Dangerous Goods, Classes 3, 4, 5, 6.1, 8, and 9", July 2003, as amended in May 2004 and February 2006, published by the Canadian Standards Association (CSA)
20 (21)	CSA B622 ***SOR/2007-179***	National Standard of Canada CAN/CSA B622-03, "Selection and Use of Highway Tanks, Multi-unit Tank Car Tanks, and Portable Tanks for the Transportation of Dangerous Goods, Class 2", July 2003, as amended in September 2004 and February 2006, published by the Canadian Standards Association (CSA)
21 (31)	EPA Method 1311 ***SOR/2002-306***	"Method 1311, Toxicity Characteristic Leaching Procedure", July 1992, in "Test Methods for Evaluating Solid Waste, Volume 1C: Laboratory Manual, Physical/Chemical Methods", Third Edition, SW-846, November 1986, published by the United States Environmental Protection Agency (EPA)

Table

Item	Column 1 Short Form	Column 2 Safety Standard or Safety Requirement
22 (23)	ICAO Technical Instructions *SOR/2011-60*	"Technical Instructions for the Safe Transport of Dangerous Goods by Air", 2009-2010 Edition, published by the International Civil Aviation Organization (ICAO)
23 (14)	IMDG Code, 29th Amendment *SOR/2002-306*	Volume I of the "International Maritime Dangerous Goods Code", 1994 Consolidated Edition, as amended in 1998 by Amendment No. 29, published by the International Maritime Organization (IMO)
24 (15)	IMDG Code *SOR/2008-34*	Volumes 1 and 2 of the "International Maritime Dangerous Goods Code", 2006 Edition, and includes Amendment 33-06 but does not include Chapter 1.4, published by the International Maritime Organization (IMO)
25 (24)	ISO 2431 *SOR/2002-306*	International Standard ISO 2431, "Paints and varnishes — Determination of flow time by use of flow cups", Fourth Edition, February 15, 1993, including Technical Corrigendum 1, 1994, published by the International Organization for Standardization (ISO)
26 (25)	ISO 2592 *SOR/2002-306*	International Standard ISO 2592, "Petroleum Products — Determination of flash and fire points — Cleveland open cup method", First Edition, December 15, 1973, published by the International Organization for Standardization (ISO)
27 (26)	ISO 9328-2 *SOR/2002-306*	International Standard ISO 9328-2, "Steel plates and strips for pressure purposes — Technical delivery conditions — Part 2: Unalloyed and low-alloyed steels with specified room temperature and elevated temperature properties", First Edition, December 1, 1991, published by the International Organization for Standardization (ISO)
28 (27)	ISO 10156 *SOR/2002-306*	International Standard ISO 10156, "Gases and gas mixtures — Determination of fire potential and oxidizing ability for the selection of cylinder valve outlets", Second Edition, February 15, 1996, published by the International Organization for Standardization (ISO)
29 (28)	ISO 10298 *SOR/2002-306*	International Standard ISO 10298, "Determination of toxicity of a gas or gas mixture", First Edition, December 15, 1995, published by the International Organization for Standardization (ISO)
30 (30)	Manual of Tests and Criteria *SOR/2008-34*	"Recommendations on the Transport of Dangerous Goods: Manual of Tests and Criteria", Fourth Revised Edition, 2003, published by the United Nations (UN)
31 (32)	MIL-D-23119G *SOR/2002-306*	MIL-D-23119G, "Military Specification: Drums, Fabric, Collapsible, Liquid Fuel, Cylindrical, 500-Gallon Capacity", July 15, 1992, published by the United States Department of Defense
32 (33)	MIL-T-52983G *SOR/2002-306*	MIL-T-52983G, "Military Specification: Tanks, Fabric, Collapsible: 3,000, 10,000, 20,000 and 50,000 Gallon, Fuel", May 11, 1994, published by the United States Department of Defense
33 (29)	OECD Guidelines *SOR/2002-306*	OECD Guidelines for Testing of Chemicals No. 404, "Acute Dermal Irritation/Corrosion", July 17, 1992, published by the Organization for Economic Co-operation and Development (OECD)
34 (35)	Supplement to the ICAO Technical Instructions *SOR/2011-60*	Supplement to the "Technical Instructions for the Safe Transport of Dangerous Goods by Air", 2009-2010 Edition, published by the International Civil Aviation Organization (ICAO)
35 (36)	ULC Standard S504 *SOR/2008-34*	National Standard of Canada CAN/ULC-S504-02, "Standard for Dry Chemical Fire Extinguishers", Second Edition, August 14, 2002, published by Underwriters' Laboratories of Canada
36 (37)	ULC Standard S507 *SOR/2008-34*	National Standard of Canada CAN/ULC-S507-05, "Standard for Water Fire Extinguishers", Fourth Edition, February 28, 2005, published by Underwriters' Laboratories of Canada
37 (38)	ULC Standard S512 *SOR/2008-34*	National Standard of Canada CAN/ULC-S512-M87, "Standard for Halogenated Agent Hand and Wheeled Fire Extinguishers", April 1987, as amended March 1989, March 1990, April 1993, September 1996, September 1997 and April 1999, published by Underwriters' Laboratories of Canada
38 (39)	ULC Standard S554 *SOR/2008-34*	National Standard of Canada CAN/ULC-S554-05, "Standard for Water Based Agent Fire Extinguishers", Second Edition, February 28, 2005, published by Underwriters' Laboratories of Canada
39 (34)	UN Recommendations *SOR/2008-34*	"Recommendations on the Transport of Dangerous Goods", Fourteenth Revised Edition, 2005, but does not include Chapter 1.4 and provision 7.2.4, published by the United Nations (UN)

1.4 Definitions

In the following definitions, words that are also defined or that are variations of words that are defined are underlined. The meanings of the variations should be drawn from the defined terms. The meanings of other words that are not defined can be found in a dictionary or a scientific or technical handbook, journal or text or a similar publication.

The definitions in this section, which include the definitions from the Act, apply in these Regulations.

accidental release *(from the Act)* means, in relation to dangerous goods, an unplanned or accidental

- **(a)** discharge, emission, explosion, outgassing or other escape of dangerous goods, or any component or compound evolving from dangerous goods; or
- **(b)** emission of ionizing radiation that exceeds a level established under the “Nuclear Safety and Control Act”. **(rejet accidentel)**

Act means the “Transportation of Dangerous Goods Act, 1992”. **(Loi)**

aerosol container means any non-refillable means of containment that

- **(a)** contains a substance under pressure; and
- **(b)** is fitted with a self-closing device allowing the contents to be ejected
  - **(i)** as solid or liquid particles in suspension in a gas,
  - **(ii)** as a foam, paste or powder, or
  - **(iii)** as a liquid or a gas. **(bombe aérosol)**

aircraft means any machine capable of deriving support in the atmosphere from reactions of the air, other than a machine designed to derive support in the atmosphere from reactions against the earth’s surface of air expelled from the machine, and includes a rocket**. (aéronef)**

biological product means a product that is derived from living organisms and that is used to prevent, treat or diagnose disease in humans or animals or for development, experiment or investigation purposes and includes finished or unfinished products, live vaccines or attenuated live vaccines. **(produit biologique)**
SOR/2008-34

CANUTEC means the Canadian Transport Emergency Centre of the Department of Transport. **(CANUTEC)**

capacity means, for a means of containment used to contain

- **(a)** a liquid or a gas, the maximum volume of water, normally expressed in litres, that the means of containment can hold at 15°C and at an absolute pressure of 101.325 kPa; and
- **(b)** dangerous goods other than a liquid or a gas, the maximum volume, normally expressed in cubic metres, that the means of containment can hold. **(capacité)**

SOR/2008-34

cargo aircraft means an aircraft, other than a passenger carrying aircraft, that is carrying goods or property. **(aéronef cargo)**

carrier means a person who, whether or not for hire or reward, has possession of dangerous goods while they are in transport. **(transporteur)**

Category A means an infectious substance that is transported in a form such that, when it is released outside of its means of containment and there is physical contact with humans or animals, it is capable of causing permanent disability or life-threatening or fatal disease to humans or animals. **(catégorie A)**
SOR/2008-34

Category B means an infectious substance that does not meet the criteria for inclusion in Category A. **(catégorie B)**
SOR/2008-34

certification safety mark means a design, symbol, device, letter, word, number or abbreviation that is displayed on a means of containment or means of transport to indicate compliance with a safety standard. **(indication de danger — conformité)**

49 CFR means Parts 171 to 180 of Title 49 of the "Code of Federal Regulations" of the United States, 2006, but does not include Parts 172.800 to 172.804 and does not include Subpart B of Part 107 when it is referenced in Parts 171 to 180. **(49 CFR)**
SOR/2008-34

class means, when the word "class" is followed by

(a) one digit, the class of dangerous goods listed in the schedule to the Act; and

(b) two digits separated by a point, the class of dangerous goods listed in the schedule to the Act and its division. **(classe)**

For example, Class 6.1 is division 1 of Class 6. Not all classes have divisions. Note that for explosives, as required in section 3.5, the compatibility letter must be next to the primary class number, for example, Class 1.1A or Class 1.4S.

SOR/2008-34

classification means, for dangerous goods, as applicable, the shipping name, the primary class, the compatibility group, the subsidiary class, the UN number, the packing group, and the infectious substance category. **(classification)**
SOR/2008-34

compatibility group means one of the 13 groups of explosives described in Appendix 2 of Part 2, Classification. **(groupe de compatibilité)**

The compatibility group for each explosive listed in Schedule 1 is shown in column 3 of that Schedule beside the primary class of that explosive.

consignment means a quantity of dangerous goods transported at the same time in one or more means of containment from one consignor at one location to one consignee at another location. **(envoi)**
SOR/2008-34

consignor means a person in Canada who

(a) is named in a shipping document as the consignor;

(b) imports or who will import dangerous goods into Canada; or

(c) if paragraphs (a) and (b) do not apply, has possession of dangerous goods immediately before they are in transport. **(expéditeur)**

A person may be both a consignor and a carrier of the same consignment, for example, a manufacturer who also transports the dangerous goods he or she produces.

Culture means the result of a process by which pathogens in a specimen are intentionally propagated. This definition does not include specimens taken from a human or animal patient and that are intended to be processed in a laboratory. **(culture)**
SOR/2008-34

Often, a specimen taken from a human or animal patient in a doctor's office, a clinic, a hospital or a lab is referred to by the health care professional as a "culture". In fact, such a specimen is usually intended to be sent to a laboratory where it will be manipulated or "cultured". It is packaged in such a way that the specimen itself will not deteriorate but any pathogens it contains will not "grow" during transport

SOR/2008-34

cylinder means a small means of containment, other than an aerosol container, that is cylindrical or spherical in shape and that is capable of withstanding an internal absolute pressure of 275 kPa**. (bouteille à gaz)**

dangerous goods *(from the Act)* means a product, substance or organism included by its nature or by the regulations in any of the classes listed in the schedule to the Act. **(marchandises dangereuses)**

Schedule to the Act

Class 1

Explosives, including explosives within the meaning of the "Explosives Act"

Class 2

Gases: compressed, deeply refrigerated, liquefied or dissolved under pressure

Class 3

Flammable and combustible liquids

Class 4

Flammable solids; substances liable to spontaneous combustion; substances that on contact with water emit flammable gases

Class 5

Oxidizing substances; organic peroxides

Class 6

Poisonous (toxic) and infectious substances

Class 7

Nuclear substances, within the meaning of the "Nuclear Safety and Control Act", that are radioactive

Class 8

Corrosives

Class 9

Miscellaneous products, substances or organisms considered by the Governor in Council to be dangerous to life, health, property or the environment when handled, offered for transport or transported and prescribed to be included in this class

In these Regulations the words "Class 7, Radioactive Materials" are used rather than the words that are used in the schedule to the Act, "Class 7, Nuclear Substances within the meaning of the Nuclear Safety and Control Act, that are radioactive" so that the Regulations are more easily read in conjunction with international documents incorporated by reference in them.

dangerous goods safety mark means a label, placard, orange panel, sign, mark, letter, word, number or abbreviation that is used to identify dangerous goods and to show the nature of the danger posed by them. **(indication de danger — marchandises dangereuses)**

Director General means the Director General of the Transport Dangerous Goods Directorate, Department of Transport. **(directeur général)**

dust means a mixture of solid particles and air in which 90 per cent or more of the solid particles have a diameter less than or equal to 10 µm. **(poussière)**

The concentration of these suspended particles in air is measured as milligrams of solid particles per litre of air (mg/L).

drum means a flat-ended or convex-ended cylindrical means of containment made of metal, fibreboard, plastic or other similar material, with a maximum capacity of 450 L, or for a drum made of plywood, a maximum capacity of 250 L. This definition includes means of containment of other shapes such as pail-shaped or round with a tapered neck, but does not include a wood barrel or jerrican (that is, a means of containment of rectangular or polygonal cross-section). **(fût)**
SOR/2008-34

emergency means an immediate danger to public safety

(a) requiring the use of dangerous goods to avert or mitigate the danger; or

(b) arising directly or indirectly from dangerous goods. **(urgence)**

emergency response assistance plan or **ERAP** or **ERP** means a plan that outlines what is to be done if there is an accident involving certain dangerous goods and that is in accordance with Part 7, Emergency Response Assistance Plan. **(plan d'intervention d'urgence** ou **PIU)**

Employer means a person who

(a) employs one or more individuals; or

(b) provides the services of one or more individuals and from whom the individuals receive their remuneration. **(employeur)**

farmer means a person engaged in farming in Canada for commercial purposes. **(agriculteur)**
SOR/2008-34

farming means the production of field-grown crops, cultivated and uncultivated and horticultural crops, the raising of livestock, poultry and fur-bearing animals, the production of eggs, milk, honey, maple syrup, tobacco, fibre and fodder crops, but does not include aquaculture. **(agriculture)**
SOR/2008-34

fire point means the lowest temperature at which a substance will ignite and will continue to burn for at least 5 seconds. **(point d'inflammation)**

flash point means the lowest temperature at which the application of an ignition source causes the vapours of a liquid to ignite near the surface of the liquid or within a test vessel. **(point d'éclair)**

The flash point is determined using the closed-cup test method referred to in Chapter 2.3 of the UN Recommendations. See paragraph 2.18(1)(a) of Part 2, Classification.

gas means a substance that at 50°C has a vapour pressure greater than 300 kPa or that is completely gaseous at 20°C at an absolute pressure of 101.3 kPa and that is

(a) compressed (other than in solution) so that when it is packaged under pressure for transport it remains entirely gaseous at 20°C;

(b) liquefied so that when it is packaged for transport it is partially liquid at 20°C;

(c) refrigerated so that when it is packaged for transport it is made partially liquid because of its low temperature; or
SOR/2002-306

(d) in solution so that when it is packaged for transport it is dissolved in a solvent. **(gaz)**

genetically modified micro-organism means a micro-organism in which genetic material has been purposely altered through genetic engineering in a way that does not occur naturally. **(micro-organisme génétiquement modifié)**

gross mass

means

(a) for a means of containment, the mass of the means of containment and all of its contents; or
SOR/2008-34

(b) for a quantity of dangerous goods, the gross mass of all minimum required means of containment used to contain the dangerous goods. **(masse brute)**
SOR/2008-34

Reference to the minimum required means of containment (see paragraph 1.3(2)(j)) clarifies that, when dangerous goods are in portable tanks required or permitted by Part 5, Means of Containment, and the portable tanks are being transported in an ISO container or in a rail boxcar, the gross mass of the dangerous goods includes the dangerous goods and the portable tank but does not include the mass of the ISO container or the rail boxcar.
SOR/2012-245

handling *(from the Act)*

means loading, unloading, packing or unpacking dangerous goods in a means of containment for the purposes of, in the course of or following transportation and includes storing them in the course of transportation. **(manutention)**

ICAO Technical Instructions

means the "Technical Instructions for the Safe Transport of Dangerous Goods by Air", 2009-2010 Edition, published by the International Civil Aviation Organization (ICAO). **(Instructions techniques de l'OACI)**
SOR/2011-60

IMDG Code

means Volumes 1 and 2 of the "International Maritime Dangerous Goods Code", 2006 Edition, and includes Amendment 33-06 but does not include Chapter 1.4, published by the International Maritime Organization (IMO). **(Code IMDG)**
SOR/2008-34

IMDG Code, 29th Amendment

means Volume I of the "International Maritime Dangerous Goods Code", 1994 Consolidated Edition, as amended in 1998 by Amendment No. 29, published by the International Maritime Organization (IMO). **(Code IMDG, Amendement nº 29)**
SOR/2002-306

imminent accidental release

means, for dangerous goods in transport in a large means of containment, that there has been an incident and

(a) there is likely a need to remove or transfer all or a portion of the dangerous goods to another large means of containment;

(b) there is damage to the means of containment which, if not corrected, could result in an accidental release of the dangerous goods in a quantity or emission level that exceeds those set out in the table to subsection 8.1(1) of Part 8, Accidental Release and Imminent Accidental Release Report Requirements; or

(c) the large means of containment is lost in navigable waters. **(rejet accidentel imminent)**

import *(from the Act)*

means import into Canada, and includes transporting goods that originate from outside Canada and pass through Canada to a destination outside Canada, except when the goods are being transported on a ship or aircraft not registered in Canada. **(importer)**

infectious substance

means a substance known or reasonably believed to contain viable micro-organisms such as bacteria, viruses, rickettsia, parasites, fungi and other agents such as prions that are known or reasonably believed to cause disease in humans or animals and that are listed in Appendix 3 to Part 2, Classification, or that exhibit characteristics similar to a substance listed in Appendix 3. **(matière infectieuse)**
SOR/2008-34

inspector *(from the Act)*

means a person designated as an inspector under subsection 10(1) of the Act. **(inspecteur)**

in standard	means that a means of containment meets the requirements set out in section 5.2 of Part 5, Means of Containment. **(en règle)**
in transport	means that a person has possession of dangerous goods for the purposes of transportation or for the purposes of storing them in the course of transportation. **(en transport)**
large means of containment	means a means of containment with a capacity greater than 450 L. **(grand contenant)** ***SOR/2008-34*** *450 L is equivalent to 0.45 m³ or 15.9 ft³*
LC_{50}	means the lowest concentration of gas, vapour, mist or dust that, when administered by continuous inhalation to both male and female young adult albino rats for one hour, results in the death within 14 days of one half of the animals. **(CL_{50})** *The result is expressed in milligrams per litre (mg/L) of air for dust and mist, which are suspended particles, and in millilitres per cubic metre (mL/m^3) of air for gas and vapour.*
LD_{50} (dermal)	means the lowest amount of a substance that, when administered by continuous contact with the bare skin of both male and female young adult albino rabbits for 24 hours, results in the death within 14 days of one half of the animals. **(DL_{50} (absorption cutanée))** *The result is expressed in milligrams per kilogram (mg/kg) of body mass.*
LD_{50} (oral)	means the lowest amount of a substance that, when administered by mouth to both male and female young adult albino rats, results in the death within 14 days of one half of the animals. **(DL_{50} (ingestion))** *The result is expressed in milligrams per kilogram (mg/kg) of body mass.*
Liquid	means a substance that **(a)** has a melting point less than or equal to 20°C at an absolute pressure of 101.3 kPa; or **(b)** is a viscous substance for which a specific melting point cannot be determined but that is determined to be a liquid in accordance with ASTM D 4359. **(liquide)**
Manual of Tests and Criteria	means the “Recommendations on the Transport of Dangerous Goods: Manual of Tests and Criteria”, Fourth Revised Edition, 2003, published by the United Nations (UN). **(Manuel d’épreuves et de critères)** ***SOR/2008-34***
Means of containment *(from the Act)*	means a container or packaging, or any part of a means of transport that is or may be used to contain goods. **(contenant)**
means of transport *(from the Act)*	means a road or railway vehicle, aircraft, ship, pipeline or any other contrivance that is or may be used to transport persons or goods. **(moyen de transport)**
Minister *(from the Act)*	means the Minister of Transport. **(ministre)**
Mist	means a mixture of liquid particles and air in which 90 per cent or more of the liquid particles have a diameter not greater than 10 µm. (**brouillard)** *The concentration of these suspended particles in air is measured as milligrams of liquid particles per litre of air (mg/L).*

net explosives quantity means the net mass of explosives, excluding the mass of any means of containment. **(quantité nette d'explosifs)**
SOR/2008-34

Some explosives are articles and depend on the means of containment to achieve an explosive effect. This definition clarifies that, even in such a case, only the mass of explosives is counted. For fireworks, when the net explosives quantity is unknown, it can be calculated using special provision 4 or 5 of Schedule 2.
SOR/2008-34

offer for transport means, for dangerous goods not in transport, to select or allow the selection of a carrier to transport the dangerous goods, to prepare or allow the preparation of the dangerous goods so that a carrier can take possession of them for transport or to allow a carrier to take possession of the dangerous goods for transport. **(demande de transport)**

organization *(This definition reproduces the definition of "organization" in section 2 of the Criminal Code as incorporated in section 2 of the Act.)* ***SOR/2012-245***

means

(a) a public body, body corporate, society, company, firm, partnership, trade union or municipality; or

(b) an association of persons that

- **(i)** is created for a common purpose,
- **(ii)** has an operational structure, and
- **(iii)** holds itself out to the public as an association of persons. **(organisation)**

packing group means a group in which dangerous goods are included based on the inherent danger of the dangerous goods; Packing Group I indicates great danger, Packing Group II indicates medium danger and Packing Group III indicates minor danger. **(groupe d'emballage)**

passenger means

(a) for a ship, a person defined as a passenger in the "Canada Shipping Act"; and

(c) for a road vehicle, a railway vehicle or an aircraft, a person carried on board the means of transport but does not include

- **(i)** a crew member,
- **(ii)** a person who is accompanying dangerous goods or other cargo,
- **(iv)** an operator, owner or charterer of the means of transport,
- **(v)** an employee of the operator, owner or charterer of the means of transport, who is acting in the course of employment, or
- **(vi)** a person carrying out inspection or investigation duties under an Act of Parliament or of a provincial legislature. **(passager)**

passenger carrying aircraft means an aircraft that is carrying one or more passengers. **(aéronef de passagers)**

passenger carrying railway vehicle means a railway vehicle that is carrying one or more passengers. **(véhicule ferroviaire de passagers)**

passenger carrying road vehicle means a road vehicle that is carrying one or more passengers. **(véhicule routier de passagers)**

passenger carrying ship means a ship that is carrying

(a) for the purposes of the provisions of these Regulations that refer to dangerous goods other than explosives,

(i) more than 25 passengers, or

(ii) more than one passenger for each 3 m of the length of the ship; and

(b) for the purposes of the provisions of these Regulations that refer to explosives,

(i) more than 12 passengers, and

(ii) more than one passenger for each 3 m of the length of the ship. **(navire de passagers)**

permit for equivalent level of safety means an authorization issued under section 31 of the Act to conduct an activity in compliance with the conditions of that authorization instead of with the requirements of these Regulations. **(permis de niveau de sécurité équivalent)**

person *(from the Act)* means an individual or an organization. **(personne)**
SOR/2012-245

prescribed *(from the Act)* means prescribed by regulations of the Governor in Council. *(version anglaise seulement)*

primary class means the first class shown in column 3 of Schedule 1. **(classe primaire)**

protective direction means a direction issued under section 32 of the Act to cease an activity or to conduct other activities to reduce any danger to public safety. **(ordre)**

public safety *(from the Act)* means the safety of human life and health and of property and the environment. **(sécurité publique)**

railway vehicle means any vehicle that is designed to be drawn or propelled on rails by any power other than muscle power and that is being prepared for use or being used on rails. **(véhicule ferroviaire)**

road vehicle means any vehicle that is designed to be drawn or propelled on land, including on ice roads, by any power other than muscle power and includes a machine designed to derive support in the atmosphere from reactions against the earth's surface of air expelled from the machine, but does not include a railway vehicle that operates exclusively on rails. **(véhicule routier)**
SOR/2008-34

roll-on roll-off ship means a ship

(a) with one or more decks that are closed or open, normally not subdivided in any way and that generally run the entire length of the ship; and

(b) onto or from which persons embark or disembark or goods or vehicles are loaded or unloaded, normally in a horizontal direction. **(navire roulier)**

safety mark *(from the Act)* includes a design, symbol, device, sign, label, placard, letter, word, number or abbreviation, or any combination of these things, that is to be displayed

(a) on dangerous goods, on means of containment or transport used in handling, offering for transport or transporting dangerous goods, or at facilities used in those activities; and

(b) to show the nature of the danger or to indicate compliance with the safety standards prescribed for the means of containment or transport or the facilities. **(indication de danger)**

See also certification safety mark and dangerous goods safety mark.

safety requirements *(from the Act)* means requirements for handling, offering for transport or transporting dangerous goods, for reporting those activities and for training persons engaged in those activities. **(règles de sécurité)**

safety standards *(from the Act)*	means standards regulating the design, construction, equipping, functioning or performance of means of containment or facilities used or intended to be used in handling, offering for transport or transporting dangerous goods. **(normes de sécurité)**
ship *(from the Act)*	includes any description of vessel, boat or craft designed, used or capable of being used solely or partly for marine navigation, without regard to method or lack of propulsion. **(navire)**
shipping document	means a document that relates to dangerous goods that are being handled, offered for transport or transported and that contains the information required by Part 3, Documentation, relating to the goods but does not include an electronic record. **(document d'expédition)**
shipping name	means an entry in upper case letters (capitals) in column 2 of Schedule 1, but does not include any lower case descriptive text except for the purpose of determining the classification of dangerous goods. **(appellation réglementaire)**
shipping record *(from the Act)*	means a record that relates to dangerous goods being handled, offered for transport or transported and that describes or contains information relating to the goods, and includes electronic records of information. **(registre d'expédition)**
short-run ferry	means a ship that is operating over the most direct water route between two points not more than 3 km apart. **(bac)**
small means of containment	means a means of containment with a capacity less than or equal to 450 L. **(petit contenant)** ***SOR/2008-34*** *450 L is equivalent to 0.45 m^3 or 15.9 ft^3.*
solid	means a substance that is not a liquid or a gas. **(solide)**
special provision	means an item of Schedule 2 referred to in column 5 of Schedule 1. **(disposition particulière)**
standardized means of containment *(from the Act)*	means a means of containment in relation to which a safety standard has been prescribed. **(contenant normalisé)**
subsidiary class	means a class shown in parentheses in column 3 of Schedule 1. **(classe subsidiaire)**
substance	includes an article. **(matière)**
Supplement to the ICAO Technical Instructions	means the Supplement to the "Technical Instructions for the Safe Transport of Dangerous Goods by Air", 2009-2010 Edition, published by the International Civil Aviation Organization (ICAO). **(Supplément aux Instructions techniques de l'OACI)** ***SOR/2011-60***
technical name	means the chemical name or another name currently used in a scientific or technical handbook, journal or text but does not include a trade name. **(appellation technique)**
train	means **(a)** a train as defined in the "Canadian Rail Operating Rules", published by The Railway Association of Canada and approved by the Minister under the "Railway Safety Act" on January 16, 1990, as amended to July 1, 2000; or **(b)** a number of railway vehicles coupled together moving at a velocity exceeding 24 km/h (15 mph) with at least one railway vehicle providing propulsion and at least one railway vehicle containing dangerous goods for which a placard is required to be displayed in accordance with Part 4, Dangerous Goods Safety Marks. **(train)**

transport index has the same meaning as determined under the "Packaging and Transport of Nuclear Substances Regulations". **(indice de transport)**

tube means a large means of containment that is cylindrical in shape and that is capable of withstanding an internal absolute pressure of 12.4 MPa. **(tube)**

Type 1A means of containment means a means of containment that is in compliance with the requirements of CGSB-43.125 for Type 1A means of containment or, if it is manufactured outside Canada, is in compliance with the requirements of Chapter 6.3 of the UN Recommendations and the national regulations of the country of manufacture. **(contenant de type 1A)**
SOR/2008-34

Type 1B means of containment means a means of containment that is in compliance with the requirements of CGSB-43.125 for Type 1B means of containment and with the additional requirements of section 5.16.1 of Part 5, Means of Containment. **(contenant de type 1B)**
SOR/2008-34

Type 1C means of containment means a means of containment that is in compliance with the requirements of CGSB-43.125 for Type 1C means of containment. **(contenant de type 1C)**
SOR/2008-34

UN number means an entry in column 1 of Schedule 1. **(numéro UN)**

UN Recommendations means the "Recommendations on the Transport of Dangerous Goods", Fourteenth Revised Edition, 2005, but not does not include Chapter 1.4 and provision 7.2.4, published by the United Nations (UN). **(Recommandations de l'ONU)**
SOR/2008-34

UN standardized means of containment means a means of containment that meets the requirements set out in section 5.6 of Part 5, Means of Containment. **(contenant normalisé UN)**

vapour means the dispersion in air of imperceptible particles of a substance that is liquid or solid in its normal state. **(vapeur)**

For example, water vapour or benzene vapour.

General Provisions

Subsections 1.5.1(2) and 1.6(3) refer to a conflict between requirements. A conflict is not the same as a difference. There is a difference between two provisions if they are not exactly the same but both can be satisfied at the same time. There is a conflict between two provisions if it is impossible for both provisions to be satisfied at the same time.

SOR/2008-34

For example, if Provision A requires a tank wall to exceed 1 mm in thickness and Provision B requires the same tank wall to exceed 2 mm in thickness, there is a difference between the two provisions but there is no conflict because both provisions can be satisfied at the same time if the tank wall exceeds 2 mm in thickness.

However, if Provision A prohibits a tank wall from exceeding 1 mm in thickness and Provision B requires the same tank wall to exceed 2 mm in thickness, there is a conflict between the two provisions because it is impossible for the tank wall to be less than or equal to 1 mm in thickness while at the same time exceeding 2 mm in thickness.

1.5 Applicability of the Regulations

Unless otherwise stated in sections 1.15 to 1.48 of this Part or in Schedule 1 or 2, dangerous goods must be handled, offered for transport or transported in accordance with these Regulations.

SOR/2008-34

1.5.1 Schedule 2: Special Provisions

(1) When there is a special provision in Schedule 2 for dangerous goods, that special provision applies.
SOR/2008-34

(2) When there is a conflict between a special provision in Schedule 2 and other provisions in these Regulations, the special provision applies.
SOR/2008-34

1.5.2 Schedules 1 and 3: Forbidden Dangerous Goods

(1) When the word "Forbidden" is shown for dangerous goods in column 3 of Schedule 1 or column 4 of Schedule 3, a person must not handle, offer for transport or transport the dangerous goods.
SOR/2008-34

(2) When the word "Forbidden" is shown for dangerous goods in column 8 or 9 of Schedule 1, a person must not offer for transport or transport the dangerous goods by the means of transport set out in the heading of that column.
SOR/2008-34

1.6 Schedule 1: Quantity Limits in Columns 8 and 9

(1) When there is a number shown in column 8 of Schedule 1, that number is a quantity limit for the corresponding dangerous goods in column 2 and a person must not load dangerous goods that exceed the quantity limit in that column onto a passenger carrying ship or transport dangerous goods that exceed the quantity limit on a road vehicle or a railway vehicle on board a passenger carrying ship. Dangerous goods exceed the quantity limit if

- **(a)** in the case of a solid, they have a mass that is greater than the number when that number is expressed in kilograms;
- **(b)** in the case of a liquid, they have a volume that is greater than the number when that number is expressed in litres;
- **(c)** in the case of a gas, including a gas in a liquefied form, they are contained in one or more means of containment the total capacity of which is greater than the number when that number is expressed in litres; and
- **(d)** in the case of an explosive
  - **(i)** not subject to special provision 85 or 86, they have a net explosives quantity that is greater than the number when

that number is expressed in kilograms, or

(ii) subject to special provision 85 or 86, they exceed 100 articles.

SOR/2008-34

(2) When there is a number shown in column 9 of Schedule 1, that number is a quantity limit for the corresponding dangerous goods in column 2 and a person must not offer for transport or transport by passenger carrying road vehicle or passenger carrying railway vehicle dangerous goods that exceed the quantity limit in that column. Dangerous goods exceed the quantity limit if

(a) in the case of a solid, they have a mass that is greater than the number when that number is expressed in kilograms;

(b) in the case of a liquid, they have a volume that is greater than the number when that number is expressed in litres;

(c) in the case of a gas, including a gas in a liquefied form, they are contained in one or more means of containment the total capacity of which is greater than the number when that number is expressed in litres; and

(d) in the case of an explosive

(i) not subject to special provision 85 or 86, they have a net explosives quantity that is greater than the number when that number is expressed in kilograms, or

(ii) subject to special provision 85 or 86, they exceed 100 articles.

SOR/2008-34

(3) If a quantity limit in column 8 or 9 of Schedule 1 conflicts with any other quantity limit in these Regulations, other than a quantity limit in special provisions, the quantity limit in that column takes precedence.
SOR/2008-34

1.7 Safety Requirements, Documents, Safety Marks

As provided for in section 5 of the Act, a person must not handle, offer for transport, transport or import dangerous goods unless

(a) the person complies with all applicable prescribed safety requirements;

(b) the dangerous goods are accompanied by all applicable prescribed documents; and

(c) the means of containment and transport comply with all applicable prescribed safety standards and display all applicable prescribed safety marks.

1.8 Prohibition: Explosives

A person must not handle, offer for transport or transport dangerous goods by any means of transport if the dangerous goods are explosives and

(a) are in direct contact with a large means of containment, except when the explosives are to be transported by road vehicle in quantities that are allowed for the explosives in section 9.5, Part 9, Road, in Schedule 1 or in any special provision in Schedule 2; or
SOR/2012-245

(b) are also radioactive materials.

1.9 Use of the Most Recent Version of the ICAO Technical Instructions, the IMDG Code or 49 CFR

A person who is required or permitted by these Regulations to comply with all or a portion of the ICAO Technical Instructions, the IMDG Code or 49 CFR may comply with the most recent version of those documents rather than the version named in the table to section 1.3.1 and in the definitions in section 1.4.
SOR/2012-245

1.10 Use of Classification in the ICAO Technical Instructions, the IMDG Code or the UN Recommendations

A person may use the appropriate classification set out in the ICAO Technical Instructions, the IMDG Code or the UN Recommendations to transport dangerous goods within Canada by a road vehicle, a railway vehicle or a ship on a domestic voyage if these Regulations or the document from which the classification is taken does not forbid their transport.

1.11 Use of 49 CFR for Non-regulated Dangerous Goods

When a substance is regulated in the United States by 49 CFR but is not regulated in Canada by these Regulations, a person may transport the substance between Canada and the United States by road vehicle or railway vehicle in accordance with all or part of 49 CFR.

This means that, for example, the safety marks displayed in accordance with 49 CFR would not be considered misleading.

1.12 Evidence: Safety Marks, Prescribed Documents

As provided for in section 42 of the Act, in any prosecution for an offence, evidence that a means of containment or transport bore a safety mark or was accompanied by a prescribed document is, in the absence of evidence to the contrary, proof of the information shown or indicated by the safety mark or contained in the prescribed document.

1.13 Defence: Due Diligence

As provided for in section 40 of the Act, a person must not be found guilty of an offence if it is established that the person took all reasonable measures to comply with the Act or to prevent the commission of the offence.

1.14 *Repealed* *SOR/2002-306*

Special Cases

A number of the following sections provide exemptions for dangerous goods based on the gross mass of the dangerous goods. When appropriate, the text ensures that the exemption applies to the total of the gross masses of all of the dangerous goods on the means of transport. This means that a person who takes advantage of section 1.15 to transport 150 kg gross mass of dangerous goods on a road vehicle could not also claim the 500 kg gross mass exemption set out in section 1.16 when adding an additional 450 kg gross mass of dangerous goods (whether or not they are the same dangerous goods). Indeed, were the 450 kg gross mass added, none of the resulting 600 kg gross mass could be claimed under either the 150 kg gross mass exemption or the 500 kg gross mass exemption.
SOR/2008-34

Similarly, a person who takes advantage of an exemption set out in section 1.16 to transport 300 kg gross mass of flammable liquids on a road vehicle cannot, when adding an additional 350 kg gross mass of corrosives, claim any of the resulting 650 kg gross mass as exempted under section 1.15 or 1.16. .
SOR/2008-34

1.15 150 kg Gross Mass Exemption
SOR/2008-34

(1) Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks), Part 5 (Means of Containment), Part 6 (Training) and Part 8 (Accidental Release and Imminent Accidental Release Report Requirements) do not apply to the handling, offering for transport or transporting of dangerous goods on a road vehicle, a railway vehicle or a ship on a domestic voyage if

(a) in the case of

(i) dangerous goods included in Class 2, Gases, they are in one or more small means of containment in compliance with the requirements for transporting gases in Part 5, Means of Containment, except that, in the case of dangerous goods that are UN1950, AEROSOLS, the requirement in subsection 5.11(6) for aerosol containers to be tightly packed in a wood, fibreboard or plastic box does not apply to a user or purchaser who transports no more than six aerosol containers, or **(ii)** dangerous goods not included in Class 2, Gases, they are in one or more small means of containment designed, constructed, filled, closed, secured and maintained so that under normal conditions of transport, including handling, there will be no accidental release of the dangerous goods that could endanger public safety;

Note that subsection 5.11(6) includes two requirements, one for a valve protection cap and one for containment, and that the exemption for aerosol containers in subparagraph (i) applies only to the containment requirement in that subsection; the requirement for a valve protection cap continues to apply.
SOR/2012-245

(ii) dangerous goods not included in Class 2, Gases, they are in one or more small means of containment designed, constructed, filled, closed, secured and maintained so that under normal conditions of transport, including handling, there will be no accidental release of the dangerous goods that could endanger public safety;
SOR/2008-34

(b) except for dangerous goods included in Class 2, Gases, the dangerous goods are contained in one or more means of containment each of which has a gross mass less than or equal to 30 kg;
SOR/2011-239

(c) the gross mass of all dangerous goods

(i) transported on the road vehicle or the railway vehicle is less than or equal to 150 kg, and

(ii) transported on the ship on a domestic voyage is less than or equal to 150 kg, excluding dangerous goods in a road vehicle or railway vehicle being transported on the ship; and

SOR/2011-239

(d) the dangerous goods are in a quantity or concentration available to the general public and are transported

(i) by a user or purchaser of the dangerous goods, or

(ii) by a retailer to or from a user or purchaser of the dangerous goods.

SOR/2011-239

(2) Subsection (1) does not apply to dangerous goods that

(a) are in a quantity or concentration that requires an emergency response assistance plan;

(b) require a control or emergency temperature;

(c) are included in Class 1, Explosives, except for

(i) UN numbers UN0044, UN0105, UN0131, UN0161, UN0173, UN0186, UN0191, UN0197, UN0276, UN0312, UN0323, UN0335 if classified as a consumer firework, UN0336, UN0337, UN0351, UN0373, UN0404, UN0405, UN0431, UN0432, UN0454 and UN0499, and

(ii) UN numbers UN0012, UN0014 and UN0055 if the cartridges are for shotguns or, in the case of cartridges for rifles or pistols, the calibre is less than 12.7 mm (50 calibre);

(d) are included in Class 2.1, Flammable Gases, and are in a cylinder with a capacity greater than 46 L;

(e) are included in Class 2.3, Toxic Gases;

(f) are included in Class 4, Flammable Solids; Substances Liable to Spontaneous Combustion; Substances that on Contact with Water Emit Flammable Gases (Water-reactive Substances); and in Packing Group I;
SOR/2012-245

(g) are included in Class 5.2, Organic Peroxides, unless they are allowed to be transported as limited quantities in accordance with section 1.17 and column 6 of Schedule 1;

(h) are liquids included in Class 6.1, Toxic Substances, and Packing Group I;

(i) are included in Class 6.2, Infectious Substances; or

(j) are included in Class 7, Radioactive Materials, and are required to be licensed by the Canadian Nuclear Safety Commission.

SOR/2008-34

1.16 500 kg Gross Mass Exemption
SOR/2008-34

(1) Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks) and Part 5 (Means of Containment) do not apply to the handling, offering for transport or transporting of dangerous goods on a road vehicle, a railway vehicle or a ship on a domestic voyage if

(a) in the case of

(i) dangerous goods included in Class 2, Gases, they are in one or more small means of containment in compliance with the requirements for transporting gases in Part 5, Means of Containment, or

(ii) dangerous goods not included in Class 2, Gases, they are in one or more means of containment

(A) each of which has a gross mass less than or equal to 30 kg and that is designed, constructed, filled, closed, secured and maintained so that under normal conditions of transport, including handling, there will be no accidental release of the dangerous goods that could endanger public safety, or

(B) that are drums in compliance with the requirements of section 5.12 of Part 5, Means of Containment, for transporting dangerous goods in drums;

(b) the gross mass of all dangerous goods

(i) transported on the road vehicle or the railway vehicle is less than or equal to 500 kg, and

(ii) transported on the ship on a domestic voyage is less than or equal to 500 kg, excluding the dangerous goods in a road vehicle or railway vehicle being transported on the ship;

(c) each means of containment has displayed on one side, other than a side on which it is intended to rest or to be stacked during transport,

(i) the dangerous goods safety marks required by Part 4, Dangerous Goods Safety Marks, or

(ii) for dangerous goods, other than dangerous goods included in Class 2, Gases, the shipping name of the dangerous goods and the marks required for them in one of the following Acts and regulations, as long as those marks are legible and visible during handling and transporting in the same manner as dangerous goods safety marks:

(A) the "Pest Control Products Act" and its regulations, or

(B) the "Hazardous Products Act" and its regulations;

(d) the dangerous goods are accompanied by a shipping document or document that is located, for a road or railway vehicle or a ship, in accordance with the requirements for location of a shipping document in sections 3.7 to 3.9 of Part 3, Documentation; and

(e) any document referred to in paragraph (d), other than a shipping document, includes the following information in the following order:
SOR/2012-245

(i) the primary class of the dangerous goods, following the word "Class" or "Classe", and

(ii) the total number of means of containment, on which a dangerous goods safety mark is required to be displayed, for each primary class, following the words "number of means of containment" or "nombre de contenants".

*For exampl*e,

Class 3, number of means of containment, 10
Class 8, number of means of containment, 12

SOR/2008-34

(2) Subsection (1) does not apply to dangerous goods that

(a) are in a quantity or concentration that requires an emergency response assistance plan;

(b) require a control or emergency temperature;

(c) are included in Class 1, Explosives, except for

(i) explosives included in Class 1.4S, or

(ii) UN numbers UN0191, UN0197, UN0276, UN0312, UN0336, UN0403, UN0431, UN0453 and UN0493;

(d) are included in Class 2.1, Flammable Gases, and are in a cylinder with a capacity greater than 46 L;

(e) are included in Class 2.3, Toxic Gases;

(f) are included in Class 4, Flammable Solids; Substances Liable to Spontaneous Combustion; Substances that on Contact with Water Emit Flammable Gases (Water-reactive Substances); and in Packing Group I;
SOR/2012-245

(g) are included in Class 5.2, Organic Peroxides, unless they are allowed to be transported as limited quantities in accordance with section 1.17 and column 6 of Schedule 1;

(h) are liquids included in Class 6.1, Toxic Substances, and Packing Group I;

(i) are included in Class 6.2, Infectious Substances; or

(j) are included in Class 7, Radioactive Materials, and are required to be licensed by the Canadian Nuclear Safety Commission.

SOR/2008-34

1.17 Limited Quantities Exemption

SOR/2008-34

(1) A quantity of dangerous goods, other than explosives, is a limited quantity if

(a) the dangerous goods are in one or more means of containment designed, constructed, filled, closed, secured and maintained so that under normal conditions of transport, including handling, there will be no accidental release of the dangerous goods that could endanger public safety; and

(b) each means of containment has a gross mass less than or equal to 30 kg and the dangerous goods

(i) if a solid, have a mass that is less than or equal to the number shown for them in column 6 of Schedule 1 when that number is expressed in kilograms,

(ii) if a liquid, have a volume that is less than or equal to the number shown for them in column 6 of Schedule 1 when that number is expressed in litres, or

(iii) if a gas, including a gas in a liquefied form, are contained in one or more means of containment each of which has a capacity less than or equal to the number shown for them in column 6 of Schedule 1 when that number is expressed in litres.

SOR/2008-34

(2) Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks), Part 5 (Means of Containment), Part 6 (Training), Part 7 (Emergency Response Assistance Plan) and Part 8 (Accidental Release and Imminent Accidental Release Report Requirements) do not apply to the handling, offering for transport or transporting of limited quantities of dangerous goods on a road vehicle, a railway vehicle or a ship on a domestic voyage if

(a) each means of containment is marked on one side, other than a side on which it is intended to rest or to be stacked during transport, with

(i) the words “Limited Quantity” or “quantité limitée”,

(ii) the abbreviation “Ltd. Qty.” or “quant. ltée”, or

(iii) the words “Consumer Commodity” or “bien de consommation”; and

(b) the words or abbreviations are visible and legible and displayed on a contrasting background.

SOR/2008-34

(3) When a limited quantity of dangerous goods is in a means of containment that is inside another means of containment, the inner means of containment is not required to be marked if

(a) the gross mass of the outer means of containment is less than or equal to 30 kg;

(b) the outer means of containment is not intended to be opened during transport; and

(c) the outer means of containment is marked, legibly and visibly on a contrasting background, with

(i) the words “Limited Quantity” or “quantité limitée”,

(ii) the abbreviation “Ltd. Qty.” or “quant. ltée”, or

(vii) the words “Consumer Commodity” or “bien de consommation”.

SOR/2008-34

(4) Instead of the marking required in paragraphs (2)(a) and (3)(c), the means of containment may have displayed on it the UN numbers of the limited quantities of dangerous goods preceded by the letters “UN” placed within a diamond-shaped mark. The line forming the diamond-shaped mark must be black with a width of at least 2 mm. If the dangerous goods have different UN numbers, then the mark must be large enough to include each UN number but in any case each side must not be less than 50 mm. The UN numbers and letters must be at least 6 mm high. The line, UN numbers and letters must be on a contrasting background.

SOR/2008-34

(5) When the gross mass of an accumulation of limited quantities of dangerous goods offered for transport by one consignor to one destination is greater than 500 kg,

(a) the consignor must give to the carrier a document that includes

(i) the words "Limited Quantity" or "quantité limitée",

(ii) the abbreviation "Ltd. Qty." or "quant. ltée", or

(iii) the words "Consumer Commodity" or "bien de consommation"; and

(b) despite subsection (2), the reporting requirements in Part 8, Accidental Release and Imminent Accidental Release Report Requirements, must be complied with.

SOR/2008-34

1.18 Medical Device or Article

These Regulations do not apply to the transport on a road vehicle, a railway vehicle or a ship on a domestic voyage of
SOR/2002-306

(a) a medical device, wheelchair or medical article if
SOR/2022-245

(i) the medical device is attached to or implanted in an individual or an animal, or
SOR/2008-34

(ii) the wheelchair or medical article is in transport and is intended for the personal use of a specific individual,
SOR/2008-34

(b) a radio-pharmaceutical that has been injected in or ingested by an individual or an animal.
SOR/2002-306

1.19 Samples for Inspection or Investigation Exemption
SOR/2008-34

These Regulations do not apply to samples of goods, including forensic samples, that are reasonably believed to be dangerous goods if, for the purposes of inspection or investigation duties under an Act of Parliament or of a provincial legislature, the samples are

(a) in transport under the direct supervision of a federal, provincial or municipal government employee acting in the course of employment; and

(b) in one or more means of containment designed, constructed, filled, closed, secured and maintained so that under normal conditions of transport, including handling, there will be no accidental release of the dangerous goods that could endanger public safety.
SOR/2008-34

1.19.1 Samples Classifying, Analysing or Testing Exemption
SOR/2008-34

Part 2 (Classification), Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks), Part 5 (Means of Containment), Part 6 (Training) and Part 7 (Emergency Response Assistance Plan) do not apply to samples of goods that the consignor reasonably believes to be dangerous goods, but the classification or the exact chemical composition of the goods is unknown and cannot be readily determined if

(a) in the case of

(i) samples that are reasonably believed to be a gas, including a gas in a liquefied form, they are in one or more means of containment in compliance with the requirements for transporting gases in Part 5, Means of Containment, or

(ii) samples that are reasonably believed not to be a gas, they are in one or more means of containment designed, constructed, filled, closed, secured and maintained so that under normal conditions of transport, including handling, there will be no accidental release of the dangerous goods that could endanger public safety;

(b) the samples are in transport for the purposes of classifying, analysing or testing;

(c) the samples are believed not to contain explosives, infectious substances or radioactive materials;

(d) the dangerous goods are contained in one or more means of containment each of which has a gross mass less than or equal to 10 kg;

(e) the samples are accompanied by a document that includes the name and address of the consignor and the words “test samples” or “échantillons d’épreuve”; and

(f) **e**ach means of containment has marked on it the words “test samples” or “échantillons d’épreuve” and the words are legible and displayed on a contrasting background.

SOR/2008-34

1.19.2 Samples Demonstration Exemption

Part 3, Documentation, and Part 4, Dangerous Goods Safety Marks, do not apply to samples of dangerous goods if

(a) in the case of

(i) samples included in Class 2, Gases, they are in one or more means of containment in compliance with the requirements for transporting gases in Part 5, Means of Containment, or

(ii) samples not included in Class 2, Gases, they are in one or more means of containment designed, constructed, filled, closed, secured and maintained so that under normal conditions of transport, including handling, there will be no accidental release of the dangerous goods that could endanger public safety;

(b) the samples are in transport for demonstration purposes;

(c) the samples are in the custody of an agent of the manufacturer or distributor who is acting in the course of employment;

(d) the samples are not for sale;

(e) the samples are not transported in a passenger carrying road vehicle, a passenger carrying railway vehicle, a passenger carrying aircraft or a passenger carrying ship other than a short-run ferry;

(f) the dangerous goods are contained in one or more means of containment each of which has a gross mass less than or equal to 10 kg; and

(g) each means of containment has marked on it the words “demonstration samples” or “échantillons de démonstration” and the words are legible and displayed on a contrasting background.

SOR/2008-34

1.20 National Defence

SOR/2003-273

For the purposes of paragraph 3(4)(a) of the Act, any activity or thing related to the transportation of dangerous goods is under the sole direction or control of the Minister of National Defence if the dangerous goods are in or on a means of transport

(a) owned and operated by the Department of National Defence or operated on behalf of the Department of National Defence by

(i) an employee of the Department of National Defence,

(ii) a member of the Canadian Forces, or

(iii) civilian personnel who are not employed by the Department of National Defence if the means of transport is accompanied at all times by, and is under the direct responsibility of, an employee of the Department of National Defence or a member of the Canadian Forces;

(b) owned and operated by the military establishment of a member country of the North Atlantic Treaty Organization or operated on behalf of such an establishment by

(i) military or civilian personnel of that establishment, or

(ii) civilian personnel who are not employed by that establishment if the means of transport is accompanied at all times by, and is under the direct responsibility of, military or civilian personnel of that establishment; or

(c) owned and operated by the military establishment of another country under an agreement with the Department of National Defence or operated on behalf of such an establishment by

(i) military or civilian personnel of that establishment, or

(ii) civilian personnel who are not employed by that establishment if the means of transport is accompanied at all times by, and is under the direct responsibility of, military or civilian personnel of that establishment.

1.21 Agriculture: 1 500 kg Gross Mass Farm Vehicle Exemption
SOR/2008-34

(1) Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks), Part 5 (Means of Containment) and Part 6 (Training) do not apply to the handling, offering for transport or transporting of dangerous goods on a road vehicle licensed as a farm vehicle if

(a) in the case of

(i) dangerous goods included in Class 2, Gases, they are in one or more means of containment in compliance with the requirements for transporting gases in Part 5, Means of Containment, or

(ii) dangerous goods not included in Class 2, Gases, they are in one or more means of containment designed, constructed, filled, closed, secured and maintained so that under normal conditions of transport, including handling, there will be no accidental release of the dangerous goods that could endanger public safety;

(b) the gross mass of all dangerous goods on the road vehicle is less than or equal to 1 500 kg;

(c) the dangerous goods are to be or have been used by a farmer for farming purposes;

(d) the dangerous goods are transported solely on land and the distance on public roads is less than or equal to 100 km; and

(e) the dangerous goods do not include

(i) Class 1, Explosives, other than explosives included in Class 1.4S,

(ii) Class 2.1, Flammable Gases, in a cylinder with a capacity greater than 46 L,

(iii) Class 2.3, Toxic Gases,

(iv) Class 6.2, Infectious Substances, or

(v) Class 7, Radioactive Materials.

SOR/2008-34

(2) Despite the exemption from Part 3, Documentation, in subsection (1), when an emergency response assistance plan is required under Part 7, Emergency Response Assistance Plan, the dangerous goods for which the plan is required must be accompanied by a shipping document.
SOR/2008-34

1.22 Agriculture: 3 000 kg Gross Mass Farm Retail Exemption
SOR/2008-34

(1) Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks) and Part 5 (Means of Containment) do not apply to the handling, offering for transport or transporting of dangerous goods on a road vehicle if

(a) in the case of

(i) dangerous goods included in Class 2, Gases, they are in one or more means of containment in compliance with the requirements for transporting gases in Part 5, Means of Containment, or

(ii) dangerous goods not included in Class 2, Gases, they are in one or more means of containment designed, constructed, filled, closed, secured and maintained so that under normal conditions of transport, including handling, there will be no accidental release of the dangerous goods that could endanger public safety;

(b) the dangerous goods are transported solely on land between a retail place of purchase and place of destination and the distance on public roads is less than or equal to 100 km;

(c) the gross mass of all dangerous goods on the road vehicle is less than or equal to 3 000 kg;

(d) the dangerous goods are to be or have been used by a farmer for farming purposes; and

(e) the dangerous goods do not include

(i) Class 1, Explosives, other than explosives included in Class 1.4S,

(ii) Class 2.1, Flammable Gases, in a cylinder with a capacity greater than 46 L,

(iii) Class 2.3, Toxic Gases,

(iv) Class 6.2, Infectious Substances, or

(v) Class 7, Radioactive Materials.

SOR/2008-34

(2) Despite the exemption from Part 3, Documentation, in subsection (1), when an emergency response assistance plan is required under Part 7, Emergency Response Assistance Plan, the dangerous goods for which the plan is required must be accompanied by a shipping document.
SOR/2008-34

1.23 Agriculture: Pesticide Exemption

(1) Part 3, Documentation, the requirements for the display of a UN number in section 4.15 of Part 4, Dangerous Goods Safety Marks, and Part 6, Training, do not apply to a solution of pesticides in transport on a road vehicle if

(a) the dangerous goods are transported solely on land for a distance less than or equal to 100 km;

(b) the dangerous goods are in a large means of containment that

(i) has a capacity that is less than or equal to 6 000 L, and
SOR/2008-34

(ii) is used to prepare the dangerous goods for application or to apply the dangerous goods; and

(c) only one large means of containment containing the solution of pesticides is in transport on the road vehicle.

(2) Despite the exemption for documentation in subsection (1), when an emergency response assistance plan is required under Part 7, Emergency Response Assistance Plan, the dangerous goods must be accompanied by a shipping document.

1.24 Agriculture: Anhydrous Ammonia Exemption
SOR/2008-34

Part 3, Documentation, and Part 7, Emergency Response Assistance Plan, do not apply to UN1005, ANHYDROUS AMMONIA, if it is

(a) in transport solely on land and the distance on public roads is less than or equal to 100 km; and

(b) in a large means of containment with a capacity that is less than or equal to 10 000 L and is used for the field application of anhydrous ammonia.

SOR/2008-34

1.25 Transportation within a Facility

These Regulations do not apply to dangerous goods that are transported solely within a manufacturing or processing facility to which public access is controlled.

1.26 Emergency Response Exemption
SOR/2008-34

These Regulations do not apply to dangerous goods that are in quantities necessary to respond to an emergency that endangers public safety and that are in transport in a means of transport that is dedicated to emergency response, unless the dangerous goods are forbidden for transport in Schedule 1, Schedule 3 or, for transport by aircraft, the ICAO Technical Instructions.
SOR/2008-34

1.27 Operation of a Means of Transport or a Means of Containment Exemption
SOR/2008-34

(1) These Regulations do not apply to dangerous goods on a means of transport that are required for

(a) the propulsion of the means of transport and that are

(i) intended to remain on the means of transport until used, and

(ii) contained in a fuel tank permanently installed on the means of transport;

(b) the safety of individuals on board the means of transport;

(c) the operation or safety of the means of transport including, while installed in the means of transport and used or likely to be used for purposes related to transport, air bags, air brakes, flares, lighting, shock absorbers or fire extinguishers; or

(d) ventilation, refrigeration or heating units that are necessary to maintain environmental conditions within a means of containment in transport on the means of transport and are intended to remain with the units or on the means of transport until used.
SOR/2008-34

(2) The exemption in subsection (1) does not apply to

(a) ammunition; or

(b) dangerous goods being delivered to a destination and from which a portion is drawn off during transport for propulsion of the means of transport.

Paragraph (b) is intended to exclude from this exemption dangerous goods that are in transport on a means of transport and from which a portion is used to propel the means of transport. An example is a tank truck delivering liquefied natural gas that uses part of that load of gas to propel the vehicle.
SOR/2008-34

1.28 Transportation between Two Properties

These Regulations do not apply to dangerous goods, other than Class 1, Explosives, or Class 7, Radioactive Materials, that are in transport on a road vehicle between two properties owned or leased by the manufacturer, producer or user of the dangerous goods if ***SOR/2008-34***

(a) the dangerous goods are transported a distance less than or equal to 3 km on a public road;

(b) the road vehicle has displayed on it

(i) the placard for the primary class of each of the dangerous goods, or
SOR/2008-34

(ii) the DANGER placard;

(c) the dangerous goods are in one or more means of containment designed, constructed, filled, closed, secured and maintained so that under normal conditions of transport, including handling, there will be no accidental release of the dangerous goods that could endanger public safety; and
SOR/2008-34

(d) the local police are advised, in writing, of the nature of the dangerous goods no more than 12 months in advance of the transport. ***SOR/2008-34***

Table

Province	Authority
Alberta	the local police and the appropriate provincial authority at 1-800-272-9600
British Columbia	the local police and the Public Emergency Programme at 1-800-663-3456
Manitoba	the Department of Conservation at (204) 945-4888 and either the local police or fire department
New Brunswick	the local police or 1-800-565-1633
Newfoundland	the local police and the Canadian Coast Guard at (709) 772-2083;
Northwest Territories	the appropriate authorities at (867) 920-8130
Nova Scotia	the local police or 1-800-565-1633 or (902) 426-6030
Nunavut Territory	the local police and the Nunavut Emergency Services at 1-800-693-1666
Ontario	the local police
Prince Edward Island	the local police or 1-800-565-1633
Quebec	the local police
Saskatchewan	the local police or 1-800-667-7525
Yukon Territory	the appropriate authorities at (867) 667-7244

1.29 Dangerous Goods in an Instrument or in Equipment Exemption
SOR/2008-34

Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks) and Part 5 (Means of Containment) do not apply to the handling, offering for transport or transporting of dangerous goods that are in transport on a road vehicle, a railway vehicle or a ship on a domestic voyage if

(a) the dangerous goods are contained in, and are not intended to be discharged from, an instrument or equipment that is not dangerous goods itself and that is designed to perform a function other than solely to contain the dangerous goods;

(b) the dangerous goods have a number in column 6 of Schedule 1 and

- **(i)** in the case of a solid, they have a mass that is less than or equal to the number when that number is expressed in kilograms,
- **(ii)** in the case of a liquid, they have a volume that is less than or equal to the number when that number is expressed in litres, and
- **(iii)** in the case of a gas, including a gas in a liquefied form, they are contained in one or more means of containment whose total capacity is less than or equal to the number when that number is expressed in litres; and

(c) despite subparagraphs (b)(i) to (iii), in the case of an explosive

- **(i)** not subject to special provision 85 or 86, the dangerous goods have a net explosives quantity that is less than or equal to the number when that number is expressed in kilograms,
- **(ii)** subject to special provision 85, the dangerous goods are in a quantity that is less than or equal to 15 000 articles, or
- **(iii)** subject to special provision 86, the dangerous goods are in a quantity that is less than or equal to 100 articles.

SOR/2008-34

1.30 Marine: Short-run Ferry Exemption
SOR/2008-34

The requirements of these Regulations that relate solely to the handling, offering for transport or transporting of dangerous goods by ship do not apply to dangerous goods in transport on a road vehicle or railway vehicle that is being transported on board a short-run ferry.
SOR/2008-34

1.31 Class 1, Explosives Exemption
SOR/2008-34

Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks), Part 6 (Training), Part 9 (Road) and Part 10 (Rail) do not apply to the handling, offering for transport or transporting on a road vehicle or a railway vehicle dangerous goods included in Class 1, Explosives, if

(a) the quantity of all the explosives in the road vehicle or railway vehicle that are not subject to special provision 85 or 86, expressed in net explosives quantity, is less than or equal to the number shown in column 6 of Schedule 1 for each of the explosives;

For the purpose of this explanation, suppose the explosives have net explosives quantities NEQ1, NEQ2, NEQ3, etc. and have UN numbers NUM1, NUM2, NUM3, etc. This section is satisfied if the total net explosives quantity of all the explosives taken together (NEQ1+NEQ2+NEQ3+etc.) is less than or equal to the number in column 6 of Schedule 1 for NUM1, and is also less than or equal to the number in column 6 of Schedule 1 for NUM2 and is also less than or equal to the number in column 6 of Schedule 1 for NUM3, etc.

(b) the quantity of all the explosives in the road vehicle or railway vehicle that are subject to special provision 85 or 86, expressed in number of articles, is less than or equal to the number shown in special provision 85 or 86 for each of the explosives;

For the purpose of this explanation, suppose the explosives have number of articles NB1, NB2, NB3, etc. and have UN numbers NUM1, NUM2, NUM3, etc. This section is satisfied if the total number of articles of all the explosives taken together (NB1+NB2+NB3+etc.) is less than or equal to the number shown in special provision 85 or 86 for NUM1, and is also less than or equal to the number shown in special provision 85 or 86 for NUM2, and is also less than or equal to the number shown in the special provision for NUM3, etc.

(c) each means of containment has displayed on it the class, compatibility group and UN number of the explosives contained inside it; and

(d) a placard is displayed in accordance with paragraph 4.15(1)(e) of Part 4, Dangerous Goods Safety Marks, if the explosives are included in Class 1.1, 1.2, 1.3 or 1.5

(i) in any quantity exceeding 10 kg net explosives quantity, or

(ii) in any number of articles exceeding 1 000 for explosives subject to special provision 85 or 86.

SOR/2008-34

1.32 Class 2, Gases, or Ammonia Solutions (Class 8) in Refrigerating Machines Exemption
SOR/2012-245

Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks), Part 5 (Means of Containment), Part 6 (Training), Part 7 (Emergency Response Assistance Plan), Part 8 (Accidental Release and Imminent Accidental Release Report Requirements), Part 9 (Road) and Part 10 (Rail) do not apply to UN2857, REFRIGERATING MACHINES, and refrigerating machine components, containing Class 2.2, Non-flammable, Non-toxic gases or UN2672, AMMONIA SOLUTIONS, if the quantity of gas has a mass that is less than or equal to 12 kg and the quantity of ammonia solutions is less than or equal to 12 L.
SOR/2008-34

Refrigerating machines include air conditioning units and machines or other appliances designed for the specific purpose of keeping food or other items at a low temperature in an internal compartment.
SOR/2008-34

1.32.1 Class 2, Gases, That May Be Identified as UN1075, LIQUEFIED PETROLEUM GAS
SOR/2008-34

(1) The following dangerous goods may be identified by the UN number UN1075 and the shipping name LIQUEFIED PETROLEUM GASES instead of the UN number and shipping name identified for them:
SOR/2012-245

(a) UN1011, BUTANE;

(b) UN1012, BUTYLENE;

(c) UN1055, ISOBUTYLENE;

(d) UN1077, PROPYLENE;

(e) UN1969, ISOBUTANE; and

(f) UN1978, PROPANE.

SOR/2008-34

(2) The shipping name of the dangerous goods listed in paragraphs (1)(a) to (f) may be shown on the shipping document, in parentheses, following the words LIQUEFIED PETROLEUM GASES.
SOR/2012-245

(3) If either UN1077, PROPYLENE, or UN1978, PROPANE, is to be transported on a road vehicle or railway vehicle on board a ship and is identified as LIQUEFIED PETROLEUM GASES on the shipping document in accordance with subsection (1), the shipping name PROPYLENE or PROPANE, as appropriate, must be shown on the shipping document, in parentheses, following the words LIQUEFIED PETROLEUM GASES.
SOR/2012-245

1.32.2 Class 2, Gases, Absolute Pressure between 101.3 kPa and 280 kPa
SOR/2012-245

Gases that are at an absolute pressure between 101.3 kPa and 280 kPa at 20°C, other than gases included in Class 2.1 or Class 2.3, may be handled, offered for transport or transported on a road vehicle, a railway vehicle or a ship on a domestic voyage as Class 2.2, Non-flammable, Non-toxic gas. In that case, the requirements of these Regulations that relate to gases included in Class 2.2 must be complied with.
SOR/2012-245

1.32.3 Class 2, Gases, in Small Means of Containment Exemption
SOR/2008-34

Part 3, Documentation, and Part 6, Training, do not apply to dangerous goods that are transported in one or more small means of containment on a road vehicle solely on land if

(a) the dangerous goods are

- **(i)** UN1001, ACETYLENE, DISSOLVED,
- **(ii)** UN1002, AIR, COMPRESSED,
- **(iii)** UN1006, ARGON, COMPRESSED,
- **(iv)** UN1013, CARBON DIOXIDE,
- **(v)** UN1060, METHYLACETYLENE AND PROPADIENE MIXTURE, STABILIZED,
- **(vi)** UN1066, NITROGEN, COMPRESSED,
- **(vii)** UN1072, OXYGEN, COMPRESSED, or
- **(viii)** UN1978, PROPANE;

(b) the dangerous goods are contained in no more than five small means of containment;

(c) the gross mass of the dangerous goods is less than or equal to 500 kg; and

(d) the labels displayed on the small means of containment can be seen from outside the road vehicle.

SOR/2008-34

1.33 Class 3, Flammable Liquids: General Exemption
SOR/2008-34

Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks), Part 5 (Means of Containment), Part 6 (Training), Part 7 (Emergency Response Assistance Plan), Part 9 (Road) and Part 10 (Rail) do not apply to the handling, offering for transport or transporting of dangerous goods included in Class 3, Flammable Liquids, on a road vehicle, a railway vehicle or a ship on a domestic voyage if the dangerous goods

(a) have no subsidiary class;

(b) are included in Packing Group III and have a flash point greater than 37.8°C; and

(c) are in one or more small means of containment designed, constructed, filled, closed, secured and maintained so that under normal conditions of transport, including handling, there will be no accidental release of the dangerous goods that could endanger public safety.

SOR/2008-34

1.34 Class 3, Flammable Liquids, Flash Point Greater Than 60°C but Less Than or Equal to 93°C

SOR/2008-34

Substances that have a flash point greater than 60°C but less than or equal to 93°C may be transported on a road vehicle, a railway vehicle or a ship on a domestic voyage as Class 3, Flammable Liquids, Packing Group III. In that case, the requirements of these Regulations that relate to flammable liquids that have a flash point less than or equal to 60°C must be complied with.
SOR/2008-34

1.34.1 UN1203, GASOLINE, to Operate an Instrument or Equipment Exemption

SOR/2008-34

Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks), Part 5 (Means of Containment) and Part 6 (Training) do not apply to the handling, offering for transport or transporting of UN1203, GASOLINE, that is in transport on a road vehicle, a railway vehicle or a ship on a domestic voyage if the dangerous goods are in a fuel tank with a capacity less than or equal to 200 L that is permanently attached to a machine operated by fuel from that tank.
SOR/2008-34

1.35 UN1202, DIESEL FUEL, or UN1203, GASOLINE, Exemption

SOR/2008-34

Part 3 (Documentation), the UN number requirements in section 4.15 of Part 4 (Dangerous Goods Safety Marks), and Part 6 (Training) do not apply to the handling, offering for transport or transporting on a road vehicle of dangerous goods that are UN1202, DIESEL FUEL or UN1203, GASOLINE, if

(a) the dangerous goods are in one or more means of containment, each of which is visible from outside the road vehicle and each of which has displayed on it

- **(i)** the label or placard required for the dangerous goods by Part 4, Dangerous Goods Safety Marks, or
- **(ii)** if a side or end of the means of containment is not visible from outside the road vehicle, the label or placard required for the dangerous goods by Part 4, Dangerous Goods Safety Marks, on a side or end that is visible from outside the road vehicle;

(b) each means of containment is secured to the road vehicle so that the required label or at least one of the required placards displayed on it is visible from outside the road vehicle during transport; and

(c) the total capacity of all the means of containment is less than or equal to 2 000 L.

SOR/2008-34

1.36 Class 3, Flammable Liquids, Alcoholic Beverage and Aqueous Solution of Alcohol Exemption

SOR/2008-34

Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks), Part 5 (Means of Containment), Part 6 (Training), Part 7 (Emergency Response Assistance Plan), Part 8 (Accidental Release and Imminent Accidental Release Report Requirements), Part 9 (Road) and Part 10 (Rail) do not apply to the handling, offering for transport or transporting on a road vehicle, a railway vehicle or a ship on a domestic voyage of

(a) an alcoholic beverage if the alcoholic beverage

- **(i)** contains alcohol that is less than or equal to 24 per cent by volume,
- **(ii)** is included in Packing Group II and is in a means of containment with a capacity that is less than or equal to 5 L, or
- **(iii)** is included in Packing Group III and is in a means of containment with a capacity that is less than or equal to 250 L; or

(b) an aqueous solution of alcohol if the aqueous solution has a flash point greater than 23°C and

- **(i)** contains alcohol that is less than or equal to 50 per cent by volume and at least 50 per cent by volume of a substance that is not dangerous goods, and
- **(ii)** is contained in a small means of containment.

SOR/2008-34

1.37 ***Repealed*** ***SOR/2008-34***

1.38 Polyester Resin Kit Exception
SOR/2008-34

Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks), Part 5 (Means of Containment), Part 6 (Training), Part 7 (Emergency Response Assistance Plan), Part 8 (Accidental Release and Imminent Accidental Release Report Requirements), Part 9 (Road) and Part 10 (Rail) do not apply to the handling, offering for transport or transporting of a polyester resin kit that consists of a substance included in Class 3, Packing Group II or III and a substance included in Class 5.2, Type D, E or F that does not require temperature control if
SOR/2008-34

(a) the kit is in transport on a road vehicle, a railway vehicle or a ship on a domestic voyage;

(b) the gross mass of the kit is less than or equal to 30 kg;

(c) the quantity of Class 3 substance in the kit is less than or equal to

- **(i)** 1 L for Packing Group II substances, and
- **(ii)** 5 L for Packing Group III substances; and

(d) the quantity of Class 5.2 substance in the kit is less than or equal to

- **(i)** 125 mL for liquids, and
- **(ii)** 500 g for solids.

1.39 Class 6.2, Infectious Substances, Category B Exemption
SOR/2008-34

Part 3, Documentation, and Part 7, Emergency Response Assistance Plan, do not apply to the handling, offering for transport or transporting of infectious substances that are included in Category B if

(a) one external surface of the means of containment for the substances is flat and measures at least 100 mm × 100 mm;

(b) the means of containment is in compliance with Part 5, Means of Containment, and has displayed on the external surface

- **(i)** the mark illustrated in Part 4, Dangerous Goods Safety Marks, for infectious substances included in Category B, and
- **(ii)** the shipping name, on a contrasting background, next to the mark in letters at least 6 mm high; and

(c) the 24-hour telephone number required under paragraph 3.5(1)(f) is displayed next to the shipping name on the means of containment.

SOR/2008-34

1.40 ***Repealed*** ***SOR/2008-34***

1.41 Biological Products Exemption
SOR/2008-34

Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks), Part 5 (Means of Containment), Part 6 (Training), Part 7 (Emergency Response Assistance Plan) and Part 8 (Accidental Release and Imminent Accidental Release Report Requirements) do not apply to the handling, offering for transport or transporting of biological products if they

(a) are prepared in accordance with the requirements set out under the "Food and Drugs Act";

(b) are in a means of containment

(i) that is a Type 1B means of containment, or

(ii) that is designed, constructed, filled, closed, secured and maintained so that under normal conditions of transport, including handling, there will be no accidental release of the dangerous goods that could endanger public safety; and

(c) the means of containment is marked with the words "Biological Product" or "Produit biologique" in black letters at least 6 mm high on a contrasting background.

SOR/2008-34

1.42 Human or Animal Specimens Believed Not to Contain Infectious Substances Exemption
SOR/2008-34

(1) Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks), Part 5 (Means of Containment), Part 6 (Training), Part 7 (Emergency Response Assistance Plan) and Part 8 (Accidental Release and Imminent Accidental Release Report Requirements) do not apply to the handling, offering for transport or transporting of human or animal specimens that a person has no reason to believe contain infectious substances.

Professional judgment is required to determine if a specimen is exempt under this section. Factors such as the known medical history, symptoms and individual circumstances of the source, human or animal, and endemic local conditions should be considered. Examples of specimens that may be transported under this section include

- *blood or urine specimens to monitor cholesterol levels, blood glucose levels, hormone levels, prostate-specific antigens (PSA) or organ function*;
- *specimens to determine the presence of drugs or alcohol for insurance or employment purposes;*
- *pregnancy tests;*
- *biopsies to detect cancer; and*
- *specimens for antibody detection in humans or animals.*

SOR/2008-34

(2) The human or animal specimens referred to in subsection (1) must be in a means of containment that is marked with the words "Exempt Human Specimen" or "spécimen humain exempté" or "Exempt Animal Specimen" or "spécimen animal exempté" and

(a) that is a Type 1B means of containment or Type 1C means of containment; or

(b) that is designed, constructed, filled, closed, secured and maintained so that under normal conditions of transport, including handling, there will be no release of the specimen.

SOR/2008-34

1.42.1 Tissues or Organs for Transplant Exemption
SOR/2008-34

These Regulations do not apply to the handling, offering for transport or transporting of tissues or organs for transplant.
SOR/2008-34

1.42.2 Blood or Blood Components Exemption
SOR/2008-34

(1) Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks), Part 5 (Means of Containment), Part 6 (Training), Part 7 (Emergency Response Assistance Plan) and Part 8 (Accidental Release and Imminent Accidental Release Report Requirements) do not apply to the handling, offering for transport or transporting of blood or blood components that are intended for transfusion or for the preparation of blood products and are reasonably believed not to contain infectious substances.

SOR/2008-34

(2) The blood or blood components referred to in subsection (1) must be in a means of containment

- **(a)** that is a Type 1B means of containment or Type 1C means of containment; or
- **(b)** that is designed, constructed, filled, closed, secured and maintained so that under normal conditions of transport, including handling, there will be no release of the blood or blood components. ***SOR/2008-34***

1.43 Class 7, Radioactive Materials Exemption
SOR/2008-34

Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks), Part 5 (Means of Containment), Part 6 (Training), Part 7 (Emergency Response Assistance Plan), Part 9 (Road), Part 10 (Rail), Part 11 (Marine) and Part 12 (Air) do not apply to the handling, offering for transport or transporting of Class 7, Radioactive Materials, if the radioactive materials

- **(a)** satisfy the conditions in the “Packaging and Transport of Nuclear Substances Regulations” to be transported in an excepted package;
- **(b)** are in an excepted package; and
- **(c)** are accompanied by a document that includes the shipping name and UN number of the radioactive materials.

SOR/2008-34

1.44 Dangerous Goods in a Drum
SOR/2008-34

Part 2 (Classification), Part 3 (Documentation), Part 4 (Dangerous Goods Safety Marks) and Part 7 (Emergency Response Assistance Plan) do not apply to a residue of dangerous goods contained in a drum that is in transport on a road vehicle, a railway vehicle or a ship on a domestic voyage, except for dangerous goods included in Packing Group I or contained in a drum otherwise requiring a label for Class 1, 4.3, 6.2 or 7, if
SOR/2008-34

- **(a)** the drum has been emptied to the maximum extent possible in the course of normal use and is less than 10 per cent full;
- **(b)** the drum is being transported for the purpose of reconditioning or refilling in accordance with CGSB-43.150;
- **(c)** when more than 10 drums are on the road vehicle or on the railway vehicle, the road vehicle or railway vehicle has displayed on it the DANGER placard in accordance with Part 4, Dangerous Goods Safety Marks; and
  SOR/2002-306
- **(d)** the drums are accompanied by a document that includes the following information:
  - **(i)** the primary class of each residue followed by the words “Residue Drum(s)” or “fût(s) de résidu” when the primary class can be reasonably determined, preceded by the number of drums containing dangerous goods with that primary class, and

    Examples: 14 Class 3 Residue Drums
    1 Class 8 Residue Drum
  - **(ii)** the words “Residue Drum(s) – Content(s) Unknown” or “fût(s) de résidu – contenu inconnu” if there are any residues for which the primary class cannot be reasonably determined, preceded by the number of drums containing the residues.

    Example: 3 Residue Drums — Contents Unknown

  SOR/2008-34

1.45 Fumigation of Means of Containment

These Regulations, except for subsection 3.5(3) of Part 3, Documentation, and section 4.21 of Part 4, Dangerous Goods Safety Marks, do not apply to a means of containment, or the contents of a means of containment, that is being fumigated with dangerous goods and that is in transport if the fumigant is the only dangerous goods in transport in the means of containment.

1.45.1 Marine Pollutants Exemption

SOR/2008-34

Part 3, Documentation, and Part 4, Dangerous Goods Safety Marks, do not apply to substances that are classified as marine pollutants in accordance with section 2.43 of Part 2, Classification, if they are in transport solely on land by road vehicle or railway vehicle. However, substances may be identified as marine pollutants on a shipping document and the required dangerous goods safety marks may be displayed when they are in transport by road or railway vehicle.

SOR/2008-34

1.46 Miscellaneous Special Cases

These Regulations do not apply to the following dangerous goods:

(a) ammoniating fertilizer solutions with an absolute pressure of ammonia less than or equal to 276 kPa at 41°C;

(b) antimony oxides and antimony sulphides with 0.5 per cent or less arsenic by mass;

(c) charcoal or carbons that are

- **(i)** non-activated carbon blacks of mineral origin,
- **(ii)** carbons made by a steam activation process, or
- **(iii)** activated or non-activated carbons that pass the self-heating test for carbon in section 33.3.1.3.3 of the Manual of Tests and Criteria;

(d) cinnabar;

(e) cyclohexanone peroxides with 70 per cent or more inert inorganic solid, by mass;

(f) Di-4-chlorobenzoyl peroxide or p-chlorobenzoyl peroxide with 70 per cent or more inert inorganic solid, by mass;

(g) 1,3-Di-(2-tert-butylperoxyisopropyl) benzene or 1,4-Di-(2-tert-butylperoxyisopropyl) benzene, or mixtures of both, 60 per cent or more, by mass, of which consists of an inert solid, if the substance is in a means of containment in a total quantity less than or equal to 200 kg;

(h) dibenzoyl peroxide or benzoyl peroxide that is in a concentration less than 35.5 per cent, by mass, with finely ground starch, calcium sulphate dihydrate or dicalcium phosphate dihydrate, or that is in a concentration less than 30 per cent, by mass, with 70 per cent or more, by mass, inert solid;

(i) dicumyl peroxide with 60 per cent or more inert inorganic solid, by mass;

(j) ferricyanides and ferrocyanides;

(k) fish-meal that is acidified and is wetted with 40 per cent or more water, by mass;

(l) mercurous chloride;

(m) ***Repealed*** ***SOR/2008-34***

(n) sodium dichloroisocyanurate dihydrate;

(o) solvent extracted soya bean meal free of flammable solvent and containing 1.5 per cent or less oil, by mass, and 11 per cent or less moisture, by mass; or

(p) wood or wood products treated with wood preservatives.

1.47 UN1044, FIRE EXTINGUISHERS, Exemption

SOR/2008-34

Paragraphs 5.10(1)(a), (b) and (d) and subsection 5.10(2) of Part 5, Means of Containment, do not apply to the handling, offering for transport or transporting of UN1044, FIRE EXTINGUISHERS, on a road vehicle, a railway vehicle or a ship on a domestic voyage if the fire extinguishers
SOR/2012-245

(a) do not contain dangerous goods included in Class 2.3, Class 6.1 or Class 8;

(b) are contained in an outer means of containment;

(c) have a capacity less than 18 L or, if they contain liquefied gas, a capacity less than 0.6 L;

(d) have an internal pressure less than or equal to 1 650 kPa at 21°C; and

(e) are manufactured, tested, maintained, marked and used in accordance with ULC Standard S504, ULC Standard S507, ULC Standard S512 or ULC Standard S554.

1.48 Air Ambulance Exemption

SOR/2008-34

These Regulations, except for Part 8, Accidental Release and Imminent Accidental Release Report Requirements, do not apply to dangerous goods required for patient care on an aircraft if

(a) the aircraft is configured as an air ambulance and is used only as an air ambulance;

(b) the transport of the dangerous goods is not forbidden in Schedule 1, Schedule 3 or the ICAO Technical Instructions;

(c) the dangerous goods are under the control of a health care professional or a person who is trained in accordance with Part 6, Training;

(d) in the case of

- **(i)** dangerous goods included in Class 2, Gases, they are in one or more small means of containment in compliance with the requirements for transporting gases in Part 5, Means of Containment, or

- **(ii)** dangerous goods not included in Class 2, Gases, they are in one or more small means of containment designed, constructed, filled, closed, secured and maintained so that under normal conditions of transport, including handling, there will be no accidental release of the dangerous goods that could endanger public safety; and

(e) the means of containment are secured to prevent unintended movement during transport.

SOR/2008-34

PART 2

CLASSIFICATION

TABLE OF CONTENTS

Class 3, Flammable Liquids

Class 4, Flammable Solids; Substances Liable to Spontaneous Combustion; Substances That on Contact with Water Emit Flammable Gases (Water-reactive Substances)

Class 5, Oxidizing Substances and Organic Peroxides

Class 6, Toxic and Infectious Substances

Class 7, Radioactive Materials

CLASSIFICATION

Definitions

Definitions for the following terms, used in this Part, are provided in Part 1, Coming into Force, Repeal, Interpretation, General Provisions and Special Cases:

accidental release
carrier
Category A ***SOR/2008-34***
Category B ***SOR/2008-34***
class
classification
compatibility group
consignor
culture ***SOR/2008-34***
dangerous goods
dust
fire point
flash point
gas
genetically modified micro-organism
ICAO Technical Instructions
IMDG Code
import
infectious substance
in transport
LC_{50}
LD_{50} *(dermal)*
LD_{50} *(oral)*
liquid
Manual of Tests and Criteria
means of containment
mist
offer for transport
packing group
primary class
public safety
railway vehicle
road vehicle
ship
shipping name
solid
subsidiary class
substance
UN number
UN Recommendations
vapour

2.1 Determining When Substances Are Dangerous Goods

A substance is dangerous goods when

(a) it is listed by name in Schedule 1 and is in any form, state or concentration that meets the criteria in this Part for inclusion in at least one of the 9 classes of dangerous goods; or

(b) it is not listed by name in Schedule 1 but meets the criteria in this Part for inclusion in at least one of the 9 classes of dangerous goods.

2.2 Responsibility for Classification

The consignor is responsible for determining the classification of dangerous goods. This activity is normally done by, or in consultation with, a person who understands the nature of the dangerous goods such as a manufacturer, a person who formulates, blends or otherwise prepares mixtures or solutions of goods or, in the case of infectious substances, a doctor, scientist, veterinarian, epidemiologist, genetic engineer, microbiologist, pathologist, nurse, coroner or laboratory technologist or technician.

(1) Before allowing a carrier to take possession of dangerous goods for transport, the consignor must determine the classification of the dangerous goods in accordance with this Part.

(2) When importing dangerous goods into Canada, the consignor must ensure that they have the correct classification before they are transported in Canada.

(3) A consignor may use a classification that was determined by

(a) for Class 1, Explosives, the Chief Inspector of Explosives, Department of Natural Resources;

(b) for Class 6.2, Infectious Substances, the Director, Office of Biosafety, Health Canada, or the Director, Biohazard Containment and Safety, Canadian Food Inspection Agency;

(c) a previous consignor of the dangerous goods; or

(d) the manufacturer.

(4) A consignor may use the appropriate classification in the ICAO Technical Instructions, the IMDG Code or the UN Recommendations to transport dangerous goods within Canada by a road vehicle, a railway vehicle or a ship on a domestic voyage if these Regulations or the document from which the classification is taken does not forbid their transport.

(5) If an error in classification is noticed or if there are reasonable grounds to suspect an error in classification, the consignor must not allow a carrier to take possession of the dangerous goods for transport until the classification has been verified or corrected.

(6) A carrier who notices an error in classification or has reasonable grounds to suspect an error in classification while the dangerous goods are in transport must advise the consignor and must stop transporting the dangerous goods until the consignor verifies or corrects the classification. The consignor must immediately verify or correct the classification and ensure that the carrier is provided with the verified or corrected classification.

When reading sections 2.3 to 2.6, it is useful to remember that the word "classification" is defined in Part 1, Coming Into Force, Repeal, Interpretation, General Provisions and Special Cases, and means, as applicable, the shipping name, the primary class, the compatibility group, the subsidiary class, the UN number, the packing group and the infectious substance category.

SOR/2008-34

2.3 Classifying Substances That Are Listed by Name in Schedule 1

If a name of dangerous goods is shown as a shipping name in column 2 of Schedule 1, that name must be used as the shipping name. That shipping name and the corresponding data for that shipping name in columns 1, 3 and 4 of Schedule 1 must be used as the classification of the dangerous goods.

For example, the name ACETONE is shown in column 2 of Schedule 1. ACETONE is the shipping name. The class, 3, is shown in column 3, the UN number, UN1090, is shown in column 1 and the packing group, II, is shown in column 4. Similarly, the name CHARGES, DEPTH, is shown in
column 2 of Schedule 1. CHARGES, DEPTH, is the shipping name. The class, 1.1D, is shown in column 3, the UN number, UN0056, is shown in column 1 and the packing group, II, is shown in column 4.

2.4 Classifying Substances That Are Included in Only One Class and One Packing Group

If, in accordance with the criteria and tests in this Part, a substance is included in only one class and one packing group, the substance is dangerous goods and the shipping name in column 2 of Schedule 1 that most precisely describes the dangerous goods and that is most consistent with the class and the packing group determined by the criteria and tests must be selected as the shipping name.
That shipping name and the corresponding data for that shipping name in columns 1, 3 and 4 of Schedule 1 must be used as the classification of the dangerous goods.

2.5 Classifying Substances That Are Included in More Than One Class or Packing Group

The word "potential" is used in paragraphs (a), (b) and (c) of this section because the final subsidiary class or classes and the final packing group are determined in accordance with paragraph (d).

If, in accordance with the criteria and tests in this Part, a substance meets the criteria for inclusion in more than one class or packing group, the substance is dangerous goods and its classification is determined in the following manner:

(a) the classes in which the dangerous goods are included are ranked in order of precedence in accordance with section 2.8 to determine the primary class and the potential subsidiary class or classes;

(b) the potential packing group is the one with the lowest roman numeral;

(c) the shipping name in column 2 of Schedule 1 that most precisely describes the dangerous goods and for which the corresponding data in columns 1, 3 and 4 are the most consistent with the primary class, the potential subsidiary class or classes and the potential packing group is selected; and
SOR/2008-34

(d) the shipping name and the corresponding data in columns 1, 3 and 4 of Schedule 1 are used as the classification of the dangerous goods.

2.5.1 Descriptive Text Following a Shipping Name

SOR/2008-34

When applying section 2.4 or 2.5, the descriptive text written in lower case letters following a shipping name must be used in determining the shipping name that most precisely describes the dangerous goods.
SOR/2008-34

2.6 Classifying a Mixture or Solution

A mixture or solution of substances that are not dangerous goods and one substance that is dangerous goods and that is listed by name in Schedule 1 has the classification shown for the dangerous goods in that Schedule if the mixture or solution is still dangerous goods in accordance with paragraph 2.1(a) and the mixture or solution is not identified by a shipping name in Schedule 1. However, if the classification for the dangerous goods does not precisely describe the mixture or solution but the mixture or solution meets the criteria in this Part for inclusion in at least one of the 9 classes of dangerous goods, then sections 2.4 and 2.5 must be used to determine its classification.

2.7 Marine Pollutants

(1) A substance that is not a mixture or solution is a marine pollutant if

(a) there is the letter "P" (marine pollutant) or there are the letters "PP" (severe marine pollutant) in column 10 of Schedule 1 opposite the shipping name of the substance;

(b) the substance is listed by name in column 1 of Appendix 1, Marine Pollutants, to this Part; or

(c) the substance meets the criteria for a marine pollutant in accordance with the IMDG Code.

(2) A mixture or solution is a marine pollutant if it contains

(a) 1 per cent or more of a severe marine pollutant; or

(b) 10 per cent or more of a marine pollutant as determined under paragraph (a) or under subsection (1).

(3) When a shipping name has opposite it in column 10 of Schedule 1 the symbol *"•"*, the consignor must determine, in accordance with subsections (1) and (2), if the substance to be transported under the shipping name is a marine pollutant or a severe marine pollutant.

A shipping name may cover several distinct substances, one of which may be a marine pollutant while others are not. In this case, the shipping name has opposite it the symbol "•". Depending upon the actual substance, the requirements related to a marine pollutant may apply.

Marine pollutants and severe marine pollutants are required to be identified on a shipping document in Part 3, Documentation, and on a means of containment in Part 4, Dangerous Goods Safety Marks.

2.8 Precedence of Classes

(1) When dangerous goods meet the criteria for inclusion in more than one class but meet the criteria for inclusion in only one of the following classes, that one class is the primary class. The classes are

(a) Class 1, Explosives, except for the following dangerous goods for which Class 1 is a subsidiary class:

(i) UN3101, ORGANIC PEROXIDE TYPE B, LIQUID,

- **(ii)** UN3102, ORGANIC PEROXIDE TYPE B, SOLID,
- **(iii)** UN3111, ORGANIC PEROXIDE TYPE B, LIQUID, TEMPERATURE CONTROLLED,
- **(iv)** UN3112, ORGANIC PEROXIDE TYPE B, SOLID, TEMPERATURE CONTROLLED,
- **(v)** UN3221, SELF-REACTIVE LIQUID TYPE B,
- **(vi)** UN3222, SELF-REACTIVE SOLID TYPE B,
- **(vii)** UN3231, SELF-REACTIVE LIQUID TYPE B, TEMPERATURE CONTROLLED, and
- **(viii)** UN3232, SELF-REACTIVE SOLID TYPE B, TEMPERATURE CONTROLLED;

(b) Class 2, Gases, and within this class, Class 2.3, Toxic Gases, takes precedence over Class 2.1, Flammable Gases, and Class 2.1, Flammable Gases, takes precedence over Class 2.2, Non-flammable and Non-toxic Gases;

(c) Class 4.1, Flammable Solids, desensitized explosives included in Packing Group I or self-reactive substances;

(d) Class 4.2, Substances Liable to Spontaneous Combustion, pyrophoric solids or liquids included in Packing Group I;

(e) Class 5.2, Organic Peroxides;

(f) Class 6.1, Toxic Substances, that are included in Packing Group I, due to inhalation toxicity;

(g) Class 6.2, Infectious Substances; and

(h) Class 7, Radioactive Materials.

If a substance meets the criteria for inclusion in more than one of the classes identified in subsection (1), the person doing the classification may seek assistance by contacting Transport Canada, Transport Dangerous Goods Directorate, through CANUTEC at 613-992-4624.

(2) Despite paragraph (1)(f), Class 8 is the primary class when a substance meets the criteria for inclusion in

(a) Class 8, Corrosives;

(b) Packing Group I due to inhalation toxicity of dusts or mists; and

(c) Packing Group III due to oral or dermal toxicity.

(3) A consignor must determine the order of precedence among classes that are not listed in subsection (1) in accordance with the following table, except that Class 6.1 takes precedence if a substance is a pesticide under the “Pesticide Act” and is included in Class 6.1, Packing Group III, and in Class 3, Packing Group III.

Example of How to Use the Precedence of Classes Table

Suppose that, after testing, it is found that a substance meets the criteria for inclusion in Class 3, Packing Group I, in Class 8 (L for liquid), Packing Group II, and in Class 6.1, Packing Group II, dermal toxicity. The potential packing group is Packing Group I because it has the lowest roman numeral (see paragraph 2.5(b)).

To determine the primary class, compare the classes two at a time. As the first combination, consider Class 3, Packing Group I, and Class 8, Packing Group II (L for liquid). Go to the table and find Class 3, Packing Group I, in the extreme left column. Follow that line across to the column on the right that refers to Class 8, Packing Group II (L for liquid). The class that takes precedence is the one at the point where the lines intersect in the column. In this combination Class 3 takes precedence over Class 8. Class 8 is set aside.

Class	Packing Group / Code	4.2	4.3	5.1	5.1	5.1	6.1	6.1	6.1	6.1	8	8	8	8	8	8
	Packing Group	All	All	I	II	III	I	I	II	III	I	I	II	II	III	III
	Code						D	O	X	X	L	S	L	S	L	S
3	I						3	3	3	3	3	-	3	-	3	-

Do the same thing with the combination of Class 3, Packing Group I, and Class 6.1, Packing Group II (D for dermal). In this combination Class 3 takes precedence. Class 6.1 is set aside, leaving Class 3 as the primary class.

Class	Packing Group / Code	4.2	4.3	5.1	5.1	5.1	6.1	6.1	6.1	6.1	8	8	8	8	8	8
	Packing Group	All	All	I	II	III	I	I	II	III	I	I	II	II	III	III
	Code						D	O	X	X	L	S	L	S	L	S
3	I						3	3	3	3	3	-	3	-	3	-

As there is no precedence between or among subsidiary classes, each of Class 6.1 and Class 8 is a potential subsidiary class.

Conclusion: In this example, the primary class is Class 3, each of Class 6.1 and Class 8 is a potential subsidiary class and the potential packing group is Packing Group I. The word "potential" is used here because the final subsidiary class or classes and the final packing group are determined in accordance with paragraph 2.5(d).

Table

Precedence of Classes

Class and Packing Group

Spaces in the table denote impossible combinations.

Class	Packing Group	Code	4.2	4.3	5.1	5.1	5.1	6.1	6.1	6.1	6.1	8	8	8	8	8	8
			All	All	I	II	III	I	I	II	III	I	I	II	II	III	III
								D	O	X	X	L	S	L	S	L	S
3	I							3	3	3	3	3		3		3	
3	II							3	3	3	3	8		3		3	
3	III							6.1	6.1	6.1	3	8		8		3	
4.1	II		4.2	4.3	5.1	4.1	4.1	6.1	6.1	4.1	4.1		8		4.1		4.1
4.1	III		4.2	4.3	5.1	4.1	4.1	6.1	6.1	6.1	4.1		8		8		4.1
4.2	II			4.3	5.1	4.2	4.2	6.1	6.1	4.2	4.2	8	8	4.2	4.2	4.2	4.2
4.2	III			4.3	5.1	5.1	4.2	6.1	6.1	6.1	4.2	8	8	8	8	4.2	4.2
4.3	I				5.1	4.3	4.3	6.1	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
4.3	II				5.1	4.3	4.3	6.1	4.3	4.3	4.3	8	8	4.3	4.3	4.3	4.3
4.3	III				5.1	5.1	4.3	6.1	6.1	6.1	4.3	8	8	8	8	4.3	4.3
5.1	I							5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
5.1	II							6.1	5.1	5.1	5.1	8	8	5.1	5.1	5.1	5.1
5.1	III							6.1	6.1	6.1	5.1	8	8	8	8	5.1	5.1
6.1	I	D										8	6.1	6.1	6.1	6.1	6.1
6.1	I	O										8	6.1	6.1	6.1	6.1	6.1
6.1	II	i										8	6.1	6.1	6.1	6.1	6.1
6.1	II	D										8	6.1	6.1	6.1	6.1	6.1
6.1	II	O										8	8	8	6.1	6.1	6.1
6.1	III	X										8	8	8	8	8	8

Code: D = dermal
O = oral
i = by inhalation
X = any route of exposure - D, O or i

State: L = liquid
S = solid

Class 1, Explosives

2.9 General

Substances are included in Class 1, Explosives, if they are

(a) capable, by chemical reaction, of producing gas at a temperature, pressure and speed that would damage the surroundings; or

(b) designed to produce an explosive or pyrotechnic effect by heat, light, sound, gas or smoke or a combination of those means as a result of non-detonative, self-sustaining exothermic chemical reactions.

2.10 Divisions

Class 1, Explosives, has six divisions:

(a) Class 1.1, mass explosion hazard;

(b) Class 1.2, projection hazard but not a mass explosion hazard;

(c) Class 1.3, fire hazard and either a minor blast hazard or a minor projection hazard or both but not a mass explosion hazard;

(d) Class 1.4, no significant hazard beyond the package in the event of ignition or initiation during transport;

(e) Class 1.5, very insensitive substances with a mass explosion hazard; and

(f) Class 1.6, extremely insensitive articles with no mass explosion hazard.

2.11 Compatibility Groups

Explosives are divided into 13 compatibility groups as described in Appendix 2, Description of Compatibility Groups, Class 1, Explosives, to this Part.

Compatibility groups are used to determine which explosives may be transported together. See section 5.7 of Part 5, Means of Containment.

2.12 Packing Groups

Explosives are included in Packing Group II.

Class 2, Gases

2.13 General

A substance is included in Class 2, Gases, if it is

(a) a gas included in one of the three divisions set out in section 2.14;
SOR/2008-34

(b) a mixture of gases;

(c) a mixture of one or more gases with one or more vapours of substances included in other classes;

(d) an article charged with a gas;

(e) tellurium hexafluoride; or

(f) an aerosol.

2.14 Divisions

Class 2, Gases, has three divisions:

(a) Class 2.1, Flammable Gases, which consists of gases that, at 20°C and an absolute pressure of 101.3 kPa,

(i) are ignitable when in a mixture of 13 per cent or less by volume with air, or

(ii) have a flammability range with air of at least 12 percentage points determined in accordance with tests or calculations in ISO 10156;

(b) Class 2.2, Non-flammable and Non-toxic Gases, which consists of gases that are transported at an absolute pressure greater than or equal to 280 kPa at 20°C, or as refrigerated liquids, and that are not included in Class 2.1, Flammable Gases, or Class 2.3, Toxic Gases; and

(c) Class 2.3, Toxic Gases, which consists of gases that

(i) are known to be toxic or corrosive to humans according to CGA P-20, ISO Standard 10298 or other documentary evidence published in technical journals or government publications, or

(ii) have an LC_{50} value less than or equal to 5 000 mL/m^3.

2.15 Packing Groups

There are no packing groups for Class 2, Gases.

2.16 Determination of LC_{50}

LC_{50} values for a single or pure gas or for a mixture of gases must be determined

(a) by using LC_{50} values published in CGA P-20, ISO Standard 10298, technical journals or government publications;

(b) in accordance with paragraphs 2.2.3(b) and (c) of Chapter 2.2 of the UN Recommendations; or

(c) for a mixture of gases, in accordance with section 2.17.

2.17 Determination of LC_{50} of a Mixture of Gases

This section provides a method for making an acceptable approximation of the LC_{50} of a mixture of gases. The methods in paragraphs 2.16(a) and (b) are more exact.

To determine the LC_{50} of a mixture of gases when the LC_{50} of each of the gases is known, use 5 000 mL/m^3 as the toxic limit and,

(a) if the mixture contains only one gas with an LC_{50} less than or equal to the toxic limit (called “Gas A”), use the following calculation:

$$LC_{50} \text{ of the mixture} = \frac{LC_{50} \text{ of Gas A}}{\text{fraction by volume of Gas A in the mixture}}$$

or

(b) if the mixture contains more than one gas with an LC_{50} less than or equal to the toxic limit (called “Gas A”, “Gas B”, etc.),

(i) determine the contributing number (CN) of each of the gases with an LC_{50} less than or equal to the toxic limit using the formula

$$\text{CN Gas A} = \frac{LC_{50} \text{ of Gas A}}{\text{fraction by volume of Gas A in the mixture}}$$

(ii) combine the contributing numbers (CN) of each gas with an LC_{50} less than or equal to the toxic limit using the formula

$$T = \frac{1}{\text{CN Gas A}} + \frac{1}{\text{CN Gas B}} + \text{(as needed)}$$

and

(iii) obtain the LC_{50} of the mixture by dividing 1 by the number T (LC_{50} of the mixture = 1 / T).

Class 3, Flammable Liquids

2.18 General

(1) Substances that are liquids or liquids containing solids in solution or suspension are included in Class 3, Flammable Liquids, if they

(a) have a flash point less than or equal to 60ºC using the closed-cup test method referred to in Chapter 2.3 of the UN Recommendations; or

SOR/2008-34

A flash point of 65.6°C, using the open-cup test method referred to in Chapter 2.3 of the UN Recommendations, is equivalent to 60°C using the closed-cup test.

SOR/2008-34

(b) are intended or expected to be at a temperature that is greater than or equal to their flash point at any time while the substances are in transport.

The UN number and shipping name for the dangerous goods referred to in paragraph (b) are UN3256, ELEVATED TEMPERATURE LIQUID, FLAMMABLE, N.O.S.

(2) Despite paragraph (1)(a), liquids that have a flash point greater than 35°C are not included in Class 3, Flammable Liquids, if they

(a) do not sustain combustion, as determined in accordance with the sustained combustibility test referred to in section 2.3.1.3 of Chapter 2.3 of the UN Recommendations;

(b) have a fire point greater than 100°C, as determined in accordance with ISO 2592; or

(c) are water-miscible solutions with a water content greater than 90 per cent by mass.

2.19 Packing Groups

(1) Flammable liquids included in Class 3, Flammable Liquids, are included in one of the following packing groups:

(a) Packing Group I, if they have an initial boiling point of 35°C or less at an absolute pressure of 101.3 kPa and any flash point;

(b) Packing Group II, if they have an initial boiling point greater than 35°C at an absolute pressure of 101.3 kPa and a flash point less than 23°C; or

(c) Packing Group III, if the criteria for inclusion in Packing Group I or II are not met.

(2) Despite subsection (1), for dangerous goods included in Class 3, Flammable Liquids,

(a) when the packing group is unknown, the consignor may include the dangerous goods in Packing Group I; or

(b) when the packing group is reasonably believed or is known to be Packing Group II or III, the consignor may include the dangerous goods in Packing Group II but, if the substance has the same characteristics as UN1203, GASOLINE, it may also be transported as Packing Group II.

(3) Despite paragraph (1)(b), a viscous substance that has an initial boiling point greater than 35°C at an absolute pressure of 101.3 kPa and a flash point less than 23°C may be included in Packing Group III if

(a) the substance or any separated solvent does not meet the criteria for inclusion in Class 6.1 or Class 8;

(b) the substance meets the Packing Group III criteria of the solvent separation test in section 32.5.1 of Part III of the Manual of Tests and Criteria; and

(c) the substance

(i) has been tested in accordance with either ASTM D 1200 or ISO 2431, and

(ii) has a kinematic viscosity, measured as flow time, that is within the range shown in column 3 of the following table, using a jet with the diameter shown in column 2 for the corresponding flash point in column 1.

Table

Column 1 Flash point (FP) in °C (closed cup)	Column 2 Jet diameter in mm	Column 3 Flow time (t) in seconds
> 17	4	20 < t ≤ 60
> 10	4	60 < t ≤ 100
> 5	6	20 < t ≤ 32
> -1	6	32 < t ≤ 44
> -5	6	44 < t ≤ 100
≤ -5	6	100 < t

Class 4, Flammable Solids; Substances Liable to Spontaneous Combustion; Substances That on Contact with Water Emit Flammable Gases (Water-reactive Substances)

2.20 General

Substances are included in Class 4 if they are flammable solids, substances liable to spontaneous combustion or substances that on contact with water emit flammable gases (water-reactive substances) and meet the criteria for inclusion in one of the divisions and packing groups of Class 4.

2.21 Divisions

Class 4 has three divisions:

(a) Class 4.1, Flammable Solids, which consists of substances that are

(i) readily combustible, as determined in accordance with section 2.4.2.2 of Chapter 2.4 of the UN Recommendations,

(ii) under normal conditions of transport, liable to cause fire through friction,

(iii) solid desensitized explosives, which are solid explosives desensitized through wetting with water or alcohols or diluted with other substances to form a homogeneous solid mixture to suppress their explosive properties so that they are not included in Class 1, Explosives,

Substances that have one of the following UN numbers meet the criterion in subparagraph (iii): UN1310, UN1320, UN1321, UN1322, UN1336, UN1337, UN1344, UN1347, UN1348, UN1349, UN1354, UN1355, UN1356, UN1357, UN1517, UN1571, UN2555, UN2556, UN2557, UN2852, UN2907, UN3270, UN3319, UN3344.

(iv) self-reactive substances that are liable to undergo a strongly exothermic decomposition even without the participation of oxygen (air), as determined in accordance with section 2.4.2.3 of Chapter 2.4 of the UN Recommendations, but Class 4.1 does not include substances that have

(A) a primary class of Class 1, Explosives, Class 5.1, Oxidizing Substances, or Class 5.2, Organic Peroxides,

(B) a heat of decomposition less than 300 J/g, or

(C) a self-accelerating decomposition temperature (SADT) that is greater than 75°C for a 50 kg means of containment, as determined in accordance with section 2.4.2.3.4 of Chapter 2.4 of the UN Recommendations,

(v) identified by one of the following UN numbers: UN2956, UN3241, UN3242 or UN3251, or

(vi) are in the list of currently assigned self-reactive substances in section 2.4.2.3.2.3 of Chapter 2.4 of the UN Recommendations;

(b) Class 4.2, Substances Liable to Spontaneous Combustion, which consists of

(i) pyrophoric substances that spontaneously ignite within 5 minutes after coming into contact with air, as determined in accordance with section 2.4.3.2 of Chapter 2.4 of the UN Recommendations, and

(ii) self-heating substances that, when in large amounts (kilograms), spontaneously ignite on contact with air after long periods (hours or days), as determined in accordance with section 2.4.3.2 of Chapter 2.4 of the UN Recommendations; and

(c) Class 4.3, Water-reactive Substances, which consists of substances that, in tests performed in accordance with section 2.4.4.2 of Chapter 2.4 of the UN Recommendations, emit a flammable gas at a rate greater than 1 L/kg of substance per hour or spontaneously ignite at any step in the test procedure.

2.22 Packing Groups

(1) Substances included in Class 4.1, Flammable Solids, are included in one of the following packing groups:

(a) Packing Group I, if the substances meet the criterion in subparagraph 2.21(a)(iii), except that substances that have one of the following UN numbers are included in Packing Group II: UN2555, UN2556, UN2557, UN2907, UN3270, UN3319 or UN3344;

(b) Packing Group II, if

(i) the substances meet the criteria for inclusion in Class 4.1 in subparagraph 2.21(a)(iv) or (v), except that substances that have one of the following UN numbers are included in Packing Group III: UN2956, UN3241 or UN3251,

(ii) in tests referred to in section 33.2.1 of Part III of the Manual of Tests and Criteria for readily combustible solids, excluding metal powders, the burning time of the substances is less than 45 seconds and the flame passes the wetted zone, or

(iii) in tests referred to in section 33.2.1 of Part III of the Manual of Tests and Criteria, for readily combustible solids that are powders of metals or metal alloys, the zone of reaction of the substances spreads over the whole length of the sample in 5 minutes or less; or

(c) Packing Group III, if

(i) in tests referred to in section 33.2.1 of Part III of the Manual of Tests and Criteria, for readily combustible solids, excluding metal powders, the burning time of the substances is less than 45 seconds and the wetted zone stops the flame propagation for at least 4 minutes,

(ii) in tests referred to in section 33.2.1 of Part III of the Manual of Tests and Criteria, for readily combustible solids that are powders of metals or metal alloys, the zone of reaction of the substances spreads over the whole length of the sample in more than 5 minutes but not more than 10 minutes, or

(iii) the substances are solids that are liable to cause fire through friction.

(2) Substances included in Class 4.2, Substances Liable to Spontaneous Combustion, are included in one of the following packing groups:

(a) Packing Group I, if the substances are pyrophoric solids or liquids;

(b) Packing Group II, if the substances are self-heating substances that give a positive result, as determined in accordance with section 2.4.3.2 of Chapter 2.4 of the UN Recommendations using a 25 mm sample cube at 140°C; or

(c) Packing Group III for all other substances.

(3) Substances included in Class 4.3, Water-reactive Substances, are included in one of the following packing groups:

(a) Packing Group I, if the substances

(i) react vigorously with water at ambient temperatures and demonstrate a tendency for the gas produced to ignite spontaneously, or

(ii) react readily with water at ambient temperatures so that the rate of evolution of flammable gas is greater than or equal to 10 L/kg of substance over any one minute;

(b) Packing Group II, if

(i) the substances react readily with water at ambient temperatures so that the rate of evolution of flammable gas is greater than or equal to 20 L/kg of substance per hour, and

(ii) the criteria for inclusion in Packing Group I are not met; or

(c) Packing Group III, if

(i) the substances react slowly with water at ambient temperatures so that the rate of evolution of flammable gas is greater than or equal to 1 L/kg of substance per hour, and

(ii) the criteria for inclusion in Packing Group I or II are not met.

Class 5, Oxidizing Substances and Organic Peroxides

2.23 General

Substances are included in Class 5 if they are oxidizing substances or organic peroxides and meet the criteria for inclusion in one of the divisions of Class 5.

2.24 Divisions

Class 5 has two divisions:

(a) Class 5.1, Oxidizing Substances, which consists of substances that yield oxygen thereby causing or contributing to the combustion of other material, as determined in accordance with section 2.5.2 of Chapter 2.5 of the UN Recommendations; and

(b) Class 5.2, Organic Peroxides, which consists of substances that

(i) are thermally unstable organic compounds that contain oxygen in the bivalent “-O-O-” structure, as determined in accordance with section 2.5.3 of Chapter 2.5 of the UN Recommendations,

(ii) are liable to undergo exothermic self-accelerating decomposition,

(iii) have one or more of the following characteristics:

(A) they are liable to explosive decomposition,

(B) they burn rapidly,

(C) they are sensitive to impact or friction,

(D) they react dangerously with other substances, or

(E) they cause damage to the eyes, or

(iv) are in the list of currently assigned organic peroxides in section 2.5.3.2.4 of Chapter 2.5 of the UN Recommentations.

2.25 Packing Groups

(1) The determination of packing groups for Class 5.1, Oxidizing Substances, must be made

(a) for solids, using a test sample of a 4:1 or 1:1 mixture of substance and cellulose by mass, prepared and tested in accordance with section 2.5.2.2 of Chapter 2.5 of the UN Recommendations; or

(b) for liquids, using a test sample of a 1:1 mixture of substance and cellulose by mass, prepared and tested in accordance with section 2.5.2.3 of Chapter 2.5 of the UN Recommendations.

(2) Substances included in Class 5.1, Oxidizing Substances, are included in one of the following packing groups:

(a) for solids,

(i) Packing Group I, if the test sample exhibits an average burning time less than the mean burning time of a 3:2 mixture by mass of potassium bromate and cellulose,

(ii) Packing Group II, if the test sample exhibits an average burning time less than or equal to the mean burning time of a 2:3 mixture by mass of potassium bromate and cellulose and the criteria for inclusion in Packing Group I are not met, or

(iii) Packing Group III, if the test sample exhibits an average burning time less than or equal to the mean burning time of a 3:7 mixture by mass of potassium bromate and cellulose and the criteria for inclusion in Packing Group I or II are not met; or

(b) for liquids,

(i) Packing Group I, if the substance in a 1:1 mixture by mass of substance and cellulose spontaneously ignites or the mean pressure rise time is less than or equal to that of a 1:1 mixture by mass of 50 percent perchloric acid and cellulose,

(ii) Packing Group II, if the mean pressure rise time is less than or equal to the mean pressure rise time of a 1:1 mixture by mass of 40 per cent aqueous sodium chlorate solution and cellulose and the criteria for inclusion in Packing Group I are not met, or

(iii) Packing Group III, if the mean pressure rise time is less than or equal to the mean pressure rise time of a 1:1 mixture by mass of 65 per cent aqueous nitric acid solution and cellulose and the criteria for inclusion in Packing Group I or II are not met.

(3) Class 5.2, Organic Peroxides, are included in Packing Group II.

(4) The type, B to F, of organic peroxides must be determined in accordance with section 2.5.3.3 of Chapter 2.5 of the UN Recommendations.

Class 6, Toxic and Infectious Substances

2.26 General

Substances are included in Class 6 if they are

(a) liable to cause death or serious injury or to harm human health if swallowed or inhaled or if they come into contact with human skin; or

(b) infectious substances.

2.27 Divisions

Class 6 has two divisions:

(a) Class 6.1, Toxic Substances, which consists of substances that are liable to cause death or serious injury or to harm human health if swallowed or inhaled or if they come into contact with human skin; and

(b) Class 6.2, Infectious Substances, which consists of infectious substances.

2.28 Criteria for Inclusion in Class 6.1, Toxic Substances

Substances included in Class 6.1, Toxic Substances, are grouped by oral toxicity, dermal toxicity and inhalation toxicity by dust, mist or vapour. Toxicity by inhalation of a gas is covered in Class 2.3, Toxic Gases.

A substance is included in Class 6.1

(a) due to oral toxicity if its LD_{50} (oral) is less than or equal to 300 mg/kg;
SOR/2008-34

(b) due to dermal toxicity if its LD_{50} (dermal) is less than or equal to 1 000 mg/kg; or

(c) due to inhalation toxicity

(i) by dust or mist if dust or mist is likely to be produced in a transport accident and its LC_{50} (inhalation) is less than or equal to 4 mg/L, or
SOR/2008-34

(ii) by vapour if its LC_{50} (inhalation) is less than or equal to 5 000 mL/m^3.

2.29 Packing Groups

(1) When a substance is known to be included in Class 6.1 and that knowledge is based on documentary evidence published in technical journals or government publications and testing is not done to determine the packing group, the substance must be included in Packing Group I.

(2) Substances that are included in Class 6.1 due to

(a) oral toxicity are included in one of the following packing groups:

(i) Packing Group I, if the LD_{50} (oral) is less than or equal to 5 mg/kg,

(ii) Packing Group II, if the LD_{50} (oral) is greater than 5 mg/kg but less than or equal to 50 mg/kg, or

(iii) Packing Group III, if the LD_{50} (oral) is greater than 50 mg/kg but less than or equal to 300 mg/kg;
SOR/2008-34

(b) dermal toxicity are included in one of the following packing groups:

(i) Packing Group I if the LD_{50} (dermal) is less than or equal to 50 mg/kg,

(ii) Packing Group II if the LD_{50} (dermal) is greater than 50 mg/kg but less than or equal to 200 mg/kg, or

(iii) Packing Group III if the LD_{50} (dermal) is greater than 200 mg/kg but less than or equal to 1 000 mg/kg;

SOR/2008-34

(c) inhalation toxicity by dust or mist are included in one of the following packing groups:

(i) Packing Group I if the LC_{50} (inhalation) is less than or equal to 0.2 mg/L,
SOR/2012-245

(ii) Packing Group II if the LC_{50} (inhalation) is greater than 0.2 mg/L but less than or equal to 2 mg/L, or

(iii) Packing Group III if the LC_{50} (inhalation) is greater than 2 mg/L but less than or equal to 4 mg/L; or

SOR/2008-34

(d) inhalation toxicity by vapour are included in one of the following packing groups, where "V" is the saturated vapour concentration in millilitres per cubic metre of air at 20°C and at 101.3 kPa:

(i) Packing Group I, if

(A) V is greater than or equal to 10 multiplied by the LC_{50}, and

(B) the LC_{50} is less than or equal to 1 000 mL/m^3,

(ii) Packing Group II, if

(A) V is greater than or equal to the LC_{50},

(B) the LC_{50} is less than or equal to 3 000 mL/m^3, and

(C) the criteria for Packing Group I are not met, or

(iii) Packing Group III, if

(A) V is greater than or equal to 0.2 multiplied by the LC_{50},

(B) the LC_{50} is less than or equal to 5 000 mL/m^3, and

(C) the criteria for inclusion in Packing Group I or II are not met.

2.30 Determination of LD_{50} (oral or dermal)

LD_{50} (oral or dermal) values for solid or liquid substances or for a mixture of solid or liquid substances must be determined

(a) by using the LD_{50} values published in technical journals or in government publications;

(b) in accordance with section 2.6.2.3 of Chapter 2.6 of the UN Recommendations; or

(c) for a mixture of solid or liquid substances, in accordance with section 2.31.

2.31 Determination of LD_{50} (oral or dermal) of a Mixture of Substances

This section provides a method for making an acceptable approximation of the LD_{50} of a mixture of solid or liquid substances. The methods in paragraphs 2.30(a) and (b) are more exact.

To determine the LD_{50} of a mixture of solid or liquid substances when the LD_{50} of each of the substances is known, use 1 000 mg/kg as the toxic limit and

(a) if the mixture contains only one substance with an LD_{50} less than or equal to the toxic limit (called "Substance A"), use the following calculation:

$$LD_{50} \text{ of the mixture} = \frac{LD_{50} \text{ of Substance A}}{\text{fraction by mass of Substance A in the mixture}}$$

or

(b) if the mixture contains more than one substance with an LD_{50} less than or equal to the toxic limit (called "Substance A", "Substance B", etc.),

(i) determine the lowest LD_{50} of all substances, assign that LD_{50} to all substances whose actual LD_{50} is less than or equal to the toxic limit, then use the calculation in paragraph (a) using that assigned LD_{50} and taking as the mass of Substance A in the formula the total of the masses of all substances whose actual LD_{50} is less than or equal to the toxic limit, or

(ii) use the following calculations:

(A) determine the contributing number (CN) of each of the substances with an LD_{50} less than or equal to the toxic limit using the formula

$$\text{CN for Substance A} = \frac{LD_{50} \text{ of Substance A}}{\text{fraction by mass of Substance A in the mixture}}$$

(B) combine the contributing numbers (CN) of each substance with an LD_{50} less than or equal to the toxic limit as

$$T = \frac{1}{\text{CN Substance A}} + \frac{1}{\text{CN Substance B}} + \text{(as needed)}$$

and

(C) obtain the LD_{50} of the mixture by dividing 1 by the number T (LD_{50} of the mixture = 1 / T).

2.32 Determination of LC_{50} (dust, mist or vapour)

LC_{50} values for a substance in the form of a dust, mist or vapour or for a mixture of substances in the form of a dust, mist or vapour must be determined

(a) by using the LC_{50} values published in technical journals or in government publications;

(b) in accordance with sections 2.6.2.2.4.2 to 2.6.2.2.4.7 of Chapter 2.6 of the UN Recommendations; or

(c) for a mixture of substances, in accordance with section 2.33.

2.33 Determination of LC_{50} (dust, mist or vapour) of a Mixture of Substances

This section provides a method for making an acceptable approximation of the LC_{50} of a mixture of substances. The methods in paragraphs 2.32(a) and (b) are more exact.
SOR/2002-306

To determine the LC_{50} of a mixture of substances that are in the form of a dust, mist or vapour, when the LC_{50} of each of the substances is known, make the determination in accordance with section 2.17, except that for a dust use 10 mg/L as the toxic limit and for a mist use 2 mg/L as the toxic limit. For a substance in the form of vapour the toxic limit is the same as for a gas, which is 5 000 mL/m^3.

2.34 Determination of the Packing Group of a Mixture of Liquids with an Inhalation Toxicity by Vapour

(1) The first step in determining the packing group of a mixture of liquids with an inhalation toxicity by vapour when one or more of the substances has an LC_{50} (vapour) less than or equal to 5 000 mL/m^3, and the LC_{50} of each substance is known, is to determine the following data:

(a) determine the LC_{50} (vapour) for the mixture in accordance with section 2.33;

(b) where P_i is the vapour pressure of the i^{th} substance in kPa at 20°C and an absolute pressure of 101.3 kPa, determine the volatility, V_i, of each substance in the mixture as

$V_i = P_i$ multiplied by 10^6 then divided by 101.3;

(c) determine the ratio of the volatility of a substance to its LC_{50} for each substance with an LC_{50} less than or equal to 5 000 mL/m^3 as

$R_i = V_i$ divided by the LC_{50} of the i^{th} substance;

and

(d) set R equal to the sum of the R_i for each of the substances with an LC_{50} less than or equal to 5 000 mL/m^3 as

$R = R_1 + R_2 + \ldots +$ (as needed).

(2) Using the data determined in accordance with subsection (1), the mixture is included in one of the following packing groups:

(a) Packing Group I, if

(i) R is greater than or equal to 10, and

(ii) the LC_{50} (mixture) is less than or equal to 1 000 mL/m^3;

(b) Packing Group II, if

(i) R is greater than or equal to 1,

(ii) the LC_{50} (mixture) is less than or equal to 3 000 mL/m^3, and

(iii) the criteria for inclusion in Packing Group I are not met; or

(c) Packing Group III, if

(i) R is greater than or equal to 0.2,

(ii) the LC_{50} (mixture) is less than or equal to 5 000 mL/m^3, and

(iii) the criteria for inclusion in Packing Group I or II are not met.

2.35 Determination of the Packing Group of a Mixture of Liquids with an Inhalation Toxicity and an Unknown LC_{50}

This section provides a method of directly determining the packing group of a mixture of liquids that has an inhalation toxicity without requiring that the exact LC_{50} be found.

(1) A mixture of liquids with an inhalation toxicity and an unknown LC_{50} is included in Packing Group I if it meets the following criteria:

(a) when a sample of the mixture is vapourized and diluted with air to create a test atmosphere of 1 000 mL/m^3 and 10 young adult albino rats (5 male and 5 female) are exposed to the test atmosphere for 1 hour and observed for 14 days, the result is the death of 5 or more of the animals within the 14-day observation period; and

(b) when a sample of the vapour in equilibrium with the mixture at 20°C is diluted with 9 equal volumes of air to form a test atmosphere and 10 young adult albino rats (5 male and 5 female) are exposed to the test atmosphere for 1 hour and observed for 14 days, the result is the death of 5 or more of the animals within the 14-day observation period.

In this case the mixture is presumed to have an LC_{50} less than or equal to 1 000 mL/m^3 and a volatility greater than or equal to 10 times the mixture's LC_{50}.

(2) A mixture of liquids with an inhalation toxicity and an unknown LC_{50} is included in Packing Group II if it meets the following criteria and the criteria for inclusion in Packing Group I are not met:

(a) when a sample of the mixture is vapourized and diluted with air to create a test atmosphere of 3 000 mL/m^3 and 10 young adult albino rats (5 male and 5 female) are exposed to the test atmosphere for 1 hour and observed for 14 days, the result is the death of 5 or more of the animals within the 14-day observation period; and

(b) when a sample of the vapour in equilibrium with the mixture at 20°C is used to form a test atmosphere and 10 young adult albino rats (5 male and 5 female) are exposed to the test atmosphere for 1 hour and observed for 14 days, the result is the death of 5 or more of the animals within the 14-day observation period.

In this case the mixture is presumed to have an LC_{50} less than or equal to 3 000 mL/m^3 and a volatility greater than or equal to the mixture's LC_{50}.

(3) A mixture of liquids with an inhalation toxicity and an unknown LC_{50} is included in Packing Group III if it meets the following criteria and the criteria for inclusion in Packing Group I or II are not met:

(a) when a sample of the mixture is vapourized and diluted with air to create a test atmosphere of 5 000 mL/m^3 and 10 young adult albino rats (5 male and 5 female) are exposed to the test atmosphere for 1 hour and observed for 14 days, the result is the death of 5 or more of the animals within the 14-day observation period; and

(b) when the vapour pressure of the mixture is measured, the vapour concentration is greater than or equal to 1 000 mL/m^3.

In this case the mixture is presumed to have an LC_{50} less than or equal to 5 000 mL/m^3 and a volatility greater than or equal to 0.2 times the mixture's LC_{50}.

(4) If only LC_{50} data relating to 4-hour exposures to dust or mist are available, those figures can be multiplied by 4 and the result taken as the LC_{50} data for 1 hour, that is LC_{50} 4 hours (dust or mist) multiplied by 4 is equivalent to LC_{50} 1 hour.

(5) If only LC_{50} data relating to 4-hour exposures to vapour are available, those figures can be multiplied by 2 and the result taken as the LC_{50} data for 1 hour, that is LC_{50} 4 hours (vapour) multiplied by 2 is equivalent to LC_{50} 1 hour.

2.36 Infectious Substances

Assistance for classifying infectious substances may be obtained from the Director, Office of Laboratory Security, Public Health Agency of Canada, or from the Director, Biohazard Containment and Safety, Canadian Food Inspection Agency. ***SOR/2008-34***

An infectious substance is defined in Part 1, Coming into Force, Repeal, Interpretation, General Provisions and Special Cases, as "a substance known or reasonably believed to contain viable micro-organisms such as bacteria, viruses, rickettsia,

parasites, fungi and other agents such as prions that are known or reasonably believed to cause disease in humans or animals and that are listed in Appendix 3 to Part 2, Classification, or that exhibit characteristics similar to a substance listed in Appendix 3".
SOR/2008-34

(1) Substances are included in Class 6.2, Category A or Category B if they are infectious substances and are listed in Appendix 3 to this Part or exhibit characteristics similar to a substance listed in that appendix.
SOR/2008-34

(2) Infectious substances that are included in Category A and that are in a form other than a culture may be handled, offered for transport or transported as Category B in accordance with the conditions set out in paragraphs 1.39(a) to (c) of Part 1, Coming into Force, Repeal, Interpretation, General Provisions and Special Cases.
SOR/2008-34

(3) Despite subsection (2), the following infectious substances included in Category A, and any substance that exhibits characteristics similar to these substances, must always be handled, offered for transport or transported as Category A:

(a) Crimean-Congo Hemorrhagic fever virus;

(b) Ebola virus;

(c) Flexal virus;

(d) Guanarito virus;

(e) Hantaviruses causing hemorrhagic fever with renal syndrome;

(f) Hantaviruses causing pulmonary syndrome;

(g) Hendra virus;

(h) Herpes B virus (Cercopithecine Herpesvirus-1);

(i) Junin virus;

(j) Kyasanur Forest virus;

(k) Lassa virus;

(l) Machupo virus;

(m) Marburg virus;

(n) Monkeypox virus;

(o) Nipah virus;

(p) Omsk hemorrhagic fever virus;

(q) Russian Spring – Summer encephalitis virus;

(r) Sabia virus; and

(s) Variola (smallpox virus).

SOR/2008-34

Class 7, Radioactive Materials

2.37 General

Substances defined as Class 7, Radioactive Materials in the Packaging and Transport of Nuclear Substances Regulations are included in Class 7, Radioactive Materials.

SOR/2008-34

In these Regulations, the words "Class 7, Radioactive Materials" are used rather than the words that are used in the schedule to the Act, "Class 7, Nuclear Substances, within the meaning of the 'Nuclear Safety and Control Act', that are *radioactive so that the Regulations are more easily read in conjunction with international documents incorporated by reference in them.*

SOR/2008-34

2.38 Divisions

There are no divisions for Class 7.

2.39 Packing Groups

There are no packing groups for Class 7.

Class 8, Corrosives

2.40 General

Substances are included in Class 8, Corrosives, if they

(a) are known to cause full thickness destruction of human skin, that is, skin lesions that are permanent and destroy all layers of the outer skin through to the internal tissues;

(b) cause full thickness skin destruction, as determined in accordance with the OECD Guidelines; or

(c) do not cause full thickness destruction of skin, but exhibit a corrosion rate that exceeds 6.25 mm per year at a test temperature of 55°C, as determined in accordance with the ASTM Corrosion Test.

2.41 Divisions

There are no divisions for Class 8.

2.42 Packing Groups

(1) If a substance is known to be included in Class 8, Corrosives, and that knowledge is based on documentary evidence published in technical journals or government publications and testing is not done to determine the packing group, the substance must be included in Packing Group I.

(2) Class 8, Corrosives, are included in one of the following packing groups:

(a) Packing Group I, if

(i) they are known to cause full thickness destruction of human skin, that is, skin lesions that are permanent and that destroy all layers of the outer skin through to the internal tissues, or

(ii) full thickness destruction of intact skin tissue occurs within an observation period of 60 minutes after an exposure time of 3 minutes or less, as determined in accordance with the OECD Guidelines;

(b) Packing Group II, if full thickness destruction of skin occurs within an observation period of 14 days after an exposure time of more than 3 minutes but not more than 60 minutes, as determined in accordance with the OECD Guidelines; or

(c) Packing Group III, if

(i) full thickness destruction of intact skin tissue occurs within an observation period of 14 days after an exposure time of more than 60 minutes but not more than 4 hours, as determined in accordance with the OECD Guidelines, or

(ii) they exhibit a corrosion rate that exceeds 6.25 mm per year at a test temperature of 55°C on steel surfaces, type P235 referred to in ISO 9328-2 or a similar type or on aluminum surfaces, non-clad types 7075-T6 or AZ5GU-T6, as determined in accordance with the ASTM Corrosion Test.

(3) An in vitro test may be used instead of the test in the OECD Guidelines.

Class 9, Miscellaneous Products, Substances or Organisms

2.43 General

A substance is included in Class 9, Miscellaneous Products, Substances or Organisms, if it

(a) is included in Class 9 in column 3 of Schedule 1; or

(b) is not included in Class 9 in column 3 of Schedule 1 and does not meet the criteria for inclusion in any of Classes 1 to 8 and

SOR/2008-34

(i) contains a genetically modified micro-organism that would endanger public safety if accidentally released during transport,

(ii) is listed in Appendix 1, Marine Pollutants, to this Part, or

SOR/2008-34

For a liquid, the UN number and shipping name are UN3082, ENVIRONMENTALLY HAZARDOUS SUBSTANCE, LIQUID, N.O.S., and for a solid, the UN number and shipping name are UN3077, ENVIRONMENTALLY HAZARDOUS SUBSTANCE, SOLID, N.O.S.

(iii) except for asphalt or tar, is offered for transport or transported at a temperature greater than or equal to 100°C if it is in a liquid state or at a temperature greater than or equal to 240°C if it is in a solid state,

For a liquid, the UN number and shipping name are UN3257, ELEVATED TEMPERATURE LIQUID, N.O.S., and for a solid, the UN number and shipping name are UN3258, ELEVATED TEMPERATURE SOLID, N.O.S.

(iv) **Repealed** ***SOR/2008-34***

(v) **Repealed** ***SOR/2008-34***

2.44 Divisions

There are no divisions for Class 9.

2.45 Packing Groups

Substances included in Class 9, Miscellaneous Products, Substances and Organisms, are included in Packing Group III unless they are included in a different packing group shown for them in column 4 of Schedule 1.

APPENDIX 1

MARINE POLLUTANTS

1. A substance for which the letter “P” is shown in column 2 is a marine pollutant.
2. A substance for which the letters “PP” are shown in column 2 is a severe marine pollutant.

The item column gives sequential item numbers for the entries in this Appendix. Beside the item number is the corresponding item number, in parentheses, in the French-language appendix.

Item	Column 1 Substance	Column 2 Designation
1 (163)	Alcohol C_6-C_{17} (Secondary Poly (3-6)) Ethoxylate	P
2 (161)	Alcohol C_{12}-C_{16} Poly (1-6) Ethoxylate	P
3 (162)	Alcohol C_{13}-C_{15} Poly (1-6) Ethoxylate	P
4 (3)	Aldicarb	P
5 (4)	Aldrin	PP
6 (5)	Alkyl (C_{12}-C_{14}) Dimethylamine	P
7 (6)	Alkyl (C_7-C_9) Nitrates	P
8 (7)	ortho-Aminoanisole	P
9 (8)	Aminocarb	P
10 (9)	n-Amylbenzene	P
11 (10)	Azinphos-Ethyl	PP
12 (11)	Azinphos-Methyl	PP
13 (12)	Bendiocarb	P
14 (13)	Benomyl	P
15 (14)	Benquinox	P
16 (15)	gamma-BHC	PP
17 (16)	Binapacryl	PP
18 (17)	Brodifacoum	PP
19 (18)	Bromophos-Ethyl	PP
20 (19)	Bromoxynil	P
21 (21)	N^2-tert-Butyl-N^4-Cyclopropyl-6 Methylthio-1,3,5-Triazine-2,4-Diamine	P
22 (22)	Camphechlor	PP
23 (23)	Carbaryl	P
24 (24)	Carbendazim	P
25 (25)	Carbofuran	P
26 (26)	Carbophenothion	PP
27 (27)	Cartap Hydrochloride	P
28 (28)	Chlordane	PP
29 (29)	Chlorfenvinphos	P
30 (135)	Chlorinated Paraffins (C_{10}-C_{17})	PP
31 (30)	2-Chloro-6 nitrotoluene	P
32 (31)	1-Chloro-octane	P
33 (32)	Chlorpyriphos	PP
34 (33)	Chlorthiophos	PP
35 (35)	Coculus	P
36 (36)	Coconitrile	P
37 (164)	Copper Metal Powder	PP
38 (179)	Copper sulphate, anhydrous, hydrates and solutions	PP

Item	Column 1 Substance	Column 2 Designation
39 (38)	Coumachlor	P
40 (39)	Coumaphos	PP
41 (147)	Cresyl Diphenyl Phosphate	PP
42 (40)	Crotoxyphos	P
43 (178)	Cupric Sulphate	PP
44 (41)	Cyanophos	P
45 (42)	Cypermethrin	PP
46 (43)	2,4-D	P
47 (44)	Decaldehyde	P
48 (45)	n-Decanol	P
49 (1)	Decyl Acrylate	P
50 (70)	Decyloxytetrahydrothiophene dioxide	P
51 (46)	DEF	P
52 (47)	Desmediphan	P
53 (48)	Dialifos	PP
54 (49)	Di-Allate	P
55 (50)	Diazinon	PP
56 (51)	1,3-Dibromobenzene	P
57 (74)	1,4-Di-tert-Butylbenzene	P
58 (54)	1,3-Dichlorobenzene	P
59 (55)	1,4-Dichlorobenzene	P
60 (63)	Di-n-Butyl Ketone	P
61 (157)	Di-n-Butyl Phthalate	P
62 (52)	Dichlofenthion	PP
63 (56)	1,6-Dichlorohexane	P
64 (57)	Dichlorvos	P
65 (53)	Diclofop-methyl	PP
66 (58)	Dicrotophos	P
67 (59)	Dieldrin	PP
68 (60)	Diisopropylbenzenes	P
69 (61)	Diisopropylnaphthalenes, mixed isomers	P
70 (62)	Dimethoate	PP
71 (64)	N,N-Dimethyldodecylamine	PP
72 (65)	Dinobuton	P
73 (66)	Dinoseb	P
74 (67)	Dinoseb Acetate	P
75 (68)	Dioxacarb	P
76 (69)	Dioxathion	P
77 (71)	Diphacinone	P
78 (73)	Disulfoton	P
79 (75)	DNOC (pesticides)	P
80 (76)	Dodecylamine	P
81 (72)	Dodecyl Diphenyl Oxide Disulphonate	P
82 (182)	Dodecyl Hydroxypropyl Sulphide	P
83 (77)	Drazoxolon	P
84 (78)	Edifenphos	P
85 (79)	Endosulfan	PP

Item	Column 1 Substance	Column 2 Designation
86 (80)	Endrin	PP
87 (81)	EPN	P
88 (82)	Esfenvalerate	PP
89 (83)	Ethion	PP
90 (84)	Ethoprophos	P
91 (128)	2-Ethyhexyl Nitrate	P
92 (85)	1-Ethyl-2-Methylbenzene	P
93 (86)	Fenaminphos	P
94 (134)	Fenbutatin Oxide	PP
95 (87)	Fenitrothion	PP
96 (88)	Fenoxaprop-Ethyl	PP
97 (89)	Fenoxaprop-P-ethyl	PP
98 (90)	Fenpropathrin	PP
99 (91)	Fensulfothion	P
100 (92)	Fenthion	PP
101 (93)	Fentin Acetate	PP
102 (94)	Fentin Hydroxide	PP
103 (95)	Fonofos	PP
104 (96)	Formethanate	P
105 (97)	Furathiocarb (ISO)	PP
106 (98)	Heptachlor	PP
107 (99)	Heptenophos	P
108 (100)	Heptylbenzene	P
109 (101)	Heptyl chloride	P
110 (102)	Hexylbenzene	P
111 (103)	Hexyl chloride	P
112 (104)	Ioxynil	P
113 (105)	Isobenzan	P
114 (2)	Isodecyl Acrylate	P
115 (156)	Isodecyl Diphenyl Phosphate	P
116 (106)	Isofenphos	P
117 (129)	Isooctyl Nitrate	P
118 (107)	Isoprocarb	P
119 (108)	Isotetramethylbenzene	P
120 (109)	Isoxathion	PP
121 (110)	Lindane	PP
122 (111)	Linuron	P
123 (112)	Malathion	P
124 (113)	Mancozeb (ISO)	P
125 (114)	Mecarbam	P
126 (115)	Mephosfolan	P
127 (116)	Mercaptodimethur	P
128 (34)	Mercurous Chloride	PP
129 (117)	Metam-Sodium	P
130 (118)	Methamidophos	P
131 (119)	Methidathion	P
132 (120)	Methomyl	P

Item	Column 1 Substance	Column 2 Designation
133 (121)	Methyltrithion	P
134 (122)	Mevinphos	PP
135 (123)	Mexacarbate	P
136 (124)	Mirex	P
137 (125)	Monocrotophos	P
138 (126)	Nabam	P
139 (127)	Naled	P
140 (131)	Oleylamine	P
141 (37)	Organotin Compounds (pesticides)	PP
142 (132)	Oxamyl	P
143 (133)	Oxydisulfoton	P
144 (136)	Paraoxon	P
145 (137)	Parathion	PP
146 (138)	Parathion-Methyl	PP
147 (139)	Pentachlorophenol	PP
148 (140)	n-Pentylbenzene	P
149 (141)	Phenthoate	PP
150 (142)	Phenylcyclohexane	P
151 (143)	Phorate	PP
152 (144)	Phosalone	PP
153 (145)	Phosmet	P
154 (146)	Phosphamidon	PP
155 (158)	Pindone (and salts of)	P
156 (159)	Pirimicarb	P
157 (160)	Pirimiphos-Ethyl	PP
158 (165)	Promecarb	P
159 (166)	Propachlor	P
160 (167)	Propaphos	P
161 (168)	Propoxur	P
162 (169)	Prothoate	P
163 (170)	Pyrazophos	PP
164 (171)	Quinalphos	P
165 (172)	Quizalofop	PP
166 (173)	Quizalofop-p-Ethyl	PP
167 (174)	Rotenone	P
168 (175)	Salithion	P
169 (176)	Silafluofen	PP
170 (177)	Strychnine (pesticides)	P
171 (180)	Sulfotep	P
172 (181)	Sulprophos	PP
173 (130)	Tallow Nitrile	P
174 (183)	Temephos	P
175(184)	TEPP	P
176 (185)	Terbufos	PP
177 (186)	Tetrachlorvinphos	PP
178 (187)	Tetramethrin	P
179 (148)	Triaryl Phosphates	PP

Item	Column 1 Substance	Column 2 Designation
180 (149)	Triaryl Phosphates, Isopropylated	P
181 (188)	Triazophos	P
182 (189)	Tributyltin Compounds	PP
183 (190)	Trichlorfon	P
184 (191)	1,2,3 Trichlorobenzenes, liquid	PP
185 (192)	Trichloronat	P
186 (150)	Tricresyl Phosphate, less than 1% ortho-isomer	P
187 (151)	Tricresyl Phosphate, not less than 1% but not more than 3% ortho-isomer	PP
188 (193)	Triethylbenzene	P
189 (152)	Triphenyl phosphate	PP
190 (153)	Triphenyl phosphate / tert- Butylated Triphenyl phosphate mixture containing 5% to 10% of Triphenyl phosphate	P
191 (154)	Triphenyl phosphate / tert- Butylated Triphenyl phosphate mixture containing 10% to 48% of Triphenyl phosphate	PP
192 (194)	Triphenyltin Compounds other than fentin acetate and fentin hydroxide	PP
193 (155)	Trixylenyl Phosphate	P
194 (195)	Warfarin (and salts of)	P
195 (20)	Zinc Bromide	P

APPENDIX 2

SOR/2008-34

DESCRIPTION OF COMPATIBILITY GROUPS CLASS 1, EXPLOSIVES

Item	Column 1 Description	Column 2 Compatibility Group	Column 3 Possible Class
1.	Primary explosive substance	A	1.1
2.	Article containing a primary explosive substance and not containing two or more effective protective features. Some articles (such as detonators for blasting, detonator assemblies for blasting and primers, cap-type) are included in the compatibility group set out in column 2 even though they do not contain primary explosives	B	1.1 1.2 1.4
3.	Propellant explosive substance or other deflagrating explosive substance or article containing such an explosive substance	C	1.1 1.2 1.3 1.4
4.	Secondary detonating explosive substance or black powder or article containing a secondary detonating explosive substance, in each case without means of initiation and without a propelling charge or article containing a primary explosive substance and containing two or more effective protective features	D	1.1 1.2 1.4 1.5
5.	Article containing a secondary detonating explosive substance, without means of initiation, with a propelling charge (other than one containing a flammable liquid, flammable gel or hypergolic liquids)	E	1.1 1.2 1.4
6.	Article containing a secondary detonating explosive substance with its own means of initiation, with a propelling charge (other than one containing a flammable liquid, flammable gel or hypergolic liquids) or without a propelling charge	F	1.1 1.2 1.3 1.4
7.	Pyrotechnic substance, an article containing a pyrotechnic substance or an article containing an explosive substance and an illuminating, incendiary, tear- or smoke-producing substance (other than a water-activated article or one containing white phosphorus, phosphides, a pyrophoric substance, a flammable liquid, flammable gel or hypergolic liquids)	G	1.1 1.2 1.3 1.4
8.	Article containing an explosive substance and white phosphorus	H	1.2 1.3
9.	Article containing an explosive substance and a flammable liquid or flammable gel	J	1.1 1.2 1.3
10.	Article containing an explosive substance and a toxic substance	K	1.2 1.3
11.	Explosive substance or article containing an explosive substance and presenting a special risk (e.g., that is due to water activation or to the presence of hypergolic liquids, phosphides or a pyrophoric substance) that needs isolation of each type	L	1.1 1.2 1.3
12.	Articles containing only extremely insensitive detonating substances	N	1.6
13.	Substance or article packed or designed so that any hazardous effects arising from accidental functioning are confined within the means of containment unless the means of containment has been degraded by fire, in which case all blast or projection effects are limited to the extent that they do not significantly hinder or prevent fire fighting or other emergency response efforts in the immediate vicinity of the means of containment	S	1.4

APPENDIX 3
SOR/2008-34

GUIDE TO CATEGORY A AND CATEGORY B ASSIGNMENT

Infectious substances are divided into two categories: Category A and Category B. This Appendix is a list of infectious substances by category. Category A is identified by two UN numbers and shipping names, UN2814, INFECTIOUS SUBSTANCE, AFFECTING HUMANS and UN2900, INFECTIOUS SUBSTANCE, AFFECTING ANIMALS. Category B is identified by one UN number and shipping name, UN3373, BIOLOGICAL SUBSTANCE, CATEGORY B.

The lists in this Appendix are not exhaustive or complete and are provided for guidance to those who must classify infectious substances. If there is any doubt as to whether a substance is infectious or as to the category to which it must be assigned, assistance may be obtained from the Director, Office of Laboratory Security, Public Health Agency of Canada, or from the Director, Biohazard Containment and Safety, Canadian Food Inspection Agency.

An infectious substance is defined in Part 1, Coming into Force, Repeal, Interpretation, General Provisions and Special Cases, as "a substance known or reasonably believed to contain viable micro-organisms such as bacteria, viruses, rickettsia, parasites, fungi and other agents such as prions that are known or reasonably believed to cause disease in humans or animals and that are listed in Appendix 3 to Part 2, Classification, or that exhibit characteristics similar to a substance listed in Appendix 3".

If the symbol "@" appears beside an infectious substance listed in this Appendix, that infectious substance affects animals only. The UN number and shipping name are UN2900, INFECTIOUS SUBSTANCE, AFFECTING ANIMALS or UN3373, BIOLOGICAL SUBSTANCE, CATEGORY B.

If there is no symbol "@", the infectious substance affects humans or animals. The UN number and shipping name is UN2814, INFECTIOUS SUBSTANCE, AFFECTING HUMANS or UN3373, BIOLOGICAL SUBSTANCE, CATEGORY B.

The item column gives sequential item numbers for the entries in this Appendix. Beside the item number in parentheses is the corresponding item number in the French-language Appendix.

Substances with an asterisk "" against them in column 3 of the Category A list require an Emergency Response Assistance Plan in accordance with subsection 7.1(7) of Part 7, Emergency Response Assistance Plan.*
SOR/2011-239

UN2814, Category A — Virus and Bacteria

Virus

Item	Column 1 Family	Column 2 Genus	Column 3 Species
1 (1)	Arenaviridae	Arenavirus	(a) Flexal virus (b) Guanarito virus* (c) Junin virus* (d) Lassa virus* (e) Machupo virus* (f) Sabia virus*
2 (2)	Bunyaviridae	(1) Hantavirus	(a) Hantaviruses causing hemorrhagic fever with renal syndrome (b) Hantaviruses causing pulmonary syndrome
		(2) Nairovirus	Crimean-Congo hemorrhagic fever virus*
		(3) Phlebovirus	Rift Valley Fever virus
3 (3)	Coronaviridae	Coronavirus	Human Coronavirus — SARS, Severe Acute Respiratory Syndrome
4 (4)	Filoviridae	Filovirus	(a) Ebola virus* (b) Marburg virus*
5 (5)	Flaviviridae	Flavivirus	(a) Dengue virus (b) Japanese encephalitis virus (c) Kyasanur Forest virus* (d) Omsk hemorrhagic fever virus* (e) Russian spring-summer encephalitis virus* (f) Tick-borne encephalitis virus (g) West Nile fever virus (h) Yellow fever virus (wild type)
6 (6)	Hepadnaviridae	Orthohepadna virus	Hepatitis B virus
7 (7)	Herpesviridae (Alphaherpesvirinae)	Simplexvirus	Herpes B virus* (Cercopithecine Herpesvirus-1): (a) Herpesvirus simiae (b) Monkey B virus
8 (8)	Orthomyxoviridae	Influenzavirus A, B and C	Highly pathogenic avian influenza virus
9 (9)	Paramyxoviridae	Henipa virus (formerly: Morbillivirus)	(a) Hendra virus* (b) Nipah virus* (Hendra-like virus)
10 (10)	Picornaviridae	Enterovirus	Polioviruses
11 (11)	Poxviridae	Orthopoxvirus	(a) Monkeypox virus (b) Variola* (smallpox virus)
12 (12)	Retroviridae	Lentivirus	Human Immunodeficiency virus
13 (13)	Rhabdoviridae	Lyssavirus	Rabies virus
14 (14)	Togaviridae	Alphavirus	(a) Eastern equine encephalitis virus (b) Venezuelan equine encephalitis virus

Bacteria

Item	Column 1 Family	Column 2 Genus	Column 3 Species
1 (1)		Bacillus	anthracis
2 (2)		Brucella	(a) abortus (b) melitensis (c) suis
3 (3) ***SOR/2012-245***		Burkholderia	(a) mallei (formerly: pseudomonas mallei) (Glanders) (b) pseudomallei (formerly: pseudomonas pseudomallei)
4 (4)		Chlamydia	psittaci (avian strains)
5 (5)		Clostridium	botulinum
6 (6)		Cocidioides	Immitis
7 (7)		Coxiella	burnetti
8 (8)		Escherichia	coli verotoxigenic — ETEC

Item	Column 1 Family	Column 2 Genus	Column 3 Species
9 (9)		Francisella	tularensis
10 (10)		Mycobacterium	tuberculosis
11 (11)		Rickettsia	(a) prowazekii (b) rickettsii
12 (12)		Shigella	dysenteriae (Type 1)
13 (13)		Yersinia	Pestis

UN2900, Category A — Virus and Bacteria

Virus

Item	Column 1 Family	Column 2 Genus	Column 3 Species
1 (1)	Flaviviridae	Pestivirus	Hog Cholera virus (Classical Swine Fever)
2 (2)	Paramyxoviridae	Morbillivirus	(a) Peste des petits ruminants virus (b) Rinderpest virus
3 (3)	Paramyxoviridae (subfamily Paramyxovirinae)	Rubulavirus	Avian paramyxovirus Type 1 Velogenic Newcastle virus
4 (4)	Picornaviridae	(1) Aphthovirus	Foot and mouth disease virus*
		(2) Enterovirus	Swine vesicular disease virus
5 (5)	Poxviridae	Capripoxvirus	(a) Goat pox virus (b) Lumpy skin disease virus (c) Sheep pox virus
6 (6)	Rhabdoviridae	Vesiculovirus	Vesicular stomatitis virus
7 (7)	Unclassified	Unclassified	African Swine fever virus

Bacteria

Item	Column 1 Family	Column 2 Genus	Column 3 Species
1 (1)		Mycoplasma	mycoïdes

UN3373, Category B — Virus, Bacteria and Fungi

Virus

Item	Column 1 Family	Column 2 Genus	Column 3 Species
1 (1)	Adenoviridae	(1) Aviadenovirus	Animal, all isolates@
		(2) Mastadenovirus	(a) Adenovirus (human, all types) (b) Animal, all isolates@
2 (2)	Arenaviridae	Arenavirus	(a) Lymphocytic choriomeningitis virus (b) Mopeia virus (c) Tacaribe viruses (d) Whitewater Arroyo virus
3 (3)	Arteviridae	Arterivirus	(a) Equine arteritis virus@ (b) Porcine reproductive/Respiratory syndrome virus@ (c) Simian hemorrhagic fever virus
4 (4)	Astroviridae	Astrovirus	All serotypes

Item	Column 1 Family	Column 2 Genus	Column 3 Species
5 (5)	Birnaviridae	Birnavirus	(a) Infectious bursal disease virus@ (b) Infectious pancreatic necrosis virus@
6 (6)	Bornaviridae	Bornavirus	Borna disease virus (CNS-encephalo-myelitis)
7 (7)	Bunyaviridae	(1) Bunyavirus	(a) Aino virus@ (b) Akabane virus@ (c) Bunyamwera virus (d) California encephalitis virus (e) Jamestown Canyon virus (f) La Crosse virus (g) Lumbo virus (h) Oropouche virus (i) Snowshoe hare virus (j) Tahyna virus
		(2) Hantavirus	(a) Hantaviruses not causing pulmonary syndrome (b) Hantaviruses not causing hemorrhagic fever with renal syndrome
		(3) Nairovirus	(a) Hazara virus (b) Nairobi sheep disease virus@
8 (8)	Caliciviridae	Calicivirus	(a) European brown hare virus@ (b) Feline calicivirus@ (c) Hepatitis E virus (d) Norwalk virus (e) Rabbit hemorrhagic disease virus@ (f) San Miguel sea lion virus@ (g) Vesicular exanthema of swine virus
9 (9)	Circoviridae	Circovirus	(a) Avian circovirus@ (b) Porcine circovirus@
10 (10)	Coronaviridae	(1) Coronavirus	(a) Avian infectious bronchitis virus@ (b) Bovine coronavirus, all strains (c) Canine, Rat and Rabbit coronavirus@ (d) Feline enteric coronavirus@ (e) Feline infectious peritonitis virus@ (f) Hemagglutinating encephalo-myelitis virus of swine@ (g) Human coronavirus, all strains excluding SARS (h) Mouse hepatitis virus@ (i) Porcine epidemic diarrhea virus@ (j) Porcine respiratory coronavirus@ (k) Transmissible gastroenteritis virus of swine@ (l) Turkeys enteritis coronavirus@
		(2) Torovirus	(a) Berne virus@ (b) Breda virus@
11 (11)	Flaviviridae	(1) Flavivirus	(a) Kunjin virus (b) Louping ill virus (c) Murray Valley encephalitis virus (Australia encephalitis) (d) Powassan virus (e) Rocio virus (f) St. Louis encephalitis virus (g) Turkey meningoencephalitis virus (h) Wesselsbron virus (i) Yellow fever virus (vaccine strain 17D)
		(2) Hepacivirus	Hepatitis C virus
		(3) Pestivirus	(a) Border disease virus@ (b) Bovine viral diarrhea virus@
12 (12)	Hepadnaviridae	(1) Delta virus	Hepatitis D (Delta) virus
		(2) Avihepadnavirus	Duck hepatitis B virus@
		(3) Orthohepadnavirus	(a) Ground squirrel hepatitis B virus (b) Woodchuck hepatitis virus@

Item	Column 1 Family	Column 2 Genus	Column 3 Species
13 (13)	Herpesviridae (Alphaherpes-virinae)	(1) Simplexvirus	(a) Human herpes virus 1 (b) Human herpes virus 2 (c) Mammillitis virus (bovine herpes-virus 2)@
		(2) Varicellovirus	(a) All isolates, excluding pseudorabies virus (b) Bovine infectious rhinotracheitis (herpesvirus 1) (c) Equine abortion virus (equine herpesvirus 1)@ (d) Equine coital exanthema virus (equine herpesvirus 3)@ (e) Equine rhinopneumonitis (equine herpesvirus 4)@ (f) Feline rhinotracheitis (feline herpesvirus 1)@ (g) Human herpes virus 3 (Varicella-zoster virus) (f) Pseudorabies virus (suis herpes virus 1) (g) Pseudorabies virus (suis herpes virus 1)
		(3) Unclassified	(a) Canine herpesvirus 1@ (b) Caprine herpesvirus 1@ (c) Cervid herpesvirus 1 and 2@
14 (14)	Herpesviridae (Betaherpes-virinae)	(1) Cytomegalovirus	(a) Human cytomegalovirus (CMV) (b) Porcine cytomegalovirus (suid herpesvirus 2)@
		(2) Muromegalovirus	Caviid herpesvirus (guinea-pig cytomegalovirus)@
		(3) Roseolovirus	Equine cytomegalovirus (equine herpesvirus 2)@
15 (15)	Herpesviridae (Gammaherpes virinae)	(1) Lymphocrypto-virus	(a) Epstein-Barr-like virus (EBV) (Monkey virus) (b) Epstein-Barr virus (EBV) (Human herpes-virus 4) (c) Human B lymphotropic virus
		(2) Rhadinovirus	(a) Herpesvirus ateles (b) Herpesvirus saimiri (c) Malignant catarrhal fever virus (Alcelaphine herpesvirus)@
16 (16)	Orthomyxovi-ridae	Influenzavirus A, B and C	Influenza A, B, C and all isolates except influenza A — avian H5 and H7, Human H2 and 1918 H1N1 Spanish flu strain
17 (17)	Paramyxoviridae	Pneumovirus	Turkey rhinotracheitis virus@
18 (18)	Paramyxoviridae (subfamily Paramyxovirinae)	(1) Morbillivirus	(a) Canine distemper virus@ (b) Measles virus (c) Phocine distemper virus@
		(2) Paramyxovirus	Parainfluenza types 1-4
		(3) Respirovirus	(a) Bovine Parainfluenza virus Type 3@ (b) Sendai virus (mouse parainfluenza virus)@
		(4) Rubulavirus	(a) Avian paramyxovirus Types 2 to 9@ (b) Mumps virus
19 (19)	Paramyxoviridae (subfamily Pneumovirinae)	Pneumovirus	(a) Bovine respiratory syncytial virus@ (b) Human respiratory syncytial virus (c) Pneumonia virus of mice@
20 (20)	Parvoviridae	Parvovirus	All isolates
21 (21)	Picornaviridae	(1) Cardiovirus	(a) All isolates (human) (b) Swine encephalomyocarditis virus@ (c) Theiler's murine poliovirus
		(2) Enterovirus	(a) All isolates, excluding Swine vesicular disease virus and Polioviruses (b) Coxsackieviruses
		(3) Hepatovirus	All isolates (including Hepatitis A, human enterovirus type 72)
		(4) Rhinovirus	(a) All isolates (human) (b) Bovine rhinovirus Types 1 to 3@ (c) Equine rhinovirus@ (d) Feline Rhinovirus@ (e) Rhinovirus

Item	Column 1 Family	Column 2 Genus	Column 3 Species
22 (22)	Poxviridae	(1) Avipoxvirus	(a) All isolates@ (animal) (b) All isolates (human)
		(2) Leporipoxvirus	(a) Rabbit (Shope) fibroma virus@ (b) Squirrel fibroma virus@
		(3) Orthopoxvirus	(a) All isolates@, excluding Monkeypox and Variola (smallpox virus) (b) Buffalo pox (c) Cowpox virus (d) Rabbit pox (e) Skunkpox (f) Vaccinia
		(4) Parapoxvirus	(a) All isolates@, excluding Sealpox virus (b) Bovine papular stomatitis virus (c) Orf virus (d) Pseudocowpox virus (paravaccinia) (e) Sealpox virus
23 (23)	Reoviridae	(1) Coltivirus	Coltivirus
		(2) Orbivirus	(a) Epizootic hemorrhagic disease virus@ (b) Equine encephalosis virus@ (c) Ibaraki virus (d) Palyam virus@
		(3) Orthoreovirus	(a) Animal, all isolates except Ndelle and Ourem viruses (b) Types 1, 2 and 3
		(4) Reovirus, types 1 and 2	Animal, all isolates@
		(5) Rotavirus	(a) Animal, all isolates@ (b) Rotavirus
24 (24)	Retroviridae	(1) Betaretrovirus	Mason-Pfizer monkey virus@
		(2) Gammare-trovirus	(a) Animal, all isolates@ (b) Avian reticuloendotheliosis virus
		(3) Deltaretrovirus	Human T-cell lymphotrophic viruses (HTLV)
25 (25)	Retroviridae (subfamily Spumavirinae)	(1) Spumavirus	All isolates
		(2) Deltaretrovirus	Bovine leukemia virus@
26 (26)	Rhabdoviridae	(1) Lyssavirus	(a) Australian bat lyssavirus (b) Duvenhage virus (c) European bat lyssavirus I (d) European bat lyssavirus II (e) Lagos bat virus (f) Mokola virus (g) Rabies virus-Fixed virus
		(2) Vesiculovirus	(a) Alagoas virus (b) Chandipura virus (c) Cocal virus (d) Isfahan virus (e) Pyri virus (f) Vesicular stomatitis virus — Indiana lab strain
27 (27)	Togaviridae	(1) Alphavirus	(a) Bebaru virus (b) Chikungunya virus (c) Everglades virus (d) Getah virus (e) Highlands J virus (f) Mayaro virus (g) Mucambo virus (h) Ndumu virus (i) O'Nyong-Nyong virus (j) Ross River virus (k) Semliki forest virus (l) Sindbis (m) Tonate virus (n) Western equine encephalitis virus strain TC-83
		(2) Arterivirus	Equine arteritis virus@
		(3) Pestivirus	Border disease virus
		(4) Rubivirus	Rubella virus

Item	Column 1 Family	Column 2 Genus	Column 3 Species
28 (28)	Transmissible Spongiform Encephalopathies		(a) Bovine spongiform encephalophy (b) Chronic wasting disease of captive mule deer/elk@ (c) Creutzfeldt-Jacob disease (d) Gertsmann-Straussier-Scheinker (e) Kuru (f) Scrapie@ (g) Transmissible mink encephalopathy@
29 (29)	Unclassified	Unclassified	Swine hepatitis E virus@

UN3373, Category B — Virus, Bacteria and Fungi — *Continued*

Bacteria

Item	Column 1 Genus	Column 2 Species
1 (1)	Acholeplasma	oculi@
2 (2)	Acinetobacter	(a) baumannii (b) calcoaceticus (c) Iwoffii (d) spp
3 (3)	Actinobacillus	(a) actinomycetemcomitans (b) capsulatus@ (c) equuli@ (d) lignieresii@ (e) pleuropneumoniae@ (f) seminis@ (g) spp (h) suis@ (i) ureae@
4 (4)	Actinomadura	(a) madurae (b) pelletieri
5 (5)	Actinomyces	(a) bovis@ (b) gerencseriae (c) hordeovulneris@ (d) israelii (e) naeslundii (f) pyogenes (g) spp (h) suis@ (i) viscosus@
6 (6)	Aeromonas	(a) hydrophila (b) punctata (c) spp
7 (7)	Afipia	spp
8 (8)	Agrobacterium	Radiobacter
9 (9)	Alcaligenes	spp
10 (10)	Amycolata	Autotrophica
11 (11)	Anaplasma	(a) caudatum@ (b) centrale@ (c) marginale@ (d) ovis
12 (12)	Arcanobacterium	(a) haemolyticum (b) pyogenes
13 (13)	Arcobacter	(a) butzeri (b) cryoaerophilus (c) spp
14 (14)	Arizona	spp
15 (15)	Bacillus	Cereus

Item	Column 1 Genus	Column 2 Species
16 (16)	Bacteroides	(a) fragilis (b) heparinolyticus@ (c) levii (d) salivosus@ (e) spp
17 (17)	Bartonella	(a) bacilliformis (b) elizabethae (c) henselae (d) quintana (e) spp
18 (18)	Bordetella	(a) avium@ (b) bronchiseptica (c) parapertussis (d) pertussis (e) spp
19 (19)	Borrelia	(a) burgdorferi (b) duttonii (c) recurrentis (d) spp (e) vincenti
20 (20)	Brachyspira	(a) hyodysenteriae (b) innocens
21 (21)	Brucella	(a) canis (b) ovis (c) spp, excluding abortus, melitensis and suis
22 (22)	Burkholderia	(a) cepacia genomovars I (b) cepacia genomovars III (c) gladioli (d) multivorans (e) spp, excluding mallei and pseudomallei (f) stabilis (g) vietnamensis
23 (23)	Campylobacter	(a) coli (b) fetus, subspecies fetus (intestinalis) (c) fetus, subspecies venerealis (d) hyointestinalis (e) jejuni (f) lari (g) mucosalis@ (h) spp (i) sputorum
24 (24)	Capnocytophaga	spp
25 (25)	Cardiobacterium	hominis
26 (26)	Chlamydia	(a) pneumoniae (b) psittaci (non-avian strains) (c) trachomatis
27 (27)	Chryseobacterium	meningosepticum
28 (28)	Citrobacter	(a) diversus (b) freundii (c) spp
29 (29)	Clostridium	(a) chauvoei (b) colinum@ (c) difficile (d) haemolyticum (e) histolycum (f) novyi (g) perfringens (h) septicum (i) sordellii (j) spiriforme@ (k) spp, excluding botulinum (l) tetani (m) villosum@

Item	Column 1 Genus	Column 2 Species
30 (30)	Corynebacterium	(a) amycolatum (b) cystitidis@ (c) diphtheriae (d) jeikeium (e) kutscheri@ (f) minutissimum (g) pilosum (h) pseudotuberculosis (i) renale (j) spp (k) ulcerans
31 (31)	Dietzia	maris
32 (32)	Dermabacter	hominis
33 (33)	Dermatophilus	congolensis
34 (34)	Dichelobacter	nodosus
35 (35)	Edwardsiella	tarda
36 (36)	Eikenella	corrodens
37 (37)	Enterobacter	(a) aerogenes/cloacae (b) spp
38 (38)	Enterococcus	(a) faecalis (b) faecium (c) spp
39 (39)	Ehrlichia	(a) sennetsu (b) spp
40 (40)	Erysipelothrix	Tonsillarum
41 (41)	Escherichia	(a) coli (b) coli enteroinvasive — EIEC (c) coli enteropathogenic — EPEC
42 (42)	Eubacterium	suis@
43 (43)	Fluoribacter	Bozemaniae
44 (44)	Francisella	(a) novicida (b) philomiragia
45 (45)	Fusobacterium	(a) necrophorum (b) spp
46 (46)	Gardnerella	vaginalis
47 (47)	Gordonia	spp
48 (48)	Haemophilus	(a) ducreyi (b) influenzae (c) influenzaemurium@ (d) paragallinarum (e) parainfluenzae (f) parasuis@ (g) piscium@ (h) somnus@ (i) spp
49 (49)	Helicobacter	(a) cinaedi (b) felis@ (c) fennelliae (d) mustelae (e) nemestrinae (f) pullorum (g) pylori
50 (50)	Hemobartonella	felis@
51 (51)	Kingella	kingae
52 (52)	Klebsiella	(a) granulomatis (b) oxytoca (c) pneumoniae (d) spp
53 (53)	Lactococcus	garvieae
54 (54)	Lawsonia	intracellularis@

Item	Column 1 Genus	Column 2 Species
55 (55)	Legionella	(a) micdadei (b) pneumophilia (c) spp
56 (56)	Leptospira	(a) bratislava (b) canicola/copenhageni (c) grippotyphosa (d) hardjo (e) icterohaemorrhagiae (f) interrogans (g) pomona (h) sejroe (i) var ballum
57 (57)	Listeria	(a) ivanovii@ (b) monocytogenes (c) spp
58 (58)	Mannheimia	haemolytica
59 (59)	Moraxella	(a) bovis@ (b) caprae (c) catarrhalis (d) lacunata (e) phenylpyruvica (f) spp
60 (60)	Morganella	morganii
61 (61)	Mycobacterium	(a) africanum (b) asiaticum (c) avium complex (d) avium/intracellulare (e) bovis (f) bovis (BCG) (g) chelonae (h) fortuitum (i) kansasii (j) leprae (k) malmoense (l) marinum (m) microti (n) paratuberculosis (o) scrofulaceum (p) simiae (q) szulgai (r) ulcerans (s) xenopi
62 (62)	Mycoplasma	(a) caviae (b) hominis (c) pneumoniae (d) spp, excluding mycoides
63 (63)	Neisseria	(a) elongata (b) gonorrhoeae (c) meningitidis (d) spp
64 (64)	Neorickettsia	helminthoeca@
65 (65)	Nocardia	(a) asteroides (b) brasiliensis (c) caviae (d) farcinica (e) nova (f) otitidis-caviarum (g) pseudobrasiliensis (h) spp (i) transvalensis
66 (66)	Ochrobactrum	spp
67 (67)	Oligella	spp
68 (68)	Ornithobacterium	rhinotracheale@
69 (69)	Pandoraea	spp
70 (70)	Pantoea	agglomerans

Item	Column 1 Genus	Column 2 Species
71 (71)	Pasteurella	(a) aerogenes (b) anatipestifer@ (c) caballi@ (d) canis (e) dagmatis (f) granulomatis@ (g) haemolytica (h) multocida (serotypes B:2 and E:2) (i) multocida, except serotypes B:2 and E:2 (j) multocida, subspecies gallicida (k) multocida, subspecies multocida (l) multocida, subspecies septica (m) pneumotropica (n) spp
72 (72)	Peptostreptococcus	(a) anaerobius (b) indolicus@ (c) spp
73 (73)	Plesiomonas	shigelloides
74 (74)	Porphyromonas	spp
75 (75)	Prevotella	(a) melaninogenica (b) spp
76 (76)	Propionibacterium	propionicum
77 (77)	Proteus	(a) mirabilis (b) penneri (c) spp (d) vulgaris
78 (78)	Providencia	(a) alcalifaciens (b) rettgeri (c) spp
79 (79)	Psychrobacter	(a) immobilis (b) phenylpyruvicus
80 (80)	Pseudomonas	(a) aeruginosa (b) spp
81 (81)	Ralstonia	spp
82 (82)	Rhodococcus	(a) equi (b) spp
83 (83)	Rickettsia	(a) akari (b) australis (c) canadensis (d) conorii (e) helvetica (f) montanensis (g) parkeri (h) rhipicephali (i) spp, excluding prowazekii and rickettsii (j) tsutsugamuchi (k) typhi (mooseri)
84 (84)	Rothia	(a) dentocarosia (b) mucilagenosas

Item	Column 1 Genus	Column 2 Species
85 (85)	Salmonella	(a) abortus equi (b) abortus ovis (c) agona (d) anatum (e) arizonae (f) choleraesuis (g) derby (h) dublin (i) enteritidis (j) gallinarum@ (k) heidelberg (l) montevideo (m) newport (n) (other serovars) (o) paratyphi A, B and C (p) pullorum@ (q) spp (r) typhi (s) typhimurium (t) typhisuis@
86 (86)	Serpulina	spp
87 (87)	Serratia	(a) liquefaciens (b) marcescens
88 (88)	Shigella	(a) boydii (b) dysenteriae (other than Type 1) (c) flexneri (d) sonnei
89 (89)	Staphylococcus	(a) aureus (b) aureus (MRSA) (c) epidermidis (d) intermedius@
90 (90)	Stenotrophomonas	maltophilia
91 (91)	Streptobacillus	(a) moniliformis (b) spp
92 (92)	Streptococcus	(a) agalactiae (b) bovis (c) dysgalactiae (d) equi (e) pneumoniae (f) pyogenes (g) spp (h) suis (i) uberis
93 (93)	Taylorella	equigenitalis@
94 (94)	Treponema	(a) carateum (b) pallidum (c) pertenue (d) spp (e) vincentii
95 (95)	Tsukamurella	spp
96 (96)	Ureaplasma	urealyticum
97 (97)	Vagococcus	salmoninarum@
98 (98)	Vibrio	(a) cholerae (b) parahaemolyticus (c) spp (d) vulnificus
99 (99)	Yersinia	(a) enterocolitica (b) pseudotuberculosis (c) ruckeri@

UN3373, Category B — Virus, Bacteria and Fungi — *Continued*

Fungi

Item	Column 1 Genus	Column 2 Species
1 (1)	Aspergillus	(a) flavus (b) fumigatus (c) nidulans (d) niger (e) oryzae (f) terreus
2 (2)	Blastomyces	dermatitidis (formerly: Ajellomyces dermatitidis)
3 (3)	Candida	(a) albicans (b) glabrata (c) guilliermondii (d) krusei (e) parapsilosis
4 (4)	Cladophialophora	bantiana (formerly: Cladosporium bantianum)
5 (5)	Cladosporium	carrionii
6 (6)	Cryptococcus	neoformans
7 (7)	Emmonsia	parva
8 (8)	Epidermophyton	floccosum
9 (9)	Histoplasma	(a) capsulatum (formerly: Ajellomyces capsulatum) (b) capsulatum var capsulatum (c) capsulatum var duboisii (d) capsulatum var farciminosum
10 (10)	Loboa	loboi
11 (11)	Microsporum	(a) audouinii (b) canis (c) distortum (d) equinum (e) ferrugineum (f) fulvum (g) gypseum (h) nanum (i) persicolor (j) praecox (k) vanbreuseghemii
12 (12)	Paracoccidioides	brasiliensis
13 (13)	Penicillium	marneffei
14 (14)	Sporothrix	(a) Schenckii var luriei (b) Schenckii var schenckii
15 (15)	Trichophyton	(a) concentricum (b) equinum/autotrophicum (c) equinum/equinum (d) gourvilii (e) megninii (f) mentagrophytes/erinacei (g) mentagrophytes/interdigitale (h) mentagrophytes/nodulare (i) mentagrophytes/mentagrophytes (j) mentagrophytes/quinckeanum (k) rubrum (l) schoenleinii (m) simii (n) sudanese (o) tonsurans (p) violaceum (q) yaoundei

APPENDIX 4 --- Repealed

SOR/2008-34

APPENDIX 5 --- Repealed

SOR/2008-34

PART 3

DOCUMENTATION

TABLE OF CONTENTS

Background

The underlying principle of this Part is that dangerous goods in transport must be accompanied by physical documentation that provides basic information about them.

The documentation is prepared by the consignor before the carrier takes possession of the dangerous goods (that is, before the dangerous goods are in transport). The documentation must be kept in specific locations while the dangerous goods are in transport.

When information required by this Part is recorded on paper, that paper is a shipping document.

A shipping document may be in any form, including a waste manifest or a company-designed form, as long as it contains all the information required by this Part.

When information required by this Part is recorded electronically, the resulting document is an electronic copy of a shipping document.

A shipping document and an electronic copy of it are both shipping records.

When documentation is required to be kept, it may be in the form of a shipping record, that is, on paper or in electronic form.

The term "master" is used in this Part and is not defined in Part 1, Coming into Force, Repeal, Interpretation, General Provisions and Special Cases but is defined in the "Canada Shipping Act".

DOCUMENTATION

Definitions

Definitions for the following terms, used in this Part, are provided in Part 1, Coming into Force, Repeal, Interpretation, General Provisions and Special Cases:

aircraft
CANUTEC
carrier
class
classification
compatibility group
consignor
dangerous goods
dangerous goods safety mark
emergency response assistance plan or ERAP or ERP
flash point
gas
handling
import
infectious substance
inspector
in transport
liquid
means of containment
means of transport
net explosives quantity
offer for transport
packing group
person
primary class
railway vehicle
road vehicle
ship
shipping document
shipping name
shipping record
small means of containment
solid
special provision
subsidiary class
substance
technical name
train
UN number
UN Recommendations

3.1 Consignor Responsibilities

A person may be both a consignor and a carrier of the same consignment, for example, a manufacturer who also transports the dangerous goods he or she produces.

(1) Before allowing a carrier to take possession of dangerous goods for transport, the consignor must prepare and give to that carrier a shipping document or, if the carrier agrees, an electronic copy of the shipping document.

(2) When dangerous goods are imported into Canada, the consignor must, before the dangerous goods are transported in Canada, ensure that the carrier has a shipping document or, with the agreement of the carrier, an electronic copy of the shipping document that contains the information required by these Regulations.

3.2 Carrier Responsibilities

According to the definitions of "carrier" and "in transport", a person such as a freight forwarder who has possession of dangerous goods while they are in transport is a carrier for the purposes of these Regulations.

(1) A carrier must not take possession of dangerous goods for transport unless the carrier has the shipping document for the dangerous goods.

(2) A carrier who accepts an electronic copy of a shipping document must produce a shipping document from the electronic copy before taking possession of the dangerous goods for transport.

(3) Dangerous goods in transport are in the possession of a carrier from the time the carrier takes possession of them for transport until another person takes possession of them.

(4) While the dangerous goods are in transport and in the possession of a carrier, the carrier must keep the shipping document in the location specified by sections 3.7 to 3.10.

(5) At or before the time another carrier takes possession of the dangerous goods, the carrier must give the shipping document or a copy of the shipping document to that other carrier or, with that other carrier's agreement, an electronic copy of it.

(6) At or before the time a person, other than another carrier, takes possession of the dangerous goods, the carrier of the dangerous goods must give to that person a document that identifies the dangerous goods or, with that person's agreement, an electronic copy of a document that identifies the dangerous goods.

(7) A carrier may replace a shipping document provided by the consignor with a new shipping document or with a copy of the shipping document in a different format.

3.3 Consist for Transport by Rail

(1) When a train includes a railway vehicle containing dangerous goods for which a placard is required to be displayed in accordance with Part 4, Dangerous Goods Safety Marks, the person in charge of the train must prepare and give a consist to a member of the train crew. The information on the consist must be kept up to date by the train crew and kept with the shipping document.

(2) The consist must include, for each railway vehicle containing dangerous goods for which a placard is required to be displayed in accordance with Part 4, Dangerous Goods Safety Marks,

(a) the numerical location of the railway vehicle in the train, numbering the first vehicle at the head of the train as 1, the next vehicle as 2 and so on, excluding the locomotive or locomotives wherever they are located in the train;
SOR/2002-306

(b) the reporting mark of the railway vehicle;

(c) for a tank car, the shipping name or UN number of the dangerous goods in the tank car; and

(d) for a railway vehicle other than a tank car,

(i) the shipping name or UN number of the dangerous goods, if the railway vehicle contains only dangerous goods with the same shipping name and UN number, or

(ii) the words "Dangerous Goods" or "Marchandises dangereuses", if the railway vehicle contains dangerous goods that have different shipping names or UN numbers.

(3) A carrier must be able to immediately provide to CANUTEC a copy of a consist whenever the train to which the consist applies is in operation or is involved in an accident.

3.4 Legibility and Language

(1) The information required on a shipping document and on a consist must be easy to identify, legible, in indelible print and in English or French.

(2) When the information related to dangerous goods is on the same shipping document with information related to non-dangerous goods, the dangerous goods information must be shown

(a) before the information related to the non-dangerous goods and under the heading "Dangerous Goods" or "Marchandises dangereuses";

(b) printed or highlighted in a colour that contrasts with the print or highlight used for the information related to the non-dangerous goods; or

(c) following the letter "X" opposite the shipping name in a column under the heading "DG" or "MD".

3.5 Information on a Shipping Document

(1) The following information must be included on a shipping document:

(a) the name and address of the place of business in Canada of the consignor;

(b) the date the shipping document or an electronic copy of it was prepared or was first given to a carrier;

(c) the description of each of the dangerous goods, in the following order:

(i) the shipping name and, immediately after the shipping name unless it is already part of it,

(A) for dangerous goods that are subject to special provision 16 in Schedule 2, the technical name, in parentheses, of the most dangerous substance related to the primary class, and

(B) for a liquefied petroleum gas that has not been odorized, the words "Not Odorized" or "Not Odourized" or "Sans odorisant",

(ii) the primary class, which may be shown as a number only or under the heading "Class" or "Classe" or following the word "Class" or "Classe",
SOR/2002-306

(iii) for dangerous goods with a primary class of Class 1, Explosives, the compatibility group letter following the primary class,

(iv) the subsidiary class or classes, in parentheses, which may be shown as a number only or under the heading "subsidiary class" or "classe subsidiaire" or following the words "subsidiary class" or "classe subsidiaire", except that for transport by aircraft or by ship the subsidiary class or classes may be shown after the information required by this paragraph,

SOR/2008-34

(v) the UN number, and

SOR/2008-34

(vi) the packing group roman numeral, which may be shown under the heading "PG" or "GE" or following the letters "PG" or "GE" or the words "Packing Group" or "Groupe d'emballage";

SOR/2008-34

(vii) Repealed ***SOR/2008-34***

GASOLINE, 3, UN1203, II

GASOLINE, Class 3, UN1203, PG II

ISOBUTYLAMINE, Class 3, Subsidiary Class (8), UN1214, II

ISOBUTYLAMINE, Class 3(8), UN1214, Packing Group II

SOR/2008-34

(d) for each shipping name, the quantity of dangerous goods and the unit of measure used to express the quantity which, on a shipping document prepared in Canada, must be a unit of measure included in the International System of Units (SI) or a unit of measure acceptable for use under the SI system, except that for dangerous goods included in Class 1, Explosives, the quantity must be expressed in net explosives quantity or, for explosives with UN numbers subject to special provision 85 or 86, in number of articles or net explosives quantity;
SOR/2008-34

Examples of descriptions of units of measure include "net mass, 30 kg", "gross mass, 200 kg" or "number of objects, 1 000" or, for a gas, the volume of the means of containment in direct contact with the gas, such as "50 L". Note that solids are normally measured in kilograms while volumes, including liquid capacities, are normally measured in litres. Using litres for this purpose is acceptable under the SI system.
SOR/2008-34

(e) for dangerous goods in one or more small means of containment that require a label to be displayed on them in accordance with Part 4, Dangerous Goods Safety Marks, the number of small means of containment for each shipping name; and
SOR/2008-34

(f) the words "24-Hour Number" or "Numéro 24 heures", or an abbreviation of these words, followed by a telephone number, including the area code, at which the consignor can be reached immediately for technical information about the dangerous goods in transport, without breaking the telephone connection made by the caller.
SOR/2002-306

The terms "24-Hour Number" and "Numéro 24 heures" used in this paragraph refer to the telephone number that must be available when the dangerous goods are in transport. The terms were chosen to emphasize that the requirement is applicable not only during office hours but must also be satisfied at any hour of the day when the dangerous goods are in transport
SOR/2002-306

An example of the type of technical information referred to in paragraph (1)(f) is the information contained in ANSI Standard Z400.1-1998, Material Safety Data Sheet.
SOR/2002-306

(2) The telephone number of a person who is not the consignor, such as CANUTEC, but who is competent to give the technical information required by paragraph (1)(f) in English or in French may be used. However, to use CANUTEC's telephone number, the consignor must receive permission, in writing, from CANUTEC. A consignor who uses the telephone number of an organization or agency other than CANUTEC must ensure that the organization or agency has current, accurate information on the dangerous goods the consignor offers for transport and, if the organization or agency is located outside Canada, the telephone number must include the country code and, if required, the city code.

(3) A means of containment, or the contents of a means of containment, that is being fumigated with dangerous goods and that is in transport must be accompanied by a shipping document that, despite subsections (1) and (5) and section 3.6, includes the following information if the fumigant is the only dangerous goods in transport in the means of containment:

(a) the shipping name, "FUMIGATED UNIT" or "ENGIN SOUS FUMIGATION";

(b) the class, Class 9;

(c) the UN number, UN3359;

(d) the quantity of the fumigant;

(e) the date of fumigation; and

(f) instructions for the disposal of residues of the fumigant or fumigation device.

(4) Despite paragraph (1)(d), the quantity of dangerous goods in a means of containment may be described as "Residue — Last Contained" or "Résidu — dernier contenu", followed by the shipping name of the dangerous goods last contained in the means of containment if that quantity is less than 10 per cent of the maximum fill limit of the means of containment, except the description "Residue" or "Résidu" must not be used for Class 2, Gases, that are in a small means of containment or for Class 7, Radioactive Materials.

(5) If the quantity of dangerous goods or the number of small means of containment changes during transport, the carrier must show on the shipping document or on a document attached to the shipping document the change in the quantity of dangerous goods or the number of small means of containment.

How the carrier shows the change in quantity is the carrier's choice. The carrier can change the number used to express quantity or the carrier may mark on the shipping document, or on a document attached to the shipping document, the additions to or the subtractions from the number used to express quantity.

(6) Repealed ***SOR/2008-34***

(7) Despite subparagraph (1)(c)(v), the UN number required in the description of each of the dangerous goods may be included in the shipping document before the shipping name.
SOR/2005-216

For example, UN1203, GASOLINE, Class 3, PG II

SOR/2005-216

3.6 Additional Information on a Shipping Document

(1) In addition to the information required by subsection 3.5(1), the shipping document for dangerous goods for which an emergency response assistance plan is required under Part 7, Emergency Response Assistance Plan, must include

(a) the reference number of the emergency response assistance plan issued by Transport Canada preceded or followed by the letters "ERP" or "ERAP" or "PIU"; and

(b) the telephone number, including the area code, to call to have the emergency response assistance plan activated immediately.

(2) If the 24-hour number required by paragraph 3.5(1)(f) and the emergency response assistance plan telephone number are the same, that number may be shown on the same line on the shipping document.

For example,

24-Hour Number and 3-2021 ERP: 613-123-4567

24-Hour Number and ERAP 3-2021: 613-123-4567

3-2021 ERP and 24-Hour Number: 613-123-4567

ERAP 3-2021 and 24-Hour Number: 613-123-4567

(3) In addition to the information required by subsection 3.5(1), the following information must be included on a shipping document:

(a) for dangerous goods in transport by ship,

SOR/2008-34

(i) the flash point for dangerous goods included in Class 3, Flammable Liquids, and

(ii) for dangerous goods that are marine pollutants under section 2.7 of Part 2, Classification, the words "marine pollutant" or "polluant marin" and, for a pesticide that is a marine pollutant, the name and concentration of the most active substance in the pesticide;

(b) for dangerous goods included in Class 4.1, Flammable Solids, the control and emergency temperatures shown in section 2.4.2.3.2.3 of Chapter 2.4 of the UN Recommendations, if applicable;

(c) for dangerous goods included in Class 5.2, Organic Peroxides, the control and emergency temperatures shown in section 2.5.3.2.4 of Chapter 2.5 of the UN Recommendations, if applicable; and

(d) for dangerous goods included in Class 7, Radioactive Materials, the additional information required for transport documents under the "Packaging and Transport of Nuclear Substances Regulations".

3.7 Location of a Shipping Document: Road

The driver of a power unit that is attached to or is part of the cargo unit of a road vehicle transporting dangerous goods must ensure that a copy of the shipping document is kept, as follows:

(a) if the driver is in the power unit, in a pocket mounted on the driver's door or within the driver's reach; or

(b) if the driver is out of the power unit, in a pocket mounted on the driver's door**,** on the driver's seat or in a location that is clearly visible to anyone entering through the driver's door.

3.8 Location of a Shipping Document and Consist: Rail

The person in charge of a train transporting dangerous goods must ensure that a copy of the shipping document and, when a consist is required, a copy of the consist are kept,

(a) when one or more members of the train crew are present, in the possession of one of them; or

(b) when no member of the train crew is present, in the first locomotive.

3.9 Location of a Shipping Document: Marine

(1) The master of a ship containing dangerous goods or the master in control of a ship containing dangerous goods must have readily available on or near the bridge of the ship a paper copy or electronic copy of

(a) the shipping document; or

(b) a list that includes the classification of the dangerous goods.

(2) If dangerous goods are transported by ship on board a road vehicle that is accompanied by one or more drivers or a railway vehicle that is accompanied by one or more members of the train crew, a driver or a member of the train crew must notify the master of the ship or the marine carrier of the presence of the dangerous goods and make available to the master a copy of the shipping document. However, the shipping document must be kept, for the road vehicle, in accordance with section 3.7 and, for the railway vehicle, in the possession of a member of the train crew.
SOR/2008-34

3.10 Location of a Shipping Document: Storage In the Course of Transportation

(1) A carrier must ensure that a shipping document is placed in a waterproof receptacle that is securely attached to or near the means of containment containing the dangerous goods, at a readily identifiable and accessible location, when the dangerous goods are in transport if

(a) they are left in an unsupervised area

(i) after being unloaded from a means of transport,

(ii) after the cargo unit of a road vehicle containing them has been disconnected from the power unit, or

(iii) when the railway vehicle containing them is no longer part of a train; and

(b) possession of the dangerous goods has not been transferred to another person.

(2) When dangerous goods in transport are left in a supervised area, the person in charge of the supervised area is considered to have taken possession of the dangerous goods. The carrier must leave a copy of the shipping document with that person, who must keep it and give it to the next person who takes possession of the dangerous goods.

(3) When the person in charge of a supervised area is absent from the area, that person must ensure that the copy of the shipping document is

(a) placed in a waterproof receptacle securely attached to or near the means of containment containing the dangerous goods, at a readily identifiable and accessible location; or

(b) left in the possession of an employee who is present in the supervised area and is designated for this purpose by the person in charge of the supervised area.

(4) Despite the locations specified in subsections (1) to (3), when dangerous goods that are in transport by road vehicle, railway vehicle or ship are stored in a supervised or unsupervised area, the shipping document or an electronic copy of it may be left at the office of a person referred to in one of the following paragraphs if the conditions in subsections (5) and (6) are complied with:

(a) the rail dispatcher for the area in which the railway vehicle is located;

(b) the person responsible for the port at which the dangerous goods are located; or

(c) the marine terminal manager at the terminal where the dangerous goods are located.

(5) When a shipping record is left at the office of a person referred to in subsection (4),

(a) use of the telephone number of that office must be approved in accordance with subsection (6); and

(b) that person or that person's representative must provide immediately, at the request of a federal, provincial or municipal official including a member of a fire department, a facsimile or electronic copy of the shipping record or, if requested, a voice description of the information on the shipping record.

(6) The telephone number of the office of a person referred to in subsection (4) must not be used to comply with subsection (5), unless that person gives CANUTEC the following information and receives approval, in writing, from CANUTEC to use that telephone number:

(a) the name and address of the person;

(b) the telephone number of the office of the person;

(c) the physical area to which the telephone number applies and, in the case of a port or a marine terminal, evidence that public access to the area is controlled;

(d) the period of time, not to exceed 5 years, for which CANUTEC's approval is requested; and

(e) the dangerous goods to which the approval applies.

(7) The Director General may revoke, in writing, the approval to use a telephone number if

(a) the person referred to in subsection (4), or that person's representative, does not answer the telephone;

(b) the person referred to in subsection (4), or that person's representative, does not provide immediately, at the request of a federal, provincial or municipal official including a member of a fire department, a facsimile or an electronic copy of the shipping record or, if requested, a voice description of the information on the shipping record; or

(c) public access to a port or marine terminal is not controlled.

3.11 Keeping Shipping Document Information

(1) A consignor must be able to produce a copy of any shipping document

(a) for two years after the date the shipping document or an electronic copy of it was prepared or given to a carrier by the consignor;

(b) for dangerous goods imported into Canada, for two years after the date the consignor ensured that the carrier, on entry into Canada, had a shipping document or an electronic copy of one; and

SOR/2008-34

(c) within 15 days after the day on which the consignor receives a written request from an inspector.

(2) When dangerous goods are no longer in transport, each carrier who transported the dangerous goods must be able to produce a copy of the shipping document that related to the dangerous goods and was required to be in the possession of that carrier while the dangerous goods were in transport

(a) for two years after the date the dangerous goods are no longer in transport; and

(b) within 15 days after the day on which the carrier receives a written request from an inspector.

(3) Subsection (2) does not apply to a carrier who transported dangerous goods
SOR/2008-34

(a) from a place outside Canada, through Canada to a place outside Canada or for a portion of such transportation; or

(b) entirely outside Canada

(i) on board a ship, or

(ii) on board an aircraft that is registered in Canada and leased to a foreign carrier.

(4) Subsection (2) does not apply to a carrier who is involved only in handling the dangerous goods, including storing them in the course of transport.

(5) The shipping documents referred to in this section may be kept as electronic copies.

PART 4

DANGEROUS GOODS SAFETY MARKS

TABLE OF CONTENTS

Background

Dangerous goods safety marks are required to be displayed on a means of containment containing dangerous goods in transport. Dangerous goods safety marks include labels, placards, orange panels, signs, marine pollutant marks, numbers, letters, abbreviations and words used to identify dangerous goods and to show the nature of the danger they pose.

Dangerous goods safety marks give a quick identification of dangerous goods in the event of an emergency situation such as an accident or an accidental release of dangerous goods from a means of containment.

Dangerous goods safety marks are also an awareness tool for people involved in transportation, including truck drivers, train crews, loading dock workers, reception personnel at a lab or a hospital and aircraft loading personnel.

Generally, labels are displayed on small means of containment and placards are displayed on large means of containment.

The term "home-trade voyage, Class I" is used in this Part and is not defined in Part 1, Coming into Force, Repeal, Interpretation, General Provisions and Special Cases, but it is defined in regulations made under the "Canada Shipping Act".

DANGEROUS GOODS SAFETY MARKS

Definitions

Act
aircraft
CANUTEC
carrier
49 CFR
class
compatibility group
consignment
consignor
cylinder
dangerous goods
dangerous goods safety mark
emergency response assistance plan or ERAP or ERP
flash point
gas
gross mass
import
infectious substance
in transport
large means of containment
liquid
means of containment
means of transport
offer for transport
packing group
person
prescribed
primary class
railway vehicle
road vehicle
roll-on roll-off ship
safety mark
ship
shipping name
short-run ferry
small means of containment
solid
special provision
subsidiary class
substance
technical name
transport index
UN number
UN Recommendations

4.1 Requirements for Dangerous Goods Safety Marks

A person must not offer for transport, transport or import a means of containment that contains dangerous goods unless each dangerous goods safety mark required by this Part and illustrated in the appendix to this Part, or illustrated in Chapter 5.2 or 5.3 of the UN Recommendations, is displayed on it in accordance with this Part.
SOR/2012-245

4.2 Misleading Dangerous Goods Safety Marks

As provided for in section 6 of the Act, a person must not display a prescribed safety mark on a means of containment or means of transport or at a facility if the mark is misleading as to the presence of danger or the nature of any danger.

4.3 Display of Dangerous Goods Safety Marks Before Loading or Packing a Large Means of Containment

A person must not load or pack dangerous goods into a large means of containment for transport unless, immediately before the loading or packing, the large means of containment has displayed on it the dangerous goods safety marks that will be required when the loading or packing is complete.

4.4 Consignor Responsibilities

(1) Before importing dangerous goods or allowing a carrier in Canada to take possession of dangerous goods for transport, the consignor must

(a) display or ensure the display of the required dangerous goods safety marks on each small means of containment that contains the dangerous goods;

(b) display or ensure the display of the required dangerous goods safety marks on each large means of containment that contains the dangerous goods; and

SOR/2008-34

(c) provide to the carrier the dangerous goods safety marks for the dangerous goods that the consignor is offering for transport or importing and that are to be transported in a large means of containment.

(2) The consignor is not required to provide the dangerous goods safety marks referred to in paragraph (1)(c) if they

(a) are already displayed on the large means of containment; or

(b) are not the correct ones to display because of the presence of other dangerous goods in the large means of containment.

When the consignor provides the large means of containment, the consignor displays the dangerous goods safety marks. When the carrier provides the large means of containment, the consignor provides the carrier with the appropriate dangerous goods safety marks.

4.5 Carrier Responsibilities

The carrier of dangerous goods must

(a) ensure that the required dangerous goods safety marks remain displayed on the small means of containment while the dangerous goods are in transport;

(b) display the required dangerous goods safety marks on the large means of containment, unless they are already displayed on it, and ensure that they remain displayed while the dangerous goods are in transport; and

(c) provide and display, or remove, the dangerous goods safety marks if the requirements for dangerous goods safety marks change while the dangerous goods are in transport.

SOR/2008-34

4.6 Visibility, Legibility and Colour

Dangerous goods safety marks must be

(a) visible, legible and displayed against a background of contrasting colour;

(b) made of durable and weather-resistant material that will withstand the conditions to which they will be exposed without substantial detachment or deterioration of their colour, symbols, letters, text or numbers; and

For example, deterioration is considered substantial if the colour of the safety mark fades or darkens so that it is no longer the colour that represents the class of dangerous goods associated with it.

(c) displayed in the colours specified in

(i) the appendix to this Part, which colours must conform to the following standards in the PANTONE ® "Formula Guide", published by Pantone Inc., 590 Commerce Boulevard, Carlstadt, New Jersey 07072-3098, United States:

(A) for blue, PANTONE 285,

(B) for green, PANTONE 335,

(C) for orange, PANTONE 151,

(D) for red, PANTONE 186, and

(E) for yellow, PANTONE 109,

(ii) Part 172 of 49 CFR, or

(iii) Chapters 5.2 and 5.3 of the UN Recommendations**.**

4.7 Labels and Placards: Size and Orientation

(1) Labels and placards must be displayed on a means of containment as they are illustrated in the appendix to this Part, that is, a square on a point.

(2) Each side of a label must be at least 100 mm in length with a line running 5 mm inside the edge. However, except for dangerous goods included in Class 7, Radioactive Materials, if that size label, together with the shipping name, technical name and UN number, cannot be displayed because of the irregular shape or size of the small means of containment, each side of the label may be reduced in length by the same amount to the point where the label, together with the shipping name, technical name and UN number, will fit that small means of containment, but must not be reduced to less than 30 mm.

If 30 mm will not fit, subsection 4.10(4) allows the label to be displayed on a tag attached to the means of containment.

(3) Each side of a placard must be at least 250 mm in length and, except for the DANGER placard, have a line running 12.5 mm inside the edge. However, except for dangerous goods included in Class 7, Radioactive Materials, if that size placard cannot be displayed because of the irregular shape or size of the large means of containment, each side of the placard may be reduced in length by the same amount to the point where the placard will fit that large means of containment, but must not be reduced to less than 100 mm.

(4) If the size of a label or a placard is reduced, every symbol, letter and number required on that label or placard must be reduced proportionately.

(5) If a large means of containment contains dangerous goods included in Class 7, Radioactive Materials, and a Class 7 placard is required to be displayed in accordance with this Part, the means of containment must have displayed on it the Class 7 placard required or the appropriate optional Class 7 placard illustrated in the appendix to this Part.

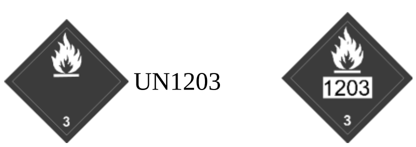
SOR/2008-34

4.8 Ways to Display a UN Number

(1) A UN number that is required by this Part to be displayed on a small means of containment or on a tag attached to it must be displayed in one of the following ways:

(a) next to the primary class label for the dangerous goods; or

(b) within a white rectangle located on the primary class label for the dangerous goods, without the prefix “UN”, but it must not obscure the symbol, class number, compatibility group letter or text on the label.



The illustration showing the UN number to the right of the placard is an example only and does not indicate a mandatory position. For example, a wrap-around label may be used on a cylinder.

(2) A UN number that is required by this Part to be displayed on a large means of containment must be displayed in black numerals not less than 65 mm high in one of the following ways:
SOR/2008-34

(a) on an orange panel placed next to the primary class placard for the dangerous goods, without the prefix “UN”; or

(b) within a white rectangle located on the primary class placard for the dangerous goods, without the prefix “UN”, but it must not obscure the symbol, class number, compatibility group letter or text on the placard.

4.9 Removal or Change of Dangerous Goods Safety Marks
SOR/2008-34

(1) When dangerous goods safety marks are displayed on a means of containment in accordance with the requirements of this

Part but the conditions that required the display of the dangerous goods safety marks change for any reason, the person having charge, management or control of the means of containment must determine, as a result of the new conditions, if the dangerous goods safety marks must be changed or removed.
SOR/2008-34

(2) Despite subsection (1), when the DANGER placard is required or permitted to be displayed on a large means of containment and the quantity of dangerous goods to which the placard applies decreases, a person may continue to display the DANGER placard for those remaining dangerous goods, in place of any other placard, until a placard is no longer required by this Part to be displayed on the large means of containment for those dangerous goods.
SOR/2008-34

4.10 Dangerous Goods Safety Marks on a Small Means of Containment: Labels

(1) One label must be displayed on a small means of containment for the primary class and one for each subsidiary class set out in column 3 of Schedule 1 for each of the dangerous goods in transport in the small means of containment, except that

(a) a label is not required to be displayed on a small means of containment that is inside another small means of containment if the other small means of containment has a label displayed on it and is not opened during loading or unloading or while the dangerous goods are in transport;

(b) the oxidizing gas label, illustrated in the appendix to this Part, must be displayed on a small means of containment for the following dangerous goods:

(i) UN1072, OXYGEN, COMPRESSED;

(ii) UN1073, OXYGEN, REFRIGERATED LIQUID;

(iii) UN3156, COMPRESSED GAS, OXIDIZING, N.O.S.; and

(iv) UN3157, LIQUEFIED GAS, OXIDIZING, N.O.S.;

SOR/2008-34

(c) if the dangerous goods are included in Class 7, Radioactive Materials, two labels must be displayed on the small means of containment for the primary class, and
SOR/2008-34

(d) when the dangerous goods are included in Class 2, Gases, and are contained in a combination of cylinders each with a capacity greater than 225 L that are a single unit as a result of being interconnected through a piping arrangement, and are permanently mounted on a structural frame for transport, and have a combined capacity exceeding 450 L, the combination of cylinders may be placarded as one large means of containment.
SOR/2008-34

(2) For the subsidiary class of Class 1, the label to be displayed is the label for Class 1.1, 1.2 or 1.3 illustrated in the appendix to this Part.

The dangerous goods that have a subsidiary class of Class 1 are listed in paragraph 2.8(1)(a) in Part 2, Classification, and have "(1)" shown in column 3 of Schedule 1.

(3) When a label is required to be displayed, it must be displayed

(a) on any side of the outer surface of a small means of containment other than the side on which it is intended to rest or to be stacked during transport;

(b) on or near the shoulder of a cylinder containing dangerous goods; or
SOR/2002-306

(c) in the case of a label for dangerous goods included in Class 7, Radioactive Materials, on two opposite sides of the outer surface of a small means of containment, other than the side on which it is intended to rest or to be stacked during transport.

(4) Despite subsection (3), a label with sides that are reduced to 30 mm in length in accordance with subsection 4.7(2) may be displayed on a tag that is securely attached to a small means of containment.

4.11 Shipping Name and Technical Name on a Small Means of Containment or on a Tag

(1) When dangerous goods in transport are in a small means of containment on which a primary class label for the dangerous goods must be displayed, the shipping name of the dangerous goods must be displayed next to the primary class label.

SOR/2008-34

(2) When dangerous goods in transport are subject to special provision 16 in Schedule 2 and are in a small means of containment on which the shipping name is displayed, the technical name of the most dangerous substance related to the primary class of the dangerous goods must be displayed, in parentheses, following the shipping name.

(3) When the primary class label for dangerous goods in transport is displayed on a tag in accordance with subsection 4.10(4), the shipping name and, when required by subsection (2), the technical name of the dangerous goods must also be displayed on the tag.

4.12 UN Numbers on a Small Means of Containment or on a Tag

(1) When dangerous goods in transport are in a small means of containment on which the primary class label for the dangerous goods is displayed, the UN number for the dangerous goods must be displayed on or next to the primary class label.

(2) When the primary class label for dangerous goods in transport is displayed on a tag in accordance with subsection 4.10(4), the UN number must also be displayed on the tag on or next to the primary class label.

4.13 Flash Point for Class 3, Flammable Liquids, on a Small Means of Containment for Transport by Ship

When dangerous goods included in Class 3, Flammable Liquids, are to be transported by a ship other than a short-run ferry and are in a small means of containment, the flash point or the flash point range for the dangerous goods must be displayed on the small means of containment next to the shipping name of the dangerous goods or, if there is a technical name, next to the technical name.

4.14 Class 7, Radioactive Material
SOR/2008-34

(1) For dangerous goods included in Class 7, Radioactive Material, the label or placard required to be displayed by this Part must be determined in accordance with the “Packaging and Transport of Nuclear Substances Regulations”.

SOR/2008-34

(2) For dangerous goods included in Class 7, Radioactive Material, the following information must be determined in accordance with the “Packaging and Transport of Nuclear Substances Regulations”, and must be displayed on the primary class label for the dangerous goods:

- **(a)** the name or symbol of the radionuclide, except that if there is a mixture of radionuclides, the name or symbol of the most restrictive of the radionuclides in the mixture; and
- **(b)** the activity and the transport index of the dangerous goods.

SOR/2008-34

4.15 Dangerous Goods Safety Marks on a Large Means of Containment: Placards and UN Numbers
SOR/2008-34

(1) A placard and UN number must be displayed in accordance with the following table on a large means of containment containing dangerous goods, other than a ship or an aircraft, if the dangerous goods

- **(a)** are in a quantity or concentration for which an emergency response assistance plan (ERAP) is required;
- **(b)** are included in Class 7, Radioactive Materials, for which a Category III — Yellow label is required;
- **(c)** are a liquid or gas in direct contact with the large means of containment;
- **(d)** have a gross mass greater than 500 kg; or
- **(e)** are included in Class 1.1, 1.2, 1.3 or 1.5 and are
  - **(i)** not subject to special provision 85 or 86 and exceed 10 kg net explosives quantity, or
  - **(ii)** subject to special provision 85 or 86 and the number of articles exceeds 1 000.

SOR/2008-34

TABLE
SOR/2008-34

Item	Column 1 Description	Column 2 Placards Required	Column 3 UN Numbers Required
1.	Dangerous goods have the same UN number and an ERAP is not required for them	Primary class placard	(a) UN number if the dangerous goods are a liquid or gas in direct contact with the large means of containment; and (b) if not required in paragraph (a), the UN number may be displayed if the dangerous goods are in a quantity greater than 4 000 kg and are offered for transport by one consignor.
2.	Dangerous goods have the same UN number and an ERAP is required for them	Primary class placard	UN number
3.	Dangerous goods have different UN numbers and an ERAP is not required for any of them	(a) primary class placard for those Class 1 dangerous goods that meet any of the conditions in subsection (1); (b) primary class placard for those Class 7 dangerous goods that meet any of the conditions in subsection (1); and (c) for the remaining dangerous goods that meet any of the conditions in subsection (1), the primary class placard for each of those dangerous goods except that, if two or more different primary class placards are required, the DANGER placard may be displayed in place of those primary class placards.	None
4.	Dangerous goods have different UN numbers and an ERAP is required for at least one of them	(a) primary class placard for each of the dangerous goods for which an ERAP is required; (b) primary class placard for those Class 1 dangerous goods that meet any of the conditions in subsection (1); (c) primary class placard for those Class 7 dangerous goods that meet any of the conditions in subsection (1); and (d) for the remaining dangerous goods that meet any of the conditions in subsection (1), the primary class placard for each of those dangerous goods except that, if two or more different primary class placards are required, the DANGER placard may be displayed in place of those primary class placards.	UN number for each of the dangerous goods for which an ERAP is required
5.	Dangerous goods have different UN numbers and an ERAP is required for each of them	Primary class placard for each of the dangerous goods	UN number for each of the dangerous goods

(2) If dangerous goods are in a means of containment that is inside a large means of containment and a placard is required to be displayed but that placard is not visible from outside the large means of containment, the placard must also be displayed on the large means of containment. In addition, if a UN number is required to be displayed but is not visible from outside the large means of containment, the UN number must also be displayed on the large means of containment.
SOR/2008-34

(3) The placard must be displayed on each side and each end of a large means of containment, except that the placard may be displayed on

(a) a frame permanently connected to the large means of containment, such as a truck frame or a support frame of the means of containment, if the resulting positions of the placards and any associated UN numbers are equivalent to positions on each side and each end of the large means of containment; or

(b) the front of a truck, instead of on the leading end of a trailer unit of the truck.

SOR/2008-34

The trailer unit of a truck includes a tank.
SOR/2008-34

(4) A subsidiary class placard must be displayed on each side and each end of a large means of containment for dangerous goods for which an emergency response assistance plan is required and that have a subsidiary class of

(a) Class 1, in which case the subsidiary class placard is the one illustrated for Class 1.1, 1.2 or 1.3 in the appendix to this Part;

(b) Class 4.3 in which case the subsidiary class placard is the one illustrated for Class 4.3 in the appendix to this Part;

(c) Class 6.1 and are included in Packing Group I due to inhalation toxicity, in which case the subsidiary class placard is the one illustrated for Class 6.1 in the appendix to this Part; or

(d) Class 8 and the dangerous goods are UN2977, RADIOACTIVE MATERIAL, URANIUM HEXAFLUORIDE, FISSILE or UN2978, RADIOACTIVE MATERIAL, URANIUM HEXAFLUORIDE, non-fissile or fissile excepted, in which case the subsidiary class placard is the one illustrated for Class 8 in the appendix to this Part.

SOR/2008-34

4.16 General Options for Placards and UN Numbers

Despite the requirement for the display of primary class placards in section 4.15, when two dangerous goods have different UN numbers but are identified by the same primary class placard, that placard needs to be displayed only once on each side and each end of a large means of containment.

4.17 Options for Class 1, Explosives

(1) Despite section 4.15, a placard is not required to be displayed for explosives that are included in

(a) Class 1.4, except for UN0301, AMMUNITION, TEAR-PRODUCING, and are in a quantity that is less than or equal to 1 000 kg net explosives quantity; or

SOR/2008-34

(b) Class 1.4S and are in any quantity.

UN0301 requires an emergency response assistance plan (ERAP). The ERAP index in column 7 of Schedule 1 for UN0301 is 75.
SOR/2008-34

(2) Despite section 4.15, only the placard for the explosives with the lowest division number is required to be displayed for explosives that are included in more than one division and are in a large means of containment, except in the following cases:

(a) when explosives included in Class 1.2 and Class 1.5 are transported together, the placard for Class 1.1 must be displayed; and

(b) when explosives included in Class 1.4 and Class 1.5 are transported together, the placard for Class 1.5 must be displayed.

(3) Despite the requirement in section 4.15 for the display of a UN number, a UN number is not required to be displayed for Class 1, Explosives.

4.18 Class 2, Gases

(1) When gases that are included in more than one division of Class 2, Gases, are transported together on the same road vehicle and the primary class placards or the UN numbers for those gases are required to be displayed by section 4.15, they may be replaced by the DANGER placard and the primary class placard of the most dangerous gas according to the following decreasing order and, if required by section 4.15, the UN number:

(a) toxic gas;

(b) flammable gas;

(c) oxidizing gas; and

(d) any other gas.

SOR/2008-34

(2) A flammable gas placard illustrated in the appendix to this Part and, if required by section 4.15, the UN number must be displayed in accordance with this Part on a road vehicle transporting a flammable gas if

(a) a DANGER placard is displayed on the road vehicle in accordance with subsection (1); and

(b) the road vehicle is to be transported by ship.

SOR/2008-34

(3) When placards are required to be displayed for any one of the following dangerous goods in accordance with subsection (1) or section 4.15, the oxidizing gas placard illustrated in the appendix to this Part must be displayed instead of the placard required for Class 2.2, Non-flammable, Non-toxic gases:

SOR/2008-34

(a) UN1072, OXYGEN, COMPRESSED;

(b) UN1073, OXYGEN, REFRIGERATED LIQUID;

(c) UN3156, COMPRESSED GAS, OXIDIZING, N.O.S.; and

(d) UN3157, LIQUEFIED GAS, OXIDIZING, N.O.S.

(4) If an emergency response assistance plan is required for any of the dangerous goods referred to in subsections (1) to (3), the UN number for those dangerous goods must be displayed.

(5) When UN1005, ANHYDROUS AMMONIA, is contained in a large means of containment, the large means of containment must have displayed on it

(a) one of the following placards:

(i) until August 31, 2008, the Class 2.2, Class 2.3 or anhydrous ammonia placard, or

(ii) after August 31, 2008, the Class 2.3 or anhydrous ammonia placard; and

(b) on at least two sides, the words “Anhydrous Ammonia, Inhalation Hazard” on a contrasting background in letters with a width of at least 6 mm and a height of at least 50 mm when the anhydrous ammonia placard is displayed on it.

SOR/2008-34

(6) Despite paragraph 4.15(1)(c), when dangerous goods are included in Class 2, Gases, and are contained in a combination of tubes that are a single unit as a result of being interconnected through a piping arrangement, and are permanently mounted on a structural frame for transport, the combination of tubes may be placarded as one large means of containment.
SOR/2008-34

4.19 Dangerous Goods Safety Marks on a Compartmentalized Large Means of Containment

(1) When dangerous goods included in different primary classes are transported in different compartments of a compartmentalized large means of containment,

(a) the primary class placard and the UN number for the dangerous goods in each compartment must be displayed on each side of that compartment; and

(b) each placard and UN number displayed in accordance with paragraph (a) must be displayed on each end of the compartmentalized large means of containment but each specific placard need only be displayed once on each end.
SOR/2008-34

(2) When all compartments in a compartmentalized large means of containment contain dangerous goods included in the same primary class,

(a) the primary class placard must be displayed on each side and on each end of the compartmentalized large means of containment; and

(b) the UN number of the dangerous goods in a compartment must be displayed on each side of that compartment and on each end of the compartmentalized large means of containment, except that, if all the dangerous goods are included in Class 3, Flammable Liquids, only the UN number of the dangerous goods with the lowest flash point need be displayed on each side and on each end of the compartmentalized large means of containment.

4.20 Elevated Temperature Sign

In addition to the requirements for placards and UN numbers in section 4.15, the elevated temperature sign must be displayed for dangerous goods that are in transport in a large means of containment and that are UN3256, ELEVATED TEMPERATURE LIQUID, FLAMMABLE, N.O.S., Class 3, UN3257, ELEVATED TEMPERATURE LIQUID, N.O.S., Class 9, or UN3258, ELEVATED TEMPERATURE SOLID, N.O.S., Class 9. The elevated temperature sign must be displayed on each side and each end of the large means of containment next to each primary class placard for the dangerous goods or, if there is a subsidiary class placard, next to the subsidiary class placard.

4.21 Fumigation Sign

If fumigation of a large means of containment is done using dangerous goods and the fumigant is the only dangerous goods in transport in the large means of containment, the fumigation sign must be displayed next to or at each entryway into the large means of containment through which a person can enter. The consignor must ensure that the fumigation sign is displayed by the person in charge of the fumigation process and the sign must have displayed on it the name of the fumigant and the date and time the fumigant was applied.

4.22 Marine Pollutant Mark

(1) In addition to the requirements for placards and UN numbers in section 4.15, the marine pollutant mark must be displayed in the following locations, for dangerous goods that are marine pollutants in transport by ship:

(a) on a small means of containment, next to the primary class label for the dangerous goods or, if there is a subsidiary class label, next to the subsidiary class label; and

(b) on each side and each end of a large means of containment next to the placard that is required to be displayed for the dangerous goods.

(2) The marine pollutant mark is not required to be displayed when marine pollutants are

(a) on board a road vehicle or railway vehicle on a roll-on roll-off ship; or

(b) contained in

(i) a small means of containment and are in a quantity that is less than or equal to

(A) 5 L for a liquid marine pollutant or 5 kg for a solid marine pollutant, or

(B) 500 mL for a liquid severe marine pollutant or 500 g for a solid severe marine pollutant, or

(ii) a large means of containment and

(A) are in a quantity that is less than or equal to 500 kg,

(B) are transported by ship between two points in Canada, other than a ship on a home-trade voyage, Class I, and

(C) the large means of containment does not contain Class 1, Explosives, other than explosives included in Class 1.4, Class 5.2, Organic Peroxides, Class 6.1, Toxic Substances, or Class 7, Radioactive Materials.

(3) The placard and UN number are not required to be displayed for substances identified as marine pollutants in subparagraph 2.43(b)(ii) when the marine pollutant mark is not required to be displayed in accordance with subsection (2).
SOR/2008-34

4.22.1 Category B Mark
SOR/2008-34

The Category B mark illustrated in the appendix to this Part must be displayed on small means of containment containing infectious substances included in UN3373, BIOLOGICAL SUBSTANCE, CATEGORY B.
SOR/2008-34

APPENDIX

ILLUSTRATION OF DANGEROUS GOODS SAFETY MARKS

Each class of dangerous goods has assigned to it a label, a placard or both. The labels and placards are illustrated below. Also illustrated is the DANGER placard, the oxidizing gas label and placard, the elevated temperature sign, the fumigation sign, the marine pollutant mark and the orange panel. The size requirements for the signs, the marine pollutant mark and the orange panel are also provided.

LABELS AND PLACARDS

CLASS 1, EXPLOSIVES

Class 1.1, 1.2, 1.3

Class 1.4 **Class 1.5** **Class 1.6**

Label and Placard

Black: Symbol, numbers, letter and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard

Orange: Background

The symbol is an exploding bomb.

** place for division – to be left blank if explosive is a subsidiary class

* place for the Compatibility Group Letter – to be left blank if explosive is a subsidiary class

Label and Placard

Black: Numbers, letter and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard

Orange: Background

* place for the Compatibility Group Letter

CLASS 2, GASES

Class 2.1, Flammable Gases

Label and Placard

Black or White:	Symbol, number and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard
Red:	Background

The symbol is a flame.

Class 2.2, Non-flammable and Non-toxic Gases

Label and Placard

Black or White:	Symbol, number and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard
Green:	Background

The symbol is a gas cylinder.

Class 2.1, Toxic Gases

Label and Placard

Black:	Symbol, number and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard
White:	Background

The symbol is a skull and crossbones.

Oxidizing Gases

Label and Placard

Black:	Symbol, number and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard
Yellow:	Background

The symbol is a flame over a circle **(**Flaming “O”).

Label and Placard --- UN1005, ANHYDROUS AMMONIA
SOR/2008-34

lack:	Number, symbol and line 12.5 mm inside the edge
White:	Background

The symbol is a gas cylinder.

CLASS 3, FLAMMABLE LIQUIDS

Class 3, Flammable Liquids

Label and Placard

Black or White:	Symbol, number and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard
Red:	Background

The symbol is a flame.

CLASS 4, FLAMMABLE SOLIDS, SUBSTANCES LIABLE TO SPONTANEOUS COMBUSTION AND SUBSTANCES THAT ON CONTACT WITH WATER EMIT FLAMMABLE GASES (WATER REACTIVE SUBSTANCES)

Class 4.1, Flammable Solids

Label and Placard

Black: Symbol, number and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard

Red: 7 red stripes resulting in 13 equally spaced vertical stripes

White: Background

The symbol is a flame.

Class 4.2, Substances Liable to Spontaneous Combustion

Label and Placard

Black: Symbol, number and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard

Red: Lower half

White: Upper half

The symbol is a flame.

Class 4.3, Water Reactive Substances

Label and Placard

Black: Symbol, number and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard

Blue: Background

The symbol is a flame.

CLASS 5, OXIDIZING SUBSTANCES AND ORGANIC PEROXIDES

Class 5.1, Oxidizing Substances

Label and Placard

Black: Symbol, number and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard

Yellow: Background

The symbol is a flame over a circle **(**Flaming "O").

Class 5.2, Organic Peroxides

Label and Placard

Black: Symbol, number and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard

Yellow: Background

The symbol is a flame over a circle **(**Flaming "O").

CLASS 6, TOXIC AND INFECTIOUS SUBSTANCES

Class 6.1, Toxic Substances

Label and Placard

Black: Symbol, number and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard

White: Background

The symbol is a skull and crossbones.

Class 6.2, Infectious Substances

Label

Black: Symbol, number, text and line 5 mm inside the edge

White: Background

The symbol is three crescents superimposed on a circle

The text is:

INFECTIOUS	INFECTIEUX
IN CASE OF DAMAGE	EN CAS DE DOMMAGE
OR LEAKAGE	OU DE FUITE
IMMEDIATELY	COMMUNIQUER
NOTIFY	IMMÉDIATEMENT
LOCAL AUTHORITIES	AVEC LES AUTORITÉS
AND	LOCALES ET

CANUTEC
613-996-6666

Class 6.2, Infectious Substances

Placard

Black: Symbol, number and line 12.5 mm inside the edge

White: Background

The symbol is three crescents superimposed on a circle.

CLASS 7, RADIOACTIVE MATERIALS

Class 7, Radioactive Materials

Category I – White

Label and Optional Placard

Black: Symbol, number, text and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard

Red: One vertical bar following the word “RADIOACTIVE”

White: Background

The symbol is a trefoil.

The additional text under the word “RADIOACTIVE” is:

CONTENTS CONTENU
ACTIVITY ACTIVITÉ

Class 7, Radioactive Materials

Category II – Yellow

Label and Optional Placard

Black: Symbol, number, text and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard

Red: Two vertical bars following the word “RADIOACTIVE”

Yellow: Upper half of background excluding the border

White: Lower half of background and the border

The symbol is a trefoil.

The additional text under the word “RADIOACTIVE” is:

CONTENTS CONTENU
ACTIVITY ACTIVITÉ

☐

Class 7, Radioactive Materials

Category III – Yellow

Label and Optional Placard

Black: Symbol, number, text and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard

Red: Three vertical bars following the word “RADIOACTIVE”

Yellow: Upper half of background excluding the border

White: Lower half of background and the border

The symbol is a trefoil.

The additional text under the word “RADIOACTIVE” is:

CONTENTS CONTENU
ACTIVITY ACTIVITÉ

INDICE DE TRANSPORT INDEX

☐

Class 7, Radioactive Materials

Category

Placard

Black: Symbol, number, text and line 12.5 mm inside the edge

Yellow: Upper half of background excluding the border

White: Lower half of background and the border

The symbol is a trefoil.

The word “RADIOACTIVE” is optional.

Class 7, Radioactive Materials

Category

Label

Black: Number, text, outline of the box in lower half and line through the centre of the label

White: Background

CLASS 8, CORROSIVES

Class 8, Corrosives

Label and Placard

White: The number 8, upper half of background and the border

Black: Lower half of the background, except for the border and the number, and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard

The symbol is liquid spilling from two glass vessels and attacking a hand and a metal bar.

CLASS 9, MISCELLANEOUS PRODUCTS, SUBSTANCES OR ORGANISMS

Class 9, Miscellaneous Products, Substances or Organisms

Label and Placard

Black: Symbol, number and line 5 mm inside the edge for a label and 12.5 mm inside the edge for a placard

White: Background

The symbol is 7 black stripes resulting in 13 equally spaced vertical stripes in the upper half.

OTHER PLACARDS

DANGER PLACARD

Placard

Black: Text

White: Centre horizontal band forming the background for the word "DANGER"

Red: Background except for the centre band

The symbol is the word DANGER, with each letter at least 50 mm high and at least 10 mm wide.

SIGNS

ELEVATED TEMPERATURE SIGN

Red: Symbol and border

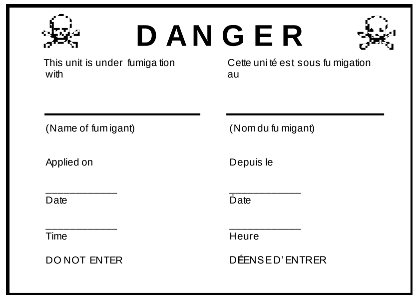
White: Background

Size: Equilateral triangle with sides of at least 250 mm in length

The symbol is a thermometer.

This sign may be displayed on a standard-sized white placard.

FUMIGATION SIGN



Black: Symbol and text

White: Background

Size: Rectangle, at least 300 mm wide and 250 mm high

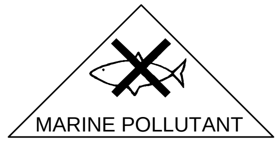
The symbol is the word DANGER centered between two skulls and crossbones.

The additional text under the word “DANGER” is:

This unit is under fumigation with	Cette unité est sous fumigation au
____________________	____________________
(Name of fumigant)	(Nom du fumigant)
Applied on	Depuis le
____________________	____________________
Date	Date
____________________	____________________
Time	Heure
DO NOT ENTER	DÉFENSE D’ENTRER

MARKS

MARINE POLLUTANT MARK



Black: Symbol and text

White: Background

Size: For small means of containment, an isosceles triangle with each side at least 100 mm in length. For large means of containment, an isosceles triangle with each side at least 250 mm in length.
SOR/2008-34

The symbol is a fish with X on top.

The text is “MARINE POLLUTANT” or “POLLUANT MARIN”.

CATEGORY B MARK
SOR/2008-34

Black: Letters and numbers at least 6 mm high and line with a width of at least 2 mm

White: Background except that the background may be the colour of the means of containment if it contrasts with the letters, numbers and line

Size: Square on point (diamond-shaped) with each side at least 50 mm

PANELS

ORANGE PANEL

Black: Numbers and border

Orange: Background

Size: Rectangle, at least 120 mm high and 300 mm wide with a border 10 mm wide.

Replace * with the four digits of the UN number which must be at least 65 mm high.

PART 5

MEANS OF CONTAINMENT

TABLE OF CONTENTS

Class 6.2, Infectious Substances

Class 7, Radioactive Materials

MEANS OF CONTAINMENT

Definitions
SOR/2008-34

Definitions for the following terms, used in this Part, are provided in Part 1, Coming into Force, Repeal, Interpretation, General Provisions and Special Cases:

accidental release
aerosol container
aircraft
capacity
Category A
Category B
certification safety mark
49 CFR
class
compatibility group
culture
cylinder
dangerous goods
flash point
gas
gross mass
handling
IMDG Code
IMDG Code, 29th Amendment
SOR/2002-306
import
infectious substance
in standard
in transport
large means of containment
liquid
means of containment
means of transport
net explosives quantity
offer for transport
packing group
person
public safety
railway vehicle
road vehicle
safety requirements
safety standards
ship
small means of containment
standardized means of containment
subsidiary class
substance
tube
Type 1A means of containment
Type 1B means of containment
Type 1C means of containment
UN Recommendations
UN standardized means of containment

5.1 Selecting and Using Means of Containment

(1) A person must not handle, offer for transport, transport or import dangerous goods in a means of containment unless the means of containment is required or permitted by this Part to be used for the transportation of the dangerous goods.

(2) A person must not handle, offer for transport or transport dangerous goods in a standardized means of containment unless the standardized means of containment is in standard.

(3) A person must not handle, offer for transport or transport dangerous goods in a means of containment that is required or permitted by this Part unless the means of containment is designed, constructed, filled, closed, secured and maintained so that under normal conditions of transport, including handling, there will be no accidental release of the dangerous goods that could endanger public safety.
SOR/2008-34

5.2 Requirements for a Standardized Means of Containment to Be in Standard

A standardized means of containment is in standard with a specific safety standard if it has displayed on it the certification safety marks required by the standard and

(a) was in compliance with the requirements of the standard when each certification safety mark was first displayed; and

(b) remains in compliance with the requirements of the standard that had to be complied with when each certification safety mark was first displayed.

5.3 Certification Safety Marks on a Means of Containment

Any mark required by a safety standard is a certification safety mark and must be visible and legible when it is displayed on a means of containment.

Under section 8 of the Act, a person must not sell, offer for sale, deliver, distribute, import or use a standardized means of containment unless it has displayed on it all the applicable prescribed safety marks.

5.4 Loading and Securing

A person must load and secure dangerous goods in a means of containment and must load and secure the means of containment on a means of transport in such a way as to prevent, under normal conditions of transport, damage to the means of containment or to the means of transport that could lead to an accidental release of the dangerous goods.

5.5 Filling Limits

(1) A person filling a means of containment with dangerous goods must not exceed the maximum quantity limit specified in a safety standard or safety requirement applicable to that means of containment.

(2) If the maximum quantity limit for a means of containment is not specified in a safety standard or safety requirement, the person filling the means of containment with dangerous goods

- **(a)** must not exceed the maximum quantity limit established by the manufacturer for the means of containment; and
- **(b)** must ensure that the means of containment could not become liquid full at any temperature less than or equal to 55°C.

SOR/2012-245

5.6 UN Standardized Means of Containment

A means of containment is a UN standardized means of containment if it has displayed on it the applicable UN marks illustrated in Chapter 6.1, Chapter 6.3 and Chapter 6.5 of the UN Recommendations and
SOR/2002-306

- **(a)** it is in compliance with
  - **(i)** sections 2, 3, 4 and 7 of CGSB-43.125,
  - **(ii)** sections 2 to 11 of CGSB-43.146, or
    SOR/2002-306
  - **(iii)** sections 2 and 3 and Part I of CGSB-43.150; or
- **(b)** it was manufactured outside Canada in compliance with Chapter 6.1, 6.3 or 6.5 of the UN Recommendations and with the national regulations of the country of manufacture.

Class 1, Explosives

5.7 Compatibility Groups

(1) A person must not load or transport with other explosives in the same means of transport, except for a ship, explosives that have a compatibility group letter listed in column 1 of a row in the following table unless the compatibility group letter of the other explosives is listed in column 2 of the same row:

Table
SOR/2008-34

Column 1	Column 2
A	A
B	B, S
C	C, D, E, N, S
D	C, D, E, N, S
E	C, D, E, N, S
F	F, S
G	G, S
H	H, S
J	J, S
K	K, S
L	L
N	C, D, E, N, S
S	B, C, D, E, F, G, H, J, K, N, S

(2) For a mixed load of two or more explosives with compatibility groups C, D, E, N or S, the compatibility group of the mixed load is the first compatibility group of E, D, C, N or S present in the mixed load.
SOR/2008-34

(3) Despite subsection (1), detonators in compatibility group B may be loaded or transported in the same road vehicle with explosives in compatibility group D or N. The compatibility group of the mixed load is D.
SOR/2008-34

(4) Despite subsection (1), explosive articles included in compatibility group G, except for fireworks with UN number UN0333, UN0334, UN0335 or UN0336, may be loaded or transported in the same road vehicle together with explosive articles included in compatibility group C, D or E. The compatibility group of the mixed load is E.
SOR/2008-34

(5) For a mixed load of two explosives with one of the compatibility groups being S, the compatibility group of the mixed load is that of the other compatibility group.
SOR/2008-34

5.8 Means of Containment for Class 1, Explosives

A person must use a means of containment that is in standard with CGSB-43.151 to contain dangerous goods in transport that are included in Class 1, Explosives.

5.9 Repealed ***SOR/2008-34***

Class 2, Gases

5.10 Means of Containment for Class 2, Gases

(1) A person must not handle, offer for transport or transport dangerous goods included in Class 2, Gases, in a means of containment unless the means of containment is manufactured, selected and used in accordance with

(a) for transport by road vehicle,

(i) CSA B340, except clauses 4.1.1.1, 5.1.3(a)(ii) and 5.1.4(a),
SOR/2005-216

(ii) CSA B622 and, despite any indication to the contrary in CSA B620, Appendix B of CSA B620, or
SOR/2005-279

(iii) if the means of containment is a type 5 or type 7 portable tank, the requirements of Section 13 of Volume I, General Introduction, of the IMDG Code, 29th Amendment;
SOR/2002-306

A type 5 and a type 7 portable tank are described in the IMDG Code, 29th Amendment.
SOR/2002-306

(b) for transport by railway vehicle,

(i) CSA B340, except clauses 4.1.1.1, 5.1.3(a)(ii) and 5.1.4(a),
SOR/2005-216

(ii) CGSB-43.147, or

(iii) if the means of containment is a type 5 or type 7 portable tank, the requirements of Section 13 of Volume I, General Introduction, of the IMDG Code, 29th Amendment, and the requirements for the dynamic longitudinal impact test in section 7 of CGSB-43.147;
SOR/2002-306

A type 5 and a type 7 portable tank are described in the IMDG Code, 29th Amendment.
SOR/2002-306

(c) for transport by aircraft, CSA B340, except clauses 4.1.1.1, 5.1.3(a)(ii) and 5.1.4(a);
SOR/2005-216

(d) for transport by ship,

(i) CSA B340, except clauses 4.1.1.1, 5.1.3(a)(ii) and 5.1.4(a),
SOR/2005-216

(ii) CSA B622 and, despite any indication to the contrary in CSA B620, Appendix B of CSA B620,
SOR/2012-245

(iii) CGSB-43.147, or

(iv) if the means of containment is a type 5 or type 7 portable tank, the requirements of Section 13 of Volume I, General Introduction, of the IMDG Code, 29th Amendment.
SOR/2002-306

A type 5 and a type 7 portable tank are described in the IMDG Code, 29th Amendment.
SOR/2002-306

(2) In addition to complying with the requirements in subparagraphs (1)(a)(i) and (1)(b)(i), paragraph (1)(c) and subparagraph (1)(d)(i), a person who uses a means of containment that is a cylinder or tube to handle, offer for transport or transport dangerous goods included in Class 2, Gases, must use a cylinder or tube that was
SOR/2002-306

(a) manufactured in accordance with CSA B339;

(b) authorized for continued use under sections 7.32 and 8.4.2 of the "Transportation of Dangerous Goods Regulations" in effect on January 1, 2001, and the conditions in those sections are complied with; or
SOR/2008-34

(c) manufactured before January 1, 1993 in accordance with a specification for cylinders set out in 49 CFR and has displayed on it requalification marks as required by CSA B339 or 49 CFR, except a cylinder manufactured in accordance with

(i) 49 CFR specification DOT-3B, DOT-3BN, DOT-3E, DOT-4AA480, DOT-4B, DOT-4B240ET, DOT-4BA, DOT-4BW, DOT-4D, DOT-4E, DOT-4L, DOT-8 or DOT-8AL, or

(ii) 49 CFR specification DOT-39, if the cylinder has a service pressure less than or equal to 6.2 MPa (900 psig).

SOR/2002-306

(3) A person must not handle, offer for transport or transport in Canada a cylinder that

(a) despite clause 6.5 of CSA B340, was manufactured in a foreign country, other than a cylinder referred to in subsection (2), unless it is being transported directly from a port of entry to the nearest location for filling or storage or is being transported directly from the filling or storage location back to the port of entry for export; or

(b) contains any dangerous goods listed in Table 5.6 of CSA B340 that are in pure form or that are part of mixtures included in Class 2.3 if the means of containment is an aluminum alloy cylinder manufactured before August 1990.

SOR/2008-34

(4) An inspector referred to in CSA B339 who prepares a certificate of compliance and test report that is referred to in clause 4.18 of that standard must give a copy of the report to the manufacturer of the means of containment. The inspector and the manufacturer must each keep a copy of the report for 3 years for a means of containment that is a specification TC-39M cylinder and for 15 years for all other means of containment.

SOR/2005-216

A TC-39M cylinder is described in CSA B339.

(5) A person who prepares a report of requalification, repair, reheat treatment or rebuilding referred to in clause 24.7 of CSA B339 must give a copy of the report to the owner of the means of containment. The owner and the person who prepared the report must each keep a copy of the report for 10 years. If, during that 10 years, the owner of the means of containment transfers ownership to another person, the owner must give a copy of the report to that person.

(6) In addition to the requirements of subparagraphs (1)(a)(ii) and (d)(ii), a person who uses a standardized means of containment that is required, by CSA B622, to offer for transport dangerous goods included in Class 2, Gases, must use a means of containment

(a) manufactured in accordance with CSA B620 if the means of containment is manufactured in Canada on or after August 31, 2008; and

(b) tested and inspected in accordance with CSA B620 when the most recent periodic re-test or periodic inspection is performed in Canada on or after August 31, 2008.

SOR/2008-34

5.11 Aerosol Containers for Class 2, Gases

(1) Despite section 5.10, a person may use an aerosol container to handle, offer for transport or transport a gas that is included in Class 2.1 or Class 2.2 if the internal pressure in the aerosol container at 55°C when filled for transport with the gas is within one of the pressure ranges listed in column 1 of the following table and the aerosol container is in compliance with the condition in column 2 that corresponds to the pressure range:

Table

Column 1 Pressure Ranges	Column 2 Conditions
greater than 0 kPa but less than or equal to 965 kPa	**(a)** meets the following requirements: **(i)** is capable of withstanding an internal pressure equal to 1.5 times the equilibrium pressure of the gas at 55°C, and **(ii)** has a capacity less than or equal to 1 L; ***SOR/2008-34*** **(b)** is in standard with CGSB-43.123 concerning the requirements for specification TC-2P; or **(c)** is in standard with CGSB-43.123 concerning the requirements for specification TC-2Q
greater than 965 kPa but less than or equal to 1 105 kPa	**(a)** is in standard with CGSB-43.123 concerning the requirements for specification TC-2P; or **(b)** is in standard with CGSB-43.123 concerning the requirements for specification TC-2Q
greater than 1 105 kPa but less than or equal to 1 245 kPa	is in standard with CGSB-43.123 concerning the requirements for specification TC-2Q

(2) After a person fills an aerosol container and before it is placed in transport, the aerosol container must be tested by submersion in a hot bath so that the contents are heated to 55°C. If, when subjected to this test, the aerosol container leaks, becomes permanently deformed or displays any other defects, it must not be used to transport dangerous goods.

(3) The temperature referred to in subsection (2) may be reduced to 50°C if the aerosol container is no more than 95 per cent liquid full at 50°C.

(4) If a substance to be contained in an aerosol container deteriorates by heat at 55°C, the aerosol container may be tested by submersion in a hot bath so that the contents are heated to 20°C, rather than to the temperature referred to in subsection (2) or (3). In addition, the test in subsection (2) must be conducted on a sample from every production run of 2 000 or fewer aerosol containers.

(5) If a sample referred to in subsection (4) leaks, becomes permanently deformed or displays any other defect, the run of 2 000 or fewer aerosol containers from which the sample was taken must not be used to transport dangerous goods.

(6) For transport, each aerosol container must be equipped with a valve protection cap and must be tightly packed in a wood, fibreboard or plastic box. The gross mass of each box must be less than or equal to 30 kg**.**

(7) Despite subsections (1) to (6) and section 5.10, an aerosol container that is required by 49 CFR to be used to transport dangerous goods and that is filled with dangerous goods in the United States in accordance with 49 CFR may be transported in Canada.

Classes 3, 4, 5, 6.1, 8 and 9 Dangerous Goods

5.12 Small Means of Containment

Beginning on January 1, 2003, all small means of containment used to contain dangerous goods included in Class 3, 4, 5, 6.1, 8 or 9 must be UN standardized means of containment. For small means of containment manufactured or marked in Canada, this is achieved by compliance with CGSB-43.146 or CGSB-43.150. These are the Canadian standards for UN means of containment for dangerous goods in Class 3, 4, 5. 6.1, 8 or 9. Non-UN means of containment, such as TC or DOT specification drums made before 2003, may be converted to the UN standards if they meet the requirements in CGSB-43.150.

(1) A person must not handle, offer for transport or transport dangerous goods included in Class 3, 4, 5, 6.1, 8 or 9 in a small means of containment unless it is a UN standardized means of containment selected and used in accordance with sections 2, 3, 12 and 13 of CGSB-43.146 or sections 2 and 3 of Part I of CGSB-43.150 and sections 12 to 17 of Part II of CGSB-43.150.

SOR/2011-60

(2) A person must not reuse a steel or plastic drum with a capacity greater than or equal to 150 L to handle, offer for transport or transport dangerous goods that are liquid and are included in Class 3, 4, 5, 6.1, 8 or 9 unless

SOR/2011-60

(a) for a steel drum, the requirements for the reconditioning, remanufacturing and repair in Part II of CGSB-43.126 are complied withand the drum reconditioning, remanufacturing and repair facility is registered with Transport Canada in accordance with the requirements of Appendix A of CGSB-43.126; or

SOR/2011-60

(b) for a plastic drum, the requirements for the reconditioning, remanufacturing and repair in Part III of CGSB-43.126 are complied with and the drum reconditioning, remanufacturing and repair facility is registered with Transport Canada in accordance with the requirements of Appendix A of CGSB-43.126.

SOR/2011-60

(3) A person may, before August 15, 2005, offer for transport or transport dangerous goods in a small means of containment required or permitted by the “Transportation of Dangerous Goods Regulations” in force on August 14, 2002 if the dangerous goods were placed in the small means of containment on or before August 14, 2002.

SOR/2003-273

5.13 Transitional Provision: Small Means of Containment

Despite section 5.12, until December 31, 2002, a person may handle, offer for transport or transport dangerous goods included in Class 3, 4, 5, 6.1, 8 or 9 in a small means of containment that is not a UN standardized means of containment except that a cylinder or tube must be in compliance with paragraph 5.10(2)(a), (b) or (c).
SOR/2002-306

5.14 Large Means of Containment
SOR/2008-34

(1) A person must not handle, offer for transport or transport dangerous goods included in Class 3, 4, 5, 6.1, 8 or 9 in a large means of containment unless it is manufactured, selected and used in accordance with

(a) for transport by road vehicle,

(i) if the means of containment is a UN standardized means of containment, the requirements of sections 2, 3, 12 and 13 of CGSB-43.146,
SOR/2002-306

(ii) CSA B621 and, despite any indication to the contrary in CSA B620, Appendix B of CSA B620,
SOR/2012-245

(iii) if the means of containment is a type 1 or type 2 portable tank, the requirements of Section 13 of Volume I, General Introduction, of the IMDG Code, 29th Amendment, or

SOR/2002-306

A type 1 and a type 2 portable tank are described in the IMDG Code, 29th Amendment.
SOR/2002-306

(iv) if the means of containment is an IM 101 or IM 102 portable tank, the requirements of Subpart B of Part 172 and section 173.32 of 49 CFR;
SOR/2008-34

An IM 101 and an IM 102 portable tank are described in 49 CFR.

(b) for transport by railway vehicle,

(i) if the means of containment is a UN standardized means of containment, the requirements of sections 2, 3, 12 and 13 of CGSB-43.146,
SOR/2002-306

(ii) CGSB-43.147,

(iii) if the means of containment is a type 1 or type 2 portable tank, the requirements of Section 13 of Volume I, General Introduction, of the IMDG Code, 29th Amendment, and the requirements for the dynamic longitudinal impact test in section 7 of CGSB-43.147, or
SOR/2002-306

A type 1 and a type 2 portable tank are described in the IMDG Code, 29th Amendment.
SOR/2002-306

(iv) if the means of containment is an IM 101 or IM 102 portable tank, the requirements of Subpart B of Part 172 and section 173.32 of 49 CFR and of the dynamic longitudinal impact test in section 7 of CGSB-43.147
SOR/2008-34

An IM 101 and an IM 102 portable tank are described in 49 CFR.

(c) for transport by aircraft, Part 12, Air, of these Regulations; and

(d) for transport by ship,

(i) if the means of containment is a UN standardized means of containment, the requirements of sections 2, 3, 12 and 13 of CGSB-43.146,
SOR/2002-306

(ii) CGSB-43.147,

(ii) CSA B621 and, despite any indication to the contrary in CSA B620, Appendix B of CSA B620,
SOR/2005-279

(iv) if the means of containment is a type 1 or type 2 portable tank, the requirements of Section 13 of Volume I, General Introduction, of the IMDG Code, 29th Amendment, or
SOR/2002-306

A type 1 and a type 2 portable tank are described in the IMDG Code, 29th Amendment.
SOR/2002-306

(v) if the means of containment is an IM 101 or IM 102 portable tank, the requirements of Subpart B of Part 172 and section 173.32 of 49 CFR.
SOR/2008-34

(2) In addition to the requirements of subparagraphs (1)(a)(ii) and (d)(iii), a person who uses a standardized means of containment that is required by CSA B621 to offer for transport dangerous goods included in Class 3, 4, 5, 6.1, 8 or 9 must use a means of containment

(a) manufactured in accordance with CSA B620 if the means of containment was manufactured in Canada on or after August 31, 2008; and

(b) tested and inspected in accordance with CSA B620 when the most recent periodic re-test or periodic inspection is performed in Canada on or after August 31, 2008.

SOR/2008-34

(3) Despite clause 2.1.6 of CGSB-43.147, every reference in CGSB-43.147 to the Association of American Railroads publication M-1002-2000, “Specifications for Tank Cars”, must be read as M-1002-2003, “Specifications for Tank Cars”, published by the Association of American Railroads, October 2003.
SOR/2008-34

(4) The requirements of clause 30.8.2 of CGSB-43.147 do not apply to

(a) UN2448, MOLTEN SULFUR;

(b) UN3257, ELEVATED TEMPERATURE LIQUID, N.O.S; or

(c) UN3258, ELEVATED TEMPERATURE SOLID, N.O.S.

SOR/2008-34

5.14.1 Changes to CSA B620

For the purposes of subparagraphs 5.14(1)(a)(ii) and (d)(iii),
SOR/2012-245

(a) the wording of clause 7.2.10.5 d) of CSA B620 must be re-placed by the following: “clause c) does not apply to hoses used to handle aircraft fuel;”;

(b) the wording of the note to Table 7.1 of CSA B620, Periodic Inspection and Test Intervals, that is indicated by the sym-bol “‡” must be replaced by the following: “Highway tanks used to fuel aircraft and that operate only on airport prop-erty are exempt from internal inspection if they are clearly marked on each side with the words “Dedicated Aviation Refueller Re-stricted to Use on Airport Property” and the words are clearly visible from the ground, in letters that are not less than 25 mm high and in a colour that contrasts with the colour of the tank.”; and

(c) clause 8.1.4.3 b) of CSA B620 does not apply to an application for registration as a facility for the manufacture, modifica-tion, assembly, testing, repair or inspection of tanks in accordance with CSA B620.

SOR/2007-179

5.15 Tank Car Localized Dents and Buckles

Except for dents or buckles that are in the ends of the tank car, a tank car that has a localized dent or buckle in its shell must not be used to handle, offer for transport or transport dangerous goods if

(a) the localized dent or buckle in the tank shell has a depth greater than 19 mm (3/4 inch) at its deepest point, when that depth is measured relative to the surrounding un-deformed external surface of the tank shell; or

(b) any portion of the localized dent or buckle in the tank shell is within 610 mm (24 inches) of the longitudinal tank centre line at the bottom of the tank and the dent or buckle has a depth greater than 13 mm (1/2 inch) at its deepest point, when that depth is measured relative to the surrounding un-deformed external surface of the tank shell.

SOR/2011-60

5.15.1 Information Required in CGSB-43.147 with an Application for Registration of a Tank Car Facility

Despite paragraph 4.11.3 c. of CGSB-43.147, an application for registration of a tank car facility need not include evidence that the facility has a valid and current certification issued by the Association of American Railroads.

SOR/2011-60

Class 6.2, Infectious Substances

5.16 Means of Containment for Class 6.2, Infectious Substances

(1) A person must handle, offer for transport or transport dangerous goods included in Category A or Category B of Class 6.2, Infectious Substances, in a means of containment listed for them in column 2, 3 or 4 of the table to this section.
SOR/2008-34

(2) Despite subsection (1), a Type 1A means of containment may be used in all cases.
SOR/2008-34

Type 1A, 1B and 1C means of containment are defined in Part 1, Coming into Force, Interpretation, General Provisions and Special Cases.
SOR/2008-34

Table
SOR/2008-34

Item	Column 1 Category	Column 2 Means of containment for cultures	Column 3 Means of containment or biological substances	Column 4 Means of containment for infectious substances intended for disposal
1.	Category A	1A	1B except for the following substances which must be contained in a 1A means of containment: (a) Crimean-Congo Hemorrhagic fever virus; (b) Ebola virus; (c) Flexal virus; (d) Guanarito virus; (e) Hantaviruses causing hemorrhagic fever with renal syndrome; (f) Hantaviruses causing pulmonary syndrome; (g) Hendra virus; (h) Herpes B virus (Cercopithecine Herpesvirus-1) (i) Junin virus; (j) Kyasanur Forest virus; (k) Lassa virus; (l) Machupo virus; (m) Marburg virus; (n) Monkeypox virus; (o) Nipah virus; (p) Omsk hemorrhagic fever virus; (q) Russian Spring-summer encephalitis virus (r) Sabia virus; and (s) Variola (smallpox virus).	1C except for the following substances which must be contained in a 1A means of containment: (a) Crimean-Congo Hemorrhagic fever virus; (b) Ebola virus; (c) Flexal virus; (d) Guanarito virus; (e) Hantaviruses causing hemorrhagic fever with renal syndrome; (f) Hantaviruses causing pulmonary syndrome; (g) Hendra virus; (h) Herpes B virus (Cercopithecine Herpesvirus-1) (i) Junin virus; (j) Kyasanur Forest virus; (k) Lassa virus; (l) Machupo virus; (m) Marburg virus; (n) Monkeypox virus; (o) Nipah virus; (p) Omsk hemorrhagic fever virus; (q) Russian Spring-summer encephalitis virus (r) Sabia virus; and (s) Variola (smallpox virus).
2.	Category B	1B	1B	1C

5.16.1 Additional Requirements for Type 1B Means of Containment

SOR/2008-34

A Type 1B means of containment must be

(a) capable of passing

(i) for liquid substances, the internal pressure test set out in section 4.4 of CGSB-43.125, and

(ii) the drop test set out in section 4.5 of CGSB-43.125 except that the height of the drop test may be 1.2 m;

(b) in compliance with clause 4.2.1(iii) of CGSB-43.125 regarding the requirements for multiple primary means of containment in a single secondary means of containment except that only fragile primary means of containment must be separated or wrapped individually; and

(c) in compliance with the requirements in section 4.2.2.1 of CGSB-43.125 when it contains a means of cooling the contents.

SOR/2008-34

Class 7, Radioactive Materials

5.17 Means of Containment for Class 7, Radioactive Materials

A person must not handle, offer for transport or transport dangerous goods included in Class 7, Radioactive Materials, in a means of containment unless the means of containment is in compliance with the "Packaging and Transport of Nuclear Substances Regulations".

PART 6

TRAINING

TABLE OF CONTENTS

TRAINING

Definitions

Definitions for the following terms, used in this Part, are provided in Part 1, Coming into Force, Repeal, Interpretation, General Provisions and Special Cases:

accidental release
aircraft
certification safety mark
49 CFR
classification
dangerous goods
dangerous goods safety mark
emergency
emergency response assistance plan or ERAP or ERP
employer
handling
ICAO Technical Instructions
IMDG Code
imminent accidental release
inspector
means of containment
offer for transport
person
public safety
railway vehicle
road vehicle
safety requirements
safety standards
ship
shipping documents
shipping name
train

6.1 Training Certificate Requirements

(1) A person who handles, offers for transport or transports dangerous goods must

(a) be adequately trained and hold a training certificate in accordance with this Part; or

(b) perform those activities in the presence and under the direct supervision of a person who is adequately trained and who holds a training certificate in accordance with this Part.

(2) An employer must not direct or allow an employee to handle, offer for transport or transport dangerous goods unless the employee

(a) is adequately trained and holds a training certificate in accordance with this Part; or

(b) performs those activities in the presence and under the direct supervision of a person who is adequately trained and who holds a training certificate in accordance with this Part.

6.2 Adequate Training

A person is adequately trained if the person has a sound knowledge of all the topics listed in paragraphs (a) to (m) that relate directly to the person's duties and to the dangerous goods the person is expected to handle, offer for transport or transport:

(a) the classification criteria and test methods in Part 2, Classification;

(b) shipping names;

(c) the use of Schedules 1, 2 and 3;

(d) the shipping document and train consist requirements in Part 3, Documentation;

(e) the dangerous goods safety marks requirements in Part 4, Dangerous Goods Safety Marks;

(f) the certification safety marks requirements, safety requirements and safety standards in Part 5, Means of Containment;

(g) the emergency response assistance plan requirements in Part 7, Emergency Response Assistance Plan;

(h) the report requirements in Part 8, Accidental Release and Imminent Accidental Release Report Requirements;

(i) safe handling and transportation practices for dangerous goods, including the characteristics of the dangerous goods;

(j) the proper use of any equipment used to handle or transport the dangerous goods;

(k) the reasonable emergency measures the person must take to reduce or eliminate any danger to public safety that results or may reasonably be expected to result from an accidental release of the dangerous goods;

(l) for air transport, the aspects of training set out in Chapter 4, Training, of Part 1, General, of the ICAO Technical Instructions for the persons named in that Chapter and the requirements in Part 12, Air, of these Regulations; and
SOR/2002-306

The ICAO Technical Instructions require the approval of training programmes for air carriers. Information may be obtained from the Chief, Dangerous Goods Standards, Civil Aviation, Transport Canada.

(m) for marine transport, the requirements set out in the IMDG Code and the "Dangerous Goods Shipping Regulations", as applicable, and the requirements in Part 11, Marine, of these Regulations.

6.3 Issuance and Contents of a Training Certificate

(1) An employer who has reasonable grounds to believe that an employee is adequately trained and will perform duties to which the training relates must issue a training certificate to the employee that includes the following information:

(a) the name and address of the place of business of the employer;

The place of business could be a local office, a regional office or a head office.

(b) the employee's name;

(c) the date the training certificate expires, preceded by the words "Expires on" or "Date d'expiration"; and

(d) the aspects of handling, offering for transport or transporting dangerous goods for which the employee is trained, including the specific topics set out in section 6.2.

Examples of how aspects of training may be shown on a certificate are:

All aspects of handling and transporting chlorine

All aspects of transporting dangerous goods included in Class 1

All aspects of acceptance procedures for transporting by air

All aspects of handling and transporting propane by ship

(2) A self-employed person who has reasonable grounds to believe that he or she is adequately trained and who will perform duties to which the training relates must issue to himself or herself a training certificate that includes the information required by subsection (1).

(3) The training certificate must be signed

(a) by the employee and by the employer or another employee acting on behalf of the employer; or

(b) in the case of a self-employed person, by that person.

(4) Despite subsection (1), if the employer of a person who is a member of a ship's complement has reasonable grounds to believe that the person's certificate of competency issued in accordance with the "Marine Certification Regulations" is acceptable evidence that the person is adequately trained, the employer is not required to issue the training certificate. The certificate of competency is a valid training certificate for the purposes of these Regulations when the certificate of competency is valid in Canada.

6.4 Foreign Carriers

(1) A document that is issued to a driver of a road vehicle licensed in the United States or to a member of the crew of a train subject to 49 CFR for the transportation of dangerous goods and that indicates that the driver or the crew member is trained in accordance with sections 172.700 to 172.704 of 49 CFR is a valid training certificate for the purposes of these Regulations when that document is valid in the United States.

(2) A document that is issued to a foreign member of the flight crew of an aircraft registered in a country that is a Member State of the International Civil Aviation Organization and that indicates that the crew member is trained to transport dangerous goods by air is a valid training certificate for the purposes of these Regulations, in accordance with Article 33 of the Convention on International Civil Aviation, when that document is valid in the Member State.

(3) A document that is issued to a foreign member of the crew of a ship registered in a country that is a Member State of the International Maritime Organization and that indicates that the crew member is trained to transport dangerous goods by ship is a valid training certificate for the purposes of these Regulations when that document is valid in the Member State.

6.5 Expiry of a Training Certificate

A training certificate expires

(a) for transport by aircraft, 24 months after its date of issuance; and

(b) for transport by road vehicle, railway vehicle or ship, 36 months after its date of issuance.

A person's training should be up-to-date with these Regulations which, in turn, incorporate by reference other documents such as the ICAO Technical Instructions, the IMDG Code and the "Dangerous Goods Shipping Regulations". Consequently, additional training may have to be undertaken if regulatory changes applicable to the person's duties occur before the training certificate expires.

6.6 Keeping Proof of Training: Employer's and Self-employed Person's Responsibility

An employer or a self-employed person must keep a record of training or a statement of experience, as well as a copy of a training certificate, in electronic or paper form, beginning on the date the training certificate is issued and continuing until two years after the date it expires.

6.7 Showing Proof of Training: Employer's and Self-employed Person's Responsibility

Within 15 days after the date of a written request by an inspector, the employer of a person who holds a training certificate or a self-employed person must provide a copy of the training certificate to the inspector and, if applicable, a copy of the record of training or the statement of experience and a description of the training material used in the person's training.

6.8 Showing Proof of Training: Trained Person's Responsibility

A person who handles, offers for transport or transports dangerous goods, or who directly supervises another person engaged in these activities, must give his or her training certificate, or a copy of it, to an inspector immediately on request.

PART 7

EMERGENCY RESPONSE ASSISTANCE PLAN

TABLE OF CONTENTS

Background

It is the responsibility of the person offering for transport or importing dangerous goods for which an emergency response assistance plan (ERAP) is required to establish such a plan and to have that plan approved by Transport Canada.

The object of an emergency response assistance plan is to ensure that there is immediately available a suitable response to emergency situations involving the dangerous goods for which the plan was created. Assistance from the plan holder may be in the form of telephone advice based on the information given by the personnel at the scene of an emergency or travel to the scene with specialized personnel and equipment.

If the person offering for transport or importing dangerous goods is also the carrier, that person still needs an approved plan.

The persons designated to issue an approval of an ERAP are the people in the Transport Canada, Transport Dangerous Goods Directorate, who hold the following positions:

Director General;

Director, Compliance and Response; and

Chief, Response Operations.

EMERGENCY RESPONSE ASSISTANCE PLAN

Definitions

Definitions for the following terms, used in this Part, are provided in Part 1, Coming into Force, Repeal, Interpretation, General Provisions and Special Cases:

accidental release

Act

capacity ***SOR/2008-34***

class ***SOR/2011-239***

classification

consignment

dangerous goods

Director General

emergency

emergency response assistance plan or ERAP or ERP

gas

ICAO Technical Instructions ***SOR/2011-239***

IMDG Code ***SOR/2011-239***

imminent accidental release

import

infectious substance ***SOR/2011-239***

large means of containment

liquid

means of containment

Minister

net explosives quantity

offer for transport

person

railway vehicle

road vehicle

shipping document ***SOR/2011-239***

small means of containment ***SOR/2011-239***

solid

special provision ***SOR/2011-239***

UN number ***SOR/2011-239***

7.1 Requirement for an Emergency Response Assistance Plan (ERAP)
SOR/2008-34

Subsection (1) deals with a quantity of dangerous goods having the same UN number and that are contained in a single minimum required means of containment (see paragraph 1.3(2)(j) in Part 1, Coming into Force, Repeal, Interpretation, General Provisions and Special Cases, for an explanation of a minimum required means of containment). If the quantity of dangerous goods in a single means of containment exceeds the ERAP limit, an ERAP is required regardless of the size of the means of containment. ***SOR/2011-239***

(1) A person who offers for transport or imports dangerous goods that have the same UN number and that are contained in a single means of containment must have an approved ERAP if the quantity of those dangerous goods in the single means of containment exceeds the ERAP limit referred to in subsection (8).
SOR/2011-239

Subsection (2) deals with an accumulation of means of containment containing dangerous goods included in Class 3 with a subsidiary class of Class 6.1, in Class 4, in Class 5.2, Type B or Type C, or in Class 6.1 included in Packing Group I.
SOR/2011-239

(2) A person who offers for transport or imports, in a road vehicle or a railway vehicle, dangerous goods that have the same UN number, that are included in one of the following classes and that are contained in more than one means of containment must have an approved ERAP if the total quantity of those dangerous goods in all the means of containment exceeds the ERAP limit referred to in subsection (8):

(a) Class 3, Flammable Liquids, with a subsidiary class of Class 6.1, Toxic Substances;

(b) Class 4, Flammable Solids, Substances Liable to Spontaneous Combustion, Substances That on Contact with Water Emit Flammable Gases (Water-reactive substances);

(c) Class 5.2, Organic Peroxides, that are Type B or Type C; and

(d) Class 6.1, Toxic Substances, that are included in Packing Group I.

SOR/2011-239

Subsection (3) deals with an accumulation of large means of containment containing dangerous goods that require an ERAP.
SOR/2011-239

(3) A person who offers for transport or imports, in a road vehicle or a railway vehicle, dangerous goods that have the same UN number and that are contained in more than one large means of containment must have an approved ERAP if the total quantity of those dangerous goods in all the large means of containment exceeds the ERAP limit referred to in subsection (8).
SOR/2011-239

Subsection (4) deals with dangerous goods included in Class 1, Explosives, that require an ERAP.
SOR/2011-239

(4) A person who offers for transport or imports, in a road vehicle or a railway vehicle, dangerous goods included in Class 1, Explosives, and contained in one or more means of containment must have an approved ERAP if the total quantity of explosives with an ERAP index in Col. 7 of Schedule 1 exceeds the ERAP limit referred to in subsection (8) for the explosives with the lowest index number. If the quantities of explosives are expressed in net explosives quantity and number of articles, one kilogram net explosives quantity must be counted as 100 articles and each 100 articles must be counted as one kilogram net explosives quantity.
SOR/2011-239

Subsection (5) deals with an accumulation of interconnected means of containment with a capacity greater than 225 L that contain dangerous goods included in Class 2, Gases.
SOR/2011-239

(5) A person who offers for transport or imports dangerous goods included in Class 2, Gases, that have the same UN number, that are contained in more than one means of containment, each of which has a capacity greater than 225 L, that are a single unit as a result of being interconnected through a piping arrangement, and that are permanently mounted on a structural frame for transport must have an approved ERAP if the total quantity of those dangerous goods in the interconnected means of containment exceeds the ERAP limit referred to in subsection (8).
SOR/2011-239

Subsection (6) deals with tank cars in a single train that contain dangerous goods included in Class 3, Flammable Liquids, and that have the UN number UN1202, UN1203 or UN1863.
SOR/2011-239

(6) A person who offers for transport or imports, in a single train, rail tank cars that contain dangerous goods having the UN number UN1202, UN1203 or UN1863 must have an approved ERAP if

(a) the rail tank cars are interconnected in such a way that the loading or unloading of more than one rail tank car can be done from the first or last of those rail tank cars; and

(b) 17 or more of the rail tank cars are each filled to 70 per cent or more of their capacity.

SOR/2011-239

Subsection (7) deals with dangerous goods included in Class 6.2, Infectious Substances, that require an ERAP.
SOR/2011-239

(7) A person who offers for transport or imports any quantity of the following Class 6.2, Infectious Substances, or any substance that exhibits characteristics similar to these substances, must have an approved ERAP:

(a) Crimean-Congo Hemorrhagic fever virus;

(b) Ebola virus;

(c) Foot and mouth virus cultures;

(d) Guanarito virus;

(e) Hendra virus;

(f) Herpes B virus (Cercopithicene Herpesvirus-1) cultures;

(g) Junin virus;

(h) Kyasanur Forest virus;

(i) Lassa virus;

(j) Machupo virus;

(k) Marburg virus;

(l) Nipah virus;

(m) Omsk hemorrhagic fever virus;

(n) Russian Spring-Summer encephalitis virus;

(o) Sabia virus; and

(p) Variola (smallpox virus).

SOR/2011-239

(8) A quantity of dangerous goods exceeds the ERAP limit if the dangerous goods have an index number in Col. 7 of Schedule 1 and

(a) if a solid, have a mass that is greater than the index number when that number is expressed in kilograms;

(b) if a liquid, have a volume that is greater than the index number when that number is expressed in litres;

(c) if a gas, including a gas in a liquefied form, are contained in a means of containment that has a capacity greater than the index number when that number is expressed in litres; or

(d) if an explosive

(i) not subject to special provision 86, have a net explosives quantity that is greater than the index number when that number is expressed in kilograms, or

(ii) subject to special provision 86, are in a quantity that is greater than the number of articles listed for the explosive.

SOR/2011-239

(9) For the purposes of subsections (1) to (7), a person, other than a manufacturer or producer, who offers for transport or imports dangerous goods for which an approved ERAP is required, is not required to apply for approval of an ERAP in accordance with section 7.2 if the person shows on a shipping document

(a) the ERAP reference number and the telephone number to call to activate the approved ERAP held by a manufacturer, producer or distributor of the dangerous goods, and

(i) the approved ERAP applies to the dangerous goods, the mode of transport, the means of containment and the area in which the dangerous goods are to be transported,

(ii) the person who holds the approved ERAP gives permission in writing for the approved ERAP to be used and for the reference number of that approved ERAP and the telephone number to call to activate the approved ERAP to be shown on the other person's shipping document, and

(iii) the person who holds the approved ERAP agrees to respond to an emergency on behalf of the other person; or

The written permission required under subparagraph (a)(ii) from the person who holds an approved ERAP to another person to use that ERAP is required only once. However, the written permission may be in a notation on a shipping document that indicates that the holder of the approved ERAP gives permission, for example, to a carrier to use the approved ERAP.

(b) the ERAP reference number and the telephone number to call to activate the approved ERAP held by any other person, if the dangerous goods originate outside Canada and

(i) the dangerous goods are transported through Canada to a destination outside Canada, and

(ii) the person who offers for transport or imports the dangerous goods complies with the conditions set out in subparagraphs (a)(i) to (iii).

A distributor is not referred to in the portion of subsection (9) before paragraph (a) because a manufacturer or producer must always have an approved ERAP if one is required. This is not the case for a distributor, who may hold an approved ERAP but may also use the approved ERAP of a manufacturer or producer.
SOR/2011-239

(10) The person who holds an approved ERAP and gives permission to another person to use that ERAP in accordance with subsection (9) must

(a) when that permission is given, notify the Director General in writing of the name of the person who will use the approved ERAP and the ERAP reference number; and

(b) when that permission is rescinded, notify the Director General in writing.

SOR/2011-239

(11) Whether or not another person's ERAP number is shown on a shipping document in accordance with subsection (9), the person who is required to have an approved ERAP in accordance with subsection 7(1) of the Act remains responsible for emergency response assistance as required under the Act.
SOR/2011-239

(12) Any substance that would require an ERAP if its classification were determined in accordance with Part 2, Classification, requires an approved ERAP if its classification from the ICAO Technical Instructions, the IMDG Code or the UN Recommendations is used as permitted under section 1.10 of Part 1, Coming Into Force, Repeal, Interpretation, General Provisions and Special Cases.
SOR/2011-239

7.2 Applying for Approval of an ERAP

The level of detail of the information required in paragraph (2)(h) of this section should be appropriate for a fire department evaluating an emergency situation. The person who provides the information must include an analysis of how a release could occur (e.g., damage to a valve, a manway cover, a frangible disk or a container wall) and how any released dangerous goods could react. Transport Canada has developed a brochure to give guidance on this topic.

(1) A person must apply, in writing, to the Minister or a designated person for the approval of an ERAP.

(2) The application for an ERAP approval must be signed by the person submitting it and must include the following information:

(a) the name and address of the place of business of the applicant;

(b) the telephone number, including the area code and, if applicable, the electronic mailing address and facsimile number of the applicant;

(c) the classification of the dangerous goods to which the ERAP relates;

(d) the type and size of the means of containment used to transport the dangerous goods to which the ERAP relates;

(e) the geographical area covered by the ERAP;

(f) the telephone number, including the area code, to call to have the ERAP activated immediately;

(g) a description of the emergency response capabilities available to the person offering for transport or importing dangerous goods including

(i) the number of persons qualified to give, by telephone, technical advice about the dangerous goods,

(ii) the number of persons qualified and available to give advice and assistance at the site of an emergency,

(iii) a list of the specialized equipment that can be transported to and used at the site of an emergency,

(iv) a general description of the response actions capable of being taken at the site of an emergency,

(v) a description of the transportation arrangements to bring specialized emergency response personnel and equipment to the site of an emergency, and

(vi) a description of the communications systems that can be made available at the site of an emergency;

(h) a potential accident assessment including

(i) a general analysis of how an accidental release of dangerous goods could occur,

(ii) a general description of the potential consequences of an accidental release of dangerous goods, and

(iii) a description of the action the applicant is expected to take in the event of an accidental release or an imminent accidental release of dangerous goods; and

(i) a copy of any formal agreement with a third party for the provision of assistance.

7.3 Approval or Refusal of an ERAP

(1) When an ERAP application is approved, the Minister or the designated person must give the applicant, in writing, a reference number for the ERAP.

Under subsection 7(3) of the Act, the Minister or a designated person may approve an ERAP pending an investigation if the Minister or the designated person has no reason to suspect that the plan is incapable of being implemented or will be ineffective. An ERAP application that does not include all the information required by subsection 7.2(2) could be approved for a specified period pending an investigation.

(2) If an ERAP application is refused, the Minister or the designated person must notify the applicant, in writing, of the refusal and the reasons for the refusal.

7.4 Applying for Approval of a Renewal or Revision of an ERAP

A person who applies for approval of a renewal or revision of an ERAP must submit to the Minister or a designated person, in writing, the following information:

(a) the name and address of the place of business of the applicant;

(b) the telephone number, including the area code and, if applicable, the electronic mailing address and the facsimile number of the applicant;

(c) for renewal of an ERAP, certification that the information provided in the original application in accordance with paragraphs 7.2(2)(c) to (i) or in the most recent renewal is still accurate and complete; and

(d) for a revision of an ERAP, a description of the proposal for the revision stating how the proposed revision will ensure that the ERAP is capable of being implemented and will be effective in responding to an accident that occurs while the dangerous goods are being transported.

7.5 Approval or Refusal of a Renewal or Revision of an ERAP

(1) When an application for renewal or revision of an ERAP is approved, the Minister or the designated person must give the applicant, in writing, a reference number for the ERAP.

(2) If an application for renewal or revision of an ERAP is refused, the Minister or the designated person must notify the applicant, in writing, of the refusal and the reasons for the refusal.

7.6 Revoking an ERAP Approval

(1) The Minister or a designated person must notify the affected person, in writing, of the revocation of an ERAP approval under subsection 7(4) of the Act and the reasons for the revocation.

(2) A revocation takes effect when it is signed or at a later date if one is indicated in it. However, after the effective date of the revocation, any non-compliance with the Act that is a result of the revocation must not be enforced against a person unless the person has received the original, signed revocation or an electronic copy of it, or reasonable steps have been taken to make the person aware of the revocation.

7.7 Requesting a Review of a Decision to Refuse or Revoke an ERAP Approval

(1) A person may request a review of the decision to refuse or revoke an ERAP approval within 30 days after being notified of the decision.

(2) The request must be made, in writing, to the Minister or a designated person and must include the following information:

(a) the name and address of the place of business of the person requesting the review; and

(b) the reasons why the decision should be reversed.

7.8 Processing a Request for a Review

The Minister or, in the case of an approval that was refused or revoked by a designated person, the Director General may issue an approval that was refused or reissue a revoked approval, if the Minister or Director General determines on the basis of available information, including information provided with the request for review, that the ERAP is capable of being implemented and will be effective in responding to an accident that occurs while the dangerous goods are being transported.

7.9 Notification of a Decision on Review

The Minister or the Director General must notify in writing the person who made the request for a review of the decision on the review and the reasons for it.

7.10 Compensation for Authorized Implementation of an Approved Emergency Response Assistance Plan (ERAP)

In accordance with section 7.2 of the Act, section 7.10 sets out compensation for a person with an approved emergency response assistance plan (ERAP) and who is authorized by the Minister to implement it to respond to a security (terrorist) incident.

If a person with an approved ERAP is contacted by the Minister and agrees, the Minister could authorize the person to respond to a security (terrorist) incident on behalf of the Government of Canada. The Minister would select an ERAP based on the appropriateness of the plan and the ability of the person to respond in a timely manner. Should the person agree to respond, the Government would pay the expenses, specified in section 7.10, that are associated with the response action, including those related to death, disability or injury. The person would have personal liability protection under section 20 of the Act.

An ERAP response to a security (terrorist) incident involving a release of dangerous goods would occur once it has been determined that all terrorist-related hazards other than the dangerous goods have been eliminated.

Under the Act, industry is responsible for responding to safety or security incidents involving dangerous goods that are offered for transport, imported, handled or transported by a known person who has an approved ERAP for those dangerous goods. This existing response program and associated activities do not change because of these Regulations, which are intended to provide emergency response in the event that there is a security (terrorist) incident involving a release of dangerous goods by unknown persons.

(1) If a person agrees to implement an approved ERAP in accordance with paragraph 7.1(*b*) of the Act, the following expenses are authorized for the purposes of compensation under section 7.2 of the Act:

(a) expenses related to the death, disability or injury of the person or to the death, disability or injury of any of the person's employees or contractors if

(i) the person, the employee or the contractor is killed, disabled or injured during the implementation of the approved ERAP, and

(ii) the death, disability or injury is the result of an act or omission that was committed by the person in good faith and without negligence;

(b) the cost of the person's employees or contractors who are reasonably required to implement the approved ERAP;

(c) the cost of using the person's tools and other equipment, such as vehicles, pumps, hoses and generators, that are reasonably required to implement the approved ERAP;

(d) travel expenses, such as those incurred for meals, accommodation, fuel, oil and flights, for persons who are reasonably required to implement the approved ERAP;

(e) rental fees for heavy equipment, such as cranes, bulldozers, pumps, compressors and generators, that is reasonably required to implement the approved ERAP;

(f) other overhead costs that can be reasonably attributed to the implementation of the approved ERAP;

(g) the cost of repairing tools and other equipment that are damaged during the implementation of the approved ERAP;

(h) the cost of replacing

(i) single-use equipment and supplies, such as packaging, personal protective equipment, personal protective clothing, chemicals and other consumables, that are reasonably required to implement the approved ERAP,

(ii) tools and other equipment that are lost during the implementation of the approved ERAP, and

(iii) tools and other equipment that are damaged beyond repair during the implementation of the approved ERAP;

(i) the cost of repairing or replacing personal property or movables or real property or immovables that have to be damaged to implement the approved ERAP;

(j) the cost of defending any legal action for which there is no personal liability under paragraph 20(*c*) of the Act; and

(k) the cost of cleaning up after an incident, including handling and disposal costs for dangerous goods and contaminated materials.

(2) The following expenses are not authorized for the purposes of compensation under section 7.2 of the Act:

(a) the cost of purchasing new equipment to implement the approved ERAP; and

(b) the cost of lost business or production during the implementation of the approved ERAP.

SOR/2011-210

7.11 Compensation Limits

(1) Compensation under paragraph 7.10(1)(a) is limited to the compensation that would be paid in relation to the dead, disabled or injured person if the person were insured under

(a) the Public Service Management Insurance Plan;

(b) the Public Service Health Care Plan, with hospital coverage at level III; and

(c) the Public Service Dental Care Plan.

(2) Compensation under paragraph 7.10(1)(h) in relation to the replacement of the items listed in subparagraphs (i), (ii) and (iii) is limited to the cost of an item of equivalent capability and quality.

(3) Compensation under paragraph 7.10(1)(i) in relation to damaged property is limited to the fair market value of the property immediately before it is damaged by the person who implements the approved ERAP.

SOR/2011-210

7.12 Claims for Compensation

Claims for compensation must be submitted with supporting documentation to the Director General no later than three months after completion of the emergency response work.

This section is intended to accommodate more than one claim because the emergency response work may include mitigation of the danger at multiple sites or may include multiple sequential mitigation actions that take time.

SOR/2011-210

7.13 Emergency Response Assistance Plan for Emergency Response Contractors

A person who is not a manufacturer, producer or distributor of dangerous goods that require an ERAP, but who specializes in emergency response, may apply to have an ERAP approved under section 7.2 of this Part for the purpose of responding, in accordance with paragraph 7.1(*b*) of the Act, to an actual or anticipated release of dangerous goods.

SOR/2011-210

PART 8

ACCIDENTAL RELEASE AND IMMINENT ACCIDENTAL RELEASE REPORT REQUIREMENTS

TABLE OF CONTENTS

ACCIDENTAL RELEASE AND IMMINENT ACCIDENTAL RELEASE REPORT REQUIREMENTS

Definitions

Definitions for the following terms, used in this Part, are provided in Part 1, Coming into Force, Repeal, Interpretation, General Provisions and Special Cases:

accidental release
aircraft
CANUTEC
certification safety mark
class
classification
consignor
cylinder
dangerous goods
Director General
emergency
emergency response assistance plan or ERAP or ERP
employer
ICAO Technical Instructions
imminent accidental release
infectious substance
means of containment
person
public safety
railway vehicle
road vehicle
ship
shipping name
UN number

8.1 Immediate Reporting

(1) In the event of an accidental release of dangerous goods from a means of containment, a person who has possession of the dangerous goods at the time of the accidental release must make an immediate report of the accidental release to the persons listed in subsection (5) if the accidental release consists of a quantity of dangerous goods or an emission of radiation that is greater than the quantity or emission level set out in the following table:

Table

Class	Quantity	Emission Level
1	Any quantity that (a) could pose a danger to public safety or is greater than 50 kg; or (b) is included in Class 1.1, 1.2, 1.3 or 1.5 and is (i) not subject to special provision 85 or 86 but exceeds 10 kg net explosives quantity, or (ii) subject to special provision 85 or 86 and the number of articles exceeds 1 000. ***SOR/2008-34***	
2	Any quantity that could pose a danger to public safety or any sustained release of 10 minutes or more	
3	200 L	
4	25 kg	
5.1	50 kg or 50 L	
5.2	1 kg or 1 L	
6.1	5 kg or 5 L	
6.2	Any quantity ***SOR/2008-34***	
7	Any quantity that could pose a danger to public safety	An emission level greater than the emission level established in section 20 of the “Packaging and Transport of Nuclear Substances Regulations”
8	5 kg or 5 L	
9	25 kg or 25 L	

(2) For air transport, a person who has possession of dangerous goods at the time a "dangerous goods accident" or a "dangerous goods incident", as defined in the ICAO Technical Instructions, occurs on board an aircraft, in an aerodrome or at an air cargo facility must immediately report it to the persons listed in subsection (5).

(3) In the event of an imminent accidental release of dangerous goods, a person who has possession of the dangerous goods at the time of the imminent accidental release must immediately report it to the persons listed in subsection (5). An immediate report of an imminent accidental release is considered to be an immediate report for any subsequent accidental release.

(4) While each person who has possession of the dangerous goods at the time of an accidental release, a "dangerous goods accident" or a "dangerous goods incident" must make an immediate report, if one person makes the immediate report, the other persons are not required to make additional immediate reports.

(5) A person referred to in subsection (1), (2) or (3) must make an immediate report to

(a) the appropriate provincial authority listed in the table following this subsection;

(b) the person's employer;

(c) the consignor of the dangerous goods;

(d) for a road vehicle, the owner, lessee or charterer of the road vehicle;

(e) for a railway vehicle, CANUTEC at (613) 996-6666;

(f) for a ship, CANUTEC at (613) 996-6666, a Vessel Traffic Services Centre or a Canadian Coast Guard radio station;

(g) for an aircraft, an aerodrome or an air cargo facility, CANUTEC at (613) 996-6666 and the nearest Regional Civil Aviation Office of the Department of Transport and, if the aerodrome is an airport, the operator of the airport;

(h) for Class 1, Explosives, and Class 6.2, Infectious Substances, CANUTEC at 613-996-6666; and
SOR/2008-34

(i) for an accidental release from a cylinder that has suffered a catastrophic failure, CANUTEC at (613) 996-6666.

Table

Immediate Reporting - Provincial Authority

When a report is made directly to the local police, it is expected that they will inform the local fire department.

Province	Authority
Alberta	the local police and the appropriate provincial authority at 1-800-272-9600
British Columbia	the local police and the Provincial Emergency Program at 1-800-663-3456 ***SOR/2003-273***
Manitoba	the Department of Conservation at (204) 945-4888 and either the local police or the fire department
New Brunswick	the local police or 1-800-565-1633
Newfoundland	the local police and the Canadian Coast Guard at (709) 772-2083;
Northwest Territories	the appropriate authorities at (867) 920-8130
Nova Scotia	the local police or 1-800-565-1633 or (902) 426-6030
Nunavut Territory	the local police and the Nunavut Emergency Services at 1-800-693-1666
Ontario	the local police
Prince Edward Island	the local police or 1-800-565-1633
Quebec	the local police
Saskatchewan	the local police or 1-800-667-7525
Yukon Territory	the appropriate authorities at (867) 667-7244

8.2 Immediate Reporting Information

The immediate report must include as much of the following information as is known at the time of the report:

(a) the shipping name or UN number of the dangerous goods;

(b) the quantity of dangerous goods that

(i) was in the means of containment before the accidental release, the "dangerous goods accident" or the "dangerous goods incident", and

(ii) is known or suspected to have been released;

(c) a description of the condition of the means of containment from which the dangerous goods were released, including details as to whether the conditions of transport were normal when the means of containment failed;

(d) for an accidental release from a cylinder that has suffered a catastrophic failure, a description of the failure;

For example, there was an explosion, a valve sheared off or there was a crack in the cylinder.

(e) the location of the accidental release, the "dangerous goods accident" or the "dangerous goods incident";

(f) for a ship, the position of the ship and the next location at which the ship will be at anchor or alongside a fixed facility;

(g) the number of deaths and injuries resulting from the accidental release, the "dangerous goods accident" or the "dangerous goods incident"; and

(h) an estimate of the number of people evacuated from private residences, public areas or public buildings as a result of the accidental release, the "dangerous goods accident" or the "dangerous goods incident".

8.3 30-Day Follow-up Report

(1) If an immediate report was required to be made for an accidental release, a "dangerous goods accident" or a "dangerous goods incident", a follow-up report must be made by the employer of the person who had possession of the dangerous goods at the time of the accidental release, the "dangerous goods accident" or the "dangerous goods incident", or by the person if self-employed.

(2) The follow-up report must be made, in writing, to the Director General within 30 days after the occurrence of the accidental release, the "dangerous goods accident" or the "dangerous goods incident". The follow-up report must include the following information:

(a) the name and address of the place of business of the person providing the information and the telephone number, including the area code, at which that person may be contacted;

(b) the date, time and location of the accidental release, the "dangerous goods accident" or the "dangerous goods incident";

(c) the name and address of the place of business of the consignor;

(d) the classification of the dangerous goods;

(e) the estimated quantity of dangerous goods released and the total quantity of dangerous goods in the means of containment before the accidental release, the "dangerous goods accident" or the "dangerous goods incident";

(f) a description of the means of containment involved based on the identification markings and a description of the failure or damage to the means of containment, including how the failure or damage occurred;

(g) for an accidental release from a cylinder that has suffered a catastrophic failure, the certification safety marks and a description of the failure;

For example, there was an explosion, a valve sheared off or there was a crack in the cylinder.

(h) the number of deaths and injuries resulting from the accidental release, the "dangerous goods accident" or the "dangerous goods incident";

(i) an estimate of the number of people evacuated from private residences, public areas or public buildings; and

(j) if an emergency response assistance plan was activated, the name of the person who responded to the emergency in accordance with the emergency response assistance plan.

The address for the Director General is:
Transport Dangerous Goods (TDG), Place de Ville, Tower C, 9th Floor, 330 Sparks St., Ottawa, Ontario K1A 0N5.

PART 9

ROAD

TABLE OF CONTENTS

Definitions

ROAD

Definitions

Definitions for the following terms, used in this Part, are provided in Part 1, Coming into Force, Repeal, Interpretation, General Provisions and Special Cases:

aircraft

carrier

49 CFR

classification

consignment

consignor

dangerous goods

dangerous goods safety mark

emergency response assistance plan or ERAP or ERP

handling

ICAO Technical Instructions

IMDG Code

large means of containment

means of containment

person

road vehicle

ship

shipping document

shipping name

UN Recommendations

According to the definition of "import", when dangerous goods being imported are being transported to a place in Canada, the person who imports the dangerous goods is the consignor. If the dangerous goods are being transported through Canada, each person who transports them in Canada (that is, each carrier) is the consignor while in possession of the dangerous goods.

9.1 Transporting Dangerous Goods from the United States into or through Canada

Consignments of dangerous goods that originate in the United States are subject to expert inspection by U.S. inspectors. These consignments can be transported in Canada under the requirements of 49 CFR. However, consignments that originate in Canada are not permitted under these Regulations to be transported in Canada under 49 CFR only, because these consignments are not subject to expert inspection by U.S. inspectors.

(1) Despite the requirements in Part 2, Classification, Part 3, Documentation, and Part 4, Dangerous Goods Safety Marks, a person may handle or transport dangerous goods by road vehicle from a place in the United States to a place in Canada or from a place in the United States through Canada to a place outside Canada in accordance with the classification, marking, labelling, placarding and documentation requirements of 49 CFR, if

(a) the information required on the shipping document is easy to identify, legible, in indelible print, in English or French and includes

(i) when dangerous goods are transported to a place in Canada, the name and address of the place of business in Canada of the consignor,

*The consignor in this case is the consignee in Canada***.**

(ii) when dangerous goods are transported from a place in the United States through Canada to a place outside Canada, the name and the address of the place of business of each consignor, except that in this case the name and address may be shown on a separate document attached to the shipping document and is required only while that person is the consignor,

The consignor in this case is the carrier.

(iii) the classification in Schedule 1 or in the UN Recommendations, for dangerous goods that have the letter "D" assigned to them in column 1 of the table to section 172.101 of 49 CFR, except for dangerous goods with the shipping name "Consumer commodity", and
SOR/2008-34

(iv) in accordance with section 3.6 of Part 3, Documentation, the emergency response assistance plan reference number and the telephone number to call to activate the plan when an emergency response assistance plan is required under Part 7, Emergency Response Assistance Plan, for the dangerous goods shown on the shipping document;
SOR/2008-34

(b) the person complies with the following sections in Part 3, Documentation:

(i) section 3.2, Carrier Responsibilities,

(ii) section 3.7, Location of a Shipping Document: Road, and

(iii) section 3.10, Location of a Shipping Document: Storage in the Course of Transportation, and
SOR/2008-34

(c) on or after August 31, 2008, the labels and placards displayed for dangerous goods included in Class 2.3 or Class 6.1 are the labels and placards required in these Regulations for the dangerous goods. The labels and placards may be displayed before August 31, 2008.
SOR/2008-34

(2) Subsection (1) does not apply to dangerous goods that

(a) are forbidden for transport by these Regulations;

(b) are not regulated by 49 CFR but are regulated by these Regulations;

(c) are transported under an exemption issued in accordance with Subpart B of Part 107 of 49 CFR; or

(d) are given dangerous goods safety mark or packaging exceptions in 49 CFR that are not permitted by these Regulations.

SOR/2008-34

9.2 Transporting Dangerous Goods to or from an Aircraft, an Aerodrome or an Air Cargo Facility

(1) Despite the requirements in Part 2, Classification, Part 3, Documentation, and Part 4, Dangerous Goods Safety Marks, if transport has been or is to be by aircraft, a person may handle or transport dangerous goods by road vehicle to or from an aircraft, an aerodrome or an air cargo facility in accordance with the classification, marking, labelling, and documentation requirements of the ICAO Technical Instructions, if

(a) the information required on the shipping document is easy to identify, legible, in indelible print, in English or French and includes, in accordance with section 3.6 of Part 3, Documentation, the emergency response assistance plan reference number and the telephone number to call to activate the plan when an emergency response assistance plan is required under Part 7, Emergency Response Assistance Plan, for the dangerous goods shown on the shipping document; and

(b) the person complies with the following provisions in Part 3, Documentation:

(i) section 3.2, Carrier Responsibilities,

(ii) paragraph 3.5(1)(f) and subsection 3.5(2), concerning a 24-hour number on a shipping document,

(iii) section 3.7, Location of a Shipping Document: Road, and

(iv) section 3.10, Location of a Shipping Document: Storage in the Course of Transportation.

SOR/2002-306

(2) Subsection (1) does not apply if these Regulations forbid the transport of the dangerous goods or if the dangerous goods are not regulated by the ICAO Technical Instructions but are regulated by these Regulations.

(3) When dangerous goods are transported to or from an aircraft, an aerodrome or an air cargo facility, by a road vehicle, the road vehicle, or any means of containment visible from outside the road vehicle, must have placards displayed on it in accordance with Part 4, Dangerous Goods Safety Marks.

SOR/2008-34

9.3 Transporting Dangerous Goods to or from a Ship, a Port Facility or a Marine Terminal

(1) Despite the requirements in Part 2, Classification, Part 3, Documentation, and Part 4, Dangerous Goods Safety Marks, if transport has been or is to be by ship, a person may handle or transport by road vehicle an international consignment of dangerous goods to or from a ship, a port facility or a marine terminal in accordance with the classification, marking, labelling, placarding and documentation requirements of the IMDG Code if

(a) the information required on the shipping document is easy to identify, legible, in indelible print, in English or French and includes, in accordance with section 3.6 of Part 3, Documentation, the emergency response assistance plan reference number and the telephone number to call to activate the plan when an emergency response assistance plan is required under Part 7, Emergency Response Assistance Plan, for the dangerous goods shown on the shipping document; and

(b) the person complies with the following provisions in Part 3, Documentation:

(i) section 3.2, Carrier Responsibilities,

(ii) paragraph 3.5(1)(f) and subsection 3.5(2), concerning a 24-hour number on a shipping document,

(iii) section 3.7, Location of a Shipping Document: Road, and

(iv) section 3.10, Location of a Shipping Document: Storage in the Course of Transportation.

SOR/2002-306

(2) Subsection (1) does not apply if these Regulations forbid the transport of the dangerous goods or if the dangerous goods are not regulated by the IMDG Code but are regulated by these Regulations.

(3) When dangerous goods are transported in a large means of containment to or from a ship, a port facility or a marine terminal, the large means of containment must have placards displayed on it in accordance with Part 4, Dangerous Goods Safety Marks, or the IMDG Code.
SOR/2012-245

9.4 Reshipping in Canada

(1) When a consignment of dangerous goods is transported from a place outside Canada to a place in Canada and is reshipped within Canada by road vehicle, the dangerous goods safety marks displayed in accordance with 49 CFR, the ICAO Technical Instructions or the IMDG Code at the time of entry into Canada may continue to be displayed, except that the large means of containment containing the dangerous goods must have placards displayed on it in accordance with Part 4, Dangerous Goods Safety Marks.

If the dangerous goods are not regulated in Canada, the placards are not required to be displayed on the large means of containment.
SOR/2012-245

(2) The shipping document that accompanies the dangerous goods must include a notation that the dangerous goods safety marks are in accordance with 49 CFR, the ICAO Technical Instructions or the IMDG Code, if they differ from the ones required to be displayed by Part 4, Dangerous Goods Safety Marks.

9.5 Maximum Net Explosives Quantity in a Road Vehicle
SOR/2008-34

The total net explosives quantity of all explosives that are transported together in a road vehicle must be less than or equal to the following limits:

(a) 25 kg if any of the explosives are UN0190, SAMPLES, EXPLOSIVE;

(b) 2 000 kg if any of the explosives are included in Class 1.1A; and

(c) 20 000 kg.

SOR/2008-34

PART 10

RAIL

TABLE OF CONTENTS

Definitions

RAIL

Definitions

Definitions for the following terms, used in this Part, are provided in Part 1, Coming into Force, Repeal, Interpretation, General Provisions and Special Cases:

aircraft

carrier

49 CFR

class

classification

consignment

consignor

dangerous goods

dangerous goods safety mark

emergency response assistance plan or ERAP or ERP

handling

ICAO Technical Instructions

IMDG Code

large means of containment

means of containment

person

railway vehicle

ship

shipping document

shipping name

trainUN Recommendations

According to the definition of "import", when dangerous goods being imported are being transported to a place in Canada, the person *who imports the dangerous goods is the consignor. If the dangerous goods are being transported through Canada, each person who transports them in Canada (that is, each carrier) is the consignor while in possession of the dangerous goods.*

10.1 Transporting Dangerous Goods from the United States into or through Canada

Consignments of dangerous goods that originate in the United States are subject to expert inspection by U.S. inspectors. These consignments can be transported in Canada under the requirements of 49 CFR. However, consignments that originate in Canada are not permitted under these Regulations to be transported in Canada under 49 CFR only, because these consignments are not subject to expert inspection by U.S. inspectors.

(1) Despite the requirements in Part 2, Classification, Part 3, Documentation and Part 4, Dangerous Goods Safety Marks, a person may handle or transport dangerous goods by railway vehicle from a place in the United States to a place in Canada or from a place in the United States through Canada to a place outside Canada in accordance with the classification, marking, labelling, placarding and documentation requirements of 49 CFR if

(a) the information required on the shipping document is easy to identify, legible, in indelible print, in English or French and includes

(i) when dangerous goods are transported to a place in Canada, the name and address of the place of business in Canada of the consignor,

*The consignor in this case is the consignee in Canada***.**

(ii) when dangerous goods are transported from a place in the United States through Canada to a place outside Canada, the name and the address of the place of business of each consignor, except that in this case the name and address may be shown on a separate document attached to the shipping document and is required only while that person is the consignor,

The consignor in this case is the carrier.

(iii) the classification in Schedule 1 or in the UN Recommendations, for dangerous goods that have the letter "D" assigned to them in column 1 of the table to section 172.101 of 49 CFR, except for dangerous goods with the shipping name "Consumer commodity", and
SOR/2008-34

(iv) in accordance with section 3.6 of Part 3, Documentation, the emergency response assistance plan reference number and the telephone number to call to activate the plan when an emergency response assistance plan is required under Part 7, Emergency Response Assistance Plan, for the dangerous goods shown on the shipping document;
SOR/2008-34

(b) the person complies with the following sections in Part 3, Documentation:

(i) section 3.2, Carrier Responsibilities**,**

(ii) section 3.8, Location of a Shipping Document and Consist: Rail, and

(iii) section 3.10, Location of a Shipping Document: Storage in the Course of Transportation, and
SOR/2008-34

(c) on or after August 31, 2008, the labels and placards displayed for dangerous goods included in Class 2.3 or 6.1 are the labels and placards required in these Regulations for the dangerous goods. The labels or placards may be displayed before August 31, 2008.
SOR/2008-34

(2) Subsection (1) does not apply to dangerous goods that

(a) are forbidden for transport by these Regulations;

(b) are not regulated by 49 CFR but are regulated by these Regulations;

(c) are transported under an exemption issued in accordance with Subpart B of Part 107 of 49 CFR; or

(d) are given dangerous goods safety mark or packaging exceptions in 49 CFR that are not permitted by these Regulations.

SOR/2008-34

10.2 Transporting Dangerous Goods to or from an Aircraft, an Aerodrome or an Air Cargo Facility

(1) Despite the requirements in Part 2, Classification, Part 3, Documentation, and Part 4, Dangerous Goods Safety Marks, if transport has been or is to be by aircraft, a person may handle or transport dangerous goods by railway vehicle to or from an aircraft, an aerodrome or an air cargo facility in accordance with the classification, marking, labelling and documentation requirements of the ICAO Technical Instructions, if

(a) the information required on the shipping document is easy to identify, legible, in indelible print, in English or French and includes, in accordance with section 3.6 of Part 3, Documentation, the emergency response assistance plan reference number and the telephone number to call to activate the plan when an emergency response assistance plan is required under Part 7, Emergency Response Assistance Plan, for the dangerous goods shown on the shipping document; and

(b) the person complies with the following provisions in Part 3, Documentation:

(i) section 3.2, Carrier Responsibilities,

(ii) paragraph 3.5(1)(f) and subsection 3.5(2), concerning a 24-hour number on a shipping document,

(iii) section 3.8, Location of a Shipping Document and Consist: Rail, and

(iv) section 3.10, Location of a Shipping Document: Storage in the Course of Transportation.

SOR/2002-306

(2) Subsection (1) does not apply if these Regulations forbid the transport of the dangerous goods or if the dangerous goods are not regulated by the ICAO Technical Instructions but are regulated by these Regulations.

(3) When dangerous goods are transported to or from an aircraft, an aerodrome or an air cargo facility, by railway vehicle, the railway vehicle, or any means of containment visible from outside the railway vehicle must have placards displayed on it in accordance with Part 4, Dangerous Goods Safety Marks.
SOR/2008-34

10.3 Transporting Dangerous Goods to or from a Ship, a Port Facility or a Marine Terminal

(1) Despite the requirements in Part 2, Classification, Part 3, Documentation, and Part 4, Dangerous Goods Safety Marks, if transport has been or is to be by ship, a person may handle an international consignment of dangerous goods or transport it by railway vehicle to or from a ship, a port facility or a marine terminal in accordance with the classification, marking, labelling, placarding and documentation requirements of the IMDG Code if

(a) the information required on the shipping document is easy to identify, legible, in indelible print, in English or French and includes, in accordance with section 3.6 of Part 3, Documentation, the emergency response assistance plan reference number and the telephone number to call to activate the plan when an emergency response assistance plan is required under Part 7, Emergency Response Assistance Plan, for the dangerous goods shown on the shipping document; and

(b) the person complies with the following provisions in Part 3, Documentation:

(i) section 3.2, Carrier Responsibilities,

(ii) paragraph 3.5(1)(f) and subsection 3.5(2), concerning a 24-hour number on a shipping document,

(iii) section 3.8, Location of a Shipping Document and Consist: Rail, and

(iv) section 3.10, Location of a Shipping Document: Storage in the Course of Transportation.

SOR/2002-306

(2) Subsection (1) does not apply if these Regulations forbid the transport of the dangerous goods or if the dangerous goods are not regulated by the IMDG Code but are regulated by these Regulations.

(3) When dangerous goods are transported in a large means of containment to or from a ship, a port facility or a marine terminal, the large means of containment must have placards displayed on it in accordance with Part 4, Dangerous Goods Safety Marks, or the IMDG Code.
SOR/2012-245

10.4 Reshipping in Canada

(1) When a consignment of dangerous goods is transported from a place outside Canada to a place in Canada and is reshipped within Canada by railway vehicle, the dangerous goods safety marks displayed in accordance with 49 CFR, the ICAO Technical Instructions or the IMDG Code at the time of entry into Canada may continue to be displayed, except that the large means of containment containing the dangerous goods must have placards displayed on it in accordance with Part 4, Dangerous Goods Safety Marks.

If the dangerous goods are not regulated in Canada, the placards are not required to be displayed on the large means of containment.
SOR/2012-245

(2) The shipping document that accompanies the dangerous goods must include a notation that the dangerous goods safety marks are in accordance with 49 CFR, the ICAO Technical Instructions or the IMDG Code, if they differ from the ones required to be displayed by Part 4, Dangerous Goods Safety Marks.

10.5 *Repealed* ***SOR/2008-34***

10.6 Location of Placarded Railway Vehicle in a Train
SOR/2008-34

(1) Unless it is likely to have a serious impact on train dynamics, a person must not, in a train, locate a railway vehicle that contains dangerous goods described in column 1 of the table to this subsection for which a placard is required to be displayed in accordance with Part 4, Dangerous Goods Safety Marks, next to a railway vehicle described in the same row in column 2.

SOR/2008-34

Table

SOR/2008-34

Item	Column 1 Dangerous Goods	Column 2 Railway vehicle
1.	Any class of dangerous goods	(a) an operating engine or an engine tender unless all the railway vehicles in the train, other than engines, tenders and cabooses, have placards displayed on them; (b) an occupied railway vehicle unless all the other railway vehicles in the train, other than engines, tenders and cabooses, are occupied or have placards displayed on them; (c) a railway vehicle that has a continual source of ignition; or
		(d) any open railway vehicle, (i) when the lading protrudes beyond the railway vehicle and may shift during transport, or (ii) when the lading is higher than the top of the railway vehicle and may shift during transport.
2.	Dangerous goods included in Class 1.1 or Class 1.2	Any railway vehicle that is required to have a placard displayed on it for Class 2, 3, 4 or 5.
3.	UN1008, BORON TRIFLUORIDE COMPRESSED UN1026, CYANOGEN UN1051, HYDROGEN CYANIDE, STABILIZED UN1067, DINITROGEN TETROXIDE or NITROGEN DIOXIDE UN1076, PHOSGENE UN1589, CYANOGEN CHLORIDE, STABILIZED UN1614, HYDROGEN CYANIDE, STABILIZED UN1660, NITRIC OXIDE, COMPRESSED UN1911, DIBORANE, COMPRESSED UN1975, NITRIC OXIDE AND DINITROGEN TETROXIDE MIXTURE or NITRIC OXIDE AND NITROGEN DIOXIDE MIXTURE UN2188, ARSINE UN2199, PHOSPHINE UN2204, CARBONYL SULPHIDE or CARBONYL SULFIDE UN3294, HYDROGEN CYANIDE, SOLUTION IN ALCOHOL	Any railway vehicle that is required to have a placard displayed on it for Class 1, 2, 3, 4 or 5 unless the railway vehicle next to it contains the same dangerous goods

(2) Dangerous goods that are being transported in railway vehicles in a train from the United States to Canada or from the United States through Canada to a place outside Canada may be located in the train in accordance with sections 174.84 and 174.85 of 49 CFR.

SOR/2008-34

10.7 Coupling of Railway Vehicles

(1) A person must not couple a railway vehicle with another railway vehicle at a relative coupling speed greater than 9.6 km/h (6 mph) if either of the railway vehicles that make contact on coupling contains dangerous goods for which a placard is required to be displayed in accordance with Part 4, Dangerous Goods Safety Marks.

(2) Despite subsection (1), a person may couple a single railway vehicle moving under its own momentum at a relative coupling speed less than or equal to 12 km/h (7.5 mph) when the ambient temperature is above -25ºC.

(3) If a person couples a tank car that contains dangerous goods for which a placard is required to be displayed in accordance with Part 4, Dangerous Goods Safety Marks, with another railway vehicle and the three conditions in any one of the four rows set out in the table to this subsection apply, the person must

(a) visually inspect the underframe assembly and coupling and cushioning components of the tank car to ensure their integrity before the tank car is moved more than 2 km from the place where the coupling occurred; and

(b) report, in writing, to the owner of the tank car within 10 days after the coupling and include a copy of the text of this section and information about any damage that compromises the integrity of the underframe assembly or draft gear of the tank car discovered as a result of the inspection.

SOR/2008-34

Table
SOR/2008-34

Item	Column 1 Combined Coupling Mass: Tank Car and Other Railway Vehicle, and their Contents, in Kilograms	Column 2 Ambient Temperature: in Degrees Celsius	Column 3 Relative Coupling Speed: in Kilometres per hour
1.	> 150 000	≤ -25	> 9.6
2.	> 150 000	> -25	> 12
3.	≤ 150 000	≤ -25	> 12.9
4.	≤ 150 000	> -25	> 15.3

(4) The owner of a tank car who receives the report must not use the tank car or permit the tank car to be used to transport dangerous goods, other than the dangerous goods that were contained in the tank car at the time of the coupling, until the tank car undergoes

(a) a visual inspection and a structural integrity inspection in accordance with paragraph 25.5.6(a) and clause 25.5.7 of CGSB-43.147; and

(b) for a tank car equipped with a stub sill, a stub sill inspection covering at least the following areas:

(i) the termination of the stub sill reinforcement pad closest to the mid-point of the tank car and associated welds for a 30-cm length from that point back towards the other end of the pad,

(ii) all welds

(A) connecting the head brace to the stub sill,

(B) between the head brace and the head reinforcement pad, and

(C) between the tank and the head reinforcement pad and, if the head reinforcement pad is connected to the stub sill reinforcement pad, 2.5 cm past that connection towards the centre of the tank,

(iii) all metal of the stub sill assembly, other than welds, from the body bolster to the coupler, and

(iv) the draft gear pocket.

SOR/2008-34

(5) This section does not apply if either the tank car or the other railway vehicle that was coupled is equipped with a cushioning device designed for a displacement of 15 cm or more in compression and capable of limiting the maximum coupler force to 453 600 kg when impacted at 16.1 km/h (10 mph) by a railway vehicle having a gross mass of
99 792 kg.
SOR/2008-34

EXHIBIT
J

IN THE SUPREME COURT OF BRITISH COLUMBIA

Citation: *Enviro West Inc. v. Copper Mountain Mining Corporation,*
2010 BCSC 1443

Date: 20101015
Docket: S088649
Registry: Vancouver

Between:

Enviro West Inc.

Plaintiff

And:

Copper Mountain Mining Corporation, Similco Mines Ltd., Boundary Electric (1985) Ltd. and 0712603 B.C. Ltd. dba Canyon Electric

Defendants

Before: The Honourable Madam Justice Boyd

Reasons for Judgment

Counsel for the Plaintiff:	R.A. Skolrood L. Cook
Counsel for the Defendant Copper Mountain and Similco Mines:	T.M. Tomchak Y. Li (Articled Student)
Counsel for the Defendant Boundary Electric:	J. Gelber
Counsel for the Defendant Canyon Electric:	W.G. Neen D. Ellis
Place and Date of Trial:	Vancouver, B.C. June 14-18, 2010 and June 21-23, 2010
Place and Date of Judgment:	Vancouver, B.C. October 15, 2010

1.0 Introduction

[1] The plaintiff, Enviro West Inc. ("Enviro West"), was hired by Boundary Electric (1985) Ltd. ("Boundary Electric") to drain the waste oil from a transformer (the "Transformer"). It claims damages from each of the defendants for their role in failing to warn that the Transformer oil contained a high level of Polychlorinated Biphenyl ("PCB"). As a result, the PCB laden waste oil which the plaintiff collected from the Transformer was mixed both with waste oil in its tanker truck which transported the PCB laden waste oil as well as the waste oil contained in a storage tank at the plaintiff's holding facility, thus contaminating approximately 91,000 litres of waste oil with PCBs. The PCB contaminated waste oil was later sent to a hazardous waste facility for disposal at an alleged cost of approximately $895,000, which costs the plaintiff seeks to recover as damages.

2.0 Background Facts

[2] From 1971 until 1996, various mining operations were undertaken at what is presently the Copper Mountain Mine (the "Mine") near Princeton, B.C. The Mine was shut in 1996 and then sold and purchased a number of times, ultimately coming under the ownership of Similco Mines Ltd. ("Similco") in 1996. Similco is 100% owned by Copper Mountain Mining Corporation ("Copper Mountain"). I shall therefore refer to these two corporations collectively as "Copper Mountain", except where a distinction is necessary.

[3] Over the previous years as many as 250-300 transformers had been operated at the Mine site. That generation of transformers used PCB oil as the heat exchange fluid in the transformer core. Under the Mine's previous ownership, all but six transformers had been refurbished to lower the level of PCBs in the transformer oil to less than 50 parts per million (ppm) in order to comply with new regulatory requirements.

[4] After acquiring ownership of the Mine, Copper Mountain addressed what steps had to be taken to restart the mining operation, including what to do with the six remaining PCB laden transformers on site. Four of the six PCB laden transformers were still in operation at the Mine, while two sat idle. Mr. Peter Campbell, Copper Mountain's Vice-President of Environmental Affairs ("Campbell"), researched the Federal PCB regulations and determined that so long as the transformers were in service or installed in a facility which was in service, neither the transformers nor the PCB oil within had to be removed until December 2009. In the meantime, all of the necessary warning labels for the transformers were obtained and affixed.

[5] Sometime before the incident in question Copper Mountain worked with the British Columbia Ministry of Energy, Mines and Petroleum Resources - Mining & Mineral Division ("MEMPR") to determine those steps required to restart mining operations. In

February 2008, the MEMPR Inspector of Mines - Electrical, Emmanuel Padley ("Padley"), conducted an inspection of the Mine to identify operational deficiencies and to list the work required to ready the Mine for the restart operation. In the course of the inspection of the Mine's mechanical room (the "MCC 1"), Padley noted that the Transformer was leaking and that there was a patch of transformer oil on the floor. The inspection report (the "MEMPR Inspection Report") prepared by Padley, included the following statement (Exhibit 1, Tab 28):

> The transformer oil shall be tested immediately and appropriate action based on the sample results taken to clean up the area. The transformer shall be repaired to eliminate exposure to contaminates. If the test results are positive for PCB contamination of any of the transformers then signage at the entrances warning of the PCBs shall be posted. These actions shall be taken immediately.

[6] Accordingly, a sample of the leaked Transformer oil in the MCC 1 room was collected from the concrete floor and sent to a laboratory for analytical testing. In early April 2008, Campbell forwarded the analytical test results (the "PCB Report") to Mr. Eugene Mehr ("Mehr"), the Mine manager (Exhibit 1, Tab 32). The PCB Report verified the Transformer oil sample collected from the floor of the MCC 1 room was essentially pure PCB, with some sand type material mixed in.

[7] Mehr subsequently sought advice from Padley about how to deal with the Transformer. Padley recommended the Mine personnel contact EnviroCare, a firm in Saskatchewan, which was then the only firm in Western Canada licensed to deal with such hazardous waste. Mehr in turn sent Padley's correspondence to Campbell for his consideration. Despite Padley's recommendation, no final decision was made about what to do with any of the six transformers, including the leaking Transformer. The Mine personnel elected to defer the decision of how to deal with the Transformer until an electrical contractor was retained to perform the work associated with preparing the Mine for the restart operation. In the meantime, in accordance with the MEMPR's directive, a sign was posted on the door leading to the MCC 1 room which stated: "WARNING: This room has transformer oils which contain PCBs".

[8] Copper Mountain then approached a local electrical contracting firm, Harrison Electric, to obtain a quotation for the work outlined in the MEMPR Inspection Report. Harrison Electric was too busy with other work and recommended the Mine personnel contact Unit Electric. Unit Electric was also unavailable to perform the work and in turn contacted Mr. Tim Leardo ("Leardo") of Canyon Electric, suggesting that Leardo contact the Mine personnel, to determine the scope of the electrical contracting work required to assist in the Mine restart operation.

[9] Canyon Electric is a small electrical contracting firm owned and operated by Leardo. After graduating from high school, Leardo completed his apprenticeship and received his Journeyman Electrician Certificate in December 1987. Over the next 10-11 years Leardo worked with a number of different companies until he established his own business, Canyon Electric, in 2001. For the most part Canyon Electric performed electrical contracting work for industrial applications, including some work at mine sites. While Leardo had some past experience commissioning and decommissioning transformers, he admitted that prior to August 2008, he had never been involved in the disposal of an oil-filled transformer nor a transformer which contained oil with a high level of PCBs. Leardo was unaware of the environmental regulations governing the handling or disposal of such equipment.

[10] Leardo met with the Mine personnel to discuss the overall nature of the work outlined in the MEMPR Inspection Report. He eventually provided a quotation for the work associated with the items stated in the MEMPR Inspection Report (Exhibit 1, Tab 36). The primary focus of the work concerned the Mine restart operation and not the matter of the leaky Transformer.

[11] On July 17, 2008, Mehr called a meeting at the Mine office in Princeton to generally discuss the outstanding items in the MEMPR Inspection Report, including a plan of action to deal with the leaky Transformer. In attendance at this meeting were Mehr, Leardo, Mr. Don Bishop ("Bishop") (the Mine superintendent) and Mr. Jim Mountford ("Mountford"). Mountford is an electrical engineer who worked at the Mine from 1971 to 1996. In June 2008, Mountford was retained as the Mine's electrical consultant to assist with the restart operation.

[12] At trial, Mehr did not have a detailed recollection of this meeting and relied heavily on the email report he sent to meeting participants later that same day, in which he summarized the discussions and the agreed plan of action for the Mine restart operation (Exhibit 1, Tab 40). Bishop had a much better recollection of this meeting and confirmed the item set out in the email concerning the Transformer:

> 1. The leaking PCB transformer has been racked out. Tim will talk to Justin Docksteader of Boundary Electric in Grand Forks to determine if they can remove the transformer a 2nd option is a company from Saskatchewan which will come and remove the transformer. Jim M recommended the transformer be removed and the spilled PCB oil be cleaned up as per the guidelines for PCB spills. The transformer which has failed normally does not have a very long life even with the seals are fixed and the oil changed to minimize the PCB level (<5OPPM).

[13] During the course of the meeting, Mehr reviewed the PCB Report, which confirmed that the level of PCBs in the Transformer oil was high. While I find that the PCB Report was

both available and discussed at the July 17, 2008 meeting, Mehr could not recall nor is there any evidence that the PCB Report was actually distributed amongst the meeting participants.

[14] Regarding the Transformer, the meeting participants discussed two options—that is (i) whether to refurbish the Transformer by draining the PCB oil, fixing the seals, and refilling the Transformer with new non-PCB oil, or (ii) whether to simply dispose of the Transformer. Mountford advised that there was no point in refurbishing the Transformer since it had been commissioned at the Mine in approximately 1970 and was now almost 40 years old. In Mountford's opinion, even if Transformer was refurbished, its remaining operational life would be short. In addition, since components of the Mine's electrical system were being rebuilt for the restart operation, the older transformers would likely be redundant in any event. Therefore, the decision was made not to refurbish the Transformer.

[15] The focus of the meeting thus turned to the disposal of the Transformer. At this point Mehr informed the meeting participants that Padley, the MEMPR Electrical Inspector, had recommended the Transformer be removed and disposed of by EnviroCare, a Saskatchewan firm specializing in the disposal of PCB waste. At this point Leardo weighed in. In his view it was unnecessary to retain EnviroCare since there was a local firm, Boundary Electric, which had the experience and expertise necessary to handle the job and "had done this before".

[16] Mehr asked Mountford whether he believed Boundary Electric was capable of dealing with the disposal of the Transformer. A general discussion with Leardo followed, and again Leardo assured the group that Boundary Electric was capable of doing the job. According to Mehr, since Mountford was aware of the firm (Boundary Electric) and apparently relied on Leardo's assurances, Mountford supported the recommendation. Mehr then authorized Leardo to contact Boundary Electric. At this point, the meeting broke to allow Leardo to contact Boundary Electric to determine whether the firm was available to do the work and to obtain a cost estimate to dispose of the Transformer.

[17] I should note here that Boundary Electric is a family run company with a long business history in the Kootenay region of British Columbia. In Boundary Electric's early years, it was a large electrical contractor. However in recent years, including the point when Docksteader joined the business, Boundary Electric had become involved in the purchase and sale of new and reconditioned transformers. Approximately 40% of sales and 60% of customer service calls concern oil-filled transformers. For a number of years before the incident at issue, Boundary Electric had purchased and transported old transformers from clients' sites, refurbished them and readied them for sale abroad, mainly to India and China.

[18] Leardo telephoned Mr. Justin Docksteader ("Docksteader"), one of the two principals of Boundary Electric. Leardo and Docksteader had had previous dealings. At trial, Docksteader recalled that Leardo had travelled to Boundary Electric's facility in Grand Forks and had provided him with some surplus equipment for resale. In addition, on April 28, 2008, Boundary Electric sold Canyon Electric an oil-filled transformer (Exhibit 1, Tab 12, Invoice No. 52818). Although Canyon Electric and Boundary Electric did not have a formal business relationship, Docksteader acknowledged that he and Leardo were both "trying to help each other out, by referring business to each other".

[19] Leardo denied that his call to Docksteader on July 17, 2008 was part of any insider agreement between Canyon Electric and Boundary Electric to mutually refer each other work. Rather, he insisted that in recommending Boundary Electric to dispose of the Transformer, he had only thought it would be a good idea to keep such work in the hands of a local contractor, rather than an out-of-province firm.

[20] I note that the telephone call between Leardo and Docksteader was the subject of conflicting evidence at trial.

[21] Leardo testified that during the course of this critical July 17, 2008 telephone call, he told Docksteader that he was doing some work at the Mine. He said he told Docksteader the Mine had a transformer which was leaking PCBs and he requested that Docksteader provide him with a quotation for the anticipated cost to dispose of the Transformer. Leardo testified that he was shocked by Docksteader's response, namely that Boundary Electric would remove the Transformer at no cost. Rather Boundary Electric would remove the Transformer from the Mine site, transport it to the Boundary Electric yard, flush out the PCB-laden Transformer oil until an acceptable level of PCBs was reached, and then resell the Transformer to recover their expenses. Effectively, Boundary Electric would be giving the Mine a break on this job in order to develop a goodwill relationship and to be in a good position for consideration on any future purchases of electrical equipment which the Mine might make in the future. Leardo insisted that in the course of this 2-5 minute telephone conversation, Docksteader made no inquiry regarding the level of PCBs in the Transformer oil. Nor, he says, did Docksteader ever advise Leardo that Boundary Electric did not handle transformers which contained oil with a level of PCBs exceeding 50 ppm.

[22] In his testimony, Docksteader confirmed that Leardo contacted him on July 17, 2008 by telephone and mentioned that the Mine wanted to have the Transformer, which was leaking oil, removed from the Mine site. While Docksteader was not entirely certain, he strongly believes that at the outset of the call he told Leardo that Boundary Electric was only permitted to deal with oil-filled transformers where the PCB level was less than 50 ppm.

While Docksteader could not recall Leardo's precise response to this statement, he said Leardo implied that "everything was okay".

[23] Docksteader was insistent that had Leardo informed him the transformer contained oil with PCBs exceeding 50 ppm, the discussion would have gone no further. Had that been the case, Docksteader said he would have immediately told Leardo that Boundary Electric was not in the business of handling such PCB waste and that Leardo should contact a firm which did so. As Docksteader testified, there would be no point in continuing the conversation since Boundary Electric would be unable to resell such a transformer. In addition, all of the costs of disposing of the transformer as well as all other costs associated with this type of work would inherently become the responsibility of Boundary Electric. Instead, Docksteader said he understood that this particular transformer was one which Boundary Electric could handle. Docksteader also confirmed that during this telephone conversation, he told Leardo that Boundary Electric would not charge the Mine for disposal of the Transformer since Boundary Electric would recover any of its own costs by re-selling the refurbished Transformer.

[24] Leardo then returned to the meeting and advised the participants that Boundary Electric was willing and able to perform the work associated with the disposal of the Transformer. He informed the meeting participants that rather than charge the Mine a fee to dispose of the Transformer, Boundary Electric would instead take the Transformer itself as payment for the work, since Boundary Electric would either rebuild or recycle the Transformer to recover the costs associated with removing, transporting and refurbishing the Transformer.

[25] Having had the opportunity to see and hear both Leardo and Docksteader testify, I find that Leardo's version of the conversation, particularly his insistence that Docksteader did not inform him Boundary Electric could only handle transformers containing oil with PCBs no greater than 50 ppm, is simply not credible or reliable.

[26] At trial, Leardo had little clear recollection of this July 17, 2008 meeting. While Leardo agreed that Mehr's email properly summarized the items discussed at the meeting, he denied calling Docksteader during the course of the meeting. Rather, Leardo said he called Docksteader some 2-3 weeks later, when he was reminded by either Mehr or Mountford that they were awaiting news regarding Boundary Electric's availability and ability to do the work. (I note this conflicts directly with the more reliable evidence of Bishop who testified that the telephone call occurred during the course of the meeting.) In addition, Leardo had no recollection of the meeting participants discussing the various options to deal with the Transformer, including the option to refurbish the Transformer. Leardo also denied hearing

Mountford speak at the meeting regarding his experiences with flushing out the oil from several other transformers at the Mine, and therefore in his opinion the Transformer should be removed and disposed of.

[27] While Leardo acknowledged that during this telephone conversation with Docksteader, he told him the Transformer oil contained PCBs, he insisted there was no discussion concerning the level of PCBs in the Transformer oil. He said he could not have discussed the level of PCBs in the Transformer oil, since he was essentially ignorant on that topic.

[28] In my view, viewed in context, Leardo's professed ignorance regarding the level of PCBs in the Transformer oil was both disingenuous and internally inconsistent.

[29] Leardo holds a Journeyman Electrician Certificate and is an experienced electrical contractor who, prior to the July 17, 2008 meeting, had been working in the Mine's MCC 1 room, in and around the leaking Transformer, for a period of approximately 2-3 weeks. Clearly Leardo would have seen the PCB warning labels on the Transformer. Since he had also reviewed the MEMPR Inspection Report in order to prepare his quotation for the Mine, he would have also read the MEMPR Electrical Inspector's requirement to "immediately" send a sample of the Transformer oil to a laboratory for analytical testing. Accordingly, Leardo would have also known that a PCB analytical report was available for review. Leardo knew the MEMPR Electrical Inspector had recommended the Transformer be removed and disposed of by EnviroCare, the Saskatchewan firm specializing in the disposal of PCB waste. Leardo also admitted at trial that he thought or expected Boundary Electric would dispose of the Transformer in the same fashion as EnviroCare. Yet he also admitted he was aware the Swan Hills facility was the only hazardous waste disposal facility in Western Canada. In addition, he admitted he knew that if transformer oil with a high level of PCBs was mixed with other waste oil, this could result in PCB contamination of the secondary waste oil.

[30] Nonetheless, Leardo insisted that while he knew the Transformer contained PCBs, he had no knowledge of what the actual level of PCBs in the Transformer was. Leardo admitted that the Mine had "possibly" told him that the level of PCBs in the Transformer was "high", but he insisted that even such a statement would have been meaningless to him, since he had not been provided with any analytical test results for the Transformer oil and had no idea of what constituted a high level of PCBs. As Leardo put it: "I am not a chemist so it had no bearing on me". In any event, Leardo said he had no particular interest in knowing the actual level of PCBs in the Transformer, since his main concern was simply to

disconnect and remove the Transformer from the MCC 1 room in order for it to be transported off site.

[31] Leardo was in attendance at the July 17, 2008 meeting when the option to refurbish the Transformer was discussed and dismissed. While Leardo was aware that in certain cases equipment contaminated with PCBs is beyond refurbishment, he insisted that when he called Docksteader, he did not consider the possibility the Transformer was beyond salvage. In Leardo's view, if Docksteader believed the Transformer could be refurbished rather than being disposed of, then that was for Docksteader alone to decide. From Leardo's perspective, this decision was not his responsibility.

[32] Leardo's purported lack of concern with Boundary Electric's plan for dealing with the Transformer is in direct conflict with his statement to the Ministry of Environment ("MOE") Officer (Exhibit 1, Tab 65, line 295-296), where he claimed that when he spoke to Boundary Electric, he was concerned "to make sure it gets disposed of properly or flushed properly". In cross examination, Leardo attempted to downplay this statement, explaining that he was only trying to impress on the MOE Officer his concern that if Boundary Electric intended to dispose of the Transformer, this task ought to be performed in an "environmentally friendly fashion". I note that Leardo's stated concern is precisely that which he insisted in cross examination, was neither his responsibility nor contemplated by him when he spoke to Docksteader.

[33] I am unable to place any weight on Leardo's evidence on this issue. In contrast, I find that Docksteader's version of the telephone conversation with Leardo was not only straightforward and credible, but was the most reasonable version of how this conversation must have unfolded. It would have been absurd for Docksteader not to establish at the outset of the call which materials Boundary Electric could and could not handle. It would also be illogical or make no business sense for Boundary Electric to agree to pick up a transformer containing oil with PCBs in excess of 50 ppm, since Boundary Electric did not have a license to handle or transport such substances. More significantly, Boundary Electric had no means to ultimately dispose of or resell such substances, and it would thus effectively be assuming an expensive liability.

[34] Thus, having considered both witnesses' evidence, where Docksteader's evidence conflicts with that of Leardo, I prefer Docksteader's evidence on the matter.

[35] At worst, Leardo's evidence regarding his telephone conversation with Docksteader is a pure fabrication. At best, Leardo misled Docksteader by ignoring his advice regarding Boundary Electric's limited capabilities, and failing to inform him of the Mine's desire to

secure a quotation for the proper disposal of a Transformer which contained hazardous waste.

[36] Unfortunately, Leardo's advice regarding Boundary Electric's proposal fell on deaf ears at the July 17, 2008 meeting. While surprised, none of Copper Mountain's representatives at the meeting considered it was improbable Boundary was prepared to remove and dispose of the Transformer at no charge, whereas EnviroCare would charge several thousand dollars to perform the same task. Mehr believed the Transformer itself was worth over $20,000 and that it would cost $8,000-$10,000 to deal with the oil. Even assuming the costs of disposing of the oil would be offset by Boundary Electric reselling the Transformer, no one at the Mine meeting apparently considered how realistic it was for Boundary Electric to refurbish Transformer for resale, when the option to refurbish the Transformer had been dismissed at the meeting. Unfortunately, the matter was not considered further but simply left with Leardo to make all further arrangements. Leardo therefore called Docksteader to confirm the arrangement and to advise that he would inform Boundary Electric when the Transformer was ready for removal.

[37] In the weeks which followed Leardo worked with the Mine personnel to supervise the removal of the Transformer from the MCC 1 room. Given the size of the Transformer, the door to the MCC 1 room was removed and cut away on either side to provide sufficient clearance to remove the Transformer. The door, with the warning sign affixed, was set off to the side of the opening, with the warning sign facing outward to alert any person entering the room.

[38] Eventually Leardo contacted Docksteader to advise that the Transformer was ready for transport. At this point Boundary Electric was heavily involved in a job at the Fortis Mine some 300 miles away. Having heard the Transformer was leaking oil (this being an unacceptable condition for transport), Docksteader decided that the oil inside the Transformer should be pumped out prior to transport. Docksteader instructed "Valerie", a member of the Boundary Electric office staff, to call Enviro West, a waste oil collection firm which Boundary Electric had dealt with in the past, to arrange for the oil to be pumped out of the Transformer.

[39] For the last 15 years Enviro West has been in the business of recycling and dealing with waste oil in Canada. Enviro West picks up waste oil from various businesses (primarily car dealerships and auto lube shops), processes the waste oil at its facilities, tests the waste oil for resale and then resells the waste oil as a fuel, primarily to road paving companies for application in the asphalt laying process. Enviro West does not deal with waste oils

containing PCBs in excess of 50 ppm and indeed, in August 2008, Enviro West did not have the license required to transport such hazardous waste.

[40] Prior to August 2008, Enviro West had dealt with Boundary Electric on a number of occasions. Each of these occasions had involved the pumping of waste oil from a transformer, either at Boundary Electric's facility in Grand Forks, or on behalf of Boundary Electric at other locations. On none of these occasions had Enviro West ever been asked to pump waste oil containing PCBs in excess of 50 ppm.

[41] In this case, "Valerie" (on Docksteader's instructions) contacted Mr. Glenn Dueck ("Dueck"), the operations manager at the Enviro West Kelowna facility, and told him that Boundary Electric required a tanker truck to pump waste oil from a transformer at the Mine. Dueck denied that during the course of this short telephone conversation, Valerie made any mention that the Transformer oil contained PCBs, or the level of such PCBs. In cross examination, Dueck refused to adopt the statement he had provided to the MOE Officer, that "Valerie just mentioned they had some PCBs at the old mine site". Dueck explained that at the outset of the interview, the MOE Officer had mentioned she was following up an investigation concerning PCBs, and it was with that remark in mind that he had made this statement during his interview.

[42] I have some difficulty with Dueck's explanation. Since he knew the interview with the MOE Officer concerned the investigation into a pickup of waste oil containing PCBs, Dueck was obviously well aware that any failure on Boundary Electric's part to warn Enviro West of the presence of PCBs in the Transformer oil would have been crucial. Notwithstanding this, Dueck told the MOE Officer that Valerie of Boundary Electric did in fact mention that the waste oil for pick up contained PCBs.

[43] On a review of all the evidence, I am satisfied that just as Leardo told Docksteader the Transformer oil contained PCBs, so too did Docksteader pass this information onto Valerie, who in turn relayed the information to Dueck of Enviro West. However, since Leardo never told Docksteader that the level of PCBs in the Transformer exceeded 50 ppm, that same misinformation was passed on from Docksteader to Valerie, and in turn from Valerie to Dueck of Enviro West. Everyone in the chain operated on the assumption that while the Transformer contained PCB waste oil, something that was not at all unusual, the PCB waste oil was within regulatory limits, and thus could be handled by both Boundary Electric and Enviro West.

[44] On August 12, 2008 Dueck contacted the Enviro West truck driver, Mr. Brian Costain ("Costain"), who was on his regular route in the company's South Region, and instructed

Costain to make a detour to the Mine in order to pump waste oil from a transformer. Neither Dueck nor Costain have any recollection of any mention of PCBs during the course of that telephone call.

[45] On August 13, 2008 Costain drove to the designated area but could not find the Mine. He telephoned the contact number provided by Dueck and reached Leardo to explain that he was lost. Leardo provided Costain with driving instructions, and in turn contacted Bishop, the Mine superintendent, and instructed him to meet Costain at the entrance gate to the Mine. I find that during a brief interchange at the gate, Bishop asked Costain whether he knew where to go and whether Costain was aware the Transformer contained PCBs.

[46] While Bishop testified he asked Costain whether he was aware the Transformer was "high in PCBs", I reject Bishop's evidence in this regard. I note that approximately one month after the incident, in the course of Bishop's interview with the MOE Officer, Bishop relayed his conversation with Costain in which he had told him the Transformer "had PCBs", not that it was "high in PCBs".

[47] While Bishop acknowledged that his recollection was fresher at the time of the interview, he insisted that the version provided in his direct examination was the correct version of events. Bishop explained the discrepancy on the basis that he did not appreciate the severity of the incident, and therefore did not give the MOE Officer an accurate statement.

[48] In my view this explanation rings hollow. The severity of the incident was apparent to everyone within days of the discovery of the contamination. Despite that knowledge, Bishop provided the statement which he did to the MOE Officer. However by the time of trial, all of the events leading up to the incident, including this conversation, were no doubt the subject of intense discussion and analysis. I find that Bishop's statement to the MOE Officer, untainted by those post incident discussions and reconstructions, ought to be preferred to his trial testimony.

[49] In any case, when Bishop told Costain he would be dealing with a transformer with PCBs, Costain responded, reassuring him that he had dealt with this "all the time". Both men climbed back into their trucks and Costain followed Bishop along the road to the building that housed the MCC 1 room. Bishop then waved to Costain, indicating the location of the Transformer in question and drove off, leaving Costain to address the matter on his own.

[50] Costain then proceeded alone into the MCC 1 room. While Costain described walking through a large hole in the wall into the MCC 1 room, without observing any PCB

warning signs on either side of the opening, I am satisfied that Costain is mistaken in this regard. Based on the evidence of Mehr and Bishop, I am satisfied that there was a warning sign posted on the door, which was standing upright to the right side of the opening. As I noted earlier, the sign read: "WARNING: This room has transformer oils which contain PCBs."

[51] Once inside the room, Costain said he did not observe a warning label of any kind, other than an ASKEREL (CHLOREXTOL) FILLED label on the face of the transformer. While he could see and read this label, Costain said he took no particular notice of the label, since he had no idea what the word ASKEREL meant.

[52] Relying on the evidence of Mehr, and Bishop, as well as the photographs taken of the transformer after the incident, I find that in addition to the ASKEREL label, there was a second label somewhat lower and to the left on the face of the Transformer which read: "ATTENTION PCB" and warning that the Transformer contained "a toxic environmental contaminant scheduled under the *Environmental Contaminants Act*. In case of accident or for disposal information contact the nearest office of the Environmental Protection Service, Environment Canada". While Costain denied seeing this label, I am satisfied he is once again mistaken in this regard.

[53] Regardless of the presence of the various signs and labels, Costain continued with his work, confident in his working assumption that Boundary Electric never handled transformers filled with PCB oil in excess of 50 ppm. Costain recalled that on one occasion, when he had attended at another transformer oil pick up, a Boundary Electric employee had been present and specifically told him that Boundary Electric did not handle any transformers where the PCB oil level exceeded 50 ppm. So far as Costain was concerned, any outstanding issues regarding the level of PCBs would be addressed and sorted out in the Enviro West office before any such job would be assigned to him. As a matter of practice, Costain had never before been required by his employer to demand the production of any analytical test reports at a pick up site, nor had he ever been required to perform any field checks to determine the level of PCBs in the waste oil prior to pick-up.

[54] I should note here that a strong effort was made at trial to discredit Costain, and to challenge his general diligence and competence in performing his job duties. Costain joined Enviro West as a filter truck driver in 2006. He was eventually promoted to the position of lead hand/truck driver. In November 2008, during the course of a performance review, Costain was advised that he was not meeting job expectations. In particular, Costain had on one occasion refused to wait around at a car dealership where the staff had failed to properly organize drums of waste oil for pick up, and as a result an oil overflow had

subsequently occurred. Costain rejected his employer's criticism, attributing this criticism to an inter-personal issue with a disgruntled female office manager, with whom he had an intimate relationship. Costain ultimately took medical leave in early 2009, and later resigned from Enviro West. In my view, whatever the particular issues between Costain and his employer, none of that has any relevance or bearing on the manner in which Costain carried out his duties in August 2008 at the Mine.

[55] In the MCC 1 room at the Mine, Costain initially struggled for a short period while attempting to commence the pumping process and eventually went to a nearby shop building in search of a proper attachment for the pumping hose. In the shop, a Mine employee provided him with the necessary fitting and Costain returned to the Transformer in the MCC 1 room. Costain recalled that at some point a Mine employee dressed in khaki pants (who I find was Mehr) approached him and mentioned the oil in the Transformer was "hot" or "high in PCBs" and expressed some concern about some Transformer oil possibly dripping or spilling onto the floor of the MCC 1 room during the pumping process. While Mehr could not recall Costain's reply, I accept Costain's evidence that he reassured Mehr there was no cause for concern since he would use drip cans and oil rags to catch any drippings. I accept Costain's evidence that he had no concerns about the stated "high PCBs", given his assumption that Boundary Electric did not handle transformers with a PCB level in excess of 50 ppm.

[56] Costain pumped 1,400 litres of PCB waste oil from the Transformer and then departed the Mine. Since no Mine personnel were present when Costain was ready to leave the Mine, he left the Mine without having anyone sign the waste manifest.

[57] Costain finished his route through the Kootenays and picked up waste oil from his regular automotive customers. Therefore, this automotive waste oil in the tanker truck became contaminated with PCBs from the Transformer oil.

[58] Under the supervision of Leardo, the Mine personnel later moved the Transformer carcass outside the MCC 1 room to prepare it for transport by Boundary Electric. When the Boundary Electric truck driver arrived at the Mine to transport the Transformer carcass, he noted that the Transformer was leaking some residual Transformer oil. He applied duct tape over the leakage points. With the assistance of Mine personnel, the Transformer carcass was lifted onto the Boundary Electric truck. No one at the Mine informed the Boundary Electric truck driver that he was handling hazardous material. Nor did anyone from the Mine check to see whether the Boundary Electric truck driver had the required vehicle license to transport hazardous material. The Boundary Electric driver then transported the Transformer back to the Boundary Electric yard in Grand Forks.

[59] In the meantime, Costain returned to the Enviro West facility in Kelowna. Following company procedure, Costain tested the waste oil in the tanker to determine the water content (but did not test the waste oil for PCBs), and then offloaded this waste oil contaminated with PCBs into Storage Tank 12. As a result, the pre-existing waste oil in Storage Tank 12, the pump equipment and associated piping at the Enviro West Kelowna facility all became contaminated with PCBs.

[60] Enviro West was subsequently directed by the British Columbia Ministry of the Environment and Environment Canada to have the PCB contaminated waste oil destroyed at the Swan Hills facility. 34,000 litres of PCB contaminated waste oil was shipped to the Swan Hills facility in November 2008, and an additional 91,000 litres (including 13,000 litres of PCB contaminated waste water) was shipped to the Swan Hills facility in June 2010.

3.0 Plaintiff's Claim in Negligence

3.1 The *Wainwright* Decision

[61] The plaintiff Enviro West claims damages arising from the negligence of each of the defendants. Relying on the seminal case of *Wainwright (Town of) v. G-M Pearson Environmental Management Ltd.*, 2007 ABQB 576, aff'd 2009 ABCA 18, leave to appeal to Supreme Court of Canada ref'd [2009] S.C.C.A. No. 36, Enviro West submits each of the defendants owed it a duty of care, each of the defendants failed to meet the standard of care, and each of those breaches caused Enviro West's loss. Since the *Wainwright* decision is central to the plaintiff's case, I will review the decision briefly below.

[62] In *Wainwright*, the Town of Wainwright ("the Town") owned a waste facility which was operated by the defendant G-M Pearson Environmental Ltd. ("G-M"). G−M received a shipment of furniture waste at the waste facility which was, unknown to G-M, flammable and hazardous. As a result, the furniture waste (the "Furniture Waste") caused a fire at the Town of Wainwright waste facility.

[63] The waste generator, Vaughn-Bassett (a US furniture company), had contracted with a waste broker, Omni, and provided it with specific instructions to have the Furniture Waste incinerated at the Bovar facility in Swan Hills, Alberta, the sole waste disposal facility approved to incinerate hazardous waste at that time. Vaughn-Basset provided Omni with detailed information about the composition and risks associated with the Furniture Waste.

[64] Omni in turn contracted with RPR (876947 Ontario Ltd.), a waste disposal company in Ontario. Omni provided RPR with detailed information about the Furniture Waste, including the waste profile sheets which accurately reflected the classification of the Furniture Waste. In addition, RPR was aware that Vaughn Bassett had specifically directed that the Furniture

Waste was to be incinerated at the Bovar facility in Swan Hills, Alberta. RPR took samples of the Furniture Waste, but did not test these samples until after the fire. RPR deviated from its own standard practices by labelling the Furniture Waste “non regulation dust” and “non-hazardous waste” before shipping the Furniture Waste.

[65] RPR in turn contracted with Custom Environmental Services Ltd. (“Custom”) who, like RPR, had little experience dealing with this type of hazardous waste. Custom knew the waste profile sheets existed, but did not request them from RPR, even though it was their standard practice to request waste profile sheets. Custom also did not request the analytical test results before receiving the furniture waste at its facility.

[66] Custom had an ongoing contract with G-M and arranged to transport the waste to G-M’s facility. Custom tested the Furniture Waste and received two contradictory test results. Custom provided the test results to G-M. G-M, who never handled this type of waste before, discussed the test results with Custom and relied on Custom’s representation that the Furniture Waste was not flammable, and not hazardous.

[67] The Court held that the waste generator, Vaugh-Bassett, was not negligent and had met its duty of care to the plaintiff.

> 193 In this case, how could the generator Vaughn-Bassett meet its duty of care to all potential handlers of the Furniture Waste? In my view, the generator was legally obligated to fully understand the physical and chemical properties of the Furniture Waste, to then characterize and summarize the risks arising from those properties, to describe the nature of the waste and to advise through a variety of means the difficulty of handling the waste and the risks related to the handling of that waste. In short, <u>the standard of care is to create and communicate sufficient accurate information to enable receivers of the waste to handle that waste safely and to minimize the risks related to handling those materials.</u>
>
> 194 In summary, the standard of care which Vaughn-Bassett had to meet, as the generator of a waste stream which was potentially dangerous because it contained a fraction known to be flammable, was to communicate to the specialized waste broker, through a variety of means, complete and accurate information about the nature and risks related to the proposed waste. This information had to be sufficient to enable the recipient (RPR in this case) to handle the waste safely and to comply with all applicable regulatory requirements.
>
> ...
>
> 197 ...Vaughn-Bassett, through its agent Omni, took all reasonable steps to provide full and accurate information about the nature of the Furniture Waste to RPR. At that point its duty to all subsequent handlers evolved to RPR to pass on the same information to the next waste industry participant in the chain and Vaughn-Bassett was entitled to assume that RPR, which held itself out as a broker skilled in the ways of the waste management industry, would do just that. Vaughn-Bassett fulfilled its duty and there was nothing more it could reasonably be expected to do. Therefore, in my view, it has discharged its duty and is not liable in negligence to G-M Pearson.
>
> [Emphasis added.]

[68] The Court however found the defendants RPR and Custom negligent.

[69] The Court held that RPR, the first waste broker in the chain, was liable since RPR possessed important information about the nature of the hazardous Furniture Waste which it failed to provide Custom. As the Court noted at para. 255, RPR's duty of care was the same duty of care which Vaughn-Bassett owed to all subsequent handlers of the Furniture Waste, namely to "fully understand and disclose the nature of the waste and to take reasonable steps to advise the next recipient of the waste of the risks related to that material."

[70] Custom was also found liable since it had failed to obtain samples ahead of delivery, and had failed to obtain copies of the waste profile sheets, when Custom knew such information was available.

[71] The Court apportioned liability for damages between RPR and Custom, the two waste brokers, as follows:

> 279 ...I allocate 70% of the responsibility for the loss to RPR and 30% to Custom. In my view, RPR must bear the greater proportion of the loss because it had the information about the Furniture Waste which could have avoided the loss, or at least reduced the risk of that loss significantly. Notwithstanding possession of this useful and valuable information about the true nature of the Furniture Waste, RPR instead represented the nature of the Furniture Waste to Custom as non-hazardous and failed to pass on the information which it possessed about the flammable solids and also the problems in safely disposing of lacquer dust from furniture manufacturing processes. However, Custom, as a skilled waste broker, must also bear some responsibility for the reasons stated above.

[72] Neither Vaugh-Basset nor Omni were found negligent since both parties had properly characterized the Furniture Waste, and had provided detailed information about the risks in handling the waste. The Court held G-M was entitled to rely on Custom's representations concerning the Furniture Waste, and was therefore not negligent in accepting the Furniture Waste at its facility.

[73] At least one of the defendants has submitted that the *Wainwright* decision is limited to cases involving skilled waste brokers, or other participants in the waste management industry chain. I reject the notion that the *Wainwright* decision has such a limited application. In my view, the Court's finding regarding the applicable standard of care in *Wainwright* has less to do with where any particular party "sat in the chain" but is rather a reflection of how that party held itself out to the world at large. RPR and Custom held themselves out, respectively, as a "skilled in the ways of the waste management industry" (para. 197) and as "a knowledgeable participant in the waste industry in Canada" (para. 229).

[74] *Wainwright* reiterates the well-established law on the standard of care. Although the general concept of the standard of care is a legal issue, determining the particulars of that standard in any given case is a factual issue. The well-established objective, yet contextual, approach to the standard of care means that the standards of care applicable to the parties in the case at bar cannot depend on where each contractor sits in the chain. Rather, the standard of care applicable to each contractor must be determined based on what would be the reasonable actions for each type of contractor in the particular circumstances.

[75] In determining the conduct of a reasonable person in any given circumstances, the Court will consider a variety of factors: the foreseeable risk, the likelihood of damage, the seriousness of threatened harm, the cost of preventative measures, the utility of the defendant's conduct, any circumstances of emergency, compliance with approved practice or custom, and post-accident precautions. A higher standard of care is applied to those persons who represent themselves as having special skill and knowledge which allows them to perform tasks that are normally beyond the capacity of the ordinary person.

3.2 Duty of Care

[76] In *Wainwright*, as in the case at bar, the waste generator knew that the Furniture Waste was hazardous and that it required special handling. This knowledge led the Court to conclude that a duty of care extended to anyone who might come into contact with the Furniture Waste including all handlers, transporters, waste brokers, inspectors, storage facilities and disposers. Thus, the Court held that the nature of the Furniture Waste created a relationship with all of the participants in the waste disposal industry. There was no policy reason for limiting that duty. Accordingly, the Court held that the duty of care extended to all persons who might reasonably be expected to come into contact with the Furniture Waste, and who could reasonably be expected to handle the Furniture Waste in some way.

[77] In the case at bar, I find that all of the defendants owed Enviro West a duty of care. There was a sufficiently close relationship between the parties such that all of the defendants should have reasonably contemplated that carelessness on their part might cause damage to Enviro West. While not all of the defendants knew the precise identity of Enviro West, all of the defendants knew the Transformer contained PCB-laden oil and that someone would have to collect, transport and dispose of the PCB waste oil.

[78] Thus, I am satisfied it was reasonably foreseeable that Enviro West would, for collection and transportation purposes, be required to pump the 1,400 litres of Transformer oil into its tanker truck, mixing the PCB-laden Transformer oil with the pre-existing waste oil in the tanker truck. It was also reasonably foreseeable that the PCB contaminated waste oil

would then be offloaded at the Enviro West facility, thereby contaminating the Enviro West holding tank, pump equipment and associated piping with PCBs.

3.3 Did Copper Mountain Breach the Standard of Care?

[79] Clearly, Copper Mountain was the generator of the waste oil in issue. *Wainright* establishes that a waste generator's standard of care is to: (1) fully understand the physical and chemical properties of the waste; (2) characterize and summarize the risks arising from those properties; (3) describe the nature of the levels; and (4) advise through a variety of means the difficulty of handling the waste and the risks related to the handling of that waste.

[80] Legislative standards are a relevant factor in determining the common law standard of care, and a breach of a statute is evidence of negligence (*Ryan v. Victoria (City)*, [1999] 1 S.C.R. 201). Here the handling and disposal of hazardous waste is regulated by both the federal and provincial government through several statutes and regulations including, most notably, at the time of the incident, the *Environmental Management Act*, S.B.C. 2003, c. 53 ("*EMA*"), the *Hazardous Waste Regulation*, B.C. Reg. 63/88 ("*HWR*"), and the *Canadian Environmental Protection Act*, *1999*, S.C. 1999, c. 33 ("*CEPA*").

[81] The *EMA* and the *HWR* govern the handling, transport, recycling, and disposal of hazardous waste within British Columbia.

[82] "Hazardous waste" is a defined term in s. 1 of the *HWR* and includes both PCB wastes and waste oil. As of August 2008, s. 10(1) of the *EMA* and s. 46(1)(e) of the *HWR*, prohibited a person who produced or stored a hazardous waste from using or allowing any hazardous waste with 500 g or more of PCB to be transported from the property where he or she produced or stored that hazardous waste, unless the person first completed the part of the manifest that applied to him or her and filed the manifest in the prescribed manner. The person was also required to ensure that the person transporting hazardous waste with 500 g or more of PCBs from the place where it was produced or stored had a licence for that purpose. Finally, the person who produced or stored the hazardous waste containing 500 g or more of PCBs was prohibited from causing or allowing that hazardous waste to be transported to a place unless the place is authorized to store PCBs.

[83] The *HWR* also defined the term "consignor". In August 2008, "consignor" was defined as a person to whom s. 10(1) of the *EMA* applied because the person (a) produced or stored hazardous waste, and (b) caused or allowed more than the quantity of hazardous waste prescribed in this regulation to be transported from the property where it was produced or stored. A consignor was prohibited by s. 44 of the *HWR* from offering to transport 5 litres of hazardous waste containing PCBs without first obtaining a Provincial Identification Number

and writing that number on every manifest the person was required to use under s. 10(1) of the *EMA*.

[84] In addition, PCBs are regulated by the federal *Transportation of Dangerous Good Act, 1992*, S.C. 1992, c. 32 and the *Transportation of Dangerous Goods Regulations*, S.O.R./2008-34 ("*TDG Regulations*"). In August 2008, s. 2.2(1) of the *TDG Regulations* directly placed the responsibility for classification of the dangerous good on the consignor, where "classification" as defined in Part 1 of the *TDG Regulations* means shipping name, primary class, compatibility group, subsidiary class, UN number, and packing group.

[85] The legislative scheme quite properly places the burden on the waste generator and the consignor to classify and identify the hazardous waste. By placing the responsibility on the generator and/or consignor, the legislative scheme is designed to prevent waste from entering the wrong waste stream, as obviously occurred in this case.

[86] Mehr, the Mine manager, impressed me as a very credible witness. At trial, he admitted that at the material time he was aware the Transformer contained a high level of PCBs. He also testified that in July 2008, Campbell (the VP Environmental Affairs) had sent him an e-mail attaching a copy of the *Storage of PCB Material Regulations*, including s. 12 (e), which provides that containers of PCB material in excess of 10,000 ppm must have a specific label affixed (Exhibit 1 Tab 24). He was aware that some ten years before, these labels had been obtained by Mountford and affixed to each transformer at the Mine.

[87] Mehr was forthright in admitting that as Mine manager, it was his responsibility to ensure that all necessary steps required to decommission and dispose of the Transformer in accordance with the regulatory requirements were taken. On a review of all of the evidence, it is clear that unfortunately, Mehr failed to do so on several counts.

[88] First, Mehr did not take reasonable steps to hire an expert to assist with the disposal of the Transformer. As I noted earlier, Mehr consulted with Padley, the MEMPR Electrical Inspector and received his recommendation to retain EnviroCare. While Mehr forwarded this recommendation to Campbell, there is no evidence as to Campbell's response, nor whether Mehr ever consulted further with Campbell.

[89] I should note here that without Mehr's knowledge, some ten years earlier, Campbell had received a quotation from Aerosmith Environmental Services for the disposal of the six transformers at the Mine for $94,731. Coincidentally, in February 2008, it was Campbell who provided the instructions to send a sample of the leaked oil from the Transformer to a laboratory for analytical testing. The PCB Report was then sent directly to Campbell in March 2008, and in turn forwarded by Campbell to Mehr. Mehr admitted that by virtue of

receiving this report he was aware that the Transformer contained PCB-laden oil which was almost pure PCB's. Campbell did not testify at trial.

[90] Ultimately Padley's recommendation to retain EnviroCare was ignored by Mehr and a decision was made within the executive ranks of Copper Mountain to defer the decision about how to best address the Transformer issue until an electrical contractor was retained. It is not clear whether that decision was made by Mehr alone, or whether he acted on Campbell's recommendation.

[91] Unfortunately the selection and retainer of the electrical contractor was similarly flawed. As I noted earlier, when Harrison Electric proved unavailable, it recommended Unit Electric for the job which in turn contacted Canyon Electric. In retaining the electrical contractor, it appears that Mehr's focus was to identify a contractor suitable to address the various electrical deficiencies identified on the MEMPR Inspection Report, including: dealing with the PCB laden Transformer oil, redesigning the power supply to eliminate "Load Center 3", designing a single line diagram for the MCC rooms, surveying all power lines at the Mine, grounding out the lines at the 4160-13.8kV transformer, and reconfiguring the Mine power system.

[92] After the July 17th meeting Mehr admitted that the matter of identifying the proper party to handle and dispose of hazardous PCB waste was not his priority. He "briefly mentioned" to Padley that he was considering retaining Canyon Electric as the electrical consultant to perform the major work. Mehr testified that in response Padley advised him he was not completely familiar with Canyon Electric but that he had heard of the firm and believed Canyon Electric was suitable. Mehr acknowledged this discussion was in the context of identifying a contractor to oversee the electrical work, and not with specific regard to the disposal of the Transformer.

[93] Mehr appears to have relied most heavily on Mountford, the electrical consultant who had previously worked at the Mine for 25 years, when it was operational. Mountford was the individual who had designed the electrical system which Copper Mountain intended to put into service. He had been hired by Copper Mountain to supervise whichever electrical contractor was retained to complete the electrical work necessary for the Mine restart. Mehr testified he relied on Mountford's recommendation that Boundary Electric was qualified to deal with the Transformer and the disposal of the associated PCB waste oil. Mehr admitted he relied on Mountford's representation, despite his knowledge that he required an expert in PCB waste disposal and not simply an electrical contractor who was generally knowledgeable about transformers.

[94] Mehr did not contact Boundary Electric directly to discuss this issue. Nor did he inquire as to whether Mountford had taken any independent steps to verify Boundary Electric's qualifications to deal with the Transformer. Nor did he ask Leardo of Canyon Electric to do so. Nor did he take any steps to determine whether Boundary Electric was licensed to either transport or to store PCBs. Neither Mehr nor anyone else at Copper Mountain or Similco asked Boundary Electric to produce proof of licensing, proof of insurance or an indemnity for any damages arising from the work. Nor did Copper Mountain or Similco issue a purchase order, work order or any other written document setting out Copper Mountain's expectations regarding the removal and disposal of the PCBs, so as to comply with all regulatory requirements. No attempt was made to compare Boundary Electric's anticipated process for removal and disposal of the Transformer and associated PCB waste oil, to that which EnviroCare might propose. Nor were any competing bids or quotations sought.

[95] In effect, no steps were taken by this waste generator to ensure the hazardous material was being properly entrusted to a party experienced and qualified to handle the waste. As the plaintiff's counsel has submitted, the contracting process led by Mehr was in effect a case of "the blind leading the blind".

[96] Secondly, Copper Mountain took no steps to properly communicate the PCB concentration of the Transformer oil to Boundary Electric. Despite having the PCB Report in hand since April 2008 and bringing a copy of that report to the July 17, 2008 meeting (which was convened, at least in part, discuss what to do with the Transformer), Mehr took no specific steps to ensure Leardo was provided with a copy of the PCB Report. Mehr did not ensure Leardo had this report in hand when he instructed him to contact Boundary Electric regarding that firm's ability to remove the Transformer. Nor did Mehr ensure that prior to reaching any final decision as to whether to select Boundary Electric, that firm had the opportunity to visit the site and review the PCB Report and identify any challenges posed by the job.

[97] It appears that Mehr took none of these steps since he simply assumed everyone involved understood that the Transformer oil contained a high level of PCBs. This erroneous assumption led to the unfortunate result that at the very moment the oil was being pumped from the Transformer, the only people who knew the PCB level in the oil exceeded the 50 ppm threshold were the employees of Copper Mountain.

[98] Thirdly, Copper Mountain's verbal warnings to Costain, the Enviro West truck driver, were insufficient. As I have already noted, when Bishop met Costain at the entrance gate to the Mine, he asked whether Costain was aware the Transformer "had PCBs." The fact that

a transformer would be filled with PCB-laden oil was not in itself unusual, and did nothing to alert Costain to the fact the level of PCBs in the Transformer exceeded the 50 ppm regulatory threshold.

[99] The next verbal "warning" was uttered by Mehr himself as he stood by Costain's side while he was in the process of pumping the Transformer oil. While I accept that Mehr asked Costain if he was aware the Transformer oil was "high in PCBs", I do not find that this comment in itself ought to have alerted Costain to the possibility he was dealing with PCB waste oil beyond the regulatory limits. Costain had no knowledge as to what constituted the regulatory limit under the environmental legislation. Costain only understood that any relevant information had already been relayed by Boundary Electric to his company's dispatch officer, and that the job had been approved and cleared. A casual comment made by Mehr over the sound of machinery, as he stood by Costain's side for some 10-20 seconds while the pumping process to drain the PCB waste oil from the Transformer was underway, is not the meaningful communication which the law demands of a waste generator.

[100] As the Court held in *Wainwright*, the standard of care requires that the waste generator fully inform the next waste handler and anyone else who might come in contact with the Transformer and the PCB waste oil of the true nature and risks associated with handling such a hazardous waste. Here the verbal communication was not only woefully insufficient but it was, in my view, directed to the wrong individual.

[101] From the outset, long before the Enviro West oil tanker arrived on site, the critical information concerning the nature of this hazardous waste and the risks associated with the disposal of the PCB waste (both the Transformer itself as well as the oil within) ought to have been adequately communicated by Copper Mountain to Boundary Electric. That verbal communication should have been supported by documentation in the form of a purchase order or work order which detailed this critical information. I find it was unreasonable for Copper Mountain to expect that Costain, the Enviro West truck driver, would be the gatekeeper of this information. I accept that Costain was in no position to weigh or consider this critical information or to assess the associated risks.

[102] Even accepting that the Mine employees' verbal warnings were inadequate, Copper Mountain has submitted that nevertheless, by virtue of the warning sign posted outside the door leading to the MCC 1 room, as well as the labels affixed to the Transformer itself (all of which are in accordance with the regulatory requirements), Costain ought to have been well aware that the Transformer contained PCB waste oil and at the least, ought to have made

some inquiries of either Copper Mountain, Boundary Electric or his employer, Enviro West, before commencing the process of pumping the Transformer oil.

[103] While perhaps in compliance with the regulatory requirements, I am not persuaded that by virtue of posting the warning sign and affixing the labels, Copper Mountain can be said to have met the standard of care imposed on a waste generator. Given both Costain's and Enviro West's history of attending at other sites to collect waste oil with PCBs less than 50 ppm, a label reading "Attention PCBs" was not likely to raise any alarm bells in Costain's mind.

[104] Indeed Costain's reaction must be considered in the light of the reaction of other handlers in the chain. Although Leardo, an electrical contractor with a wealth of experience involving transformers, had worked in the MCC 1 room for a number of weeks before the incident, and had seen the Transformer and the warning labels during that period, he apparently remained unaware that the Transformer contained hazardous levels of PCBs. Indeed while performing the electrical work or moving the Transformer to the MCC 1 room doorway opening, Leardo wore no protective gear other than a pair of rubber gloves. In addition, the Boundary Electric truck driver who later attended the Mine to pick-up the Transformer carcass and observed some residual leakage from the Transformer, simply taped up the leakage points with duct tape. The Boundary Electric truck driver apparently saw the same warning labels and similarly had no concern about handling the Transformer carcass. Significantly, neither Leardo nor Docksteader had any knowledge that the ASKEREL label signified that the Transformer contained essentially pure PCB waste oil. In short, the various warning labels, while meeting the regulatory requirements, were entirely inadequate in terms of communicating to those further down the chain the nature of the hazardous waste in the Transformer and the associated risks.

3.4 Are Both Copper Mountain and Similco Liable?

[105] The plaintiff submits that since Similco is a wholly owned subsidiary of Copper Mountain, and since Similco and Copper Mountain were operated as a single entity with Similco under the direct influence and control of Copper Mountain, a finding of negligence on the part of either Copper Mountain or Similco ought to be binding on the other corporate entity.

[106] Alternatively, the plaintiff submits that both Copper Mountain and Similco were both involved in this incident and that each independently owed a due of care to Enviro West. In particular, the plaintiff submits that Campbell was aware there were PCBs at the Mine and was aware of the MEMPR Inspection Report requiring the Mine to take action with respect to

the Transformer. Further for some time prior to the incident Campbell had coordinated the storage of the Transformer, and had overseen the sampling and analytical testing of the leaked Transformer oil from the floor of the MCC 1 room. In addition, Mountford, who had been hired by Copper Mountain as an electrical consultant, was present at the July 17, 2008 meeting and had advised Mehr that Boundary Electric was qualified to handle the Transformer. Relying on that advice, Mehr made the decision to have Boundary Electric undertake the job of removing the Transformer.

[107] While I agree with Similco's counsel that the issue of control of the subsidiary corporation is not determinative, I am satisfied that nevertheless both Similco and Copper Mountain employees played some independent roles in the development of the circumstances here. I find that both Similco's and Copper Mountain's employees failed to meet the standard of care imposed on a waste generator to properly identify and warn other potential handlers of the hazardous waste located at the Mine.

3.5 Did Canyon Electric Breach the Standard of Care?

[108] Cleary, Leardo of Canyon Electric breached the standard of care. Despite having no expertise in the handling or disposing of PCB's, he recommended that Copper Mountain consider Boundary Electric as a candidate for the job, since in his view it was a contractor capable of removing the Transformer. He made this recommendation without making any inquiries about Boundary Electric's qualifications. As I have already noted, he also made this recommendation being well aware that a hazardous waste company such as EnviroCare had already been recommended to Copper Mountain. While Leardo privately assumed that Boundary would likely handle the transformer in the same manner as EnviroCare–albeit using local resources–he took no responsibility to ensure this was actually the case.

[109] Leardo of Canyon Electric failed to properly inform Docksteader of Boundary Electric about the particular challenges posed by this job and in particular that the leaky Transformer was filled with almost pure PCB-laden oil. In the alternative, assuming no such actual knowledge on his part, but given his background dealings with the Transformer in the MCC 1 room, he failed to advise Boundary Electric there was at least a strong possibility this was the case and that further inquiries (and at the least a review of the PCB analytical report) were required. Falling on the heels of the Mine's own failure to adequately ensure the proper disposal of this hazardous waste, Leardo's own casual and flagrantly cavalier attitude towards the disposal of the Transformer laid the groundwork for the miscommunications which followed.

3.6 Did Boundary Electric Breach the Standard of Care?

[110] Boundary Electric, which advertised itself as a company with particular expertise in the disposition of transformers, also failed to take any proper steps to establish the nature of the transformer and the waste oil within.

[111] Docksteader ought to have requested and reviewed the available PCB Report (so as to understand the specific PCB level in the Transformer oil), inspected the Transformer, and potentially conducted his own tests of the Transformer oil using the portable test kit he testified was commonly used by Boundary Electric in the field. In all likelihood, assuming that this information had been obtained, he would have chosen to refuse the job. However, assuming Docksteader nevertheless agreed to perform the job, he should then have hired the proper subcontractor, one which specialized in hazardous waste disposal, to both drain the Transformer and transport it to the Boundary Electric yard.

[112] Although Leardo had advised Docksteader that the Mine had the PCB Report in hand, Docksteader failed to request production of this report in advance of accepting the job. At trial, Docksteader effectively laid that responsibility at the feet of Enviro West. Once Enviro West had pumped the PCB-laden oil out of the Transformer, Docksteader expected that his company, Boundary Electric, would only then assume any responsibility and that was limited to picking up an empty transformer carcass. Thus, in his view, the proper handling of the PCB waste oil from the Transformer was not Boundary Electric's responsibility. Instead he insisted that this was Enviro West's problem. In Docksteader 's view, it was Enviro West's responsibility to ask that Copper Mountain produce a copy of the PCB Report when the Enviro West truck driver arrived at the Mine, and failing that, to conduct its own field test using a test kit, prior to pumping oil from the Transformer.

[113] Since Docksteader provided no reasonable explanation as to why Enviro West would take either action, I reject his evidence in this regard. When Boundary Electric retained Enviro West for the job, Boundary Electric took no steps whatever to advise Enviro West that the PCB Report was at the Mine and available for Enviro West's review. At no point in any of the past dealings between Enviro West and Boundary Electric had Boundary Electric ever suggested, as a matter of policy, that Enviro West ought to ask the waste generator for test results or to conduct its own field tests to establish the level of PCBs in the waste oil to be collected. Rather, it was understood that Boundary Electric's own practice was only to pick up transformers containing oil with less than 50 ppm of PCBs. Therefore, in accepting to do the job in question, Boundary Electric was effectively violating its own policy.

[114] Quite apart from failing to establish for itself that the Transformer contained oil with less than 50 ppm of PCBs, Boundary Electric also failed to follow its own second policy—that is to have someone from Boundary Electric present on site when the waste oil

was being collected for transport, the purpose being to generally supervise the waste oil collection and transfer operation, and to advise the waste oil collection company representative on site of any available analytical test reports for the waste oil. As Docksteader admitted, on the date in question Boundary Electric was overwhelmed with a large volume of business. Accordingly, a decision was made by Boundary Electric not to take the time to travel to the Mine to oversee the waste oil collection and transfer operation performed by Enviro West. I find that Docksteader simply never turned his mind to the risks or hazards associated with bringing a waste oil collection company (rather than a certified hazardous waste disposal firm) to the site to collect and transport waste oil from the Transformer which Boundary Electric had never taken the time to inspect.

3.7 Causation

[115] I find that each of the defendants' negligence contributed to the plaintiff's loss.

[116] Overall, Copper Mountain failed to take any steps to ensure the PCB waste in its possession was handled in compliance with the regulatory requirements. Had Copper Mountain been diligent in providing information about the nature of the Transformer oil and the risks associated with this PCB-laden waste oil, Enviro West would have never collected the PCB waste oil from the Transformer, would have never transferred the PCB waste oil into its tanker truck, and would have never offloaded the PCB waste oil into the storage tank at its Kelowna facility.

[117] But for Copper Mountain's failure to communicate the nature of the Transformer oil in a reasonable manner to Canyon Electric and to ensure that this information was properly communicated to Boundary Electric, Boundary Electric would have never accepted the Transformer and would have never retained Enviro West to collect, transport and dispose of the Transformer oil.

[118] But for Canyon Electric's failure to advise Boundary Electric that it either knew this was almost pure PCB-laden oil or alternatively that it did not know the PCB content of the Transformer oil, Boundary Electric would have followed its regular practice of requiring and analytical test report for the waste oil or perform its own field test of the Transformer oil before agreeing to accept this Transformer. Had Boundary Electric had the analytical test report indicating the true PCB content of the Transformer oil, Boundary Electric would not have agreed to accept the Transformer.

[119] But for Boundary Electric's failure to advise Enviro West that the Transformer oil contained PCBs in excess of 50 ppm, that the PCB Report was available, and that Boundary

Electric itself had not verified the PCB level in the Transformer oil, Enviro West would not have collected, transported, stored and disposed of the Transformer oil.

[120] Each of the defendants' negligence has therefore had a material contribution to the plaintiff's loss. I will address the apportionment of liability following my consideration of the plaintiff's negligence, if any.

4.0 Is the Plaintiff Contributorily Negligent?

[121] The defendants have submitted that the plaintiff's own contributory negligence has contributed to this loss. In particular they submit that Enviro West's employee, Costain: (1) failed to heed the verbal warnings of both Bishop and Mehr that he was about to collect and transfer oil with a high PCB content from the Transformer; (2) failed to heed the warning sign at the door of the MCC 1 room as well as the various warning labels on the Transformer itself, warning him that there was PCB-laden waste oil in the Transformer; (3) failed to request production of the PCB Report or conduct his own field test to determine the level of PCBs in the Transformer oil prior to commencing the collection and pumping process; (4) failed to ensure a manifest was properly completed prior to departing the Mine; and (5) failed to test the tanker truck oil for to determine the level of PCBs in the waste oil prior to offloading it into Storage Tank 12 at the Enviro West Kelowna facility.

[122] I have addressed each of these allegations of negligence (1) through (3) above and will not repeat my findings here. Suffice it to say that I reject the notion that the evidence supports any finding of contributory negligence with respect to any of those allegations.

[123] The areas I have not touched on concern the allegations (4) and (5) which I will now address.

[124] All of the defendants, but most particularly Copper Mountain, complain that Costain failed to properly complete the manifest. Since Enviro West was acting as a carrier, as of August 13, 2008, it was prohibited by s. 10 of the *EMA* and s. 45 of the *HWR* from transporting the Transformer oil unless it carried with it a properly completed manifest and a license to transport PCBs. Enviro West was also acting as consignee of the hazardous waste and was thus required to complete part C of the waste manifest (s. 46 and 47 of the *HWR*). There is no legislative requirement for the carrier of hazardous waste or the consignee of hazardous waste to classify and identify the waste product.

[125] Here, since Enviro West understood the Transformer oil to be picked up at the Mine was regular waste oil (as would be the case for all subsequent pick-ups on that trip), Costain used an manifest with a multiple consignor supplement, pursuant to s. 47 of the *HWR*. Had

there been no multiple consignor supplement used, the individual consignor or waste generator (ie. Boundary Electric or Copper Mountain) would have completed Part A of the manifest, in which either would have identified the shipping name of the hazardous waste being picked up. Since Enviro West did not understand this to be a pickup of anything other than regular waste oil, no effort was made to complete the manifest in this fashion. Had the oil in fact been regular waste oil, there would be no complaint concerning the manner in which the manifest was completed. However since the waste oil was in fact PCB waste oil, the waste manifest was completed incorrectly since the hazardous waste is not properly identified.

[126] While it is clear the manifest was not properly completed, the fact remains that this occurred by virtue of Copper Mountain's, Canyon Electric's and Boundary Electric's failure to properly advise Enviro West of the true nature of the hazardous waste it was being retained to collect, transport and dispose of.

[127] I accept Powell's, Costain's and Dueck's evidence that it was not at all unusual for Enviro West to be called to pick-up waste oil form a site where its customer was not available to sign the manifest. In those cases, Enviro West either recorded the name of the person who requested and therefore authorized the pick-up, or it made an attempt to have the manifest signed by the generator/consignee at a later date. Here no one from either Boundary Electric or Copper Mountain chose to be available on site to sign the manifest at the point Costain finished collecting the oil. In my view there was nothing either nefarious or sinister about Dueck, after learning about the incident, writing in the name of "Valerie" (Valerie Wright of Boundary Electric) as the consignee on the manifest. I am not persuaded that by doing so Dueck was trying to cover up the fact that the manifest had not previously been signed. As it was, the manifest now properly reflected the fact that the consignor was indeed Valerie at Boundary Electric.

[128] In any case, there is no evidence that had anyone from either Copper Mountain or Boundary Electric been present to sign the manifest, something different would have occurred.

[129] Despite Docksteader's evidence that his employees would have likely stopped the shipment of waste oil, I am satisfied that even if a Boundary Electric employee had been on site and signed the manifest, no alarms would have been raised. So far as Boundary Electric was concerned the Transformer oil was regular waste oil. Even after attending later and finding the leaky Transformer with the PCB warning labels in place, the Boundary Electric truck driver employee was not concerned, and was apparently content to transport

the Transformer carcass to the Boundary Electric yard without ever realizing the nature of the hazardous waste.

[130] As to Copper Mountain, while its employees were acutely aware of the nature and level of PCBs in the Transformer oil, no one at Copper Mountain was apparently aware of the regulatory requirements regarding the transportation of such hazardous waste. No one asked that either Enviro West (at the time of pick-up of the Transformer oil) or Boundary Electric (at the time of the later pick-up of the Transformer carcass) produce a license verifying their authority to transport this hazardous waste.

[131] I therefore find that Costain's failure to ensure the manifest was signed on site prior to departure was not negligence on his part.

[132] All the defendants allege that prior to offloading the PCB contaminated waste oil contained in the Enviro West tanker truck into Storage Tank 12 at the Enviro West Kelowna facility, Enviro West ought to have tested the waste oil for PCB content. The defendants say this was particularly the case since Dueck had been told by Costain that the load was "hot".

[133] A careful examination of the evidence indicates that Dueck recalls Costain making this statement to him after the incident occurred, and not on his return to the yard at the end of the trip, prior to offloading the waste oil contained in the tanker truck to the Storage Tank 12. In neither his handwritten statement (prepared at the request of Enviro West) nor in his subsequent statement to the MOE Officer, did Costain ever state he was told the load was hot. Costain has admitted however that he was told there were "high PCBs" in the Transformer oil. Costain testified he may have told Dueck the load was "hot" but he could not recall. On a review of all of this evidence, I am unable to find on a balance of probabilities that on returning to the yard, Costain used any words to effectively warn Dueck there were "high PCBs" in the load about to be offloaded. Indeed Costain's evidence was he had no such belief. Costain understood he had just finished a round trip in which he had picked up a number of different loads of waste oil with no concern that any contained a high level of PCBs.

[134] Even accepting that Costain did not so warn Dueck, the defendants submit that Enviro West ought to have tested the tanker truck oil for PCBs prior to offloading the waste oil into Storage Tank 12. The defendants rely on an email exchange between Enviro West and a Governmental Environmental Management Analyst in 2002 and 2003, in which the issue of testing is addressed (see Exhibit 1, Tabs 5 and 8). I am not persuaded that this exchange is relevant here. The testing discussed is that required pursuant to a section of the *HRW*, which amended the *Special Waste Regulation*. Section 41(6) prohibits the mixing

of waste oil with other substances and prohibits the sale of waste oil as burner fuel unless the waste oil satisfies specifications listed in the table in s. 41(5) of the *HRW* are met (see email and legislation). While this legislation requires testing prior to resale (as Enviro West in fact did), it does not speak to the issue of testing prior to intake to the Enviro West storage tank.

[135] Perhaps more to the point, Boundary Electric submits that prior to this incident, Enviro West knew or ought to have known that by picking up the Transformer oil and mixing it with other waste oil, it was effectively engaged in a high risk practice. Enviro West knew that Boundary Electric was the only customer from with it could potentially receive PCB waste oil at its Kelowna facility. Boundary Electric notes that on one occasion, on July 21, 2008, at Boundary Electric's request, Enviro West pumped 16,750 litres of transformer oil that contained 39 ppm of PCBs from a Fortis BC Inc. transformer (see recycle docket K 31631). Boundary Electric says that based on the elevated level of PCBs found in a number of the Enviro West storage tanks after the incident, the Court may infer that prior to the incident, Enviro West was receiving PCB waste oil, mixing the PCB waste oil with existing waste oil in its storage tank, and therefore engaged in the practice of diluting waste oils in its storage tanks, contrary to *HRW* ss. 36 and 41.

[136] I am unable to draw this inference here. In cross examination, Dueck explained that the contamination of the other tanks revealed by the post-incident testing did not reflect previous contamination of those tanks by other transformer oil picked up by Enviro West, but rather contamination resulting from the residue in Costain's tanker truck and the fact that the pump equipment and associated piping which connected the various tanks had been similarly contaminated by that residue. Since there was no expert evidence before the Court explaining the test results or providing any chemical trace analysis for those PCB readings, I am unable to draw any inference that the test results reflect any general practice on Enviro West's part to accept, mix and therefore dilute the PCB waste oil with other waste oil at its Kelowna facility.

[137] Finally Boundary Electric says that rather than simply test the tanker truck oil using a simple field test kit prior to offloading the PCB contaminated waste oil into the Storage Tank 12, Enviro West chose instead to go on "faith" and trust that Boundary Electric would only supply it with waste oil in compliance with the regulatory requirements for PCBs. Rather than adopting such a risky practice, Boundary Electric submits that Enviro West could have easily field tested the Transformer oil which it picked up from the Mine, or alternatively it could have avoided Boundary Electric altogether and made no transformer oil pick-ups. Instead it chose neither course. It continued to pick-up transformer oil for Boundary Electric, and did not test the PCB contaminated waste oil prior to offloading it into Storage Tank 12.

[138] While I agree that Enviro West was aware it was assuming some degree of risk in accepting loads of transformer oil at its facility, I am not persuaded that risk translated into a duty to test each of its tanker trucks for PCB content prior to offloading the waste oil into its storage tanks. There is no evidence of any industry standard requiring Enviro West to conduct such testing. Nor is there any regulatory requirement to do so. While it is true that Newalta (to which Enviro West shipped some of the PCB contaminated waste oil) does conduct such testing, it must be recalled that Newalta operates a recycling facility and regularly receives and recycles many different grades of waste oil. Testing would be central to conducting business at such a facility.

[139] The only requirement for testing of waste oil is that imposed by s. 41 of the *HWR*. That legislation requires that a vendor of waste oil test its oil prior to offering it for sale as burner fuel. This practice is in accordance with the B.C. Used Oil Management Association's ("BCUOMA") requirements. Enviro West implemented these requirements by testing its storage tanks once the tanks were full or almost full and before shipping the waste oil as burner oil. All of these practices were regularly the subject of certification by independent auditors. Such auditors repeatedly certified that Enviro West had met all applicable provincial and federal environmental legislation. Accordingly, Enviro West was able to maintain its registration with BCUOMA and its ongoing participation in the BCUOMA's Stewardship Plan for used oil.

[140] While Boundary Electric has suggested that Enviro West should have at least screened Boundary Electric's Transformer oil alone, I am satisfied it would have been impossible to do so unless Boundary Electric's Transformer oil was isolated from other waste oil and presumably carried in a separate tanker or pup trailer and not mixed with other waste oil. I accept that such a practice would have been a non-starter in terms of costs. Nor is the issue satisfactorily addressed by suggesting the testing ought to have been done earlier—that is at the time of pick-up at the Mine, using a field test kit to test for PCB content. The only evidence regarding the reliability of such tests was adduced from Docksteader, who acknowledged that even those field tests are known to yield false positive results. There was no expert evidence before the Court concerning the reliability of such field test kits nor whether it would have been reasonable for Enviro West to have conducted and relied on such tests prior to mixing a transformer oil pick-up with other waste oils in its storage tank.

[141] On a review of all of the evidence, I find there was no contributory negligence on the part of Enviro West.

[142] Finally, I should note that there was some suggestion by the defendants that Enviro West was entirely responsible for this loss by virtue of failing to test the tanker truck oil for PCBs prior to offloading into its storage tanks. The defendants say that had Enviro West conducted such testing prior to offloading the PCB contaminated waste oil, the loss would have been entirely or at least substantially avoided.

[143] This defence theory rests on what is known as the “last clear chance doctrine”. I must note here that with the enactment of s. 8 of the *Negligence Act*, the doctrine of “last clear chance” is extinct in British Columbia. Section 8 of that legislation provides:

> This Act applies to all cases where damage is caused or contributed to by the act of a person even if another person had the opportunity of avoiding the consequences of that act and negligently or carelessly failed to do so.

[144] This result was confirmed by our Court of Appeal in *Lowe v. Insurance Corp. of British Columbia*, 2002 BCCA 514 and *Lawrence v. Prince Rupert (City)*, 2005 BCCA 567.

[145] More recently, in *Dyke v. British Columbia Amateur Softball Assn.*, 2008 BCCA 3, Donald J.A. confirmed yet again that the doctrine of last clear chance is “extinct”:

> [27] I wish to say in the strongest terms that the doctrine is extinct and occupies no place in the law of torts in this jurisdiction.
>
> [28] If a defendant breaches a standard of care and a plaintiff fails to take care for her own safety, and but for these faults (*Athey v. Leonati*, [1996] 3 S.C.R. 458, 140 D.L.R. (4th) 235) an injury would not have occurred, then, under the *Negligence Act*, R.S.B.C. 1996, c. 333, ss. 1(1) and 8, liability is shared according to the respective degrees of fault:
>
> > 1(1) If by the fault of 2 or more persons damage or loss is caused to one or more of them, the liability to make good the damage or loss is in proportion to the degree to which each person was at fault.
> >
> > * * *
> >
> > 8 This Act applies to all cases where damage is caused or contributed to by the act of a person even if another person had the opportunity of avoiding the consequences of that act and negligently or carelessly failed to do so.
>
> Drawing a clear line between the defendant's and plaintiff's negligent acts gives expression to a linear form of thinking and compartmentalizes causes according to the timing of events. What the legislation requires is a lateral analysis that examines the weave of causal factors that brought about the loss. So the appropriate image is of a web, rather than a chain where it is said that the linkage is broken by the plaintiff's own negligence.

5.0 Apportionment of Liability for Damages

[146] I have already found that each of the defendants are liable in negligence to the plaintiff for damages. By operation of s. 4(2) of the *Negligence Act*, R.S.B.C. 1996, c. 333, the defendants are jointly and severally liable for the losses suffered.

[147] In resolving the issue of apportionment, s. 4(2)(b) of the *Negligence Act* provides:

> (2) Except as provided in section 5 if 2 or more persons are found at fault
>
> (a) they are jointly and severally liable to the person suffering the damage or loss, and
>
> (b) as between themselves, in the absence of a contract express or implied, they are liable to contribute to and indemnify each other in the degree to which they are respectively found to have been at fault.

[148] The apportionment of fault contemplated by s. 4(2) is based on blameworthiness of each party, ie. the degree to which the party's actions departed from the standard of care, not the degree to which the party caused the loss. Thus the Court will gauge the amount by which each proximate and causative action fell short of the standard of care that was required of that person in all of the circumstances (*Cempel v. Harrison Hot Springs Hotel Ltd.* (1997), 43 B.C.L.R. (3d) 219 (C.A.); *Aberdeen v. Langley (Township)*, 2007 BCSC 993; *Madalena v. Comox-Stratchcona (Regional District)*, 2009 BCSC 1597).

[149] In *Madalena*, the Court summarized the factors to be considered in determining the amount by which a party's conduct will be found to fall short of the standard of care required in the circumstances. The factors include:

> 1. the nature of the duty owed by the tortfeasor to the injured person...
> 2. the number of acts of fault or negligence committed by a person at fault...
> 3. the timing of the various negligent acts. For example, the party who first commits a negligent act will usually be more at fault than the party whose negligence comes as a result of the initial fault...
> 4. the nature of the conduct held to amount to fault. For example, indifference to the results of the conduct may be more blameworthy ... Similarly, a deliberate departure from safety rules may be more blameworthy than an imperfect reaction to a crisis...
> 5. the extent to which the conduct breaches statutory requirements. For example, in a motor vehicle collision, the driver of the vehicle with the right of way may be less blameworthy...
> 6. the gravity of the risk created;
> 7. the extent of the opportunity to avoid or prevent the accident or the damage;

8. whether the conduct in question was deliberate, or unusual or unexpected; and

9. the knowledge one person had or should have had of the conduct of another person at fault.

[150] Applying those factors, I find that as the waste generator, Copper Mountain must bear the lion's share of the responsibility for this loss. For the reasons reviewed earlier, I find that Copper Mountain had all of the necessary information at its disposal to fully understand the highly hazardous nature of this waste and to take proper steps to arrange for its disposal. It failed miserably to do so.

[151] That said, Canyon Electric contributed to the loss when Leardo weighed in at the July 17, 2008 meeting and negligently represented to Copper Mountain that Boundary Electric had the necessary qualifications and experience to handle the disposal of the Transformer and the PCB-laden waste oil, knowing that Copper Mountain would rely on that representation and act on it. Canyon Electric made this representation despite having no knowledge of any expertise on Boundary Electric's part to handle this type of waste. It then compounded the problem by communicating the nature of the job to Boundary Electric and negligently failing to apprise Boundary Electric that the job involved the disposal of hazardous waste.

[152] While Boundary Electric was the least blameworthy of the defendants, since it relied on Leardo's misrepresentations, it remains that by failing to follow its own policies—ensuring a review of the waste oil analytical test report or conducting its own field test, Boundary Electric failed to ensure that the PCB content of the waste oil was within the regulatory requirements, and that the job was therefore one it had the expertise and indeed the licensing to pursue. Without adhering to its own policies and practice, Boundary Electric effectively delegated that responsibility to Enviro West's own determination, without warning that Enviro West should do so. Boundary Electric was content to assume that its own responsibility was limited to dealing with the pick-up of the empty Transformer carcass which it failed to recognize was also hazardous waste.

[153] In the end result, I allocate 60% of the responsibility for the loss to Similco/Copper Mountain, 20% to Canyon Electric and 20% to Boundary Electric.

6.0 Copper Mountain's Third Party Claim for Negligent Misrepresentation Against Canyon Electric

[154] To the extent it is found liable for this loss, Copper Mountain advances a Third Party claim against Canyon Electric for contribution and indemnity. It says that but for Canyon

Electric advising Copper Mountain at the July 17, 2008 meeting that Boundary Electric had the experience and expertise to dispose of the Transformer and associated PCB-laden Transformer waste oil, Boundary would not have been retained and this loss would have been avoided.

[155] Copper Mountain says that Canyon Electric knew or ought to have known that Copper Mountain would reasonably rely on and act in accordance with this representation. It alleges that it was reasonably foreseeable Copper Mountain would incur liability by acting on Canyon Electric's representation.

[156] In response, Canyon Electric denies making any representation to Copper Mountain. In the alternative, Canyon Electric says that if it did make such a representation, it was not negligent in that Canyon Electric believed at all times that the representation was true and accurate.

[157] In *Queen v. Cognos Inc.*, [1993] 1 S.C.R. 87, the Court at page 110 set out the factors required to establish a claim for negligent misrepresentation:

> (1) there must be a duty of care based on a "special relationship" between the representor and the representee;
>
> (2) the representation in question must be untrue, inaccurate, or misleading;
>
> (3) the representor must have acted negligently in making said misrepresentation;
>
> (4) the representee must have relied, in a reasonable manner, on said negligent misrepresentation; and
>
> (5) the reliance must have been detrimental to the representee in the sense that damages resulted.

[158] In the case at bar, the central issue raised in this Third Party claim is the concept of reasonable reliance–that is whether in all the circumstances, it was reasonable for Copper Mountain to rely on the representation made by Leardo of Canyon Electric.

[159] In *Hercules Managements Ltd. v. Ernst & Young*, [1997] 2 S.C.R. 165 the Supreme Court of Canada addressed the concept of reasonable reliance. The issue was whether the shareholder plaintiffs had reasonably relied on the audited financial statements prepared by the auditors. Adopting the criteria set out by Professor Feldthusen in *Economic Negligence* (3rd ed. 1994) at pp. 62-63, the Court held that the plaintiffs had established reasonable reliance in that case. The Court noted at para. 43:

> Professor Feldthusen (at pp. 62-63) sets out the five general *indicia* of reasonable reliance, namely:

(1) The defendant had a direct or indirect financial interest in the transaction in respect of which the representation was made.

(2) The defendant was a professional or someone who possessed special skill, judgment, or knowledge.

(3) The advice or information was provided in the course of the defendant's business.

(4) The information or advice was given deliberately, and not on a social occasion.

(5) The information or advice was given in response to a specific enquiry or

While these *indicia* should not be understood to be a strict "test" of reasonableness, they do help to distinguish those situations where reliance on a statement is reasonable from those where it is not.

[160] Adopting these *indicia,* I have concluded firstly, as to the issue of financial interest, there is no evidence of any direct or indirect financial relationship between Canyon Electric (the representor) and Copper Mountain (the representee) concerning the transaction in respect of which the representation was made. As I noted earlier, Docksteader of Boundary did testify that he and Leardo, being two local contractors, were both "trying to help out each other by referring business to each other". However, beyond some vague potential that in the future Boundary Electric might refer some business his way, Leardo of Canyon Electric had nothing financial to gain from the representation he made to Copper Mountain.

[161] As to the second indicia, while he was an electrical contractor with a good deal of experience with transformers, Leardo had no special skill in the handling or disposal of PCB contamination. He was not a waste broker nor had he ever handled or disposed of a PCB contaminated transformer or oil before. Unfortunately, it appears that that lack of experience was never properly communicated to Mehr. That said, Leardo's background was never investigated by Mehr.

[162] As to the third indicia, I find that Leardo's advice was provided in the general context of his business, that is performing the electrical work to restart the mine. While neither of the Canyon Electric quotations dated June 10, 2008 or July 24, 2008 directly address the task of the removal and disposal of the transformer, the general task of the removal of the subject transformer was indeed addressed by Canyon Electric. While as a result of inadvertence, an invoice for that work was not rendered until some months later on January 22, 2009 (See Exhibit 2, Tab 88), it is noteworthy that the invoice does reflect Leardo's work in rolling the transformer to the edge of the outside wall of the electrical room. Thus when the critical Mine meeting was held in July 2008, Leardo was in attendance as a key member of the team, addressing the issue of how to best remove and dispose of the transformer. I consider that his advice was given in the general context of his business for the Mine.

[163] As to the fourth indicia, Canyon Electric submits that Leardo's advice was not "given deliberately" and that the Mine meeting in July 2008 was more in the nature of a "social setting". I entirely reject this submission. While Leardo's attitude may well have been casual and cavalier, his advice was nonetheless offered at a business meeting specifically convened to determine the best course of action regarding the transformer–whether to refurbish it, and if not, how to go about disposing of it.

[164] As to the fifth indicia, I agree that Leardo's suggestion was not given in response to a specific inquiry made by the representee, but rather was simply offered as a possible alternative to the retainer of EnviroCare, the Saskatchewan hazardous waste disposal company which Mehr reported had been recommended by the government inspector. My impression of the evidence is that when Leardo suggested Boundary Electric as a potential local alternative to EnviroCare, Mehr then turned to his own consultant, Mountford, to determine whether Mountford knew of and supported that firm's retainer. He did.

[165] Thus in my view, the evidence concerning the issue of whether the Mine (Copper Mountain) reasonably relied on Canyon Electric's recommendation of Boundary is mixed.

[166] In *Cognos*, at pp. 121-122, the Court describes the applicable standard of care which ought to apply in cases of negligent misrepresentation:

> The applicable standard of care should be the one used in every negligence case, namely the universally accepted, albeit hypothetical, "reasonable person". The standard of care required by a person making representations is an objective one. It is a duty to exercise such reasonable care as the circumstances require to ensure that representations made are accurate and not misleading....
>
> An advisor does not guarantee the accuracy of the statement made, but is only required to exercise reasonable care with respect to it. As with the issue of standard of care in negligence in general, this is a question of fact which must be determined according to the circumstances of the case. Taking into account the nature of the occasion, the purpose for which the statement was made, the foreseeable use of the statement, the status of the advisor and the level of competence generally observed by others similarly placed, the trier of fact will determine whether the advisor was negligent.

[167] In the circumstances of this case, considering the Mine's special knowledge (including Campbell's previous investigation of the costs of disposal; the Mine's possession of the analytical test report; Mehr's consultation with the government inspector and his awareness of the recommendation of EnviroCare), I have difficulty with the notion that the Mine put any heavy reliance on Leardo's recommendation of Boundary Electric. As I have already found, the Mine failed in exercising due diligence to ensure the accuracy of Leardo's statement. Copper Mountain should have confirmed that Boundary Electric was qualified and permitted

to complete the required work. At a minimum, Copper Mountain should have ensured that Boundary Electric was provided with a copy of the PCB Report, and specifically alerted to the high level of PCBs in the Transformer oil.

[168] Thus, while I have found that Leardo breached his duty of care to Enviro West, as I have described above, I am not satisfied that finding grounds the Mine's claim for contribution against Canyon Electric. Copper Mountain's third party claim over against Canyon Electric is therefore dismissed.

7.0 Damages

[169] As a result of the defendants' negligence, the Enviro West Kelowna facility was contaminated with PCB waste oil.

[170] Prior to the discovery of the contamination, Enviro West shipped 34,000 litres of the contaminated PCB waste oil to Newalta, pursuant to a supply agreement between those parties. Newalta tested the waste oil prior to offloading it into its own storage tanks and discovered it was contaminated with PCBs. Tabs 1-10 of the Enviro West's damages brief addresses the disposal of the "Newalta oil" which I will address below:

1. Disposal of the PCB oil (34,000 litres) – $129,729.08. The amount charged by the Swan Hills facility for disposal of the PCB contaminated waste oil is not in dispute.
2. Disposal of PCB Sludge – $14,935.73. By virtue of having taken the PCB contaminated waste oil into its own tank, Newalta was forced to clean out the sludge to prevent future contamination of other waste oils. There is no dispute concerning this charge.
3. Freight – Newalta to Swan Hills – $5,670. This charge is undisputed.
4. Cleanup Newalta – Costs for cleanup of Newalta tanks and trucks: $55,690.53 plus labour $2,400. While there is no invoice, Powell of Enviro West testified that the labour component reflects the costs of Enviro West's own staff cleaning the Newalta tank over a period of 30 hours at $80 per hour, I took the $80 per hour figure to reflect the global hourly costs of the employees on the job. On cross examination Powell testified that three employees were involved in the clean-up operation, who were paid the usual rate of $15-20 per hour. Assuming the higher rate of $20 per hour applies, this claim ought to be reduced to $600 for the labour costs, plus the $55,690.53 clean up figure.
5. Freight – Newalta to Swan Hills – $173.25. This was the costs of the transport of a partial load of sludge waste in a barrel from Newalta to Swan Hills. The amount is uncontested.
6. Drums – $344.14. There is no dispute that this is the costs of the drums which Enviro West bought back from Newalta when it decided it would

undertake the cleaning of the storage tanks itself, rather than leave the job to Newalta. The amount will be recovered as damages.

7. Flush trailer – $658.89. This was the cost of an industrial cleaner flushing out the carrier trailer which transported the PCB contaminated waste oil to Swan Lake. This amount shall be recoverable as damages.

8. Workman harness – $94.29. This was the cost of the safety harness device attached to the staff who were suspended within the trailer during the cleanup operation. This amount will be recoverable as damages.

9. Confined space system – $131.25. Costs of special safety system which allows staff inside the trailer who are cleaning up the trailer to communicate with others outside. This amount will be recoverable as damages.

10. Contaminated waste water disposal – $4,302.59. All of the water used to clean out the trailer is then treated as PCB waste and is ultimately also sent to Swan Hills for disposal. This amount will be recoverable as damages.

[171] Apart from the costs involved in addressing the 34,000 litres of PCB contaminated waste oil sent to Newalta, Enviro West incurred the costs of dealing with the remaining PCB contaminated waste oil at its own facility:

11. Analytical testing (August 2008) – $3,600. Costs of laboratory analysis of the various storage tanks and trucks at Enviro West yard to determine source of PCB contaminated waste oil sent to Newalta (18 tests x $200). This amount will be recoverable as damages.

12. Waste oil disposal – $496,604.00. This is the cost of disposing of 91,120 litres of PCB contaminated waste oil in Storage Tank 12. It should be noted that after the initial 34,000 litres of PCB contaminated waste oil was sent to Newalta, only 78,000 of PCB contaminated waste oil remained at the Enviro West Kelowna facility. However the waste water generated by the clean-up of the Newalta tank was then returned to Enviro West for storage and added back to Storage Tank 12, which now once again carried 91,000 litres of PCB contaminated waste oil and water. The defence position is that had the waste water been stored separately, and not added back to Storage Tank 12, it could have been disposed of at a lower cost. Had the PCB content of the waste water been less than 500 ppm Copper Mountain says that the costs of disposal would have been $2.50 per litre rather than $5.45 per litre, resulting in a reduction of costs of approximately $56,050. Since the waste water was never tested prior to being returned to Storage Tank 12, there is no evidence as to what the PCB contamination of the waste water was. Even so, while I accept that the actual disposal costs may have been somewhat lowered, I also accept Powell's evidence that even so there would have been extra costs associated with storing the

PCB contaminated waste water, shipping it separately and ultimately flushing the PCB contaminated waste water trailer. I am satisfied it was reasonable for Enviro West to chose to store, ship and dispose of the PCB contaminated waste water and PCB contaminated waste oil together. Thus the full amount of that claim is recoverable.

13. Facility flush and PCB contaminated waste water disposal $37,000 and analytical testing $2,000. This is a quotation for the costs of cleaning Storage Tank 12 which, at the date of trial, continued to hold 12,000 litres of PCB contaminated waste oil. Even following the shipment of that PCB contaminated waste oil to Swan Hills, Enviro West will have to flush the storage tank and conduct tests before being able to resume tests for storage of regular waste oil. Enviro West estimates that as many as 10-15 tests at $200 per test will be required to clear the facility for future storage and ensure any PCBs in the waste oil in Storage Tank 12 are below 2 ppm, in order to comply with the new regulatory requirements passed after the incident. Powell conceded on cross examination that the number of analytical tests required was likely increased by the new regulatory requirements. Despite the defence challenge of the costs of the analytical testing, I accept that the $2000 cost was reasonable and likely an underestimate of the actual costs incurred. The full amount of $39,000 shall be recoverable as damages.

14. Freight – $14,500. Enviro West estimates that 2 and likely 3 loads will be required to be carried to achieve a disposal of all the PCB contaminated waste oil. While this is an estimate of costs, I accept that it is a reasonable estimate and thus award that sum as damages.

15. Flush trailer – $10,000. This is the estimated cost of flushing out the tanker trucks and then disposing of the PCB contaminated waste water. That amount is recoverable as damages.

[172] Finally Enviro West claims a loss of income arising from this incident in the sum of $60,349.60 calculated as follows: (a) lost burner fuel income (91,120 litres) $30,069.60; (b) Lost collection days (2 days, 2 trucks); $4,000; (c) Loss of collected oil (40,000 litres) $13,200.00; and (d) Loss freight charges (4 loads) $13,349.00.

[173] Copper Mountain challenges the entire loss of income claim noting that the Enviro West has not produced any financial statements or any documentation to support any of part of the claim. Further Copper Mountain notes that under cross examination, Powell admitted that Enviro West did not actually lose the waste oil which it was supposed to collect while the Kelowna facility was under lockdown. He admitted that these “lost loads” were simply collected by Enviro West later that same year. On the basis of that evidence, I find there is no evidentiary foundation to support the loss of income claim. It is therefore dismissed.

[174] Finally, the defendants submit that the plaintiff failed to mitigate its damages. I take it that this submission rests on the theory I addressed earlier--namely that had Enviro West tested the PCB levels of the oil in the tanker trailer and pup trailer, prior to offloading into the Kelowna storage tank, the plaintiff's loss would have been substantially reduced, I have addressed this issue above and found this argument cannot succeed.

[175] In the end result, with the exception of the labour costs noted at item 4 above and the loss of income claim, the plaintiff is entitled to all of the damages claimed, which damages total $776,033.75. The plaintiff Enviro West is entitled to judgment in that amount.

8.0 Costs

[176] Since I am unaware of whatever offers of settlement may have been exchanged between the parties, I will make no order for costs but rather leave it for the parties to resolve this issue themselves. If they are unable to reach any agreement, I invite them to contact the Registry to schedule a date for a hearing or for directions regarding an exchange of written submissions.

"The Honourable Madam Justice Boyd"

EXHIBIT
K

COURT OF APPEAL FOR BRITISH COLUMBIA

Citation: *Enviro West Inc. v. Copper Mountain Mining Corporation,* 2012 BCCA 23

Date: 20120118
Docket: CA038580

Between:

Enviro West Inc.

Respondent
(Plaintiff)

And

Copper Mountain Mining Corporation
Similco Mines Ltd.
Boundary Electric (1985) Ltd. and
0712603 B.C. Ltd. dba Canyon Electric

Appellants
(Defendants)

Before: The Honourable Madam Justice Saunders
The Honourable Madam Justice Kirkpatrick
The Honourable Mr. Justice Tysoe

On appeal from: Supreme Court of British Columbia, October 15, 2010
(*Enviro West Inc. v. Copper Mountain Mining Corporation,* 2010 BCSC 1443, Vancouver Docket No. S088649)

Counsel for the Appellants:	R. Anderson, Q.C. T. Tomchak
Counsel for the Respondent:	R. Skolrood L. Cook
Place and Date of Hearing:	Vancouver, British Columbia June 10, 2011
Place and Date of Judgment:	Vancouver, British Columbia January 18, 2012

Written Reasons by:
The Honourable Madam Justice Saunders

Concurred in by:
The Honourable Madam Justice Kirkpatrick
The Honourable Mr. Justice Tysoe

Reasons for Judgment of the Honourable Madam Justice Saunders:

[1] The principle of contributory negligence is concerned solely with the plaintiff's behaviour and the duty to take care in one's own interests. This appeal concerns the application of this principle to a collector of waste products, in the relatively new business field of hazardous waste removal.

[2] The appeal is brought from the dismissal of a claim of contributory negligence in an action commenced by a waste oil collection firm for clean-up costs it incurred after removing waste oil containing a high level of polychlorinated biphenyls, colloquially referred to as PCBs, from an old transformer at a mine site near Princeton, British Columbia. Enviro West Inc. is the waste oil collector. It was hired by the appellants, collectively, to remove the waste oil. When the removed oil was discovered to be heavily laden with PCBs, Enviro West was required by environmental protection agencies to clean up its facilities and to ensure the contaminated oil was destroyed. Enviro West commenced the action to recover the costs of remediation from those who hired it to perform the service.

[3] Ruling on Enviro West's claim, Madam Justice Boyd found the appellants collectively liable to Enviro West in negligence for damages in the amount of $655,337.81 plus interest of $2,558.89. She apportioned liability 60% to Copper Mountain and Similco Mines Ltd., 20% to Boundary Electric and 20% to Canyon Electric. The learned judge dismissed a third party claim by Copper Mountain and Similco against Canyon Electric, and she dismissed the claim in contributory negligence.

[4] Neither the finding of liability against the appellants nor the dismissal of the third party claim is in issue in this appeal. The appeal is directed solely to the appellants' contention that the judge erred in finding there had been no contributory negligence on the part of Enviro West, that is, that Enviro West bears no legal responsibility for the contamination or the clean-up costs.

[5] The appellants contend:

1. although the judge correctly set out the factors required to be considered in determining the applicable standard of care, she failed to consider all of these factors as they relate to the issue of Enviro West's contributory negligence, thereby committing an error of law;

2. the trial judge erred in failing to appreciate relevant evidence and in disregarding relevant evidence; and

3. the judge erred in finding, on consideration of the evidence as a whole, that Enviro West was not contributorily negligent. They say such a finding was unreasonable and demonstrates a palpable and overriding error.

Preliminary Matter

[6] Although each of these grounds of appeal is distinct, and contains its own nuances, the general theme is that the judge decided the contributory negligence issue on too narrow a basis, and failed to consider relevant factors pertaining to the posited contributory negligence of Enviro West, as well as evidence relating to the company's practices and procedures. The latter, they say, is distinct from and should have been considered separate and apart from the direct evidence of the actions and inactions of the employee driver who collected the oil and transported it to Enviro West's storage tank in Kelowna, British Columbia.

[7] At the hearing of the appeal, the respondent contended that all submissions made to us had been made at trial, and that the appellants were asking us, effectively to retry the case, which is beyond our role. Yet the reasons for judgment describe the claim in contributory negligence only in terms of the driver's conduct:

> [121] The defendants have submitted that the plaintiff's own contributory negligence has contributed to this loss. In particular they submit that Enviro West's employee, Costain: (1) failed to heed the verbal warnings of both Bishop and Mehr that he was about to collect and transfer oil with a high PCB content from the Transformer; (2) failed to heed the warning sign at the door of the MCC 1 room as well as the various warning labels on the Transformer itself, warning him that there was PCB-laden waste oil in the Transformer; (3) failed to request production of the PCB Report or conduct his own field test to determine the level of PCBs in the Transformer oil prior to commencing the collection and pumping process; (4) failed to ensure a manifest was properly completed prior to departing the Mine; and (5) failed to test the tanker truck oil to determine the level of PCBs in the waste oil prior to offloading it into Storage Tank 12 at the Enviro West Kelowna facility.

[8] As the reasons for judgment do not address the broader theory of contributory negligence asserted in the appeal, we asked counsel whether written submissions made at trial were available, thereby to determine whether the theory of contributory negligence advanced before us was put to the judge. Counsel have since provided us with those submissions. Based upon them, I am confident the issues addressed in the appeal are issues that were part of the trial, and that it is proper for this court to consider the appeal on the basis that the appellants, in contending at trial for a finding of contributory negligence, alleged deficiencies on the part of Enviro West that went beyond the conduct of its driver. I turn now to the case.

The Background to the Incident

[9] The case arises from the re-starting of a mine near Princeton, British Columbia, owned by Similco which in turn is owned by Copper Mountain. The distinction between these two mining companies is not material to the appeal, and I refer to them together as Copper Mountain or, occasionally, as the mine owners.

[10] A number of electrical transformers at the mine dated from the 1970s, an age when hazardous waste, particularly PCBs, was not regulated to the same extent that it is today. A report of the B.C. Ministry of Energy, Mines and Petroleum Resources outlining deficiencies at the mine identified leakage from one of the old transformers. A subsequent report commissioned by Copper Mountain on the nature of the oil that was leaking described the oil as “pure PCB”. Copper Mountain contracted with Canyon Electric to carry out the work required by the Ministry report, and accepted Canyon Electric’s suggestion that it contact Boundary Electric for a cost estimate for disposing of the leaky transformer. Boundary Electric in turn contracted with Enviro West, a waste oil collection firm, to pump the oil contained in the leaky transformer and transport it off the mine site. In the course of contracting with Enviro West for the removal of the waste oil, Boundary Electric informed the office manager in Kelowna that the oil contained PCBs, but did not advise Enviro West of the level of PCB contamination. Enviro West’s licence to transport hazardous waste did not permit it to carry oil containing PCBs in excess of 50 parts per million (ppm) and it had never been asked to pump oil containing PCBs over that level. The waste oil picked up by Enviro West from the mine site contained PCBs far in excess of 50 ppm, resulting in PCB contamination of the truck, a storage tank at Enviro West’s Kelowna facility, and other waste oil contained in the storage tank.

The Findings of Negligence

[11] Although the appeal concerns only the issue of contributory negligence, to understand that issue, it is useful to review the basis of the trial judge’s finding of negligence against the appellants.

[12] In general terms, the finding of negligence against Copper Mountain rested largely on its knowledge of the presence of concentrated PCBs in the waste oil removed from the leaky transformer. As against all appellants, the finding of liability rested on their individual and collective failure to communicate the presence of high PCB levels to Enviro West. Before the judge, the appellants had denied that their actions and inactions in communicating the presence of concentrated PCBs were negligent and had asserted, in a submission that went to the heart of the issues of standard of care and causation, that they had provided sufficient

warnings that PCBs were present to avoid responsibility in law for the clean-up costs. In saying this, they relied in part upon the actions and inactions of the Enviro West driver who had made the pick-up. He had received no hazardous waste training and in particular was both unschooled regarding the regulations applicable to PCBs and unaware of the terms of Enviro West's hazardous waste carriage licence. When the driver attended at the mine site he was met at the gate by the mine superintendent who told him that the oil in the transformer at issue contained PCBs. Further, the door to the room containing the transformer which was set off to the side to allow for removal of the transformer, had a sign that read "WARNING" and "THIS ROOM HAS TRANSFORMER OILS WHICH CONTAIN PCBs". The judge held that the driver had seen this sign, as well as labels affixed to the transformer that read:

> ASKAREL (CHLOREXTOL) FILLED
>
> CONTAINS PCB POLYCHLORINATED BIPHENYLS
>
> A TOXIC ENVIRONMENTAL CONTAMINANT SCHEDULED UNDER THE ENVIRONMENTAL CONTAMINANTS ACT. IN CASE OF ACCIDENT, SPILL OR FOR DISPOSAL INFORMATION CONTACT THE NEAREST OFFICE OF THE ENVIRONMENTAL PROTECTION SERVICE, ENVIRONMENT CANADA.

[13] Although this sign meant that the oil present was essentially 100% PCB filled, the driver did not know the sign's import. While he was in the room, the driver was advised by mine personnel that the oil in the transformer was "hot" or "high in PCBs", and concern was expressed to him about leakage. The driver, however, took no additional steps, assuming wrongly that appropriate steps had been taken by Enviro West before he was dispatched. In addition, customer signatures are generally required on the manifest describing hazardous waste cargo, to be obtained prior to departure. In this case, the driver did not have mine personnel sign the manifest and the manifest did not describe the PCB content of the waste oil, contrary to legislative requirements.

[14] After the driver left the mine, he picked up automotive waste oil from customers at other locations, which oil became contaminated with PCBs from the transformer oil. He then delivered all the accumulated oil to a storage tank at Enviro West's Kelowna facility, thereby contaminating the waste oil contained in that tank, as well as pump equipment and associated piping.

[15] In her analysis of the negligence claim, the judge relied upon the reasons for judgment in *Wainwright (Town of) v. G-M Pearson Environmental Management Ltd*., 2007 ABQB 576, aff'd 2009 ABCA 18, leave to appeal ref'd [2009] S.C.C.A. No. 36, as an accurate application of the principles of negligence in the context of a case of environmental contamination.

[16] The judge held that all of the defendants owed Enviro West a duty of care based on their knowledge that someone would have to collect the PCB laden oil:

> [77] In the case at bar, I find that all of the defendants owed Enviro West a duty of care. There was a sufficiently close relationship between the parties such that all of the defendants should have reasonably contemplated that carelessness on their part might cause damage to Enviro West. While not all of the defendants knew the precise identity of Enviro West, all of the defendants knew the Transformer contained PCB-laden oil and that someone would have to collect, transport and dispose of the PCB waste oil.

[17] The judge next addressed the standard of care required of the defendants. In *Wainwright* the standard of care owed by a waste generator is described at para. 193:

> ... the standard of care is to create and communicate sufficient accurate information to enable receivers of the waste to handle that waste safely and to minimize the risks related to handling those materials.

[18] Applying that standard, the judge observed:

> [74] ... The well-established objective, yet contextual, approach to the standard of care means that the standards of care applicable to the parties in the case at bar cannot depend on where each contractor sits in the chain. Rather, the standard of care applicable to each contractor must be determined based on what would be the reasonable actions for each type of contractor in the particular circumstances.
>
> [75] In determining the conduct of a reasonable person in any given circumstances, the Court will consider a variety of factors: the foreseeable risk, the likelihood of damage, the seriousness of threatened harm, the cost of preventative measures, the utility of the defendant's conduct, any circumstances of emergency, compliance with approved practice or custom, and post-accident precautions. A higher standard of care is applied to those persons who represent themselves as having special skill and knowledge which allows them to perform tasks that are normally beyond the capacity of the ordinary person.

And:

> [79] Clearly, Copper Mountain was the generator of the waste oil in issue. *Wainwright* establishes that a waste generator's standard of care is to: (1) fully understand the physical and chemical properties of the waste; (2) characterize and summarize the risks arising from those properties; (3) describe the nature of the levels; and (4) advise through a variety of means the difficulty of handling the waste and the risks related to the handling of that waste.

And further:

> [100] As the Court held in *Wainwright*, the standard of care requires that the waste generator fully inform the next waste handler and anyone else who might come in contact with the Transformer and the PCB waste oil of the true nature and risks associated with handling such a hazardous waste. ...

[19] The judge first examined the actions of Copper Mountain. She found that “no steps were taken by this waste generator to ensure the hazardous material was being properly entrusted to a party experienced and qualified to handle the waste”, or to properly communicate the PCB concentration to Boundary Electric. She observed that “the verbal communication was not only woefully insufficient but it was . . . directed to the wrong individual”. She said:

> [101] From the outset, long before the Enviro West oil tanker arrived on site, the critical information concerning the nature of this hazardous waste and the risks associated with the disposal of the PCB waste (both the Transformer itself as well as the oil within) ought to have been adequately communicated by Copper Mountain to Boundary Electric. That verbal communication should have been supported by documentation in the form of a purchase order or work order which detailed this critical information. I find it was unreasonable for Copper Mountain to expect that Costain, the Enviro West truck driver, would be the gatekeeper of this information. I accept that Costain was in no position to weigh or consider this critical information or to assess the associated risks.
>
> ...
>
> [103] While perhaps in compliance with the regulatory requirements, I am not persuaded that by virtue of posting the warning sign and affixing the labels, Copper Mountain can be said to have met the standard of care imposed on a waste generator. Given both Costain’s and Enviro West’s history of attending at other sites to collect waste oil with PCBs less than 50 ppm, a label reading “Attention PCBs” was not likely to raise any alarm bells in Costain’s mind.

[20] In the result, the judge found that Copper Mountain had failed to meet the standard of care imposed on a waste generator to properly identify the hazardous waste located at the mine and to warn other potential handlers of its nature.

[21] The judge likewise found that Canyon Electric and Boundary Electric had failed to meet the standard of care required of them. She concluded that the representative of Canyon Electric, Mr. Leardo, breached the duty of care that was owed to Enviro West, and that his “casual and flagrantly cavalier attitude towards the disposal of the [t]ransformer laid the groundwork for the miscommunications which followed”. Turning to Boundary Electric, she found it had “failed to take any proper steps to establish the nature of the transformer and the waste oil within”. Although Boundary Electric knew there were PCBs in the waste oil and communicated that fact to Enviro West, Canyon Electric had not informed Boundary Electric of the level of PCB contamination. The judge found that Boundary Electric’s principal, Mr. Docksteader, “simply never turned his mind to the risks or hazards associated with bringing a waste oil collection company ... to the site to collect and transport waste oil from the [t]ransformer which Boundary Electric had never taken the time to inspect”.

[22] Such was the basis for finding a breach of the duty of care. The judge then addressed causation. Applying the "but for" test, she said:

> [116] Overall, Copper Mountain failed to take any steps to ensure the PCB waste in its possession was handled in compliance with the regulatory requirements. Had Copper Mountain been diligent in providing information about the nature of the Transformer oil and the risks associated with this PCB-laden waste oil, Enviro West would have never collected the PCB waste oil from the Transformer, would have never transferred the PCB waste oil into its tanker truck, and would have never offloaded the PCB waste oil into the storage tank at its Kelowna facility.
>
> [117] But for Copper Mountain's failure to communicate the nature of the Transformer oil in a reasonable manner to Canyon Electric and to ensure that this information was properly communicated to Boundary Electric, Boundary Electric would have never accepted the Transformer [oil] and would have never retained Enviro West to collect, transport and dispose of the Transformer oil.
>
> [118] But for Canyon Electric's failure to advise Boundary Electric that it either knew this was almost pure PCB-laden oil or alternatively that it did not know the PCB content of the Transformer oil, Boundary Electric would have followed its regular practice of requiring and [*sic*] analytical test report for the waste oil or perform its own field test of the Transformer oil before agreeing to accept this Transformer. Had Boundary Electric had the analytical test report indicating the true PCB content of the Transformer oil, Boundary Electric would not have agreed to accept the Transformer.
>
> [119] But for Boundary Electric's failure to advise Enviro West that the Transformer oil contained PCBs in excess of 50 ppm, that the PCB Report was available, and that Boundary Electric itself had not verified the PCB level in the Transformer oil, Enviro West would not have collected, transported, stored and disposed of the Transformer oil.

[23] In the result, the judge found that Copper Mountain, Canyon Electric and Boundary Electric were liable in negligence for the costs of remediation occasioned by the contaminated waste oil.

<u>The Claim of Contributory Negligence at Trial</u>

[24] Arguing in the alternative, in the event that the judge were to find liability in negligence, the appellants alleged at trial that in these circumstances Enviro West was contributorily negligent.

[25] Similco was the last added defendant, joined some time after the pleadings between the other parties were complete. Its statement of defence contains the most fully developed pleading of contributory negligence. The essential averments are:

> 12. ... the Plaintiff was contributorily negligent in failing to observe or act upon the warning signs set out above. Similco pleads and relies on the provisions of the *Negligence Act,* R.S.B.C. 1996, c. 333, and amendments thereto.
>
> 13. The Plaintiff was also negligent in failing to request test results for the oil in testing the oil prior to pumping. The Plaintiff was also negligent in mixing the oil it had

> pumped from the Transformer with other oil without testing and despite having been warned of the dangers of such a practice.
>
> 14. The Plaintiff was negligent in failing to properly complete the manifest with respect to the shipment of oil, including the fact that the Plaintiff failed to obtain a signature on the manifest.
>
> 15. The Plaintiff has failed to meet the statutory requirements imposed on it, including the *Environmental Management Act,* the *Hazardous Waste Regulations,* the *Canadian Environmental Protection Act* and the *PCB Regulations.*
>
> 16. The Plaintiff failed to employ a driver with proper training related to the handling and identification of hazardous wastes. The Plaintiff failed to establish appropriate policies and procedures for hazardous waste identification and handling or procedures for employees to follow to ensure there was proper documentation for dealing with waste.

[26] As replicated at para. 7 above, the judge described the defendants' submissions on contributory negligence as alleging that the Enviro West driver:

1. failed to heed verbal warnings that he was about to collect and transfer oil with a high PCB content;

2. failed to heed the warning signs on the door of the room and on the transformer, alerting him to the presence of PCBs;

3. failed to request production of a PCB report or failed to conduct his own field tests to determine the level of PCBs prior to collecting the transformer oil;

4. failed to ensure the manifest was complete before departing the mine; and

5. failed to test the collected oil for PCBs before offloading it into the storage tank.

[27] In addressing the allegations listed, the judge rejected the first three submissions for the reasons she had already given on the determination of primary liability.

[28] As to the fourth submission concerning the driver's failure to adequately complete the manifest and have it signed, the judge found it was not unusual for Enviro West to pick up waste oil from a site where there was no one available to sign the manifest. More importantly, she found there was no evidence that events would have taken a different course had the manifest been signed by a representative of the mine as required. In other words, the judge found that causation was not established. She said:

> [129] Despite Docksteader's evidence that his employees would have likely stopped the shipment of waste oil, I am satisfied that even if a Boundary Electric employee had been on site and signed the manifest, no alarms would have been raised. So far as Boundary Electric was concerned the Transformer oil was regular waste oil. Even after attending later and finding the leaky Transformer with the PCB warning labels in

> place, the Boundary Electric truck driver employee was not concerned, and was apparently content to transport the Transformer carcass to the Boundary Electric yard without ever realizing the nature of the hazardous waste.
>
> [130] As to Copper Mountain, while its employees were acutely aware of the nature and level of PCBs in the Transformer oil, no one at Copper Mountain was apparently aware of the regulatory requirements regarding the transportation of such hazardous waste. No one asked that either Enviro West (at the time of pick-up of the Transformer oil) or Boundary Electric (at the time of the later pick-up of the Transformer carcass) produce a license verifying their authority to transport this hazardous waste.

[29] In relation to the issue of the incomplete manifest, the judge concluded:

> [131] I therefore find that Costain's failure to ensure the manifest was signed on site prior to departure was not negligence on his part.

[30] The judge next addressed the fifth submission she had listed, namely that Enviro West was contributorily negligent because the driver did not test the oil for PCBs before offloading it into the storage tank. She found that the driver, who had been told by mine personnel on site that there were "high PCBs" in the transformer oil, did not relay that information to Enviro West personnel prior to offloading the collected oil. However, she rejected the various submissions to the effect that Enviro West's practices were faulty given that the bulk of its business consisted of collecting oil with only low levels of PCBs. She held that the standard of care in the circumstances did not require the testing advocated by the appellants, and said:

> [138] While I agree that Enviro West was aware it was assuming some degree of risk in accepting loads of transformer oil at its facility, I am not persuaded that risk translated into a duty to test each of its tanker trucks for PCB content prior to offloading the waste oil into its storage tanks. There is no evidence of any industry standard requiring Enviro West to conduct such testing. Nor is there any regulatory requirement to do so. ...
>
> ...
>
> [140] While Boundary Electric has suggested that Enviro West should have at least screened Boundary Electric's Transformer oil alone, I am satisfied it would have been impossible to do so unless Boundary Electric's Transformer oil was isolated from other waste oil and presumably carried in a separate tanker or pup trailer and not mixed with other waste oil. I accept that such a practice would have been a non-starter in terms of costs. Nor is the issue satisfactorily addressed by suggesting the testing ought to have been done earlier—that is at the time of pick-up at the Mine, using a field test kit to test for PCB content. The only evidence regarding the reliability of such tests was adduced from Docksteader, who acknowledged that even those field tests are known to yield false positive results. There was no expert evidence before the Court concerning the reliability of such field test kits nor whether it would have been reasonable for Enviro West to have conducted and relied on such tests prior to mixing a transformer oil pick-up with other waste oils in its storage tank.

[31] Last, the judge rejected the appellants' submission that Enviro West's failure to test the collected oil prior to offloading made the company completely responsible for the ensuing loss:

> [142] Finally, I should note that there was some suggestion by the defendants that Enviro West was entirely responsible for this loss by virtue of failing to test the tanker truck oil for PCBs prior to offloading into its storage tanks. The defendants say that had Enviro West conducted such testing prior to offloading the PCB contaminated waste oil, the loss would have been entirely or at least substantially avoided.

[32] This proposition, she said, was a version of the last clear chance doctrine, no longer applicable in British Columbia: see *Lowe v. Insurance Corp. of British Columbia*, 2002 BCCA 514; *Lawrence v. Prince Rupert (City),* 2005 BCCA 567; and *Dyke v. British Columbia Amateur Softball Assn.,* 2008 BCCA 3.

Discussion

a) Standard of Review

[33] Consideration of a case such as this must begin with recognition of the limited role of this court on appeal. We may only interfere with an order where it is demonstrated that the order was made on a mistake of law or principle, or in respect to a factual matter, there is an obvious (palpable) error that is material to the outcome (overriding): *Housen v. Nikolaisen*, 2002 SCC 33, [2002] 2 S.C.R. 235. This high hurdle on issues of fact reflects deference to the trial function, and recognizes the complex role of a trial judge charged with the task of hearing all of the evidence, making findings of credibility and determining the facts on a balance of probabilities.

b) General Framework of Contributory Negligence

[34] The appellants' claim of contributory negligence is governed by s. 1(1) of the *Negligence Act*, R.S.B.C. 1996, c. 333:

> 1 (1) If by the fault of 2 or more persons damage or loss is caused to one or more of them, the liability to make good the damage or loss is in proportion to the degree to which each person was at fault.

[35] The foundational principle of contributory negligence was laid out by the Privy Council in *Nance v. B.C. Electric Railway*, [1951] A.C. 601, and applied, for example, by this court in *Alberta Wheat Pool v. Northwest Pile*, 2000 BCCA 505, 80 B.C.L.R. (3d) 153. Writing for the majority in *Alberta Wheat Pool*, Mr. Justice Finch (now C.J.B.C.) described the duty of care applicable to a claim of contributory negligence as the duty "to take reasonable care" on one's own behalf.

[36] In *Bradley v. Bath*, 2010 BCCA 10, 1 B.C.L.R. (5th) 228, Mr. Justice Tysoe for the Court adopted at para. 25 the description of contributory negligence in John G. Fleming, *The Law of Torts*, 9th ed. (Sydney: LBC Information Services, 1998) at 302 as follows:

> Contributory negligence is a plaintiff's failure to meet the standard of care to which he is required to conform for his own protection and which is a legally contributing cause, together with the defendant's default, in bringing about his injury. The term "contributory negligence" is unfortunately not altogether free from ambiguity. In the first place, "negligence" is here used in a sense different from that which it bears in relation to a defendant's conduct. It does not necessarily connote conduct fraught with undue risk to *others*, but rather failure on the part of the person injured to take reasonable care of himself in his *own* interest. ... Secondly, the term "contributory" might misleadingly suggest that the plaintiff's negligence, concurring with the defendant's, must have contributed to the *accident* in the sense of being instrumental in bringing it about. Actually, it means nothing more than his failure to avoid getting hurt ...
>
> [Emphasis in original; footnotes omitted.]

c) <u>The Claim of Contributory Negligence Against Enviro West</u>

[37] There are, therefore, two questions to be answered in considering a claim of contributory negligence: did the plaintiff fail to take reasonable care in its own interests; and if so, was that failure causally connected to the loss the plaintiff sustained. The submissions of the appellants, analytically, are directed mainly to the first issue. In saying that the judge failed to consider all the relevant factors, and omitted consideration of a body of evidence, the appellants are saying there are fatal flaws in the reasoning process employed by the judge in concluding that Enviro West did not fail to take reasonable care of itself.

[38] To some degree the submissions of the parties miss each other, and such was the case with the written submissions at trial. Enviro West was focused on the potential for finding contributory negligence through the actions of the driver and specifically the criticisms levelled at him for pumping the PCB laden oil into his truck, for failing to obtain a signature on the manifest, for mixing other waste oils with the PCB laden oil, and for permitting the collected waste oil to be pumped into the storage tank without prior testing, all in the face of the verbal "warnings" provided by mine personnel and the various labels and warning signs posted and seen by him at the mine. The judge dealt with these criticisms in a comprehensive manner, holding that the impugned actions of the driver did not amount to contributory negligence. In doing so, faced with conflicting evidence as to the content of certain conversations and the timing of events, the judge carefully sorted the evidence and made her findings based on the body of evidence before the Court, as she was bound to do. Her conclusions in this respect are, in my view, unassailable. Without attempting to create an exhaustive list, her treatment of these criticisms includes the following: the judge's

conclusions at para. 129, replicated above, regarding Enviro West's failure to obtain a completed manifest signed by the customer's representative; the judge's conclusion that the incomplete nature of the manifest was not causally connected to the damages sustained by Enviro West; the judge's treatment of the driver, his knowledge, his actions and inactions, and her acceptance of his explanation for failing to appreciate the significance of the imprecise information given to him and thus not recoiling upon hearing the words "hot" and "PCBs"; and the judge's conclusion regarding the timing of the driver's statement to personnel at the Enviro West office that he had been told the waste oil was "hot" or had high PCBs.

[39] However, the criticisms of Enviro West advanced by the appellants, and in particular Copper Mountain, went further and were explored by the appellants in the evidentiary phase of the trial. Enviro West witnesses were asked questions at trial about the training provided to Enviro West staff, the breadth of its business, the hazardous waste licensing system and its corporate knowledge of the licensing restrictions constraining its activities, and the response that should have been provided by Enviro West office personnel upon being told that the waste oil contained PCBs.

[40] At trial, Enviro West disputed the allegation that Boundary Electric had told Enviro West's Kelowna officer manager that the oil to be removed from the transformer contained PCBs. The judge, however, found that such information had been provided to Enviro West before the driver was dispatched, although, as everyone agreed, no information was communicated regarding the PCB concentration level. Upon that finding, the evidence of Enviro West's General Manager that a call from a customer requesting collection of oil containing PCBs should have triggered a question in response regarding the concentration of PCBs, as well as a request for documentation of test results, became relevant. Yet there is no discussion of the General Manager's expectations in this regard in the reasons for judgment.

[41] Similarly, there is no discussion in the reasons for judgment of other evidence relevant to contributory negligence adduced at trial that was not directed to the issue of the driver's conduct, including:

1) evidence from the General Manager that the Kelowna office should ensure drivers are aware of the serious implications of transporting oil with PCB concentrations over 50 ppm, and his evidence that, if drivers were not aware of this threshold, someone had "dropped the ball";

2) evidence from Enviro West's founder and Chief Executive Officer, who has extensive experience in the industry, that he expected his employees to be aware of the meaning of labels required by the Federal Government to identify high levels of PCBs, which labels were present at the mine, but which neither the Kelowna Operations Manager nor the driver knew the import of;

3) the lack of guidelines or written policies in place at Enviro West to ensure employees or middlemen knew their statutory obligations relating to PCBs; and

4) evidence that Enviro West's founder and Chief Executive Officer had, in the past, advocated against acting on a presumption of good faith in dealing with waste removal customers and had advocated for testing, which was not performed by Enviro West until immediately after the incident.

[42] In my view, this evidence is material to the issue of Enviro West's fulfillment of its duty to take reasonable care in its own interests, and reasons for judgment on the contributory negligence claim that do not consider Enviro West's "corporate behaviour", characterized by the appellants as "systematic", fail to fully address the content of the requisite standard of care.

[43] The judge observed in her reasons for judgment that a finding of contributory negligence risks putting too high a burden on the driver, saying that it could be unreasonable to expect him to act as "the gatekeeper". This observation reflects an approach to the issue of contributory negligence that focuses solely on the driver's behaviour, rather than on the behaviour of Enviro West *qua* a hazardous waste collector and transporter. The observation, however, does fairly measure the responsibility of the driver in these circumstances, given his apparent lack of training on the limitations of his employer's hazardous waste carriage licence and the import of those limitations, and the apparent lack of information provided to him when he was dispatched to the mine. The latter resulted from the appellants' negligence, for which they have been held accountable, but the former is a circumstance within the control of Enviro West that received no consideration in the reasons for judgment.

[44] The question should be asked whether, with prudent enquiry as to the nature of the cargo to be collected and basic training on hazardous materials and the scope of Enviro West's licence to transport hazardous waste, a reasonable driver confronted with a similar situation would behave differently. We know that on a daily basis drivers throughout the province safely collect, transport and off-load hazardous materials. Likewise, employees regularly engage in the proper handling of other materials associated with serious risk, such as asbestos. The problem identified by the judge of the driver being asked to act as the

gatekeeper may not arise where the corporate organization, in the words of the General Manager, has not "dropped the ball", but the judge did not advert to this aspect of the appellants' claim in contributory negligence.

[45] In determining whether, on a full consideration of the evidentiary record and the findings of the judge regarding the circumstances of the incident, contributory negligence was established, I am mindful that the judge found that Enviro West had never handled cargo with high levels of PCBs. This finding helps explain why events unfolded as they did, but it does not respond to the testimony of Enviro West's General Manager that information of PCB content should trigger further enquiry, the evidence that old transformers are a known PCB risk, or the tenor of the evidence from Enviro West's founder and Chief Executive Officer regarding the dangers of PCB contamination and the components of safe practice. Likewise, I recognize that the judge found there was no evidence of an industry standard of testing. However, this conclusion does not address the evidence from Enviro West's senior management regarding the need in such situations to gather more information before dispatching a driver to pick up a customer's waste oil.

[46] I should comment, as well, on the judge's reference to the "doctrine of last clear chance". She remarked that the appellants' submission that the collected oil should have been tested before being off-loaded was a version of that doctrine, which is no longer applicable in British Columbia. Although my conclusion rests on the larger issue of the applicable duty in contributory negligence and its application to a hazardous waste collector in this case, I would not agree that the last clear chance doctrine was a spectre here. The abolition of this doctrine, as admirably described in the cases to which the trial judge referred, penned by Mr. Justice Esson (*Lawrence v. Prince Rupert (City),* in dissent) and Mr. Justice Donald (*Dyke v. British Columbia Amateur Softball Assn.*), prevents an either/or analysis in the assessment of liability. To use Mr. Justice Donald's phrasing, the change in the law requires us to view multiple fault situations as a "web" rather than a "chain" of events and actors. I do not understand how the submission that the cargo should have been tested prior to off-loading can be seen as an either/or claim when it is made in the context of a claim of contributory negligence. Indeed, it seems to me that the essence of a claim of contributory negligence is a denial of the last clear chance doctrine.

[47] In her reasons for judgment, the judge referred to the regulatory scheme governing hazardous waste, relying upon it in finding a breach of the duty of care owed by each of the appellants to Enviro West:

> [80] Legislative standards are a relevant factor in determining the common law standard of care, and a breach of a statute is evidence of negligence (*Ryan v. Victoria (City)*, [1999] 1 S.C.R. 201). Here the handling and disposal of hazardous waste is

regulated by both the federal and provincial government through several statutes and regulations including, most notably, at the time of the incident, the *Environmental Management Act*, S.B.C. 2003, c. 53 ("*EMA*"), the *Hazardous Waste Regulation*, B.C. Reg. 63/88 ("*HWR*"), and the *Canadian Environmental Protection Act, 1999*, S.C. 1999, c. 33 ("*CEPA*").

[81] The *EMA* and the *HWR* govern the handling, transport, recycling, and disposal of hazardous waste within British Columbia.

[82] "Hazardous waste" is a defined term in s. 1 of the *HWR* and includes both PCB wastes and waste oil. As of August 2008, s. 10(1) of the *EMA* and s. 46(1)(e) of the *HWR*, prohibited a person who produced or stored a hazardous waste from using or allowing any hazardous waste with 500 g or more of PCB to be transported from the property where he or she produced or stored that hazardous waste, unless the person first completed the part of the manifest that applied to him or her and filed the manifest in the prescribed manner. The person was also required to ensure that the person transporting hazardous waste with 500 g or more of PCBs from the place where it was produced or stored had a licence for that purpose. Finally, the person who produced or stored the hazardous waste containing 500 g or more of PCBs was prohibited from causing or allowing that hazardous waste to be transported to a place unless the place is authorized to store PCBs.

[83] The *HWR* also defined the term "consignor". In August 2008, "consignor" was defined as a person to whom s. 10(1) of the *EMA* applied because the person (a) produced or stored hazardous waste, and (b) caused or allowed more than the quantity of hazardous waste prescribed in this regulation to be transported from the property where it was produced or stored. A consignor was prohibited by s. 44 of the *HWR* from offering to transport 5 litres of hazardous waste containing PCBs without first obtaining a Provincial Identification Number and writing that number on every manifest the person was required to use under s. 10(1) of the *EMA*.

[84] In addition, PCBs are regulated by the federal *Transportation of Dangerous Goods Act, 1992*, S.C. 1992, c. 32 and the *Transportation of Dangerous Goods Regulations*, S.O.R./2008-34 ("*TDG Regulations*"). In August 2008, s. 2.2(1) of the *TDG Regulations* directly placed the responsibility for classification of the dangerous good on the consignor, where "classification" as defined in Part 1 of the *TDG Regulations* means shipping name, primary class, compatibility group, subsidiary class, UN number, and packing group.

[85] <u>The legislative scheme quite properly places the burden on the waste generator and the consignor to classify and identify the hazardous waste</u>. By placing the responsibility on the generator and/or consignor, the legislative scheme is designed to prevent waste from entering the wrong waste stream, as obviously occurred in this case.

[Emphasis added]

[48] I agree entirely with the judge in her conclusion that the regulatory scheme places a significant burden upon the waste generator. For that reason, a high standard of care in relation to the communication of information will normally be applied to the waste generator, and greater responsibility assigned to it than to others involved in the stream of hazardous waste removal. Yet this conclusion does not answer the question of the content of the hazardous waste collector's duty to itself, which is the duty in issue here. To put it another

way, finding that the waste generator breached its obligation to provide information does not inoculate the waste collector from the requirement that it, too, act with reasonable care.

[49] There are, in my view, important questions to be considered in a claim of contributory negligence as between waste generators and a waste collector and transporter. With respect to hazardous waste, the parties are operating within a highly regulated industry, and from generation to the ultimate destruction of the waste, the legislative scheme imposes limits, obligations and penalties on all the parties involved. The factors described in *Wainwright* as the tools by which compliance with the requisite standard of care is measured, namely the foreseeability of risk; the likelihood of damage; the seriousness of the threatened harm; the cost of preventative measures; the utility of the defendant's conduct; any circumstances of emergency; compliance with approved practice or custom; and post-accident measures, are useful, although perhaps not exhaustive. It must be borne in mind that *Wainwright* was a case dealing with primary, rather than contributory, negligence and that the plaintiff in *Wainwright* had been expressly told that the risk that ultimately materialized, flammability, was not present. Thus *Wainwright*, while helpful with regard to the standard of care owed by those who generate hazardous waste, is less illuminating on the subject of contributory negligence and the duty of a party situated down the waste stream from the waste generator to be reasonably vigilant in looking out for its own safety. The *Wainwright* factors, in the least, must be adapted to the party whose conduct is under examination, harkening to the approach described by Professor Fleming.

[50] I respectfully conclude, therefore, that there is a portion of the appellants' claim in contributory negligence, and considerable evidence material to the issue, that is not insignificant and that was not addressed by the judge in her reasons for judgment. In consequence, in my view, the order dismissing the claim in contributory negligence must be set aside. This conclusion leads to two possible courses of action: remitting the claim in contributory negligence to the trial court, or substituting our own order as we are empowered to do under s. 9 of the *Court of Appeal Act*.

[51] On balance, I consider there is much value in remitting the matter to the trial court for determination, including such additional fact finding as may be necessary, consideration of such factors as the trial court considers bears upon compliance of Enviro West, in its role as a waste collector and transporter, with its duty to take care in its own interests, and, in the event there is a finding of contributory negligence, assignment of the respective degrees of fault, which is by s. 6 of the *Negligence Act*, a question of fact.

[52] I therefore would set aside the order dismissing the claim in contributory negligence and remit the matter to the trial court for determination in the manner it considers appropriate.

"The Honourable Madam Justice Saunders"

I AGREE:

"The Honourable Madam Justice Kirkpatrick"

I AGREE:

"The Honourable Mr. Justice Tysoe"