CANADIAN PACIFIC RAILWAY LTD/CN
Form 40-F
March 12, 2013
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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

x **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**

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For annual reports, indicate by check mark the information filed with this form:

x Annual information form x 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 x 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 x NO ¨

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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 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.

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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

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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.

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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.

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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.

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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

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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

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All dollar amounts in this Annual Information Form (AIF) are in Canadian dollars, unless otherwise noted.

March 12, 2013

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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 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.

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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.

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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

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SECTION 3: GENERAL DEVELOPMENTS OF THE BUSINESS

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.

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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.

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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:

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- 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.

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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

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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

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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.

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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)

				% Change	
				2012	2011
Business Category	**2012**	2011	2010	vs. 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.

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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.

<u>*Sulphur*</u>

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.

<u>*Fertilizers*</u>

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.

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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.

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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

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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

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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.

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.

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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

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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.

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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.

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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.

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SECTION 6: CAPITAL STRUCTURE

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)

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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:

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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

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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)	President and Chief Executive Officer, Acasta Capital (strategic and financial advisor)	2013

Toronto, Ontario, Canada		(2012)
Linda J. Morgan(2)(6)	Partner, Nossaman LLP (law firm)	2013
Bethesda, Maryland, U.S.A.		(2006)

SECTION 8: DIRECTORS AND OFFICERS

Madeleine Paquin [3][6]	President and Chief Executive Officer, Logistec Corporation (international cargo-handling company)	2013
Montreal, Quebec, Canada		(2001)
Hartley T. Richardson, C.M., O.M.[2][6]	President and Chief Executive Officer, James Richardson & Sons, Limited (privately owned corporation)	2013
Winnipeg, Manitoba, Canada		(2006)
Stephen C. Tobias[3][5][6]	Former Vice-Chairman and Chief Operating Officer, Norfolk Southern Corporation (U.S. Class I railroad)	2013
Garnett, South Carolina, U.S.A.		(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

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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.

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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

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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

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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.

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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.

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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

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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.

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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

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SECTION 12: AUDIT COMMITTEE

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

SECTION 12: AUDIT 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 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,

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SECTION 12: AUDIT COMMITTEE

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

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SECTION 12: AUDIT COMMITTEE

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:

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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

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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;

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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;

SECTION 12: AUDIT COMMITTEE

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

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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.

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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.

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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.

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Canadian Pacific

Gulf Canada Square

Suite 500

401   9th Avenue SW

Calgary AB T2P 4Z4

Canada

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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.

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A MESSAGE FROM CEO E. HUNTER HARRISON

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.

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CANADIAN PACIFIC

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

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CHAIRMAN S LETTER TO SHAREHOLDERS

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

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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.

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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.

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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.

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CANADIAN PACIFIC

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.

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CANADIAN PACIFIC

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 through-out 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; and to Canadian markets, respectively.

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.

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2012 FINANCIALS

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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 a 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.

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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.

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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.

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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.

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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

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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.

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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, 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

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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.

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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.

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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;

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- 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:

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