CANADIAN PACIFIC RAILWAY LTD/CN
Form 40-F
February 23, 2015
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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, 2014

CANADIAN PACIFIC RAILWAY LIMITED

(Commission File No. 1-01342)

CANADIAN PACIFIC RAILWAY COMPANY

(Commission File No. 1-15272)

(Exact name of Registrant as specified in its charter)

		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)**

7550 Ogden Dale Road S.E.,

Calgary, Alberta,

Canada, T2C 4X9

(403) 319-7000

(Address and telephone number of Registrant s principal executive offices)

CT Corporation System,

111 Eighth Avenue,

New York,

New York 10011,

(212) 894-8940

(Name, address (including zip code) and telephone number (including area code)

of Agent for Service of Registrant in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, without par value, of Canadian Pacific Railway Limited	**New York Stock Exchange**

Common Share Purchase Rights of Canadian Pacific Railway Limited	**New York Stock Exchange**
Perpetual 4% Consolidated Debenture Stock of Canadian Pacific Railway Company	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

Debt Securities of Canadian Pacific Railway Company

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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, 2014**,** 166,120,981 Common Shares of Canadian Pacific Railway Limited (CPRL) were issued and outstanding. At December 31, 2014, 347,170,009 Ordinary Shares of Canadian Pacific Railway Company (CPRC) were issued and outstanding. All of the ordinary shares of CPRC are held by CPRL.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES 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, 2014, at the time of filing with the Securities and Exchange Commission (the Commission), modifies and supersedes all prior documents filed pursuant to Sections 13 and 15(d) of the Exchange Act for purposes of any offers or sales of any securities after the date of such filing pursuant to any Registration Statement under the Securities Act of 1933 of either Registrant which incorporates by reference such Annual Report, including without limitation the following: Form S-8 No. 333-13962 (Canadian Pacific Railway Limited); Form S-8 No. 333-127943 (Canadian Pacific Railway Limited); Form S-8 No. 333-140955 (Canadian Pacific Railway Limited); Form S-8 No. 333-183891 (Canadian Pacific Railway Limited); Form S-8 No. 333-183892 (Canadian Pacific Railway Limited); Form S-8 No. 333-183893 (Canadian Pacific Railway Limited); Form S-8 No. 333-188826 (Canadian Pacific Railway Limited); and Form S-8 No. 333-188827 (Canadian Pacific Railway Limited).

In addition, this Annual Report on Form 40-F is incorporated by reference into or as an exhibit to, as applicable, the Registration Statement on Form F-10 No. 333-189815 (Canadian Pacific Railway Company), and the Registration Statement on Form F-10 No. 333-190229 (Canadian Pacific Railway Limited).

ANNUAL INFORMATION FORM, CONSOLIDATED AUDITED ANNUAL FINANCIAL STATEMENTS

AND MANAGEMENT S DISCUSSION AND ANALYSIS

A. Annual Information Form

For the Annual Information Form of CPRL for the year ended December 31, 2014, see Table of Contents and pages 1 through 42 of CPRL s 2014 Annual Information Form incorporated by reference and included herein.

B. Audited Annual Financial Statements

For audited consolidated financial statements (U.S. GAAP), including the reports of the independent registered public accounting firm with respect thereto, see pages 67 through 109 of CPRL s 2014 Annual Report incorporated by reference and included herein.

C. Management s Discussion and Analysis

For management s discussion and analysis, see pages 20 through 66 of CPRL s 2014 Annual Report incorporated by reference and included herein.

For the purposes of this Annual Report on Form 40-F, only pages 20 through 109 of CPRL s 2014 Annual Report referred to above shall be deemed filed, and the balance of such 2014 Annual Report, except as it may be otherwise specifically incorporated by reference in CPRL s Annual Information Form, shall be deemed not filed with the Commission as part of this Annual Report on Form 40-F under the Exchange Act.

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2014, an evaluation was carried out under the supervision of and with the participation of the Registrants management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Registrants disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of December 31, 2014, to ensure that information required to be disclosed by the Registrants in reports that they file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Commission rules and forms and (ii) accumulated and communicated to the Registrants management, including their Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

It should be noted that while the Registrants Chief Executive Officer and Chief Financial Officer believe that the Registrants disclosure controls and procedures and internal control over financial reporting provide

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a reasonable level of assurance that they are effective, they do not expect that the Registrants disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

MANAGEMENT S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

For management s report on internal control over financial reporting, see page 68 of the Registrant s 2014 Annual Report, incorporated by reference and included herein.

ATTESTATION REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The effectiveness of the Registrants internal control over financial reporting as of December 31, 2014 has been audited by Deloitte LLP, Independent Registered Public Accounting Firm, as stated in their report on pages 69 through 70 of the Registrant s 2014 Annual Report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the period covered by this Annual Report on Form 40-F, no changes occurred in the Registrants internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Registrants internal control over financial reporting.

NOTICES PURSUANT TO REGULATION BTR

None.

CODE OF ETHICS

The Registrants Code of Business Ethics specifically addresses, among other things, conflicts of interest, protection and proper use of corporate assets and opportunities, confidentiality of corporate information, fair dealing with third parties, compliance with laws, rules and regulations and reporting of illegal or unethical behavior. The Code applies to all directors, officers and employees, both unionized and non-unionized, of the Registrants and their subsidiaries in Canada, the U.S. and elsewhere, and forms part of the terms and conditions of employment of all such individuals. All members of the board of directors of the Registrants have signed acknowledgements that they have read, understood and agree to comply with the Code, and they annually confirm compliance. Annually, officers and non-union employees are required to acknowledge that they have read, understood and agree to comply with the Code. Contractors engaged on behalf of the Registrants or their subsidiaries must undertake, as a condition of their engagement, to adhere to principles and standards of business conduct consistent with those set forth in the Code. The Code is available on the Registrants web site at www.cpr.ca and in print to any shareholder who requests it. All amendments to the Code, and all waivers of the Code with respect to any director or executive officer of the Registrants, will be posted on the Registrants web site and provided in print to any shareholder who requests them.

In addition, the Registrants have adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers. This code applies to the Registrants Chief Executive Officer, Chief Financial Officer and Vice President and Controller. It is available on the Registrants web site at www.cpr.ca and in print to any shareholder who requests it. All amendments to the code, and all waivers of the code with respect to any of the officers covered by it, will be posted on the Registrants web site and provided in print to any shareholder who requests them.

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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 the regular and special meetings of the board of directors of CPRL and its standing committees in 2014. In fact, each regularly scheduled meeting s agenda included one or more such sessions during the meeting.

Interested parties may communicate directly with Mr. G.F. Colter, the Chair of the boards of the Registrants, who presided at such executive sessions, by writing to him at the following address, and all communications received at this address will be forwarded to him:

Office of the Corporate Secretary

Canadian Pacific Railway

7550 Ogden Dale Road S.E., Calgary, Alberta

Canada, T2C 4X9

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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:

Isabelle Courville

Paul Haggis

Linda J. Morgan

Andrew F. Reardon

Each of the aforementioned directors, with the exception of Ms. Morgan, has been determined by the boards of the Registrants to meet the audit committee financial expert criteria prescribed by the Commission and have been designated as an audit committee financial expert for the Audit Committees of the boards of both Registrants. Each of the aforementioned directors has been determined by the boards of the Registrants to be independent within the criteria referred to above under the subheading Director Independence , including the NYSE Standards.

FINANCIAL LITERACY OF AUDIT COMMITTEE MEMBERS

The boards of the Registrants have determined that all members of the Audit Committees have accounting or related financial management expertise within the meaning of the NYSE Standards. The boards have determined that all members of the Audit Committees are financially literate within the definition contained in, and as required by, National Instrument 52-110 and the NYSE Standards.

SERVICE ON OTHER PUBLIC COMPANY AUDIT COMMITTEES

Each Registrant s board has determined that no director who serves on more than two public company audit committees in addition to its own Audit Committee shall be eligible to serve as a member of the Audit Committee of that Registrant, unless that Registrant s board determines that such simultaneous service would not impair the ability of such member to effectively serve on that Registrant s Audit Committee. For purposes of calculating the aggregate number of public company audit committees on which a director serves, each Registrant is counted as a separate public company.

No members of the Audit Committees of the Registrants serve on more than two public company audit committees in addition to the Audit Committee of each Registrant.

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PRINICIPAL ACCOUNTANT FEES AND SERVICES

In accordance with applicable laws and the requirements of stock exchanges and securities regulatory authorities, the Audit Committee of a company must pre-approve all audit and non-audit services to be provided by the independent auditors. Fees payable to Deloitte LLP for the years ended December 31, 2014, and December 31, 2013, totalled $2,885,400 and $2,213,000, respectively, as detailed in the following table:

For the year ended December 31	Total 2014 ($)	Total 2013 ($)
Audit Fees	**2,184,800**	1,943,000
Audit-Related Fees	**155,000**	228,500
Tax Fees	**295,600**	41,500
All Other Fees	**250,000**	
TOTAL	**2,885,400**	2,213,000

The nature of the services provided under each of the categories indicated in the table is described below.

Audit Fees

Audit fees were for professional services rendered for the audit and interim reviews of the Registrants annual financial statements and services provided in connection with statutory and regulatory filings or engagements, including the attestation engagement for the report from the independent registered public accounting firm on the effectiveness of internal controls over financial reporting, the audit or interim reviews of financial statements of certain subsidiaries and of various pension and benefits plans of the Registrants; special attestation services as may be required by various government entities; and general advice and assistance related to accounting and/or disclosure matters with respect to new and proposed U.S. accounting standards, securities regulations, and/or laws.

Audit-Related Fees

Audit-related fees were for assurance and related services reasonably related to the performance of the audit or review of the annual financial statements, but which are not reported under Audit Fees above. These services consisted of audit work related to securities filings; refinancing of subsidiary companies; and accounting training.

Tax Fees

Tax fees were for professional services related to tax compliance, tax planning and tax advice. These services consisted of: tax compliance including the review of tax returns; assistance with questions regarding corporate tax audits; tax planning and advisory services relating to common forms of domestic and international taxation (i.e. income tax, capital tax, goods and services tax, and value added tax); and access fees for taxation database resources.

All Other Fees

Fees disclosed under this category would be for products and services other than those described under Audit Fees , Audit-Related Fees and Tax Fees above. These finance services consisted of advice with respect to an internal reorganization initiative. There were no such services in 2013.

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PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES PROVIDED BY

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of each Registrant has adopted a written policy governing the pre-approval of audit and non-audit services to be provided to the Registrants by their independent registered public accounting firm. The policy is reviewed annually and the audit and non-audit services to be provided by their independent registered public accounting firm, as well as the budgeted amounts for such services, are pre-approved at that time, including by the board of directors of the Registrant in respect of fees for audit services. The Comptroller of the Registrants must submit to the Audit Committee at least quarterly a report of all services performed or to be performed by the independent registered public accounting firm pursuant to the policy. Any additional non-audit services to be provided by the independent registered public accounting firm either not included among the pre-approved services or exceeding the budgeted amount for such pre-approved services by more than 10% must be individually pre-approved by the Audit Committee or its Chairman, who must report all such additional pre-approvals to the Audit Committee at its next meeting following the granting thereof. The independent registered public accounting firm s annual audit services engagement terms are subject to the specific pre-approval of the Audit Committee, with the associated fees being subject to approval by the board of directors of the Registrant. In addition, prior to the granting of any pre-approval, the Audit Committee or its Chairman, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of the independent registered public accounting firm. The Chief Internal Auditor for the Registrants monitors compliance with this policy.

OFF-BALANCE SHEET ARRANGEMENTS

A description of the Registrants off-balance sheet arrangements is set forth on page 52 of the Registrants 2014 Annual Report incorporated by reference and included herein.

TABLE OF CONTRACTUAL COMMITMENTS

The table setting forth the Registrants contractual commitments is set forth on page 52 of the Registrants 2014 Annual Report incorporated by reference and included herein.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

Each Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

B. Consent to Service of Process

Each Registrant has previously filed a Form F-X in connection with the class of securities to which the obligation to file this report arises. Any change to the name or address of the agent for service of process of either Registrant shall be communicated promptly to the Commission by an amendment to the Form F-X referencing the file number of such Registrant.

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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: February 23, 2015

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EXHIBITS

99.1	Consent of Deloitte LLP, Independent Registered Public Accounting Firm.
99.2	Certification by the Chief Executive Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
99.3	Certification by Chief Financial Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
99.4	Certification by the Chief Executive Officer of the Registrants furnished pursuant to 18 U.S.C. Section 1350.
99.5	Certification by the Chief Financial Officer of the Registrants filed pursuant to 18 U.S.C. Section 1350.
101	Interactive Data File

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ANNUAL INFORMATION FORM | 2014

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February 23, 2015

1. CORPORATE STRUCTURE

In this Annual Information Form (AIF), our , us , we , CP and the Company refer to Canadian Pacific Railway Limited (CPRL), CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL s subsidiaries, as the context may require. All information in this AIF is stated as at December 31, 2014 and all financial statements were prepared in accordance with United States generally accepted accounting principles (GAAP) unless otherwise indicated. Except where otherwise indicated, all financial information and references to dollar or $ reflected herein are expressed in Canadian dollars.

1.1 Name, Address and Incorporation Information

Canadian Pacific Railway Limited was incorporated on June 22, 2001, as 3913732 Canada Inc. pursuant to the *Canada Business Corporations Act*

(the CBCA). On July 20, 2001, CP amended its Articles of Incorporation to change its name to Canadian Pacific Railway Limited. On October 1, 2001, Canadian Pacific Limited (CPL) completed an arrangement (the Arrangement) pursuant to section 192 of the CBCA whereby it distributed to its common shareholders all of the shares of newly formed corporations holding the assets of four of CPL s five primary operating divisions. The transfer of Canadian Pacific Railway Company (CPRC), previously a wholly owned subsidiary of CPL, to CPRL was accomplished as part of a series of steps, pursuant to the terms of the Arrangement.

The Company s registered, executive and head office is located at 7550 Ogden Dale Road S.E., Calgary, Alberta T2C 4X9.

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2. INTERCORPORATE RELATIONSHIPS

2.1 Principal Subsidiaries

The table below sets out the Company s principal subsidiaries, including the jurisdiction of incorporation and the percentage of voting and non-voting securities CP currently own directly or indirectly:

Principal Subsidiary[(1)]	Incorporated under the Laws of	Percentage of Voting Securities Held Directly or Indirectly	Percentage of Non-Voting Securities Beneficially Owned, or over which Control or Direction is Exercised
Canadian Pacific Railway Company	Canada	100%	Not applicable
Soo Line Corporation[(2)]	Minnesota	100%	Not applicable
Soo Line Railroad Company[(3)]	Minnesota	100%	Not applicable
Dakota, Minnesota & Eastern Railroad Corporation[(4)]	Delaware	100%	Not applicable
Delaware and Hudson Railway Company, Inc.[(3)]	Delaware	100%	Not applicable
Mount Stephen Properties Inc.[(5)]	Canada	100%	Not applicable

(1) This table does not include all of the Company s subsidiaries. The assets and revenues of unnamed subsidiaries did not exceed 10% of the total consolidated assets or total consolidated revenues of CP individually, or 20% of the total consolidated assets or total consolidated revenues of CP in aggregate.
(2) Indirect wholly owned subsidiary of Canadian Pacific Railway Company.
(3) Wholly owned subsidiary of Soo Line Corporation.
(4) Indirect wholly owned subsidiary of Soo Line Corporation.
(5) Wholly owned subsidiary of Canadian Pacific Railway Company.

3. GENERAL DEVELOPMENTS OF THE BUSINESS

3.1 Recent Developments

2014 Developments

On May 7, 2014, CP announced Chief Executive Officer E. Hunter Harrison agreed to a contract extension with the railway for an additional year, and will remain with the Company until 2017. Prior to the Company s shareholder meeting on May 1, 2014, it was announced that Mr. Richard Kelly would not stand for re-election as a member of the Company s Board of Directors. On May 1, 2014, the Company announced that Gary Colter was elected Chairman of the Company s Board of Directors. Effective May 20, 2014, the Hon. Jim Prentice resigned as a member of the Company s Board of Directors. Mr. Prentice had been appointed to the Board on June 7, 2013.

On October 1-2, 2014, the Company unveiled new growth targets extending to 2018. These financial expectations include:

- more than doubling diluted earnings per share (EPS) over the next four years compared to 2014;
- growing annual revenue to $10 billion in 2018; and
- generating cumulative cash flow before dividends of $6 billion through 2018.

Over the course of 2014 and in early 2015, CP took a number of steps to optimize the Company s capital structure and lower cost of capital. Key initiatives included:

- on January 28, 2015, CP issued U.S. $700 million 2.900% 10-year Notes due 2025 for net proceeds of U.S.$694 million;
- during the fourth quarter of 2014, the Company established a commercial paper program which enabled it to issue commercial paper up to a maximum aggregate principal amount of U.S. $1 billion in the form of unsecured promissory notes. The commercial paper program is backed by a U.S. $1 billion committed, revolving credit facility, which matures on September 26, 2016. As at December 31, 2014, the Company had total commercial paper borrowings of U.S. $675 million (CDN $783 million) presented in Long-term debt on the Company s Consolidated Balance Sheets;
- at September 26, 2014, CP terminated its existing revolving credit facility agreement dated as of November 29, 2013. On the same day CP entered into a new revolving credit facility agreement with 15 highly rated financial institutions for a commitment amount of U.S. $2 billion. The facility includes a U.S. $1 billion five years portion and a U.S. $1 billion one year plus one year term out portion. The facility can accommodate draws of cash and/or

letters of credit at market competitive pricing. At December 31, 2014, the facility was undrawn; and

on March 17, 2014 the Company commenced a Normal Course Issuer Bid (NCIB) to purchase, for cancellation up to 5.3 million common shares. On September 29, 2014, the Company announced the amendment of the NCIB to increase the maximum number of its Common Shares that could be purchased from 5.3 million to 12.7 million by March 16, 2015. From March 17, 2014 to December 31, 2014, the Company repurchased 10.5 million Common shares for $2,089 million at an average price of $199.42 per share.

As a result of the Company s improved financial position, CP received two ratings upgrades in 2014 from all three agencies. Standard & Poor s (S&P), Moody s Investors Services (Moody s), and Dominion Bond Rating Services (DBRS) increased their ratings to BBB+, Baa1 and BBB (High), respectively, from BBB-, Baa3, and BBB (Low), respectively. In addition, the Company was assigned short-term ratings on its newly established U.S. commercial paper program. S&P, Moody s, and DBRS assigned ratings of A-2, P-2, and R-2 (High), respectively.

On November 17, 2014, the Company announced a proposed agreement with Norfolk Southern Corporation (NS) for the sale of approximately 283 miles of the Delaware and Hudson Railway Company, Inc. s line between Sunbury, Pennsylvania, and Schenectady, New York. The assets expected to be sold to NS upon completion of this transaction have been classified as Assets held for sale on the Company s Consolidated Balance Sheets. The assets continue to be reported at their carrying value as this is lower than their expected fair value. The sale to NS, when agreed, will be subject to regulatory approval by the U.S. Surface Transportation Board and is expected to close in 2015.

On January 2, 2014, the Company executed an agreement with Genesee & Wyoming Inc. (G&W) for the sale of the Dakota, Minnesota, & Eastern (DM&E) West tracks between Tracy, Minnesota and Rapid City, South Dakota, Colony, Wyoming and Crawford, Nebraska. DM&E West encompasses approximately 660 miles and the sale closed on May 30, 2014 for U.S. $218 million (CDN $236 million) in gross proceeds.

On January 20, 2015, CP announced it had an agreement to create a joint venture with DREAM Unlimited called DREAM Van Horne Properties. The joint venture was created to evaluate the Company s real estate, and to explore innovative ways to maximize value, including industrial, commercial and residential development.

2013 Developments

Effective February 5, 2013, Mr. Keith Creel was appointed as President and Chief Operating Officer as part of the Company s long-term succession plan. In connection to this appointment, Mr. E. Hunter Harrison remains Chief Executive Officer of the Company. On November 29, 2013, CP further announced the appointment of Mr. Bart W. Demosky as Executive Vice President and Chief Financial Officer effective December 28, 2013. Mr. Demosky replaced Mr. Brian Grassby, who retired from his role as Senior Vice President, Chief Financial Officer and Treasurer as announced on October 23, 2013. Mr. Grassby remained a key part of the senior management team until the end of 2013 to lead a successful transition.

Early in 2014, the Company executed an agreement with G&W for the sale of a portion of the DM&E line between Tracy, Minnesota and Rapid City, South Dakota, Colony, Wyoming and Crawford, Nebraska and connecting branch lines as result of the Company s 2012 initiative to assess the opportunities with this 660 mile portion of DM&E. The Company recorded an asset impairment charge and accruals for future associated costs totaling $435 million ($257 million after tax) which impacted diluted EPS by $1.46 in 2013.

2012 Highlights

During 2012, the Company experienced a number of other noteworthy events summarized below:

Proxy Contest

In January 2012, Pershing Square Capital Management, L.P. (Pershing Square) launched a proxy contest in order to replace a minority of the Board of Directors of the Company (the Board) and to advocate for management change (the Proxy Contest). The proxy contest was settled in May 2012 with changes described below in Change in Board of Directors and Management transition .

Change in Board of Directors

On May 17, 2012, following the Proxy Contest Messrs. John Cleghorn, Tim Faithfull, Fred Green, Edmond Harris, Michael Phelps and Roger Phillips advised the Company that they did not intend to stand for re-election to the Board.

At the Company s annual shareholders meeting held on May 17, 2012, seven new directors were elected to the Board, namely Messrs. William Ackman, Gary Colter, Paul Haggis and Paul Hilal, Ms. Rebecca MacDonald, and Messrs. Anthony Melman and Stephen Tobias. In addition, Mr. Richard George, Ms. Krystyna Hoeg, Messrs. Tony Ingram and Richard Kelly, the Hon. John Manley, Mesdames Linda Morgan and Madeleine Paquin, and Messrs. David Raisbeck and Hartley Richardson were all re-elected to the Board at the May 17, 2012 meeting. Following the meeting, the new Board selected Ms. Paquin to serve as acting Chair of the Company. On June 4, 2012, Mr. Haggis was appointed Chairman of the Company s Board.

Subsequent to the May 17, 2012 shareholders meeting, Messrs. Raisbeck, George and Ingram resigned from the Board on June 11, June 26 and July 5, 2012, respectively. In addition, effective July 6, 2012, Mr. E. Hunter Harrison was appointed to the Board.

As a result of the aforementioned changes to the composition of the Board, certain accelerated vesting provisions for certain grants under the Company s management stock option incentive plan, performance share unit plan and deferred share unit plan were triggered effective June 26, 2012. The effect of such accelerated vesting on the Company s second quarter financial statements was a credit to Compensation and benefits of $8 million and the recognition of a related liability under the accelerated vesting provisions of these plans of $31 million, which liability was settled in full in the third quarter of 2012.

Management transition

On May 17, 2012, following the Proxy Contest, Mr. Fred Green left his position as President and Chief Executive Officer of the Company. That same day, Mr. Stephen Tobias, a new Board member elected at the Company s annual shareholders meeting held on May 17, 2012, was appointed by the Board as Interim Chief Executive Officer and served in that role until June 28, 2012. On June 28, 2012, Mr. E. Hunter Harrison was appointed by the Board as President and Chief Executive Officer. As a result of the appointment of Mr. Harrison, the Company recorded a charge of $38 million with respect to compensation and other transition costs, including $2 million of associated costs, in the second quarter of 2012. This charge was recorded in the Company s financial statements in Compensation and benefits and Purchased services and other, in the amounts of $16 million and $22 million respectively.

Included in this charge were amounts totaling $16 million in respect of deferred retirement compensation for Mr. Harrison and $20 million to Pershing Square and related entities. Pershing Square and related entities owned or controlled approximately 14% of the Company s outstanding shares as at December 31, 2012 and two Board members, Mr. William Ackman and Mr. Paul Hilal, are partners of Pershing Square. The amount paid to Pershing Square and related entities was to reimburse them, on behalf of Mr. Harrison, for certain amounts they had previously paid to, or incurred on behalf of, Mr. Harrison pursuant to an indemnity in favour of Mr. Harrison in connection with losses suffered in legal proceedings commenced against Mr. Harrison by his former employer. The terms of Pershing Square s indemnity required Mr. Harrison to return any funds advanced under the indemnity in the event he accepted employment at CP. As a result, Mr. Harrison made it a precondition of accepting the Company s offer of employment that CP assumes the indemnity obligations and returns the funds advanced by Pershing Square. As a result of the payment, the Company would have been entitled to enforce

Mr. Harrison s rights in the aforementioned legal proceedings, allowing the Company to recover to the extent of Mr. Harrison s success in those proceedings; however, on February 3, 2013, the Company and Mr. Harrison settled the legal proceedings with Mr. Harrison s former employer, providing the Company with partial recovery (U.S. $9 million) of the amounts in dispute. The Company may receive repayment in other circumstances in the event of certain breaches by Mr. Harrison of his obligations under an employment agreement with the Company. In addition, the Company agreed to indemnify Mr. Harrison for certain other amounts sought for repayment by Mr. Harrison s former employer, to a maximum of $3 million plus legal fees, but as a result of the settlement of the aforementioned legal proceedings, such indemnity is no longer applicable.

The Company also recorded a charge of $4 million in the second quarter of 2012 with respect to a retirement allowance for Mr. Green.

Strike

On May 23, 2012, the Teamsters Canada Rail Conference Running Trade Employees (TCRC-RTE) and the Rail Canada Traffic Controllers (TCRC-RCTC), representing 4,800 engineers, conductors and rail traffic controllers in Canada, commenced a strike that caused a nine-day Canadian work stoppage (the strike). Bill C-39, the Restoring Rail Service Act, was passed by the Parliament of Canada on May 31, 2012 and employees returned to work on June 1, 2012.

The strike caused a significant loss of revenue during the second quarter. Partly offsetting this revenue loss were cost savings in Compensation and benefits, Fuel, and Equipment rents. During the strike, CP took the opportunity to advance track and other maintenance including mechanical and engineering work.

Once the unions returned to work the Company quickly re-established service and reset the network.

Strategic update

On December 4-5, 2012, CP s Chief Executive Officer E. Hunter Harrison outlined the Company s plan for change to improve service, increase the railway s efficiency, lower cost and grow the business.

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Under the leadership of new management, the second half of 2012 included a rapid change agenda where progress was made on this plan. Highlights of CP s evolution to a more competitive railway include:

- a new executive leadership team in place, including a new Senior Operations lead team, with a mandate for centralized planning and decentralized execution, that eliminates bureaucracy to make service decisions faster and closer to the customer;
- revamped intermodal and merchandise train services which provide faster transit times for customers, such as the new intermodal services connecting Vancouver to Chicago or Toronto;
- the closure of hump-switching yards in Toronto, Winnipeg, Calgary and Chicago which provides significant cost savings and more efficient operating practices;
- the closure of intermodal terminals in Milwaukee, Obico (Toronto), and Schiller Park (Chicago) which reduced CP s footprint and operating expenses while also facilitating efficient operating practices and reduced end-to-end transit times;
- network design changes made after July 2012 allowed CP to reduce operating plan train miles by 39,000 per week, a 7 percent improvement, and crew starts by approximately 30 per day, a 5 percent improvement over previous designs from the first half of the year. Together, these design changes reduced annual operating costs, while increasing capacity; and
- a reduction of the Company s active locomotive fleet by more than 195 engines in the second half of 2012, with more than 460 locomotives stored, returned or declared surplus year-to-date. Over the course of 2012, CP provided return notification on 5,400 rail cars.

Asset impairment and labour restructuring charges

During the fourth quarter of 2012, the Company recorded a number of significant charges in part due to on-going efforts to improve the efficiency of the Company. These significant charges, included:

- $53 million labour restructuring charge ($39 million after tax), which unfavourably impacted diluted EPS by 22 cents;
- $185 million impairment of Powder River Basin (PRB) and other investment ($111 million after tax), which unfavourably impacted diluted EPS by 64 cents; and

$80 million asset impairment of certain locomotives ($59 million after tax), which unfavourably impacted diluted EPS by 34 cents.

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4. DESCRIPTION OF THE BUSINESS

4.1 Background and Network

CPRC was incorporated by Letters Patent in 1881 pursuant to an Act of the Parliament of Canada. CPRC is one of Canada s oldest corporations. From the Company s inception 134 years ago, CP has developed into a fully integrated and technologically advanced Class I railway (a railroad earning a minimum of U.S. $452.7 million in revenues annually as defined by the Surface Transportation Board in the U.S.) providing rail and intermodal freight transportation services over a 13,700 mile network serving the principal business centres of Canada, from Montreal, Quebec to Vancouver, British Columbia (B.C.), and the U.S. Midwest and Northeast regions.

CP owns approximately 9,900 miles of track. An additional 3,800 miles of track are owned jointly, leased or operated under trackage rights. Of the total mileage operated, approximately 5,800 miles are located in western Canada, 2,300 miles in eastern Canada, 4,500 miles in the U.S. Midwest and 1,100 miles in the U.S. Northeast. The Company s business is based on funnelling railway traffic from feeder lines and connectors, including secondary and branch lines, onto the Company s high-density mainline railway network. CP has extended its network reach by establishing alliances and connections with other major Class I railways in North America, which allow the Company to provide competitive services and access to markets across North America beyond CP s own rail network. The Company also provides service to markets in Europe and the Pacific Rim through direct access to the Port of Montreal and the Port Metro Vancouver in Vancouver, B.C., respectively.

CP s network accesses the U.S. market directly through three wholly owned subsidiaries: Soo Line Railroad Company (Soo Line), a Class I railway operating in the U.S. Midwest; DM&E, a wholly owned subsidiary of the Soo Line, which operates in the U.S. Midwest; and the Delaware and Hudson Railway Company, Inc. (D&H), which operates between eastern Canada and major U.S. Northeast markets, including New York City, New York; Philadelphia, Pennsylvania; and Washington, D.C.

4.2 Strategy

Canadian Pacific is driving change as it moves through its transformational journey to become the best railroad in North America, while creating long-term value for shareholders. The Company is focused on providing customers with industry leading rail service; driving sustainable, profitable growth; optimizing our assets; and reducing costs, while remaining a leader in rail safety.

Looking forward, CP is executing its strategic plan to become the lowest cost rail carrier centred on five key foundations, which are the Company s performance drivers.

Provide Service: Providing efficient and consistent transportation solutions for the Company s customers. Doing what we say we are going to do is what drives CP by providing a reliable product with a lower cost operating model. Centralized planning aligned with local execution is bringing the Company closer to the customer and accelerating decision-making.

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

Optimize Assets: Through longer sidings, improved asset utilization, and increased train lengths, the Company is moving increased volumes with fewer locomotives and cars while unlocking capacity for future growth potential.

Operate Safely: Each year, CP safely moves millions of carloads of freight across North America while ensuring the safety of our people and the communities through which we operate. Safety is never to be compromised. Continuous research and development in state-of-the-art safety technology and highly focused employees ensure our trains are built for safe, efficient operations across our network.

Develop People: CP recognizes that none of the other foundations can be achieved without its people. Every CP employee is a railroader and the Company is shaping a new culture focused on a passion for service with integrity in everything it does. Coaching and mentoring managers into becoming leaders will help drive CP forward.

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4.3 Partnerships, Alliances and Network Efficiency

Some customers goods may have to travel on more than one railway to reach their final destination. The transfer of goods between railways can cause delays and service interruptions. The Company s rail network connects to other North American rail carriers and, through partnerships, the Company continues to co-develop processes and products designed to provide seamless and efficient scheduled train service to these customers.

CP continues to increase the capacity and efficiency of the Company s core franchise through infrastructure-sharing and joint-service programs with other railways and third parties, strategic capital investment programs, and operating plan strategies. Combined with the continued improvement of CP locomotive and rail car fleets, these strategies enable the Company to achieve more predictable and fluid train operations between major terminals.

Over the past few years, Class I railway initiatives have included:

- Co-operation initiatives with the Canadian National Railway Company (CN) in the Port Metro Vancouver Terminal and B.C. Lower Mainland;
- Working very closely with all the Class I and other carriers that serve Chicago, Illinois under the Chicago Region Environmental and Transportation Efficiency (CREATE) program. Class I s, Amtrak, Metra and switching carriers Indiana Harbor Belt Railroad (IHB) and Belt Railway of Chicago (BRC) have partnered in CREATE to construct operating and structural changes that will improve operating efficiency and fluidity in and around Chicago, the largest railroad hub in North America; and
- CP, working with the State Departments of Transportation of New York, Illinois, Wisconsin and Minnesota, to develop plans for improved track and road infrastructure to support intercity passenger rail. This infrastructure will support the fluidity of passenger and freight traffic on shared CP track.

CP also develops mutually beneficial arrangements with smaller railways, including shortline and regional carriers.

4.4 Network and Right-of-Way

The Company s 13,700-mile network extends from the Port Metro Vancouver on Canada s Pacific Coast to the Port of Montreal in eastern Canada, and to the U.S. industrial centres of Chicago; Detroit, Michigan; Newark, New Jersey; and Buffalo, New York; Kansas City, Missouri; and Minneapolis, Minnesota.

The Company s network is composed of four primary corridors: Western, Eastern, Central and the Northeast U.S.

4.4.1 The Western Corridor: Vancouver to Thunder Bay

Overview The Western Corridor links Vancouver with Thunder Bay, Ontario, which is the western Canadian terminus of the Company s Eastern corridor. With service through Calgary, Alberta the Western Corridor is an important part of the Company s routes between Vancouver and the U.S. Midwest, and between Vancouver and Eastern Canada. The Western Corridor provides access to the Port of Thunder Bay, Canada s primary Great Lakes bulk terminal.

Products The Western Corridor is the Company s primary route for bulk and resource products traffic from western Canada to the Port Metro Vancouver for export. CP also handles significant volumes of international intermodal containers and domestic general merchandise traffic.

Feeder Lines CP supports its Western Corridor with four significant feeder lines: the Coal Route , which links southeastern B.C. coal deposits to the Western Corridor and to coal terminals at the Port Metro Vancouver; the Edmonton-Calgary Route , which provides rail access to Alberta s Industrial Heartland in addition to the petrochemical facilities in central Alberta; the Pacific CanAm Route , which connects Calgary and Medicine Hat, Alberta, with Pacific Northwest rail routes at Kingsgate, B.C. via the Crowsnest Pass; and the North Main Line Route that provides rail service to customers between Portage La Prairie, Manitoba and Wetaskiwin, Alberta, including intermediate points Yorkton and Saskatoon in Saskatchewan. This line is an important collector of Canadian grain and fertilizer, serving the potash mines located east and west of Saskatoon and many high-throughput grain elevator, processing and crude facilities. In addition, this line provides direct access to refining and upgrading facilities at Lloydminster, Alberta and western Canada s largest pipeline terminal at Hardisty, Alberta.

Connections The Company s Western Corridor connects with the Union Pacific Railroad (UP) at Kingsgate and with Burlington Northern Santa Fe, LLC (BNSF) at Coutts, Alberta, and at New Westminster and Huntingdon in B.C. This corridor also connects with CN at many locations including Thunder Bay, Winnipeg, Regina and Saskatoon in Saskatchewan, Red Deer, Camrose, Calgary and

Edmonton in Alberta and several locations in the Greater Vancouver area.

Yards and Repair Facilities CP supports rail operations on the Western Corridor with main rail yards at Vancouver, Calgary, Edmonton, Moose Jaw in Saskatchewan, Winnipeg and Thunder Bay. CP also has major intermodal terminals at Vancouver, Calgary, Edmonton, Regina and Winnipeg. The Company has locomotive and rail car repair facilities at Golden, B.C., Vancouver, Calgary, Moose Jaw and Winnipeg.

4.4.2 The Central Corridor: Moose Jaw or Winnipeg to Chicago and Kansas City

Overview The Central Corridor connects with the Western Corridor at Moose Jaw and Winnipeg. By running south to Chicago and Kansas City through the Twin Cities of Minneapolis and St. Paul, Minnesota and Milwaukee, Wisconsin, CP provides a direct, single-carrier route between western Canada and the U.S. Midwest, providing access to Great Lakes and Mississippi River ports. From La Crosse, Wisconsin, the Central Corridor continues south towards Kansas City via the Quad Cities, providing an efficient route for traffic destined for southern U.S. and Mexican markets. CP s Kansas City line also has a direct connection into Chicago and by extension to points east on CP s network such as Toronto, Ontario and the Port of Montreal.

Products Traffic transported on the Central Corridor include intermodal containers from the Port Metro Vancouver, fertilizers, chemicals, crude, grain, automotive and other agricultural products.

Feeder Lines The Company has operating rights over the BNSF line between Minneapolis and the twin ports of Duluth, Minnesota and Superior, Wisconsin. CP maintains its own yard facilities at the Twin Ports that provide an outlet for grain from the U.S. Midwest to the grain terminals at these ports, and a strategic entry point for large dimensional shipments that can be routed via CP s network to locations such as Alberta s Industrial Heartland to serve the needs of the oil sands and energy industry. The DM&E route from Winona, Minnesota to Tracy, Minnesota provides access to key agricultural and industrial commodities. CP s feeder line between Drake and Newtown in North Dakota is geographically situated in a highly-strategic region for Bakken oil production. CP also owns two significant feeder lines in North Dakota and western

Minnesota operated by the Dakota Missouri Valley and Western Railroad, and the Northern Plains Railroad respectively. Both of these short lines are also active in providing service to agricultural and Bakken-oil related customers.

Connections The Company s Central Corridor connects with all major railways at Chicago. Outside of Chicago, CP has major connections with BNSF at Minneapolis and at Minot, North Dakota and with UP at St. Paul. CP connects with CN at Milwaukee and Chicago. At Kansas City, CP connects with Kansas City Southern (KCS), BNSF, Norfolk Southern Corporation (NS), and UP. CP s Central Corridor also links to several shortline railways that primarily serve grain and coal producing areas in the U.S., and extend CP s market reach in the rich agricultural areas of the U.S. Midwest.

Yards and Repair Facilities The Company supports rail operations on the Central Corridor with main rail yards in Chicago, Milwaukee, Wisconsin, St. Paul and Glenwood in Minnesota, and Mason City and Nahant in Iowa. CP owns 49% of the IHB, a switching railway serving Greater Chicago and northwest Indiana, and has a major intermodal terminal in Chicago and one in Minneapolis. In addition, CP has a major locomotive repair facility at St. Paul and car repair facilities at St. Paul and Chicago. CP shares a yard with KCS in Kansas City.

4.4.3 The Eastern Corridor: Thunder Bay to Montreal and Detroit

Overview The Eastern Corridor extends from Thunder Bay through to its eastern terminus at Montreal and from Toronto to Chicago via Windsor/Detroit. The Company s Eastern Corridor provides shippers direct rail service from Toronto and Montreal to Calgary and Vancouver via the Company s Western Corridor and to the U.S. via the Central Corridor. This is a key element of the Company s transcontinental intermodal and other services, as well as truck trailers moving in drive-on/drive-off Expressway service between Montreal and Toronto. The corridor also supports the Company s market position at the Port of Montreal by providing one of the shortest rail routes for European cargo destined to the U.S. Midwest, using the CP-owned route between Montreal and Detroit, coupled with a trackage rights arrangement on NS tracks between Detroit and Chicago.

Products Major traffic categories transported in the Eastern Corridor include forest, chemicals and plastics, crude, metals, minerals and consumer products, intermodal containers, automotive products and general merchandise.

Feeder Lines A major feeder line that serves the steel industry at Hamilton, Ontario provides connections to both the Company s Northeast U.S. corridor and both CSXT Corporation (CSXT) and NS at Buffalo.

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

Yards and Repair Facilities CP supports its rail operations in the Eastern Corridor with major rail yards at Sudbury, Toronto, London and Montreal. The Company s largest intermodal facility is located in the northern Toronto suburb of Vaughan and serves the Greater Toronto and southwestern Ontario areas. CP also operates intermodal terminals at Montreal and Detroit. Terminals for the Company s Expressway service are located in Montreal and at Milton, Ontario in the Greater Toronto area.

The Company has locomotive repair facilities at Montreal and Toronto and car repair facilities at Thunder Bay, Toronto and Montreal.

4.4.4 The Northeast U.S. Corridor: Buffalo and Montreal to New York

Overview The Northeast U.S. Corridor provides an important link between the major population centres of eastern Canada, the U.S. Midwest and the U.S. Northeast. The corridor extends from Montreal to Harrisburg, Pennsylvania and Buffalo, New York to Allentown, Pennsylvania and to Albany/Schenectady in New York s Capital District Region.

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

Feeder Lines The Northeast U.S. Corridor connects with important feeder lines. The Company s route between Montreal and Harrisburg, Pennsylvania, in combination with trackage rights over other railways, provides the Company with direct access to Allentown, Pennsylvania. Agreements with NS provide CP with access to shippers and receivers in the Conrail shared asset regions of New Jersey. The southern tier route between Buffalo, New York and Binghamton, New York includes haulage rights over NS lines, links industrial southern Ontario with key U.S. connecting rail carriers at Buffalo and provides access to CP for short line carriers along the Buffalo to Binghamton, New York route.

Connections CP has major connections with NS at Binghamton, and Harrisburg and Allentown, Pennsylvania, with CSXT at Albany, New York and with Pan Am Southern at Mechanicville, New York. Shortline connections exist with multiple players throughout the corridor.

Yards and Repair Facilities CP supports its Northeast U.S. Corridor with a major rail yard in Binghamton. CP has locomotive and car repair facilities in Montreal and Binghamton.

4.4.5 Right-of-Way

The Company s rail network is standard gauge, which is used by all major railways in Canada, the U.S. and Mexico. Continuous welded rail is used on the core main line network.

CP uses different train control systems on portions of the Company s owned track, depending on the volume of rail traffic. Remotely controlled centralized traffic control signals are used to authorize the movement of trains. CP is currently in the development stage of its Positive Train Control strategy for portions of its U.S. network.

In other corridors, train movements are directed by written instructions transmitted electronically and by radio from rail traffic controllers to train crews. In some specific areas of intermediate traffic density, CP uses an automatic block signalling system in conjunction with written instructions from rail traffic controllers.

4.5 Quarterly Trends

Volumes and revenues from certain goods are stronger during different periods of the year. First-quarter revenues are typically lower mainly due to winter weather conditions, closure of the Great Lakes ports and reduced transportation of retail goods. Second and third-quarter revenues generally improve over the first quarter as fertilizer volumes are typically highest during the second quarter and demand for construction-related goods are generally highest in the third quarter. Revenues are typically strongest in the fourth quarter, primarily as a result of the transportation of grain after the harvest, fall fertilizer programs and increased demand for retail goods moved by rail. Operating income is also affected by seasonal fluctuations. Operating income is typically lowest in the first quarter due to lower freight revenue and higher operating costs associated with winter conditions. Net income is also influenced by seasonal fluctuations in customer demand and weather-related issues.

4.6 Business Categories

The following table compares the percentage of the Company s total freight revenue derived from each of the major business lines in 2014 compared with 2013 and 2012:

Business Category	2014	2013	2012
Bulk	42%	42%	41%
Merchandise	37%	36%	34%
Intermodal	21%	22%	25%

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4.7 Revenues

Freight revenues are earned from transporting bulk, merchandise and intermodal goods, and include fuel recoveries billed to CP customers. The following table summarizes the Company s annual freight revenues between 2012 and 2014:

Freight Revenues (in $ millions, except for percentages) Business Category	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Bulk					
Canadian grain	$ 988	$ 869	$ 767	14	13
U.S. grain	503	431	405	17	6
Coal	621	627	602	(1)	4
Potash	347	312	281	11	11
Fertilizers and sulphur	234	258	239	(9)	8
Total bulk	2,693	2,497	2,294	8	9
Merchandise					
Forest products	206	206	193		7
Chemicals and plastics	637	565	512	13	10
Crude	484	375	206	29	82
Metals, minerals, and consumer products	712	608	550	17	11
Automotive	357	403	425	(11)	(5)
Total merchandise	2,396	2,157	1,886	11	14
Intermodal					
Domestic intermodal	787	684	653	15	5
International intermodal	588	644	717	(9)	(10)
Total intermodal	1,375	1,328	1,370	4	(3)
Total freight revenues	$ 6,464	$ 5,982	$ 5,550	8	8

4.7.1 Bulk

The Company s bulk business represented approximately 42% of total freight revenues in 2014.

4.7.1.1 Canadian Grain

The Company s Canadian grain business accounted for approximately 15% of total freight revenues in 2014.

Canadian grain transported by CP consists of both whole grains, such as wheat, corn, soybeans, and canola, and processed products such as meals, oils, and flour.

This business is centred in the Canadian prairies (Alberta, Saskatchewan and Manitoba), with grain shipped primarily west to the Port Metro Vancouver and east to the Port of Thunder Bay for export. Grain is also shipped to the U.S., Mexico and to eastern Canada for domestic consumption.

Canadian grain includes a segment of business that is regulated by the Canadian government and set out in the Canadian Transportation Act (CTA). This regulated business is subject to a maximum revenue entitlement (MRE). Under this regulation,

railroads can set their own rates for individual movements. However, the MRE governs aggregate revenue earned by the railroad based on a formula that factors in the total volumes, length of haul, average revenue per tonne and inflationary adjustments. The regulation applies to Western Canadian export grain shipments to the ports of Vancouver and Thunder Bay.

4.7.1.2 U.S. Grain

CP s U.S. grain business accounted for approximately 8% of total freight revenues in 2014.

U.S. grain transported by CP consists of both whole grains, such as wheat, corn, and soybeans, and processed products such as meals, oils, and flour.

This business is centred in the states of North Dakota, Minnesota, Iowa and South Dakota. Export grain traffic from this producing region is shipped to ports at Duluth and Superior. In partnership with other railways, CP also moves grain to export terminals in the U.S. Pacific Northwest and the Gulf of Mexico. Grain destined for domestic consumption moves east via Chicago to the U.S. Northeast or is interchanged with other carriers to the U.S. Southeast, Pacific Northwest and California markets.

4.7.1.3 Coal

The Company s coal business represented approximately 10% of total freight revenues in 2014.

CP handles mostly metallurgical coal destined for export through the Port Metro Vancouver for use in the steel-making process in the Pacific Rim, Europe and South America.

CP s Canadian coal traffic originates mainly from Teck Resource Limited s mines in southeastern B.C. They are considered to be among the most productive, highest-quality metallurgical coal mines in the world. CP moves coal west from these mines to port terminals for export to world markets, and east for the U.S. Midwest markets and for consumption in steel-making mills along the Great Lakes.

In the U.S., CP moves primarily thermal coal from connecting railways serving the thermal coal fields in the PRB in Montana and Wyoming. It is then delivered to power generating facilities in the Midwest U.S. CP also serves petroleum coke operations in Canada and the U.S. where the product is used for power generation and aluminum production.

4.7.1.4 Potash

Potash represented approximately 5% of total freight revenues in 2014.

The Company s potash traffic moves mainly from Saskatchewan to offshore markets through the ports of Vancouver, Thunder Bay and Portland, Oregon and to markets in the U.S. All potash shipments for export beyond Canada and the U.S. are marketed by Canpotex, a joint venture among Saskatchewan s potash producers. Independently, these producers move domestic potash with CP primarily to the U.S. Midwest for local application.

4.7.1.5 Fertilizers and sulphur

Fertilizers and sulphur business represented approximately 4% of total freight revenues in 2014.

Chemical fertilizers are transported to markets in Canada and the U.S. from key production areas in the Canadian prairies. Phosphate fertilizer is also transported from U.S. and Canadian producers to markets in Canada and the northern U.S. CP provides transportation services from major nitrogen

production facilities in western Canada and have efficient routes to the major U.S. markets. CP also has direct service to key fertilizer distribution terminals, such as the barge facilities on the Mississippi River system at Minneapolis-St. Paul, as well as access to Great Lakes vessels at Thunder Bay.

Most sulphur is produced in Alberta as a by-product of processing sour natural gas, refining crude oil and upgrading bitumen produced in the Alberta oil sands. Sulphur is a raw material used primarily in the manufacturing of sulphuric acid, which is used most extensively in the production of phosphate fertilizers. Demand for elemental sulphur rises with demand for fertilizers. Sulphuric acid is also a key ingredient in industrial processes ranging from smelting and nickel leaching to paper production.

4.7.2 Merchandise

CP s merchandise business represented approximately 37% of total freight revenues in 2014.

Merchandise products move in trains of mixed freight and in a variety of car types. Service involves delivering products to many different customers and destinations. In addition to traditional rail service, CP moves merchandise traffic through a network of truck-rail transload facilities and provides logistics services.

4.7.2.1 Forest Products

The Company s forest products business represented approximately 3% of total freight revenues in 2014.

Forest products traffic includes wood pulp, paper, paperboard, newsprint, lumber, panel and oriented strand board shipped from key producing areas in B.C., northern Alberta, northern Saskatchewan, Ontario and Quebec to destinations throughout North America.

4.7.2.2 Chemicals and Plastics

The Company s chemicals and plastics business represented approximately 10% of total freight revenues in 2014.

Petroleum products represent the largest segment of this business, followed by chemicals and plastics, respectively.

Petroleum products consist of commodities such as liquid petroleum gas (LPG), gasoline, diesel, condensate, asphalt and lubricant oils. The majority of the Company s Western Canadian petroleum products traffic originates in Saskatchewan and in the Alberta Industrial Heartland, Canada s largest hydrocarbon processing region. The Bakken formation region in Saskatchewan and North Dakota is another source of condensate, LPG and natural gas liquids. Connectivity to several rail interline partners gives the Company access to refineries and export facilities in the Pacific Northwest, Northeast U.S. and Gulf Coast, as well as the Texas and Louisiana petrochemical corridor and port connections.

The Company s chemical traffic includes products such as ethylene glycol, styrene, sulphuric acid, methanol, sodium chlorate, caustic soda and soda ash. These shipments originate from Eastern Canada, Alberta, the U.S. Midwest and the Gulf of Mexico and move to end markets in Canada, the U.S. and overseas.

The most commonly shipped plastics products are polyethylene and polypropylene. Almost half of the Company s plastics originate in central and northern Alberta and move to various North American destinations.

4.7.2.3 Crude

The Company s crude business represented approximately 7% of total freight revenues in 2014.

Crude moves from origin facilities throughout Alberta, Saskatchewan and North Dakota. CP connects at these origin facilities with direct production as well as pipeline access. Oil sands products originating in Northern Alberta are delivered by pipeline systems to hub terminals in Edmonton, Hardisty and the Alberta Industrial Heartland, where rail and pipeline are the options for further transport. CP connects to numerous Saskatchewan oil plays, including Shaunavon, Lloydminster, Kerrobert and the Bakken, and CP has numerous facilities in the North Dakota Bakken oil producing zone.

CP s main crude unloading destination terminal is located in Albany, New York. This terminal is a rail-to-vessel operation that can reach refineries along the Canadian and U.S. East Coast, and the U.S. Gulf Coast. CP also accesses other refineries and terminals on the U.S. East Coast, Gulf Coast and West Coast through established foreign line partnerships.

4.7.2.4 Metals, Minerals and Consumer Products

The Company s metals, minerals and consumer products business represented approximately 11% of total freight revenues in 2014.

Metals, minerals and consumer products traffic include a wide array of commodities grouped under aggregates, steel, consumer products and non-ferrous metals.

Frac sand and cement are the dominant aggregates. Frac sand originates at mines located along the Company s network in Wisconsin and moves to a diverse set of shale plays across North America. The majority of the Company s cement traffic is shipped directly from production facilities in Alberta, Iowa and Ontario to energy and construction projects in North Dakota, Alberta, Manitoba and the U.S. Midwest.

CP transports steel in various forms from mills in Ontario, Saskatchewan and Iowa to a variety of industrial users. The Company carries base metals such as copper, lead, zinc and aluminum. CP also moves ores from mines to smelters and refineries for processing, and the processed metal to automobile and consumer products manufacturers.

Consumer products traffic consists of a diverse mix of goods, including food products, building materials, packaging products and waste products.

4.7.2.5 Automotive

The Company s automotive business represented approximately 6% of total freight revenues in 2014.

CP s automotive portfolio consists of four finished vehicle traffic segments: import vehicles that move through Port Metro Vancouver to Eastern Canadian markets; Canadian-produced vehicles that ship to the U.S. from Ontario production facilities; U.S.-produced vehicles that ship within the U.S. as well as cross-border into Canadian markets; and, Mexican-produced vehicles that ship to the U.S. and Canada. In addition to finished vehicles, CP ships automotive parts, machinery and pre-owned vehicles. A comprehensive network of automotive compounds is utilized to facilitate final delivery of vehicles to dealers throughout Canada and in the U.S.

4.7.3 Intermodal

The Company s intermodal business accounted for approximately 21% of total freight revenues in 2014.

Domestic intermodal freight consists primarily of manufactured consumer products moving in fifty three foot containers within North America. International intermodal freight moves in marine containers to and from ports and North American inland markets.

4.7.3.1 Domestic Intermodal

The Company s domestic intermodal business represented approximately 12% of total freight revenues in 2014.

CP s domestic intermodal business covers a broad spectrum of industries including food, retail, less-than truckload shipping, trucking, forest products and various other consumer-related products. Key service factors in domestic intermodal include consistent on-time delivery, the ability to provide door-to-door service and the availability of value-added services. The majority of the Company s domestic intermodal business originates in Canada where CP markets its services directly to retailers, providing complete door-to-door service and maintaining direct relationships with its customers. In the U.S., the Company s service is delivered mainly through wholesalers.

4.7.3.2 International Intermodal

The Company s international intermodal business represented approximately 9% of total freight revenues in 2014.

CP s international intermodal business consists primarily of containerized traffic moving between the ports of Vancouver, Montreal and New York and inland points across Canada and the U.S.

CP is a major carrier of containers moving via the ports of Montreal and Vancouver. Import traffic from the Port Metro Vancouver is mainly long-haul business destined for eastern Canada and the U.S. Midwest and Northeast. The Company s trans-Pacific service offers the shortest route between the Port Metro Vancouver and Chicago. CP works closely with the Port of Montreal, a major year-round East Coast gateway to Europe, to serve markets primarily in Canada and the U.S. Midwest. The Company s U.S. Northeast service connects eastern Canada with the ports of New York, offering a competitive alternative to trucks.

4.7.4 Fuel Cost Recovery Program

The short-term volatility in fuel prices may adversely or positively impact expenses and revenues. CP employs a fuel cost recovery program designed to automatically respond to fluctuations in fuel prices and help reduce volatility to changing fuel prices. Fuel surcharge revenue is earned on individual shipments primarily based on On Highway Diesel (OHD); as such, fuel surcharge revenue is a function of freight volumes.

4.7.5 Other Revenue

Other revenue is generated from leasing certain assets, switching fees, other arrangements including logistical services and contracts with passenger service operators.

4.7.6 Significant Customers

For each of the twelve months ended December 31, 2014, 2013 and 2012, no customer comprised more than 10% of total revenues and accounts receivable.

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4.8 Railway Performance

CP focuses on safety, train operation productivity, increasing network efficiency and improving asset utilization. The following table summarizes the effect of the Company s Operating Plan based on industry-recognized performance indicators. Detailed definitions of the performance indicators listed below are included in Section 26, Glossary of Terms of the 2014 MD&A which is incorporated by reference herein.

For the year ended December 31[1]	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Operations Performance					
Freight gross ton-miles (GTMs) (millions)	273,276	267,629	254,354	2	5
Revenue ton-miles (RTMs) (millions)	149,849	144,249	135,032	4	7
Train miles (thousands)	36,625	37,817	40,270	(3)	(6)
Average train weight - excluding local traffic (tons)	8,046	7,573	6,709	6	13
Average train length - excluding local traffic (feet)	6,683	6,530	5,981	2	9
Average terminal dwell (hours)	8.7	7.1	7.5	23	(5)
Average train speed (mph)[2][3]	18.1	18.4	N/A	(2)	N/A
Fuel efficiency (U.S. gallons of locomotive fuel consumed /1,000 GTMs)[4]	1.03	1.06	1.15	(3)	(8)
Total employees (average)[5][6]	14,575	15,011	16,999	(3)	(12)
Workforce (end of period)[7]	14,698	14,977	16,907	(2)	(11)
Safety indicators					
FRA personal injuries per 200,000 employee-hours	1.67	1.71	1.56	(2)	10
FRA train accidents per million train-miles	1.26	1.80	1.69	(30)	7

(1) Certain prior period figures have been revised to conform with current presentation or have been updated to reflect new information.

(2) Incorporates a new reporting definition where average train speed measures the line-haul movement from origin to destination including terminal dwell hours, and excluding foreign railroad and customer delays.

(3) 2012 Average train speed information is not available for new reporting definition.

(4) Includes gallons of fuel consumed from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities.

(5) An employee is defined as an individual, including trainees, who has worked more than 40 hours in a standard biweekly pay period. This excludes part time employees, contractors, and consultants.

(6) 2012 average number of employees has been adjusted for a strike.

(7) Workforce is defined as total employees plus part time employees, contractors, and consultants.

GTMs for 2014 were 273,276 million, a 2% increase compared with 267,629 million in 2013. This improvement was primarily due to higher shipments in Canadian grain, Crude, Domestic intermodal, and Metals, minerals and consumer products.

RTMs for 2014 were 149,849 million, an increase of 4% compared with 144,249 million in 2013. RTMs are discussed further in Section 8, Lines of Business of the 2014 MD&A.

Train miles for 2014 decreased by 3% compared with 2013, reflecting improvements in operating efficiency from longer, heavier trains.

Average train weight increased in 2014 by 473 tons, or 6%, from 2013. Average train length increased in 2014 by 153 feet, or 2%, from 2013. Average train weight and length benefited significantly from improvements in operating plan efficiency and increased volumes of bulk traffic conveyed in longer,

heavier trains. Both of these improvements leverage the siding extensions completed in 2013 and 2014.

Average terminal dwell, the average time a freight car resides in a terminal, increased by 23% in 2014 to 8.7 hours from 7.1 hours in 2013. The unfavourable increase was primarily due to operational challenges in the U.S. Midwest.

Average train speed was 18.1 miles per hour in 2014, a decrease of 2%, from 18.4 miles per hour in 2013. The unfavourable decrease was primarily due to operational challenges in the U.S. Midwest. This decrease was partially offset by speed improvements in the fourth quarter of 2014 through improved asset velocity, decreased terminal dwell, and successful execution of the Company s operating plan.

Fuel efficiency improved by 3% in 2014 compared to 2013. This improvement is primarily due to the continued execution of the Company s fuel

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conservation strategy and increased locomotive productivity from higher average train weights.

The average number of total employees for 2014 decreased by 436, or 3%, compared with 2013. This improvement was primarily due to job reductions as a result of continuing strong operational performance and natural attrition, partially offset by additional information technology (IT) employees as a part of the Company s insourcing strategy.

The workforce on December 31, 2014 decreased by 279, or 2%, compared with December 31, 2013. This improvement was primarily due to job reductions as a result of continuing strong operational performance, natural attrition and fewer contractors.

Safety is discussed in Section 4.14, Safety.

4.9 Franchise Investment

Franchise investment is an integral part of the Company s multi-year capital program and supports growth initiatives. The Company s annual capital program typically includes investments in track and facilities (including rail yards and intermodal terminals); locomotives; IT; and freight cars and

other equipment. On an accrual basis, CP invested approximately $3.9 billion in core assets from 2012 to 2014, with annual capital spending over this period averaging approximately 21% of revenues. This included approximately $2.6 billion invested in track and roadway, $500 million in rolling stock, $300 million in IT and $500 million in buildings and other.

4.9.1 Locomotive Fleet

The Company s locomotive fleet is comprised largely of high-adhesion alternating current (AC) locomotives, which are more fuel efficient and reliable and have superior hauling capacity compared with standard direct current (DC) locomotives. The Company s locomotive fleet now includes 827 AC locomotives. While AC locomotives represent approximately 70% of the Company s road-freight locomotive fleet, they handle approximately 89% of the workload. The Company s investment in AC locomotives has helped to improve service reliability and generate cost savings in fuel, equipment rents and maintenance. There was a reduction of the Company s active locomotive fleet by 24 locomotives during 2014.

Following is a synopsis of the Company s owned and leased locomotive fleet:

Number of Locomotives (owned and long-term leased) Age in Years	Road Freight AC	 DC	Road Switcher	Yard Switcher	 Total
0-5	91	20	125		236
6-10	319				319
11-15	234				234

16-20	183				183
Over 20		328	235	43	606
Total	827	348	360	43	1,578

4.9.2 Railcar Fleet

CP owns, leases or manages approximately 45,700 freight cars. Approximately 20,800 are owned by CP, approximately 6,600 are hopper cars owned by Canadian federal and provincial government agencies, approximately 8,700 are leased on a short-term basis, 5,100 are held under long-term leases, and 4,500 in a railcar pool allocation. Short-term leases on approximately 1,700 cars are scheduled to expire during 2015, and the leases on approximately 11,300 additional cars are scheduled to expire before the end of 2019.

The Company s covered hopper car fleet, used for transporting grain for export, consists of owned, leased and managed cars. A portion of the fleet used to transport export grain is leased from the Government of Canada, with whom CP completed an operating agreement in 2007.

4.10 Operating Plan (OP)

The Company s OP is the foundation for its scheduled railway operations, through which CP strives to provide quality service for customers and improve asset utilization to achieve high levels of efficiency. The key principles upon which the

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Company s OP is built include moving freight cars across the network with as few handlings as possible, creating balance in directional flow of trains in CP corridors by day of week, and minimizing the time that locomotives and freight cars are idle.

Under the Company s OP, trains are scheduled to run consistently at times agreed upon with customers. To accomplish this, CP establishes a plan for each rail car that covers its entire trip from point of origin to final destination. Cars with similar destinations are consolidated into blocks. This reduces delays at intermediate locations by simplifying processes for employees, eliminating the duplication of work and helping to ensure traffic moves fluidly through rail yards and terminals. These measures improve transit times for shipments throughout CP s network and increase car availability for customers. The Company s OP also increases efficiency by more effectively scheduling employee shifts, locomotive maintenance, track repair, track renewal and material supply.

CP has capitalized on the new capabilities of its network and upgraded locomotive fleet to safely operate longer and heavier trains. This has reduced associated expenses, simplified the departure of shipments from points of origin and provided lower-cost capacity for growth.

The Company is committed to continuously improve scheduled railway operations as a means to achieve additional efficiencies that will avoid significant capital expenditures to accommodate growth.

4.11 Information Technology

As a 24-hour-a-day, 7-day-a-week business, CP relies heavily on IT systems to schedule and manage planning and operational components safely and efficiently. IT applications map out complex interconnections of freight cars, locomotives, facilities, tracks and train crews to meet more than 10,000 individual customer service commitments every day. Across the network, CP s suite of operating systems manages the overall movement of customers shipments and provides railway employees with reliable data on shipment performance, transit times, connections with other trains, train and yard capacities, and locomotive requirements. Within the yards, individual shipments are matched to freight car blocks, which in turn are

matched to trains that are scheduled according to CP s operating plan. The Company s IT applications provide the information needed to ensure that shipments are handled according to commercial agreements while meeting all regulatory requirements to ensure the safe movement of freight throughout North America.

4.12 Business Risks and Enterprise Risk Management

In the normal course of operations, CP is exposed to various business risks and uncertainties that can have an effect on the Company s financial condition. CP s Enterprise Risk Management (ERM) program targets strategic risk areas to determine additional prevention or mitigation plans that can be undertaken to either reduce risk or enable opportunities to be realized. The ERM process instils discipline in the approach to managing risk at CP and has been a contributing factor in providing focus on key areas. CP has managed to mitigate a number of strategic business risks using this focused approach.

The risks and enterprise risk management are discussed in more detail in Section 22, Business Risks of the Company s 2014 MD&A.

4.13 Indemnifications

Pursuant to a trust and custodial services agreement with the trustee of the Canadian Pacific Railway Company Pension Plan, CP has undertaken to indemnify and save harmless the trustee, to the extent not paid by the fund, from any and all taxes, claims, liabilities, damages, costs and expenses arising out of the performance of the trustee s obligations under the agreement, except as a result of misconduct by the trustee. The indemnity includes liabilities, costs or expenses relating to any legal reporting or notification obligations of the trustee with respect to the defined contribution option of the pension plans or otherwise with respect to the assets of the pension plans that are not part of the fund. The indemnity survives the termination or expiry of the agreement with respect to claims and liabilities arising prior to the termination or expiry. At December 31, 2014, CP had not recorded a liability associated with this indemnification, as the Company does not expect to make any payments pertaining to it.

Pursuant to the Company s by-laws, CP indemnifies all of its current and former directors and officers. In

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addition to the indemnity provided by the by-laws, CP also indemnifies its directors and officers pursuant to indemnity agreements. CP carries a liability insurance policy for directors and officers, subject to a maximum coverage limit and certain deductibles in cases where a director or officer is reimbursed for any loss covered by the policy.

4.14 Safety

Safety is a key priority and core strategy for the Company s management and Board of Directors. The Company s two main safety indicators personal injuries and train accidents follow strict U.S. Federal Railroad Administration (FRA) reporting guidelines. Detailed definition of the safety indicators discussed below is included in Section 26, Glossary of Terms in the 2014 MD&A.

The FRA personal injury rate per 200,000 employee-hours for CP was 1.67 in 2014, compared with 1.71 in 2013 and 1.56 in 2012. The FRA train accident rate for CP in 2014 was 1.26 accidents per million train-miles, compared with 1.80 in 2013 and 1.69 in 2012. CP strives to continually improve its safety performance through the Company s key strategies and activities such as training and technology.

The Company s senior leaders in operations provide ongoing focus, leadership, commitment and support for efforts to improve the safety of the Company s operations as well as the safety and health of CP employees. The leadership team includes all of the Company s most senior representatives in operations from senior officers to leaders of different operation departments and is a key component of safety governance at CP. The Company s Safety Framework governs the safety management process, which involves more than 1,000 employees in planning and implementing safety-related activities. This management process, combined with planning that encompasses all operational functions, ensures a continuous and consistent focus on safety.

4.15 Environmental Protection

CP has implemented a comprehensive Environmental Management System, which uses the five elements of the ISO 14001 standard policy, planning, implementation and operation, checking and corrective action, and management review as described below. Further details are discussed in Section 22, Business Risks of the 2014 MD&A.

4.15.1 Policy

CP has adopted an Environmental Protection Policy and continues to develop and implement policies and procedures to address specific environmental issues and reduce environmental risk. Each policy is implemented with training for employees and a clear identification of roles and responsibilities.

CP is a partner in Responsible Care©, an initiative of the Chemistry Industry Association of Canada and the American Chemistry Council (ACC) in the U.S., an ethic for the safe and environmentally sound management of chemicals throughout their life cycle. Partnership in Responsible Care© involves a public commitment to continually improve the industry s environmental, health and safety performance. CP completed its first Responsible Care© external verification in June 2002 and was granted Responsible Care© practice-in-place status. CP was successfully re-verified in 2005, 2008 and again in October of 2012. The next re-verification is planned for 2015.

4.15.2 Planning

CP prepares an annual Operations Environmental Plan, which include details of the Company s environmental goals and targets as well as high-level strategies. These plans are used by various departments to integrate key corporate environmental strategies into their business plans.

The Company also conducts comprehensive Risk Assessments on proposed new operations on CP property that have inherent environmental risk. The Risk Assessments identify appropriate mitigations to minimize risk and support the planning process.

4.15.3 Implementation and Operation

CP has developed specific environmental programs to address areas such as air emissions, wastewater,

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management of vegetation, chemicals and waste, storage tanks and fuelling facilities, and environmental impact assessment. The Company s environmental specialists and consultants lead these programs.

The Company s focus is on preventing spills and other incidents that have a negative impact on the environment. As a precaution, CP has established a Strategic Emergency Response Contractor network and located spill equipment kits across Canada and the U.S. to ensure a rapid and efficient response in the event of an environmental incident. In addition, CP regularly updates and test emergency preparedness and response plans.

4.15.4 Environmental Contamination

The Company continues to be responsible for remediation work on portions of a property in the State of Minnesota and continues to retain liability accruals for remaining future anticipated costs. The costs are expected to be incurred over a period of approximately 10 years. The state s voluntary investigation and remediation program will oversee the work to ensure it is completed in accordance with applicable standards. CP currently estimates the remaining liability associated with these areas to be U.S. $20 million.

4.15.5 Checking and Corrective Action

The Company s environmental audits comprehensively, systematically and regularly assess CP facilities for compliance with legal and regulatory requirements and conformance to the Company s policies, which are based on legal requirements and accepted industry standards. Audits are scheduled based on risk assessment for each facility and are led by third-party environmental audit specialists supported by the Company s environmental staff.

Audits are followed by a formal Corrective Action Planning process that ensures findings are addressed in a timely manner. Progress is monitored against completion targets and reported quarterly to senior management.

4.15.6 Management Review

The Environmental Accrual Lead Team, which includes members of the Company s senior officers and leaders of CP environmental teams, completes quarterly reviews of changes to and the progress of the Environmental Accrual program. Senior management leaders provide oversight of health, safety, security and environment issues on an ongoing basis throughout the year. The CP Board of Directors Safety, Operations and Environment Committee meets five times per year and conducts a review of environmental issues.

4.15.7 Expenditures

The Company spent $34 million in 2014 for environmental management, including amounts spent on ongoing operations, fuel conservation, capital upgrades and remediation. The Company spent $36 million for environmental management in 2013.

4.16 Insurance

CP maintains insurance policies to protect the Company s assets and to protect against liabilities. The Company s insurance policies include, but are not limited to, liability insurance, director and officer liability insurance, automobile insurance and property insurance. The property insurance program includes business interruption coverage and contingent business interruption coverage, which would apply in the event of catastrophic damage to the Company s infrastructure and specified strategic assets in the transportation network. CP believes its insurance is adequate to protect it from known and unknown liabilities. However, in certain circumstances, certain losses may not be covered or completely covered by insurance and the Company may suffer losses, which could be material.

4.17 Competitive Conditions

For a discussion of CP s competitive conditions in which the Company operates, please refer to Section 22, Business Risks included in the Company s 2014 MD&A.

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5. DIVIDENDS

5.1 Declared Dividends and Dividend Policy

Dividends

Dividends declared by the Board of Directors in the last three years are as follows:

Dividend amount	Record date	Payment date
$0.3500	March 27, 2015	April 27, 2015
$0.3500	December 31, 2014	January 26, 2015
$0.3500	September 26, 2014	October 27, 2014
$0.3500	June 27, 2014	July 28, 2014
$0.3500	March 28, 2014	April 28, 2014
$0.3500	December 27, 2013	January 27, 2014
$0.3500	September 27, 2013	October 28, 2013
$0.3500	June 28, 2013	July 29, 2013
$0.3500	March 28, 2013	April 29, 2013
$0.3500	December 28, 2012	January 28, 2013
$0.3500	September 28, 2012	October 29, 2012
$0.3500	June 22, 2012	July 30, 2012
$0.3000	March 30, 2012	April 30, 2012

The Company s Board of Directors is expected to give consideration on a quarterly basis to the payment of future dividends. The amount of any future quarterly dividends will be determined based on a number of factors that may include the results of operations, financial condition, cash requirements and future prospects of the Company. The Board of Directors is, however, under no obligation to declare dividends and the declaration of dividends is wholly within their discretion. Further, the Company s Board of Directors may cease declaring dividends or may declare dividends in amounts that are different from those previously declared. Restrictions in the credit or financing agreements entered into by the Company or the provisions of applicable law may preclude the payment of dividends in certain circumstances.

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6. CAPITAL STRUCTURE

6.1 Description of Capital Structure

The Company is authorized to issue an unlimited number of Common Shares, an unlimited number of First Preferred Shares and an unlimited number of Second Preferred Shares. At December 31, 2014, no First or Second Preferred Shares had been issued.

1) The rights, privileges, restrictions and conditions attached to the Common Shares are as follows:

   a) Payment of Dividends: The holders of the Common Shares will be entitled to receive dividends if, as and when declared by CP s Board of Directors out of the assets of the Company properly applicable to the payment of dividends in such amounts and payable in such manner as the Board may from time to time determine. Subject to the rights of the holders of any other class of shares of the Company entitled to receive dividends in priority to or rateably with the holders of the Common Shares, the Board may in its sole discretion declare dividends on the Common Shares to the exclusion of any other class of shares of the Company.

   b) Participation upon Liquidation, Dissolution or Winding Up: In the event of the liquidation, dissolution or winding up of the Company or other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the Common Shares will, subject to the rights of the holders of any other class of shares of the Company entitled to receive the assets of the Company upon such a distribution in priority to or rateably with the holders of the Common Shares, be entitled to participate rateably in any distribution of the assets of the Company.

   c) Voting Rights: The holders of the Common Shares will be entitled to receive notice of and to attend all annual and special meetings of the shareholders of the Company and to one (1) vote in respect of each Common Share held at all such meetings, except at separate meetings of
   or on separate votes by the holders of another class or series of shares of the Company.

2) The rights, privileges, restrictions and conditions attaching to the First Preferred Shares are as follows:

   a) Authority to Issue in One or More Series: The First Preferred Shares may at any time or from time to time be issued in one (1) or more series. Subject to the following provisions, the Board may by resolution fix from time to time before the issue thereof the number of shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to the shares of each series of First Preferred Shares.

   b)

Voting Rights: The holders of the First Preferred Shares will not be entitled to receive notice of or to attend any meeting of the shareholders of the Company and will not be entitled to vote at any such meeting, except as may be required by law.

c) Limitation on Issue: The Board may not issue any First Preferred Shares if by so doing the aggregate amount payable to holders of First Preferred Shares as a return of capital in the event of the liquidation, dissolution or winding up of the Company or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs would exceed $500,000,000.

d) Ranking of First Preferred Shares: The First Preferred Shares will be entitled to priority over the Second Preferred Shares and the Common Shares of the Company and over any other shares ranking junior to the First Preferred Shares with respect to the payment of dividends and the distribution of assets of the Company in the event of any liquidation, dissolution or winding up of the Company or other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs.

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e) Dividends Preferential: Except with the consent in writing of the holders of all outstanding First Preferred Shares, no dividend can be declared and paid on or set apart for payment on the Second Preferred Shares or the Common Shares or on any other shares ranking junior to the First Preferred Shares unless and until all dividends (if any) up to and including any dividend payable for the last completed period for which such dividend is payable on each series of First Preferred Shares outstanding has been declared and paid or set apart for payment.

3) The rights, privileges, restrictions and conditions attaching to the Second Preferred Shares are as follows:

a) Authority to Issue in One or More Series: The Second Preferred Shares may at any time or from time to time be issued in one (1) or more series. Subject to the following provisions, the Board may by resolution fix from time to time before the issue thereof the number of shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to the shares of each series of Second Preferred Shares.

b) Voting Rights: The holders of the Second Preferred Shares will not be entitled to receive notice of or to attend any meetings of the shareholders of the Company and will not be entitled to vote at any such meeting, except as may be required by law.

c) Limitation on Issue: The Board may not issue any Second Preferred Shares if by so doing the aggregate amount payable to holders of Second Preferred Shares as a return of capital in the event of the liquidation, dissolution or winding up of the Company or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs would exceed $500,000,000.

d) Ranking of Second Preferred Shares: The Second Preferred Shares will be entitled to priority over the Common
Shares of the Company and over any other shares ranking junior to the Second Preferred Shares with respect to the payment of dividends and the distribution of assets of the Company in the event of the liquidation, dissolution or winding up of the Company or any other distribution of the assets of the Company among its shareholders for the purpose of winding up of its affairs.

e) Dividends Preferential: Except with the consent in writing of the holders of all outstanding Second Preferred Shares, no dividend can be declared and paid on or set apart for payment on the Common Shares or on any other shares ranking junior to the Second Preferred Shares unless and until all dividends (if any) up to and including any dividend payable for the last completed period for which such dividend is payable on each series of Second Preferred Shares outstanding has been declared and paid or set apart for payment.

6.2 Security Ratings

The following information relating to the Company s credit ratings is provided as it may relate to the Company s financing costs, liquidity and operations. Specifically, credit ratings affect the Company s ability to obtain short-term and long-term financing and/or the cost of such financing. Additionally, the ability of the Company to engage in certain collateralized business activities on a cost effective basis depends on the Company s credit ratings. A reduction in the current rating on the Company s debt by its rating agencies, particularly a downgrade below investment grade ratings, or a negative change in the Company s ratings outlook could adversely affect the Company s cost of financing and/or its access to sources of liquidity and capital. In addition, changes in credit ratings may affect the Company s ability to, and/or the associated costs of: (i) entering into ordinary course derivative or hedging transactions and may require the Company to post additional collateral under certain of its contracts, and (ii) entering into and maintaining ordinary course contracts with customers and suppliers on acceptable terms and (iii) ability to self-insure certain leased or financed rolling stock assets as per common industry practice.

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The Company s debt securities are rated by three approved rating organizations Moody s, S&P and DBRS. The Company received two ratings upgrades in 2014 from all three agencies. In addition short-term ratings were assigned in 2014 to support a newly established U.S. commercial paper program. All ratings are shown in the table below:

Approved Rating Organization	Long-Term Debt Rating	Short-Term Debt Rating
Moody s Investors Service	Baa1	P-2
Standard & Poor s Corporation	BBB+	A-2
Dominion Bond Rating Service	BBB(High)	R-2(High)

As at December 31, 2014, the ratings provided by each of S&P, Moody s and DBRS have a stable outlook.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities and are indicators of the likelihood of payment and of the capacity and willingness of a company to meet its financial commitment on an obligation in accordance with

the terms of the obligation. A description of the rating categories of each of the rating agencies in the table above is set out below.

Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor and may be subject to revision or withdrawal at any time by the rating agencies. Credit ratings may not reflect the potential impact of all risks on the value of securities. In addition, real or anticipated changes in the rating assigned to a security will generally affect the market value of that security. There can be no assurance that a rating will remain in effect for any given period of time or that a rating will not be revised or withdrawn entirely by a rating agency in the future.

In the last two years, the Company has paid the customary fees, including annual surveillance fees covering its long-term debt securities, to the aforementioned credit rating agencies for their rating services.

The following table summarizes rating categories for respective rating agencies:

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7. MARKET FOR SECURITIES

7.1 Stock Exchange Listings

The Common Shares of CP are listed on the Toronto Stock Exchange and the New York Stock Exchange under the symbol CP .

7.2 Trading Price and Volume

The following table provides the monthly trading information for the Company s Common Shares on the Toronto Stock Exchange during 2014:

Toronto Stock Exchange Month	Opening Price per Share ($)	High Price per Share ($)	Low Price per Share ($)	Closing Price per Share ($)	Volume of Shares Traded
January	159.52	171.90	155.02	168.84	7,150,036
February	168.85	176.72	161.00	173.75	5,890,685
March	172.41	176.62	162.55	165.65	5,288,801
April	165.98	174.05	156.64	171.14	6,105,136
May	171.02	182.17	169.57	181.48	4,835,334
June	182.35	202.08	182.35	193.31	7,531,938
July	195.79	214.52	192.79	207.33	7,573,651
August	206.76	220.62	203.16	217.79	4,475,137
September	218.80	236.04	218.72	232.43	6,577,677
October	231.02	247.56	202.39	234.43	12,464,601
November	233.07	239.92	219.21	220.56	6,496,419
December	220.71	229.78	197.14	223.75	12,037,347

The following table provides the monthly composite trading information for the Company s Common Shares on the New York Stock Exchange during 2014:

New York Stock Exchange Month	Opening Price per Share ($)	High Price per Share ($)	Low Price per Share ($)	Closing Price per Share ($)	Volume of Shares Traded
January	150.23	153.86	139.37	151.48	16,400,279
February	151.47	159.05	145.01	157.00	12,589,533
March	155.40	159.77	147.15	150.43	12,382,110
April	150.64	158.47	142.73	155.97	16,853,845
May	155.29	167.90	155.20	167.52	13,605,727
June	168.24	186.00	167.81	181.14	21,736,548
July	181.20	199.65	179.90	189.95	15,360,040
August	189.32	201.23	186.09	200.60	11,123,289

September	200.84	210.87	198.42	207.47	14,124,063
October	205.51	220.20	180.13	207.68	32,875,428
November	207.30	212.19	192.09	193.16	14,191,326
December	193.76	198.50	170.51	192.69	27,334,064

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CANADIAN PACIFIC

8. DIRECTORS AND OFFICERS

Following are the names and municipalities of residence of the directors and officers of the Company, their positions and principal occupations within the past five years, the period during which each director has served as director of the Company, and the date on which each director s term of office expires.

8.1 Directors

Name and Municipality of Residence	Position Held and Principal Occupation within the Preceding Five Years[1]	Year of Annual Meeting at which Term of Office Expires (Director Since)
Gary F. Colter Mississauga, Ontario, Canada	Chairman, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; President, CRS Inc. (Corporate restructuring and strategy consulting company)	2015 (2012)
William A. Ackman[3][4] New York, New York, U.S.A.	Founder, Chief Executive Officer Pershing Square Capital Management, L.P. (investment advisor)	2015 (2012)
Isabelle Courville[2][6] Rosemere, Quebec, Canada	Corporate Director	2015 (2013)
Paul G. Haggis[2][4] Canmore, Alberta, Canada	Chairman, Alberta Enterprise Corporation (investment in venture capital funds)	2015 (2012)
E. Hunter Harrison[6] Wellington, Florida, U.S.A.	Chief Executive Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited	2015 (2012)
Paul C. Hilal[4][5] New York, New York, U.S.A.	Partner, Pershing Square Capital Management, L.P. (investment advisor)	2015 (2012)
Krystyna T. Hoeg, C.A.[3][5] Toronto, Ontario, Canada	Corporate Director	2015 (2007)
Rebecca MacDonald[3][5] Toronto, Ontario, Canada	Founder, Executive Chair, Just Energy Group Inc. (independent marketer of deregulated gas and electricity)	2015 (2012)
Dr. Anthony R. Melman[4][6] Toronto, Ontario, Canada	President and Chief Executive Officer, Acasta Capital (strategic and financial advisor)	2015 (2012)
Linda J. Morgan[2][6] Bethesda, Maryland, U.S.A.	Partner, Nossaman LLP (law firm)	2015 (2006)
Andrew F. Reardon[2][5] Marco Island, Florida, U.S.A.	Attorney, Reardon and Chasar LLP (law firm) Retired Chairman and CEO, TTX Company	2015 (2013)
Stephen C. Tobias[5][6] Garnett, South Carolina, U.S.A.	Former Vice-Chairman and Chief Operating Officer, Norfolk Southern Corporation (U.S. Class I railroad)	2015 (2012)

(1) G. Colter has been President of CRS Inc. since 2002. I. Courville has been Chair of the Laurentian Bank of Canada since March 2013 and was President, Hydro Quebec Distribution from 2011 to 2013 and President, Hydro Quebec TransEnergie from 2007 to 2011. P.G. Haggis was Chairman of Canadian Pacific Railway Company and Canadian Pacific Railway Limited from May 2012 to May 2014 and was Chairman of the Board of C.A. Bancorp Inc. (now known as Crosswinds Holdings Inc.) from July 2011 to March 2013. E.H. Harrison was President and Chief Executive Officer of Canadian National Railway from 2003 to 2009. L.J. Morgan was Partner from 2003 to 2012 at Covington & Burling LLP. A.F. Reardon was Chairman and Chief Executive Officer in 2008 and President and Chief Executive Officer from 2001 to 2008 of TTX Company. S.C. Tobias was Vice-Chairman and Chief Operating Officer of Norfolk Southern Corporation from 1998 to 2009.
(2) Member of the Audit Committee.
(3) Member of the Corporate Governance and Nominating Committee.
(4) Member of the Finance Committee.
(5) Member of the Management Resources and Compensation Committee.
(6) Member of the Safety, Operations and Environment Committee.

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8.2 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Mr. Harrison was a director of Dynegy Inc. (Dynegy) from March 9 to December 16, 2011 (Chairman from July 11 to December 16, 2011), as well as its Interim President and Chief Executive Officer from April 9 to July 11, 2011. On July 6,

2012, Dynegy filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code, such filing being primarily a technical step necessary to facilitate the restructuring of one or more Dynegy subsidiaries. Dynegy exited bankruptcy on October 1, 2012.

8.3 Senior Officers

As at February 23, 2015, the following were executive officers of CP:

Name and municipality of residence	Position held	Principal occupation within the preceding five years
E.H. Harrison Wellington, Florida, U.S.A.	Chief Executive Officer	Chief Executive Officer; President and Chief Executive Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chairman of the Board, Dynegy Inc.; Interim President and Chief Executive Officer, Dynegy Inc.; President and Chief Executive Officer, Canadian National Railway Company
K.E. Creel Chicago, Illinois, U.S.A.	President and Chief Operating Officer	President and Chief Operating Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Executive Vice-President and Chief Operating Officer; Executive Vice-President, Operations, Canadian National Railway Company
B.W. Demosky Calgary, Alberta, Canada	Executive Vice-President and Chief Financial Officer	Executive Vice-President and Chief Financial Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chief Financial Officer, Suncor Energy Inc.; Senior Vice-President of Business Services, Suncor Energy Inc.
P. J. Edwards Calgary, Alberta, Canada	Vice-President, Human Resources and Labour Relations	Vice-President, Human Resources and Labour Relations; Vice-President Human Resources, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President Human Resources, Canadian National Railway Company
T.E. Marsh Calgary, Alberta, Canada	Senior Vice-President Sales and Marketing	Senior Vice-President Sales and Marketing; Executive Vice-President North America Trade Division, COSCO Container Lines Americas, Inc.
P. A. Guthrie, Q.C.	Chief Legal Officer and	Chief Legal Officer and Corporate Secretary; Vice-President, Law and Risk Management; Vice-President Law, Canadian Pacific

Municipal District of Rockyview, Alberta, Canada	Corporate Secretary	Railway Company and Canadian Pacific Railway Limited
L. J. Pitz McLean, Virginia, U.S.A	Vice-President and Chief Risk Officer	Vice-President and Chief Risk Officer; Vice-President Security and Risk Management, Canadian Pacific Railway Company; Vice-President Risk Mitigation, Canadian National Railway Company
M. Redeker St. Albert, Alberta, Canada	Vice-President and Chief Information Officer	Vice-President and Chief Information Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chief Information Officer; Chief Technology Officer, ATB Financial
M. Wallace Calgary, Alberta, Canada	Vice-President, Corporate Affairs and Chief of Staff	Vice-President, Corporate Affairs and Chief of Staff; Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chief of Staff Office of the President and CEO, Canadian Pacific Railway Company; Client Partner, Longview Communications Inc.; Head of Investor Relations, Husky Injection Molding Systems Inc.; Assistant Vice-President Public Affairs, Canadian National Railway Company

8.4 Shareholdings of Directors and Officers

As at December 31, 2014, the directors and executive officers of CPRL owned or controlled a total of 14,173,510 shares representing approximately 8.53% of the outstanding shares at

that date (166,120,981). Mr. Ackman exercises control over the voting and disposition of 13,940,890 of such shares which are beneficially owned by Pershing Square Capital Management, L.P. and its affiliates.

9. LEGAL PROCEEDINGS AND REGULATORY ACTIONS

On July 6, 2013, a train carrying crude oil operated by Montreal Maine and Atlantic Railway (MM&A) derailed and exploded in Lac-Mégantic, Quebec on a section of railway line owned by MM&A. The previous day CP had interchanged the train to MM&A, and after that interchange MM&A exercised exclusive control over the train.

Following this incident, the Minister of Sustainable Development, Environment, Wildlife and Parks of Quebec issued an order directing certain named parties to recover the contaminants and to clean up and decontaminate the derailment site. CP was added as a named party on August 14, 2013. CP is a party to an administrative appeal with respect to this order. No hearing date on the merits of CP s appeal has been scheduled.

A class action lawsuit has also been filed in the Superior Court of Quebec on behalf of a class of persons and entities residing in, owning or leasing property in, operating a business in or physically present in Lac-Mégantic. The lawsuit seeks damages caused by the derailment including for wrongful deaths, personal injuries, and property damages. CP was added as a defendant on August 16, 2013. The Superior Court of Quebec is not expected to release its judgment on the authorization of the class action before the end of February 2015.

In the wake of the derailment and ensuing litigation, MM&A filed for bankruptcy in Canada and the

United States. In an Adversary Proceeding filed by the MM&A U.S. bankruptcy trustee against CP, Irving Oil and the World Fuel entities, CP has been accused of failing to ensure that World Fuel or Irving properly classified the oil lading and of not refusing to ship the oil in DOT-111 tank cars. CP intends to move to withdraw the bankruptcy court reference and will thereafter seek to have the claim against CP dismissed as federally preempted.

In addition, CP has received two damage to cargo notices of claims from the shipper of the oil on the derailed train, Western Petroleum. Western Petroleum has submitted U.S. and Canadian notices of claims for the same damages and, under the Carmack Amendment (the U.S. damage to cargo statute), seeks to recover for all injuries associated with, and indemnification for all claims arising from, the derailment. Both jurisdictions permit a shipper to recover the value of damaged lading against any carrier in the delivery chain, subject to limitations in the carrier s tariffs. CP s tariffs significantly restrict shipper damage claim rights.

At this early stage in the legal proceedings, any potential liability and the quantum of potential loss cannot be determined. Nevertheless, CP denies liability for MM&A s derailment and will vigorously defend itself in the proceedings described above and in any proceeding that may be commenced in the future.

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10. TRANSFER AGENTS AND REGISTRARS

10.1 Transfer Agent

Computershare Investor Services Inc., with transfer facilities in Montreal, Toronto, Calgary and Vancouver, serves as transfer agent and registrar for CP s Common Shares in Canada.

Computershare Trust Company NA, Canton, Massachusetts, serves as co-transfer agent and co-registrar for CP s Common Shares in the U.S.

Requests for information should be directed to:

Computershare Investor Services Inc.

100 University Avenue, 8th Floor

Toronto, Ontario Canada

M5J 2Y1

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11. INTERESTS OF EXPERTS

Deloitte LLP, Chartered Accountants, Calgary, Alberta, have issued their audit opinion dated February 23, 2015, in respect of the Company s consolidated financial statements as at December 31, 2014 and 2013 and for each of the years in the three-year period ended December 31, 2014. Deloitte LLP is independent with respect to

the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta and is independent within the meaning of the applicable rules and regulations adopted by the U.S. Securities and Exchange Commission and the Public Company Accounting Oversight Board (United States).

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12. AUDIT COMMITTEE

12.1 Composition of the Audit Committee and Relevant Education and Experience

The following individuals comprise the entire membership of the Audit Committee (the Committee). All of the members of the Committee are independent.

I. Courville Ms. Courville is a Corporate Director. From 2011 to 2013 she served as President of Hydro-Québec Distribution and from 2006 to 2011 she was President of Hydro-Québec TransÉnergie, both divisions of Hydro-Québec. Previously, she served as President of the Enterprise Group of Bell Canada and as President and Chief Executive Officer of Bell Nordiq Group (Télébec NorthernTel), a subsidiary of Bell Canada. Ms. Courville is currently Chair of the Board of Laurentian Bank of Canada, a director of Group TVA Inc. and a director of École Polytechnique de Montréal. Prior board memberships include Miranda Technologies Inc., Chamber of Commerce of Metropolitan Montreal, NPCC (Northeast Power Coordinating Council) and St. Justine Hospital Foundation. Ms. Courville holds a Bachelor s degree in Engineering Physics from the École Polytechnique de Montréal and a Bachelor s degree in Civil Law from McGill University.

P.G. Haggis Mr. Haggis is Chairman of the Alberta Enterprise Corporation, and served as Chairman of C.A. Bancorp Inc. until March 2013. He serves as a director of Advantage Oil & Gas Ltd. and as an advisor to the Insurance Corporation of British Columbia (ICBC) since retiring as a director. Previously, Mr. Haggis was President and CEO of Ontario Municipal Employees Retirement System (OMERS) and President and CEO of Alberta Treasury Branches. Mr. Haggis graduated from the University of Western Ontario and is certified as a Chartered Director through McMaster University.

L.J. Morgan Ms. Morgan is a Partner at Nossaman LLP, a premier transportation infrastructure law firm based in the United States. Prior to joining Nossaman in September of 2011, she was a Partner at Covington & Burling LLP, a United States based international law firm, where she chaired its transportation and government affairs practices. She also serves on the Board of Visitors for the Georgetown University Law Centre and the Business Advisory Committee for

Northwestern University s Transportation Centre. Ms. Morgan was previously Chairman of the United States Surface Transportation Board, and its predecessor the Interstate Commerce Commission, from March 1995 to December 2002. Prior to joining the Interstate Commerce Commission, Ms. Morgan served as General Counsel to the Senate Committee on Commerce, Science and Transportation. She graduated from Vassar College with an A.B. and the Georgetown University Law Centre with a J.D., and is an alumna of the Program for Senior Managers in Government at Harvard University s John F. Kennedy School of Government.

A. F. Reardon Mr. Reardon was an attorney at the law firm of Reardon & Chasar, LPA, which he co-founded in 2009 until he retired in December 2011. Prior to that, Mr. Reardon served as Chairman and Chief Executive Officer, and President and Chief Executive Officer from 2001 to 2008, and Vice President, Law and Human Resources from 1992 to 2000 of TTX Company, the leading railcar leasing company in North America. Previously, he was a Presidential Appointee to the Railroad Retirement Board and was the Senior Vice President, Law and Administration for Illinois Central Railroad. He is currently a director of Appvion Inc., a global manufacturer of thermal and carbonless paper. Mr. Reardon was a Presidential Appointee confirmed by the U.S. Senate from 1990-1992. He has also served on various railroad industry boards including TTX, Terminal Railroad Association of St. Louis, and the Peoria and Pekin Union Railway. Mr. Reardon holds a Bachelor s Degree from the University of Notre Dame, a Juris Doctor Degree from the University of Cincinnati and a Master s Degree in Taxation from Washington University Law School. He served as an officer in the United States Navy from 1967 to 1971.

12.2 Pre-Approval of Policies and Procedures

The Committee has adopted a written policy governing the pre-approval of audit and non-audit services to be provided to CP by the Company s independent auditors. The policy is reviewed annually and the audit and non-audit services to be provided by the Company s independent auditors, as well as the budgeted amounts for such services, are pre-approved at that time. The Company s

Comptroller must submit to the Committee at least quarterly a report of all services performed or to be performed by the Company s independent auditors pursuant to the policy. Any additional audit or non-audit services to be provided by the independent auditors either not included among the pre-approved services or exceeding the budgeted amount for such pre-approved services by more than 10% must be individually pre-approved by the Committee or its Chairman, who must report all such additional pre-approvals to the Committee at its next meeting following the granting thereof. The Company s independent auditors annual audit services engagement terms and fees are subject to the specific pre-approval of the Committee. In addition, prior to the granting of any pre-approval, the Committee or its Chairman, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of the Company s independent auditors. The Company s Chief Internal Auditor monitors compliance with this policy.

12.3 Audit Committee Charter

The term Corporation herein shall refer to each of Canadian Pacific Railway Limited (CPRL) and Canadian Pacific Railway Company (CPRC), and the terms Board , Directors , Board of Directors and Committee shall refer to the Board, Directors, Board of Directors, or Committee of CPRL or CPRC, as applicable.

A. Committee and Procedures

1. Purpose

The purposes of the Audit Committee (the Committee) of the Board of Directors of the Corporation are to fulfill applicable public company audit committee legal obligations and to assist the Board of Directors in fulfilling its oversight responsibilities in relation to the disclosure of financial statements and information derived from financial statements, including:

- the review of the annual and interim financial statements of the Corporation;
- the integrity and quality of the Corporation s financial reporting and systems of internal control;
- the Corporation s compliance with applicable legal and regulatory requirements;
- the qualifications, independence, engagement, compensation and performance of the Corporation s external auditors; and
- the performance of the Corporation s internal audit function;

and to prepare, if required, an audit committee report for inclusion in the Corporation s annual management proxy circular, in accordance with applicable rules and regulations. In addition, the Committee will assist the Board with the identification of the principal risks of the Corporation s business and ensure the implementation of appropriate risk assessment and risk management policies and processes to manage these risks.

The Corporation s external auditors shall report directly to the Committee.

2. Composition of Committee

The members of the Committee of each of CPRL and CPRC shall be identical and shall be Directors of CPRL and CPRC, respectively. The Committee shall consist of not less than three and not more than the number of Directors who are not officers or employees of the Corporation, none of whom is either an officer or employee of the Corporation or any of its subsidiaries. Members of the Committee shall meet applicable requirements and guidelines for audit committee service, including requirements and guidelines with respect to being independent and unrelated to the Corporation and to having accounting or related financial management expertise and financial literacy, as set forth in applicable securities laws or the rules of any stock exchange on which the Corporation s securities are listed for trading. No Director shall be eligible to serve on the Committee if such Director currently serves on the audit committees of three public companies other than the Corporation, unless the Board of Directors has determined that such simultaneous service would not impair the ability of such member to effectively serve on the Committee. Determinations as to whether a

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particular Director satisfies the requirements for membership on the Committee shall be affirmatively made by the full Board, upon recommendation from the Corporate Governance and Nominating Committee.

3. Appointment of Committee Members

Members of the Committee shall be appointed from time to time by the Board and shall hold office at the pleasure of the Board.

4. Vacancies

Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board. The Board shall fill a vacancy whenever necessary to maintain a Committee membership of at least three Directors.

5. Committee Chair

The Board shall appoint a Chair for the Committee.

6. Absence of Committee Chair

If the Chair of the Committee is not present at any meeting of the Committee, one of the other members of the Committee who is present at the meeting shall be chosen by the Committee to preside at the meeting.

7. Secretary of Committee

The Committee shall appoint a Secretary who need not be a Director of the Corporation.

8. Meetings

The Committee shall meet at regularly scheduled meetings at least once every quarter and shall meet at such other times during each year as it deems appropriate, and as part of such meetings, shall meet in executive session without management being present. In addition, the Chair of the Committee or the Chairman of the Board or any two of its other members may call a meeting of the Committee at any time.

9. Quorum

Three members of the Committee shall constitute a quorum.

10. Notice of Meetings

Notice of the time and place of every meeting shall be given in writing by any means of transmitted or recorded communication, including facsimile, telex, telegram or other electronic means that produces a written copy, to each member of the Committee at least 24 hours prior to the time fixed for such meeting; provided however, that a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting constitutes a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

11. Attendance of Others at Meetings

At the invitation of the Chair of the Committee, other individuals who are not members of the Committee may attend any meeting of the Committee.

12. Procedure, Records and Reporting

Subject to any statute or the articles and by-laws of the Corporation, the Committee shall fix its own procedures at meetings, keep records of its proceedings and report to the Board when the Committee may deem appropriate (but not later than the next regularly scheduled meeting of the Board).

13. Delegation

The Committee may delegate from time to time to any person or committee of persons any of the Committee s responsibilities that may be lawfully delegated.

14. Report to Shareholders

The Committee shall prepare a report to shareholders or others, concerning the Committee s activities in the discharge of its responsibilities, when and as required by applicable laws or regulations.

15. Guidelines to Exercise of Responsibilities

The Board recognizes that meeting the responsibilities of the Committee in a dynamic business environment requires a degree of flexibility. Accordingly, the procedures outlined in these Terms of Reference are meant to serve as guidelines rather than inflexible rules, and the Committee may adopt such different or additional procedures as it deems necessary from time to time.

16. Use of Outside Legal, Accounting or Other Advisers; Appropriate Funding

The Committee may retain, at its discretion, outside legal, accounting or other advisors, at the expense of the Corporation, to obtain advice and assistance in respect of any matters relating to its duties, responsibilities and powers as provided for or imposed by these Terms of Reference or otherwise by law.

The Committee shall be provided by the Corporation with appropriate funding, as determined by the Committee, for payment of:

(i) compensation of any outside advisers as contemplated by the immediately preceding paragraph;

(ii) compensation of any independent auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation; or

(iii) ordinary administrative expenses that are necessary or appropriate in carrying out the Committee s duties.

All outside legal, accounting or other advisors retained to assist the Committee shall be accountable ultimately to the Committee.

17. Remuneration of Committee Members

No member of the Committee shall receive from the Corporation or any of its affiliates any compensation other than the fees to which he

or she is entitled as a Director of the Corporation or a member of a committee of the Board. Such fees may be paid in cash and/or shares, options or other in-kind consideration ordinarily available to Directors.

B. Mandate of Committee

1. Committee Role:

The Committee s role is one of oversight. Management is responsible for preparing the interim and annual financial statements of the Corporation and for maintaining a system of risk assessment and internal controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly, for maintaining disclosure controls and procedures to ensure that it is informed on a timely basis of material developments and the Corporation complies with its public disclosure obligations, and for ensuring compliance by the Corporation with applicable legal and regulatory requirements. The external auditors are responsible for auditing the Corporation s financial statements.

In carrying out its oversight responsibilities: (i) each member of the Committee is entitled to, absent knowledge to the contrary, rely upon the accuracy and completeness of the Corporation s records and upon information, opinions, reports or statements presented by any of the Corporation s officers or employees, or consultants of the Corporation which the member reasonably believes are within such other person s professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation; and (ii) the Committee and its members do not provide any professional certification or special assurance as to the Corporation s financial statements or the external auditors work.

The Committee shall:

External Auditors Report on Annual Audit

a) obtain and review annually prior to the completion of the external auditors annual

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audit of the year-end financial statements a report from the external auditors describing:

(i) all critical accounting policies and practices to be used;

(ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors; and

(iii) other material written communications between the external auditors and management, such as any management letter or schedule of unadjusted differences;

Management s/Internal Auditors Reports on External Audit Issues

b) review any reports on the above or similar topics prepared by management or the internal auditors and discuss with the external auditors any material issues raised in such reports;

Annual Financial Reporting Documents and External Auditors Report

c) meet to review with management, the internal auditors and the external auditors the Corporation s annual financial statements, the report of the external auditors thereon, the related Management s Discussion and Analysis, and the information derived from the financial statements, as contained in the Annual Information Form and the Annual Report. Such review will include obtaining assurance from the external auditors that the audit was conducted in a manner consistent with applicable law and will include a review of:

(i) all major issues regarding accounting principles and financial statement presentations, including any significant
changes in the Corporation s selection or application of accounting policies or principles;

(ii) all significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including the effects on the financial statements of alternative methods within generally accepted accounting principles;

(iii) the effect of regulatory and accounting issues, as well as off-balance sheet structures, on the financial statements;

(iv) all major issues as to the adequacy and effectiveness of the Corporation s internal controls and any special steps adopted in light of material control deficiencies and any consideration by the external auditors of fraud during the performance of the audit of the Corporation s annual financial statements; and

(v) the external auditors judgment about the appropriateness and quality, not just the acceptability, of the accounting principles applied in the Corporation s financial reporting;

d) following such review with management and the external auditors, recommend to the Board whether to approve the audited annual financial statements of the Corporation and the related Management s Discussion and Analysis, and report to the Board on the review by the Committee of the information derived from the financial statements contained in the Annual Information Form and Annual Report;

Interim Financial Statements and MD&A

e) review with management, the internal auditors and the external auditors the Corporation s interim financial statements and its interim Management s Discussion and Analysis, and if thought fit, approve the interim financial statements and

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interim Management s Discussion and Analysis and the public release thereof by management;

Earnings Releases, Earnings Guidance

f) review and discuss earnings press releases, including the use of pro forma or adjusted information determined other than in accordance with generally accepted accounting principles, and the disclosure by the Corporation of earnings guidance and other financial information to the public including analysts and rating agencies, it being understood that such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and be satisfied that adequate procedures are in place for the review of such public disclosures and periodically assess the adequacy of those procedures;

Material Litigation, Tax Assessments, Etc.

g) review with management, the external auditors and, if necessary, legal counsel all legal and regulatory matters and litigation, claims or contingencies, including tax assessments, that could have a material effect upon the financial position of the Corporation, and the manner in which these matters may be, or have been, disclosed in the financial statements; and obtain reports from management and review with the Corporation s chief legal officer, or appropriate delegates, the Corporation s compliance with applicable legal and regulatory requirements;

Oversight of External Auditors

h) subject to applicable law relating to the appointment and removal of the external auditors, be directly responsible for the appointment, retention, termination and oversight of the external auditors; recommend to the Board the approval of compensation of the external auditors as such compensation relates to the provision
of audit services; and be responsible for the resolution of disagreements between management and the external auditors regarding financial reporting;

Rotation of External Auditors Audit Partners

i) review and evaluate the lead audit partner of the external auditors and assure the regular rotation of the lead audit partner and the audit partner responsible for reviewing the audit and other audit partners, as required by applicable law;

External Auditors Internal Quality Control

j) obtain and review, at least annually, and discuss with the external auditors a report by the external auditors describing the external auditors internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues;

External Auditors Independence

k) review and discuss, at least annually (and prior to the engagement of any new external auditors), with the external auditors all relationships that the external auditors and their affiliates have with the Corporation and its affiliates in order to assess the external auditors independence, including, without limitation:

(i) obtaining and reviewing, at least annually, a formal written statement from the external auditors delineating all relationships that in the external auditors professional judgment may reasonably be thought to bear on the independence of the external auditors with respect to the Corporation;

(ii) discussing with the external auditors any disclosed relationships or services that may affect the objectivity and independence of the external auditors; and

(iii) recommending that the Board take appropriate action in response to the external auditors report to satisfy itself as to the external auditors independence;

Policies Regarding Hiring of External Auditors Employees, Former Employees

l) set clear policies for the hiring by the Corporation of partners, employees and former partners and employees of the external auditors;

Pre-Approval of Audit and Non-Audit Services Provided by External Auditors

m) be solely responsible for the pre-approval of all audit and non-audit services to be provided to the Corporation and its subsidiary entities by the external auditors (subject to any prohibitions provided in applicable law), and of the fees paid for the non-audit services; provided however, that the Committee may delegate, to an independent member or members of the Committee, authority to pre-approve such non-audit services, and such member(s) shall report to the Committee at its next scheduled meeting following the granting any pre-approvals granted pursuant to such delegated authority;

n) review the external auditors annual audit plan (including scope, staffing, location, reliance on management and internal controls and audit approach);

o) review the external auditors engagement letter;

Oversight of Internal Audit

p) oversee the internal audit function by being directly responsible for the appointment or dismissal of the Chief Internal Auditor, who shall report directly to the Committee and administratively to the Chief Legal Officer and Corporate Secretary; afford the Chief Internal Auditor unrestricted access to the Committee; review the charter, activities, internal audit plan, organizational structure, and the skills and experience of the Internal Audit Department; discuss with management and the external auditors the competence, performance, resources, and cooperation of the internal auditors; and approve, after discussion with management and proper performance evaluation, the compensation of the Chief Internal Auditor;

q) review and consider, as appropriate, any significant reports and recommendations issued by the Corporation or by any external party relating to internal audit issues, together with management s response thereto;

Internal Controls and Financial Reporting Processes

r)

review with management, the internal auditors and the external auditors, the Corporation s financial reporting processes and its internal controls;

s) review with the internal auditors the adequacy of internal controls and procedures related to any corporate transactions in which Directors or officers of the Corporation have a personal interest, including the expense accounts of officers of the Corporation at the level of Vice-President and above and officers use of corporate assets, and consider the results of any reviews thereof by the internal or external auditors;

CEO and Chairman Expenses

t) review, at least annually, a report on the expense claims of the Chief Executive Officer, as approved by the Chairman of the Board, and the expense claims of the Chairman of the Board, as approved by the Chair of the Audit Committee;

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Complaints Processes

u) establish procedures for:

(i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and

(ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;

and review periodically with management and the internal auditors these procedures and any significant complaints received;

Separate Meetings with External Auditors, Internal Audit, Management

v) meet separately with management, the external auditors and the internal auditors periodically to discuss matters of mutual interest, including any audit problems or difficulties and management s response thereto, the responsibilities, budget and staffing of the Internal Audit Department and any matter that they recommend bringing to the attention of the full Board;

Enterprise Risk Management

w) discuss risk assessment and risk management policies and processes to be implemented for the Corporation, review with management and the Corporation s internal auditors the effectiveness and efficiency of such policies and processes and their compliance with other relevant policies of the Corporation, and make recommendations to the Board with respect to any outcomes, findings and issues arising in connection therewith;

x) review management s program to obtain appropriate insurance to mitigate risks;
y) oversee risks that may have a material impact on the Corporation s financial statements;

Tax

z) review the Corporation s tax status and monitor its approach to tax strategy that may have a material impact on the Corporation s financial statements, including tax reserves and potential reassessments and audits;

Codes of Ethics

aa) monitor compliance with the Corporation s code of business ethics and the code of ethics applicable to the Chief Executive Officer and senior financial officers of the Corporation, as well as waivers from compliance therefrom, and ensure that any issues relating to financial governance which are identified by the Directors are raised with management;

Review of Terms of Reference

bb) review and reassess the adequacy of these Terms of Reference annually or otherwise as it deems appropriate and recommend changes to the Board;

Other

cc) perform such other activities, consistent with these Terms of Reference, the Corporation s articles and by-laws and governing law, as the Committee or the Board deems appropriate; and

dd) report regularly to the Board of Directors on the activities of the Committee.

December 16, 2014

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12.4 Audit and Non-Audit Fees and Services

Deloitte LLP (Deloitte) was appointed as the independent auditor of the Company in May 2011 commencing fiscal year 2011.

In accordance with applicable laws and the requirements of stock exchanges and securities regulatory authorities, the Audit Committee of the Company must pre-approve all audit and non-audit services to be provided by the independent auditors. Fees payable to Deloitte LLP for the years ended December 31, 2014, and December 31, 2013, totaled $2,885,400 and $2,213,000, respectively, as detailed in the following table:

	Year ended December 31, 2014	Year ended December 31, 2013
Audit Fees	$ 2,184,800	$ 1,943,000
Audit-Related Fees	155,000	228,500
Tax Fees	295,600	41,500
All Other Fees	250,000	
TOTAL	$ 2,885,400	$ 2,213,000

The nature of the services provided under each of the categories indicated in the table is described below:

12.4.1 Audit Fees

Audit fees were for professional services rendered for the audit and interim reviews of the Registrants annual financial statements and services provided in connection with statutory and regulatory filings or engagements, including the attestation engagement for the report from the independent registered public accounting firm on the effectiveness of internal controls over financial reporting, the audit or interim reviews of financial statements of certain subsidiaries and of various pension and benefits plans of the Registrants; special attestation services as may be required by various government entities; and general advice and assistance related to accounting and/or disclosure matters with respect to new and proposed U.S. accounting standards, securities regulations, and/or laws.

12.4.2 Audit-Related Fees

Audit-related fees were for assurance and related services reasonably related to the performance of the audit or review of the annual financial statements, but which are not reported under

Audit Fees above. These services consisted of audit work related to securities filings; refinancing of subsidiary companies; and accounting training.

12.4.3 Tax Fees

Tax fees were for professional services related to tax compliance, tax planning and tax advice. These services consisted of: tax compliance including the review of tax returns; assistance with questions regarding corporate tax audits; tax planning and advisory services relating to common forms of domestic and international taxation (i.e. income tax, capital tax, goods and services tax, and value added tax); and access fees for taxation database resources.

12.4.4 All Other Fees

Fees disclosed under this category would be for products and services other than those described under Audit Fees , Audit-Related Fees and Tax Fees above. These finance services consisted of advice with respect to an internal reorganization initiative. There were no such services in 2013.

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13. FORWARD-LOOKING INFORMATION

This AIF contains certain forward-looking statements within the meaning of the *Private Securities Litigation Reform Act of 1995* (U.S.) and other relevant securities legislation relating, but not limited to expected improvements in operating efficiency and fluidity, the ability of information technology to improve service and provide sophisticated billing options, the benefits of lean process and continuous improvement principles, the cost of environmental remediation and anticipated capital expenditures. Forward-looking information typically contains statements with words such as anticipate , believe , expect , plan or similar words suggesting future outcomes.

Readers are cautioned not to place undue reliance on forward-looking information because it is possible that the Company will not achieve predictions, forecasts, projections and other forms of forward-looking information. Current economic conditions render assumptions, although reasonable when made, subject to greater uncertainty. In addition, except as required by law, CP undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

By its nature, the Company s forward-looking information involves numerous assumptions, inherent risks and uncertainties, including but not

limited to the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks in agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demand; inflation; changes in laws and regulations, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions on the financial position of pension plans and investments; and various events that could disrupt operations, including severe weather, droughts, floods, avalanches and earthquakes as well as security threats and the governmental response to them, and technological changes.

There are more specific factors that could cause actual results to differ materially from those described in the forward-looking statements contained in this AIF. These more specific factors are identified and discussed in Section 22, Business Risks and elsewhere in the Company s 2014 MD&A.

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14. ADDITIONAL INFORMATION

14.1 Additional Company Information

Additional information, including the Company s Consolidated Financial Statements, press releases and other required filing documents, are available on SEDAR at www.sedar.com in Canada, on EDGAR at www.sec.gov in the U.S. and on the Company website at www.cpr.ca. Copies of such documents, as well as the Company s Notice of Intention to Make a NCIB, may be obtained by contacting the Corporate Secretary s Office. The aforementioned information is issued and made available in accordance with legal requirements and is not incorporated by reference into this AIF except as specifically stated.

Additional information, including directors and officers remuneration and indebtedness, principal holders of CP securities and securities authorized for issuance under equity compensation plans, where applicable, is contained in the information circular for the Company s most recent annual meeting of shareholders at which directors were elected.

Additional financial information is provided in the Company s Consolidated Financial Statements and MD&A for the most recently completed financial year.

This information is also available on the Company s website at www.cpr.ca.

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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, 2014 prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All information has been prepared in accordance with GAAP, except as described in Section 15, Non-GAAP Measures of this MD&A. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars.

February 23, 2015

In this MD&A, our , us , we , CP , Canadian Pacific and the Company refer to Canadian Pacific Railway Limited (CPRL), CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL s subsidiaries, as the context may require. Other terms not defined in the body of this MD&A are defined in Section 26, Glossary of Terms.

Unless otherwise indicated, all comparisons of results for 2014 and 2013 are against the results for 2013 and 2012, respectively. Unless otherwise indicated, all comparisons of results for the fourth quarter of 2014 are against the results for the fourth quarter of 2013.

1. BUSINESS PROFILE

Canadian Pacific Railway Limited, through its subsidiaries, operates a transcontinental railway in Canada and the United States (U.S.) and provides logistics and supply chain expertise. CP provides rail and intermodal transportation services over a network of approximately 13,700 miles, serving the principal business centres of Canada from Montreal, Quebec, to Vancouver, British Columbia (B.C.), and the U.S. Northeast and Midwest regions. Our railway feeds directly into the U.S. heartland from the East and West coasts. Agreements with other carriers extend the Company s market reach east of Montreal in Canada, throughout the U.S. and into Mexico. The Company transports bulk commodities, merchandise freight and intermodal traffic. Bulk commodities include Canadian grain, U.S. grain, coal, potash, and fertilizers and sulphur.

Merchandise freight consists of finished vehicles and automotive parts, chemicals and plastics, crude oil, forest products, and metals, minerals, and consumer products. Intermodal traffic consists largely of high-value, time-sensitive retail goods in overseas containers that can be transported by train, ship and truck, and in domestic containers and trailers that can be moved by train and truck.

2. STRATEGY

Canadian Pacific is driving change as it moves through its transformational journey to become the best railroad in North America, while creating long-term value for shareholders. The Company is focused on providing customers with industry leading rail service; driving sustainable, profitable growth; optimizing our assets; and reducing costs, while remaining a leader in rail safety.

Looking forward, CP is executing its strategic plan to become the lowest cost rail carrier centred on five key foundations, which are the Company s performance drivers.

Provide Service: Providing efficient and consistent transportation solutions for the Company s customers. Doing what we say we are going to do is what drives CP by providing a reliable product with a lower cost operating model. Centralized planning aligned with local execution is bringing the Company closer to the customer and accelerating decision-making.

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

Optimize Assets: Through longer sidings, improved asset utilization, and increased train lengths, the Company is moving increased volumes with fewer locomotives and cars while unlocking capacity for future growth potential.

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Operate Safely: Each year, CP safely moves millions of carloads of freight across North America while ensuring the safety of our people and the communities through which we operate. Safety is never to be compromised. Continuous research and development in state-of-the-art safety technology and highly focused employees ensure our trains are built for safe, efficient operations across our network.

Develop People: CP recognizes that none of the other foundations can be achieved without its people. Every CP employee is a railroader and the Company is shaping a new culture focused on a passion for service with integrity in everything it does. Coaching and mentoring managers into becoming leaders will help drive CP forward.

3. FORWARD-LOOKING INFORMATION

This MD&A and Annual Report contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 and other relevant securities legislation. These forward-looking statements include, but are not limited to, statements concerning the Company s defined benefit pension expectations for 2015 and through 2018, including our targeted revenues of $10 billion in 2018, our expected cumulative cash flow before dividends of $6 billion and our expected diluted EPS of more than double 2014 diluted EPS, as well as statements concerning the Company s operations, anticipated financial performance, business prospects and strategies, including statements concerning the anticipation that cash flow from operations and various sources of financing will be sufficient to meet debt repayments and obligations in the foreseeable future and concerning anticipated capital programs, statements regarding future payments including income taxes and pension contributions, and capital expenditures. Forward-looking information typically contains statements with words such as anticipate , believe , expect , plan or similar words suggesting future outcomes.

Readers are cautioned not to place undue reliance on forward-looking information because it is possible that CP will not achieve predictions, forecasts, projections and other forms of forward-looking information. Current economic conditions render assumptions, although reasonable when made, subject to greater uncertainty. In addition, except as required by law, CP undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

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

There are more specific factors that could cause actual results to differ materially from those described in the forward-looking statements contained in this MD&A. These more specific factors are identified and discussed in Section 22, Business Risks and elsewhere in this MD&A. Other risks are detailed from time to time in reports filed by CP with securities regulators in Canada and the United States.

Financial Assumptions

Financial expectations for 2015

The Company expects revenue growth to be 7-8%, operating ratio below 62% and adjusted earnings per share (EPS) growth to be 25% or greater from 2014 annual Diluted EPS, excluding significant items, of $8.50, discussed further in Section 15, Non-GAAP Measures. Key assumptions for full year 2015 financial expectations include:

¨ no assumption on share buybacks beyond current Normal Course Issuer Bid (NCIB) program expiring March 16, 2015;

¨ Canadian dollar to U.S. dollar exchange rate of $1.20;

- an income tax rate of 27.5%;
- defined benefit pension expense of approximately $45 million, compared to 2014 pension income of $52 million;
- capital expenditures of approximately $1.5 billion;
- average On Highway Diesel (OHD) price of U.S. $2.70;
- average WTI price of U.S. $46; and
- 140,000 crude carloads.

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Defined benefit pension expectations for 2015

Defined benefit pension contributions are currently estimated to be between $80 million and $90 million in 2015, and between $50 million and $100 million in each year from 2016 to 2018. This contribution level reflects the Company s intentions with respect to the rate at which CP applies the voluntary prepayments made in previous years to reduce contribution requirements. Defined benefit pension expense for 2015 is expected to be approximately $45 million. These pension contributions and pension expense estimates are based on a number of economic and demographic assumptions and are sensitive to changes in the assumptions or to actual experience differing from the assumptions. Pensions are discussed further in Section 23, Critical Accounting Estimates.

Financial expectations through 2018

CP is targeting to grow revenues to $10 billion in 2018. Over the 2015 to 2018 time frame, CP also expects to generate cumulative cash flow before dividends, discussed further in Section 15, Non-GAAP Measures, of $6 billion and for Diluted EPS to more than double compared to 2014. Key assumptions to reaching these goals include:

¨ annual capital spending in the range of $1.4 billion to $1.6 billion;

¨ average fuel cost of U.S. $3.50 per U.S. gallon;

¨ Canadian to U.S. dollar exchange rate of 1.10; and

¨ income tax rate of 27.5%.

Undue reliance should not be placed on these assumptions and other forward-looking information.

4. ADDITIONAL INFORMATION

Additional information, including the Company s Consolidated Financial Statements, press releases and other required filing documents, are available on SEDAR at www.sedar.com in Canada, on EDGAR at www.sec.gov in the U.S. and on the Company website at www.cpr.ca. Copies of such documents, as well as the Company s Notice of Intention to Make a NCIB, may be obtained by contacting the Corporate Secretary s Office. The aforementioned documents are issued and made available in accordance with legal requirements and are not incorporated by reference into this MD&A.

5. FINANCIAL HIGHLIGHTS

For the year ended December 31 (in millions, except percentages and per share data)	**2014**	2013	2012
Revenues	**$ 6,620**	$ 6,133	$ 5,695
Operating income	**2,339**	1,420	949
Operating income, excluding significant items[(1)]	**2,335**	1,844	1,309
Net income	**1,476**	875	484
Basic earnings per share	**8.54**	5.00	2.82
Diluted earnings per share	**8.46**	4.96	2.79
Diluted earnings per share, excluding significant items[(1)]	**8.50**	6.42	4.34
Dividends declared per share	**1.4000**	1.4000	1.3500

Return on capital employed (ROCE[2])	**14.9%**	9.5%	6.9%
Operating ratio	**64.7%**	76.8%	83.3%
Operating ratio, excluding significant items[1]	**64.7%**	69.9%	77.0%
Free cash[1]	**725**	530	93
Total assets at December 31	**16,640**	17,060	14,727
Total long-term financial liabilities at December 31[3]	**5,746**	4,784	4,735

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Diluted EPS ($)	Diluted EPS, excluding significant items ($)[1]	Operating ratio (%)	Operating ratio, excluding significant items (%)[1]

[1] These measures have no standardized meaning prescribed by GAAP and, therefore, unlikely to be comparable to similar measures of other companies. These earnings measures and significant items are discussed further in Section 15, Non-GAAP Measures along with a reconciliation of free cash to GAAP cash position.

[2] ROCE is defined as earnings before interest and taxes (EBIT), divided by the average for the year of total assets, less current liabilities, as measured under GAAP and it is discussed further in Section 15, Non-GAAP Measures.

[3] Total long-term financial liabilities excludes: deferred taxes of $2,773 million, $2,903 million and $2,092 million, and other non-financial long-term liabilities of $1,100 million, $898 million and $1,573 million for the years 2014, 2013 and 2012 respectively.

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6. OPERATING RESULTS

Income

Operating income was $2,339 million in 2014, an increase of $919 million, or 65%, from $1,420 million in 2013. This increase was primarily due to:

- an asset impairment charge in 2013;
- higher volumes of traffic, as measured by revenue ton-miles (RTMs), generating higher freight revenue;
- efficiency savings generated from improved operating performance, asset utilization and insourcing of certain Information Technology (IT) activities;
- lower pension expense;
- the favourable impact of the change in foreign exchange (FX); and
- lower casualty expense.

This increase in Operating income was partially offset by higher incentive and stock-based compensation resulting from improved corporate performance and higher wage and benefit inflation.

Operating income was $1,420 million in 2013, an increase of $471 million, or 50%, from $949 million in 2012. This increase was primarily due to:

- efficiency savings generated from improved operating performance, asset utilization and insourcing of certain IT activities;
- increased volumes of traffic, as measured by RTMs, generating higher freight revenue;
- higher freight rates;
- the net impact of a strike in the second quarter of 2012;
- labour restructuring charges in 2012 and associated experience gains in 2013;
- lower management transition costs and a favourable litigation settlement related to management transition in 2013; and

- the favourable impact of the change in FX.

This increase was partially offset by:

- a higher asset impairment charge in 2013 due to the anticipated sale of a portion of Dakota, Minnesota & Eastern (DM&E) line west of Tracy, Minnesota (DM&E West) compared to the impairment of various assets in 2012, discussed further in Section 9, Operating Expenses;
- higher volume variable expenses as a result of an increase in workload;
- higher incentive and stock-based compensation expenses;
- wage and benefit inflation; and
- higher depreciation and amortization expenses due to higher depreciable assets as a result of the Company s capital program.

Net income was $1,476 million in 2014, an increase of $601 million, or 69%, from $875 million in 2013. This increase was primarily due to higher Operating income, partially offset by an increase in Income tax expense.

Net income was $875 million in 2013, an increase of $391 million, or 81%, from $484 million in 2012. This increase was primarily due to higher Operating income and a decrease in Other income and charges due to advisory fees related to shareholder matters in 2012 and was partially offset by higher Income tax expenses due to the impact of higher earnings.

Diluted Earnings per Share

Diluted earnings per share was $8.46 in 2014, an increase of $3.50, or 71% from $4.96 in 2013. Excluding the two significant items totaling $0.04 per share, discussed further in Section 15, Non-GAAP Measures, Diluted EPS, excluding significant items, was $8.50 in 2014, an increase of $2.08, or 32%, from $6.42 in 2013. These increases were primarily due to higher Net income and lower average outstanding shares due to the share repurchase program.

Diluted EPS was $4.96 in 2013, an increase of $2.17, or 78% from $2.79 in 2012. Excluding the five significant items totaling $1.46 per share, discussed further in Section 15, Non-GAAP Measures, Diluted EPS, excluding significant items, was $6.42 in 2013, an increase of $2.08, or 48%, from $4.34 in 2012. These increases were primarily due to higher Net income.

Diluted EPS, excluding significant items, has no standardized meaning prescribed by GAAP and, therefore, may not be comparable to similar measures presented by other companies.

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Operating Ratio

The operating ratio provides the percentage of revenues used to operate the railway, and is calculated as operating expenses divided by revenues. A lower percentage normally indicates higher efficiency in the operation of the railway. The Company s operating ratio was 64.7% in 2014, a decrease from 76.8% in 2013. This improvement was primarily due to an asset impairment charge in 2013, higher volumes of traffic generating higher freight revenues, and efficiency savings; partially offset by higher incentive and stock-based compensation resulting from improved corporate performance, and higher wage and benefit inflation.

The operating ratio, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was 64.7% in 2014, a decrease from 69.9% in 2013. This improvement was primarily due to higher volumes generating higher freight revenues and efficiency savings, partially offset by higher incentive and stock-based compensation resulting from improved corporate performance, and higher wage and benefit inflation.

The operating ratio was 76.8% in 2013, a decrease from 83.3% in 2012. This improvement was primarily due to efficiency savings, increased volumes of traffic and higher freight rates, partially offset by a higher asset impairment charge.

The operating ratio, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was 69.9% in 2013, a decrease from 77.0% in 2012. This improvement was primarily due to an increase in efficiency savings, increased volumes of traffic and higher freight rates.

Operating ratio, excluding significant items, has no standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies.

Return on Capital Employed

The calculation of ROCE utilizes Earnings Before Interest and Taxes (EBIT) on a rolling twelve month basis. ROCE was 14.9% at December 31, 2014, compared with 9.5% in 2013. This improvement was primarily due to higher earnings. Excluding the significant items in 2014 and 2013 from EBIT, Adjusted ROCE was 14.9% at December 31, 2014, compared with 12.4% in 2013. This improvement was primarily due to higher earnings.

ROCE was 9.5% at December 31, 2013, compared with 6.9% in 2012. This improvement was primarily due to higher earnings partially offset by a higher asset impairment charge. Excluding the significant items in 2013 and 2012 from EBIT, Adjusted ROCE was 12.4% at December 31, 2013, compared with 9.8% in 2012. This improvement was primarily due to higher earnings.

ROCE, Adjusted ROCE, EBIT and Adjusted EBIT and significant items are discussed further in Section 15, Non-GAAP Measures.

Impact of Foreign Exchange on Earnings

Fluctuations in foreign exchange affect the Company s results because U.S. dollar-denominated revenues and expenses are translated into Canadian dollars. U.S. dollar-denominated revenues and expenses increase (decrease) when the Canadian dollar weakens (strengthens) in relation to the U.S. dollar.

Canadian to U.S. dollar Average exchange rates	**2014**	2013	2012
For the year ended December 31	**$ 1.10**	$ 1.03	$ 1.00
For the three months ended December 31	**$ 1.13**	$ 1.04	$ 0.99

Canadian to U.S. dollar Exchange rates	**2014**	2013	2012
Beginning of year January 1	**$ 1.06**	$ 0.99	$ 1.02
Beginning of quarter April 1	**$ 1.11**	$ 1.02	$ 1.00

Beginning of quarter July 1	**$ 1.07**	$ 1.05	$ 1.02
Beginning of quarter October 1	**$ 1.12**	$ 1.03	$ 0.98
End of quarter December 31	**$ 1.16**	$ 1.06	$ 0.99

Average Fuel Price

(U.S. dollars per U.S. gallon)	**2014**	2013	2012
For the year ended December 31	**$ 3.41**	$ 3.47	$ 3.45
For the three months ended December 31	**$ 3.11**	$ 3.51	$ 3.47

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7. PERFORMANCE INDICATORS

For the year ended December 31[1]	**2014**	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Operations Performance					
Freight gross ton-miles (GTMs) (millions)	**273,276**	267,629	254,354	2	5
Revenue ton-miles (RTMs) (millions)	**149,849**	144,249	135,032	4	7
Train miles (thousands)	**36,625**	37,817	40,270	(3)	(6)
Average train weight excluding local traffic (tons)	**8,046**	7,573	6,709	6	13
Average train length excluding local traffic (feet)	**6,683**	6,530	5,981	2	9
Average terminal dwell (hours)	**8.7**	7.1	7.5	23	(5)
Average train speed (mph)[2]	**18.1**	18.4	N/A	(2)	N/A
Fuel efficiency (U.S. gallons of locomotive fuel consumed /1,000 GTMs)	**1.03**	1.06	1.15	(3)	(8)
Total employees (average)[3]	**14,575**	15,011	16,999	(3)	(12)
Workforce (end of period)	**14,698**	14,977	16,907	(2)	(11)
Safety Indicators					
FRA personal injuries per 200,000 employee-hours	**1.67**	1.71	1.56	(2)	10
FRA train accidents per million train-miles	**1.26**	1.80	1.69	(30)	7

(1) Certain prior period figures have been revised to conform with current presentation or have been updated to reflect new information.

(2) 2012 average train speed information not available for new reporting definition.

(3) 2012 average number of employees has been adjusted for a strike.

The indicators listed in this table are key measures of the Company s operating performance. Definitions of these performance indicators are provided in Section 26, Glossary of Terms.

Operations Performance

GTMs for 2014 were 273,276 million, a 2% increase compared with 267,629 million in 2013. This improvement was primarily due to higher shipments in Canadian grain, Crude, Domestic intermodal, and Metals, minerals and consumer products.

RTMs for 2014 were 149,849 million, an increase of 4% compared with 144,249 million in 2013. RTMs are discussed further in Section 8, Lines of Business.

Train miles for 2014 decreased by 3% compared with 2013, reflecting improvements in operating efficiency from longer, heavier trains.

Average train weight increased in 2014 by 473 tons, or 6%, from 2013. Average train length increased in 2014 by 153 feet, or 2%, from 2013. Average train weight and length benefited significantly from improvements in operating plan efficiency and increased volumes of bulk traffic conveyed in longer, heavier trains. Both of these improvements leverage the siding extensions completed in 2013 and 2014.

Average terminal dwell, the average time a freight car resides in a terminal, increased by 23% in 2014 to 8.7 hours from 7.1 hours in 2013. The unfavourable increase was primarily due to operational challenges in the U.S. Midwest.

Average train speed was 18.1 miles per hour in 2014, a decrease of 2%, from 18.4 miles per hour in 2013. The unfavourable decrease was primarily due to operational challenges in the U.S. Midwest. This decrease was partially offset by speed improvements in the fourth quarter of 2014 through improved asset velocity, decreased terminal dwell, and successful execution of the Company s operating plan.

Fuel efficiency improved by 3% in 2014 compared to 2013. This improvement is primarily due to the continued execution of the Company s fuel conservation strategy and increased locomotive productivity from higher average train weights.

The average number of total employees for 2014 decreased by 436, or 3%, compared with 2013. This improvement was primarily due to job reductions as a result of continuing strong operational performance and natural attrition, partially offset by additional IT employees as part of the Company s insourcing strategy.

The workforce on December 31, 2014 decreased by 279, or 2%, compared with December 31, 2013. This improvement was primarily due to job reductions as a result of continuing strong operational performance, natural attrition and fewer contractors.

Safety Indicators

Safety is a key priority and core strategy for CP s management, employees and Board of Directors. The Company s two main safety indicators personal injuries and train accidents follow strict U.S. Federal Railroad Administration (FRA) reporting guidelines.

The FRA personal injury rate per 200,000 employee-hours for CP was 1.67 in 2014, 1.71 in 2013 and 1.56 in 2012.

The FRA train accident rate for CP in 2014 was 1.26 accidents per million train-miles, compared with 1.80 in 2013 and 1.69 in 2012.

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8. LINES OF BUSINESS

2014 Freight Revenues

2013 Freight Revenues

Total Revenue, Volumes and Freight Rates

For the year ended December 31	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Freight revenues (in millions)	**$ 6,464**	$ 5,982	$ 5,550	8	8
Other revenues (in millions)	**156**	151	145	3	4
Total revenues (in millions)	**$ 6,620**	$ 6,133	$ 5,695	8	8
Carloads (in thousands)	**2,684**	2,688	2,669		1
Revenue ton-miles (in millions)	**149,849**	144,249	135,032	4	7
Freight revenue per carload (dollars)	**$ 2,408**	$ 2,226	$ 2,079	8	7
Freight revenue per revenue ton-mile (cents)	**4.31**	4.15	4.11	4	1

The Company s revenues are primarily derived from transporting freight. Other revenue is generated from leasing of certain assets, switching fees, contracts with passenger service operators, and logistical management services. Changes in freight volumes generally contribute to corresponding changes in freight revenues and certain variable expenses, such as fuel, equipment rents and crew costs.

For each of the twelve months ended December 31, 2014, 2013 and 2012, no customer comprised more than 10% of total revenues and accounts receivable.

2014 TO 2013 COMPARATIVES

Freight Revenues

Freight revenues are earned from transporting bulk commodities, merchandise and intermodal goods, and include fuel recoveries billed to the Company s customers. Freight revenues were $6,464 million in 2014, an increase of $482 million, or 8% from $5,982 million in 2013. This increase was primarily due to:

- higher volumes in Canadian grain, Domestic intermodal, Crude, and Metals, minerals and consumer products;
- higher freight rates; and
- the favourable impact of the change in FX.

This increase was partially offset by:

- lower shipments in International intermodal and Automotive, primarily due to the exit of certain customer contracts;
- lower Fertilizers and sulphur shipments primarily due to sulphur production shutdowns; and
- lower shipments in certain lines of business in the first half of the year due to the impact of harsh winter operating conditions.

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In 2014, RTMs, measuring the relative weight and distance of rail freight moved by the Company, increased by approximately 5,600 million, or 4% compared to the same period of 2013. This increase was primarily due to higher:

- Canadian originating shipments of grain;
- volumes in energy related commodities and frac sand; and
- Domestic intermodal shipments.

This increase was partially offset by lower:

- International intermodal shipments;
- Fertilizers and sulphur shipments; and
- U.S. originating thermal coal shipments.

Fuel Cost Recovery Program

CP employs a fuel cost recovery program designed to automatically respond to fluctuations in fuel prices and help reduce volatility to changing fuel prices. Fuel surcharge revenue is earned on individual shipments primarily based on OHD; as such, fuel surcharge revenue is a function of freight volumes. Short-term volatility in fuel prices may adversely or positively impact expenses and revenues.

Canadian Grain

				% Change	
				2014	2013
For the year ended December 31	**2014**	2013	2012	vs. 2013	vs. 2012
Freight revenues (in millions)	**$ 988**	$ 869	$ 767	14	13
Carloads (in thousands)	**291**	256	248	14	3
Revenue ton-miles (in millions)	**26,691**	22,864	22,149	17	3
Freight revenue per carload (dollars)	**$ 3,391**	$ 3,397	$ 3,089		10
Freight revenue per revenue ton-mile (cents)	**3.70**	3.80	3.46	(3)	10

CP s Canadian grain business consists of whole grains, oilseeds and grain products originating in the Canadian prairies, moving to export outlets on the west and east coasts, as well as processors in Canada, U.S. and Mexico for domestic use. Canadian grain revenue was $988 million in 2014, an increase of $119 million, or 14% from $869 million in 2013. This increase was primarily due to higher shipments as a result of strong export demand and record Canadian crop production, partially offset by reduced freight rates.

U.S. Grain

For the year ended December 31	**2014**	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Freight revenues (in millions)	**$ 503**	$ 431	$ 405	17	6
Carloads (in thousands)	**173**	182	185	(5)	(2)
Revenue ton-miles (in millions)	**11,724**	11,119	10,933	5	2
Freight revenue per carload (dollars)	**$ 2,909**	$ 2,359	$ 2,188	23	8
Freight revenue per revenue ton-mile (cents)	**4.29**	3.87	3.70	11	5

CP s U.S. grain traffic originates in key Midwest grain producing states and moves over multiple gateways within the U.S. for domestic use and to export outlets in the Pacific Northwest, Northeast U.S. and Gulf of Mexico. U.S. Grain revenue was $503 million in 2014, an increase of $72 million, or 17% from $431 million in 2013. This increase was primarily due to:

¨ higher freight rates;

¨ increased volume to the Pacific Northwest, which has a longer length of haul, in the second half of the year; and

¨ the favourable impact of the change in FX.

This increase was partially offset by the impact of harsh winter operating conditions in the first quarter of 2014.

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Coal

For the year ended December 31	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Freight revenues (in millions)	**$ 621**	$ 627	$ 602	(1)	4
Carloads (in thousands)	**313**	330	337	(5)	(2)
Revenue ton-miles (in millions)	**22,443**	23,172	22,375	(3)	4
Freight revenue per carload (dollars)	**$ 1,985**	$ 1,904	$ 1,787	4	7
Freight revenue per revenue ton-mile (cents)	**2.77**	2.71	2.69	2	1

CP serves both the metallurgical and thermal coal markets. The Company s Canadian coal business consists primarily of metallurgical coal transported from Southeastern B.C. to the ports of Vancouver, B.C. and Thunder Bay, Ontario. CP s U.S. coal business consists primarily of the transportation of thermal coal and petroleum coke within the U.S. Midwest or for export through west coast ports. Coal revenue was $621 million in 2014, a decrease of $6 million, or 1% from $627 million in 2013. This decrease was primarily due to lower shipments of U.S. originating thermal coal, partially offset by higher Canadian originating shipments of metallurgical coal, and increased freight rates.

Potash

For the year ended December 31	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Freight revenues (in millions)	**$ 347**	$ 312	$ 281	11	11
Carloads (in thousands)	**118**	114	103	4	11
Revenue ton-miles (in millions)	**14,099**	13,231	12,221	7	8
Freight revenue per carload (dollars)	**$ 2,941**	$ 2,745	$ 2,711	7	1
Freight revenue per revenue ton-mile (cents)	**2.46**	2.36	2.29	4	3

The potash transported by CP originates in Saskatchewan and is shipped to the ports of Vancouver, B.C. and Portland, Oregon, as well as to other Canadian and U.S. destinations. Potash revenue was $347 million in 2014, an increase of $35 million, or 11% from $312 million in 2013. This increase was primarily due to:

¨ the favourable impact of the change in FX;