CANADIAN PACIFIC RAILWAY LTD/CN
Form 40-F
March 05, 2014
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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, 2013

CANADIAN PACIFIC RAILWAY LIMITED

(Commission File No. 1-01342)

CANADIAN PACIFIC RAILWAY COMPANY

(Commission File No. 1-15272)

(Exact name of Registrant as specified in its charter)

		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: **None**

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

x Annual information form x Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

At December 31, 2013, 175,451,268 Common Shares of Canadian Pacific Railway Limited (CPRL) were issued and outstanding. At December 31, 2013, 347,170,009 Ordinary Shares of Canadian Pacific Railway Company (CPRC) were issued and outstanding. All of the ordinary shares of CPRC are held by CPRL.

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

PRIOR FILINGS MODIFIED AND SUPERSEDED

The Registrants Annual Report on Form 40-F for the year ended December 31, 2013, at the time of filing with the Securities and Exchange Commission (the Commission), modifies and supersedes all prior documents filed pursuant to Sections 13 and 15(d) of the Exchange Act for purposes of any offers or sales of any securities after the date of such filing pursuant to any Registration Statement under the Securities Act of 1933 of either Registrant which incorporates by reference such Annual Report, including without limitation the following: Form S-8 No. 333-13962 (Canadian Pacific Railway Limited); Form S-8 No. 333-127943 (Canadian Pacific Railway Limited); Form S-8 No. 333-140955 (Canadian Pacific Railway Limited); Form S-8 No. 333-183891 (Canadian Pacific Railway Limited); Form S-8 No. 333-183892 (Canadian Pacific Railway Limited); Form S-8 No. 333-183893 (Canadian Pacific Railway Limited); Form S-8 No. 333-188826 (Canadian Pacific Railway Limited); and Form S-8 No. 333-188827 (Canadian Pacific Railway Limited).

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

ANNUAL INFORMATION FORM, CONSOLIDATED AUDITED ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT S DISCUSSION AND ANALYSIS

A. Annual Information Form

For the Annual Information Form of CPRL for the year ended December 31, 2013, see Table of Contents and pages 1 through 42 of CPRL s 2013 Annual Information Form incorporated by reference and included herein.

B. Audited Annual Financial Statements

For audited consolidated financial statements (U.S. GAAP), including the reports of the independent registered public accounting firm with respect thereto, see pages 78 through 120 of CPRL s 2013 Annual Report incorporated by reference and included herein.

C. Management s Discussion and Analysis

For management s discussion and analysis, see pages 26 through 77 of CPRL s 2013 Annual Report incorporated by reference and included herein.

For the purposes of this Annual Report on Form 40-F, only pages 26 through 120 of CPRL s 2013 Annual Report referred to above shall be deemed filed, and the balance of such 2013 Annual Report, except as it may be otherwise specifically incorporated by reference in CPRL s Annual Information Form, shall be deemed not filed with the Securities and Exchange Commission as part of this Annual Report on Form 40-F under the Exchange Act.

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2013, an evaluation was carried out under the supervision of and with the participation of the Registrants management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Registrants disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of December 31, 2013, to ensure that information required to be disclosed by the Registrants in reports that they file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Commission rules and forms and (ii) accumulated and communicated to the Registrants management, including their Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

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

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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 79 of the Registrant s 2013 Annual Report, incorporated by reference and included herein.

ATTESTATION REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The effectiveness of the Registrants internal control over financial reporting as of December 31, 2013 has been audited by Deloitte LLP, Independent Registered Public Accounting Firm, as stated in their report on pages 80 through 81 of the Registrant s 2013 Annual Report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

NOTICES PURSUANT TO REGULATION BTR

None.

CODE OF ETHICS

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

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

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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 2013. In fact, each regularly scheduled meeting s agenda included one or more such sessions at the beginning and end of the meeting.

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

Office of the Corporate Secretary

Canadian Pacific Railway

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

Canada, T2C 4X9

IDENTIFICATION OF AUDIT COMMITTEE AND AUDIT COMMITTEE FINANCIAL EXPERT

The following individuals comprise the current membership of the Registrants Audit Committees (Audit Committees), which have been established in accordance with Section 3(a)(58)(A) of the Exchange Act:

Gary F. Colter

Richard C. Kelly

Isabelle Courville

Linda J. Morgan

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

FINANCIAL LITERACY OF AUDIT COMMITTEE MEMBERS

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

SERVICE ON OTHER PUBLIC COMPANY AUDIT COMMITTEES

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

Mr. Colter serves on two public company audit committees in addition to CP s Audit Committees. The Corporation s Board has determined that, in light of his background and expertise, the service of Mr. Colter on the audit committees of two public companies in addition to its own Audit Committee (and that of CPRC) does not impair his ability to effectively serve on its own Audit Committee (and that of CPRC). The following factor was also taken into account by the Board in making such determination: CPRC is a wholly-owned subsidiary of the Corporation and the latter carries on no business operations and has no assets or liabilities of more than nominal value beyond its 100% shareholding in CPRC and, as a result, the workload of the Corporation s Audit Committee and that of CPRC is essentially equivalent to the workload of one public company audit committee.

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

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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 must pre-approve all audit and non-audit services to be provided by the independent auditors. Fees payable to Deloitte LLP for the years ended December 31, 2013, and December 31, 2012, totalled $2,213,000 and $2,166,100, respectively, as detailed in the following table:

For the year ended December 31	**Total 2013 ($)**	**Total 2012 ($)**
Audit Fees	**1,943,000**	2,090,300
Audit-Related Fees	**228,500**	27,500
Tax Fees	**41,500**	48,300
All Other Fees		
TOTAL	**2,213,000**	2,166,100

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

Audit Fees

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

Audit-Related Fees

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

Tax Fees

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

All Other Fees

Fees disclosed under this category would be for products and services other than those described under Audit Fees , Audit-Related Fees and Tax Fees above. There were no such services in 2013 or 2012.

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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 63 of the Registrants 2013 Annual Report incorporated by reference and included herein.

TABLE OF CONTRACTUAL COMMITMENTS

The table setting forth the Registrants contractual commitments is set forth on pages 63 through 64 of the Registrants 2013 Annual Report incorporated by reference and included herein.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

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

B. Consent to Service of Process

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

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SIGNATURES

Pursuant to the requirements of the Exchange Act, each Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this Annual Report on Form 40-F to be signed on its behalf by the undersigned, thereto duly authorized, in the City of Calgary, Province of Alberta, Canada.

CANADIAN PACIFIC RAILWAY LIMITED
CANADIAN PACIFIC RAILWAY COMPANY

(Registrants)

/s/ Paul A. Guthrie
Name: Paul A. Guthrie

Title: Corporate Secretary

Date: March 5, 2014

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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 2013

MARCH 5, 2014

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1. CORPORATE STRUCTURE

In this Annual Information Form (AIF), our , us , we , CP and the Company refer to Canadian Pacific Railway (CPRL), CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL s subsidiaries, as the context may require. All information in this AIF is stated as at December 31, 2013 and all financial statements were prepared in accordance with, United States generally accepted accounting principles (GAAP) unless otherwise indicated. Except where otherwise indicated, all financial information and references to dollar or $ reflected herein is expressed in Canadian dollars.

1.1 Name, Address and Incorporation Information

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

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

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

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2. INTERCORPORATE RELATIONSHIPS

2.1 Principal Subsidiaries

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

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

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

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3. GENERAL DEVELOPMENTS OF THE BUSINESS

3.1 Recent Developments

2013 Highlights

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

During 2013, our focus to execute our operation plan helped CP make significant progress toward our strategies to continue to improve service reliability, increase the railway s efficiency and grow the business as outlined in our Investor Conference in New York on December 4-5, 2012. As a measurement of our profitable growth and costs control strategies, the Company expected our 2013 revenue growth in the high single digits and operating ratio in the low 70 s. Our actual 2013 results were in line with our latest guidance.

At the 2012 Investor Conference noted above, the Company outlined plans to reduce approximately 4,500 employees and/or contractor positions from June 30, 2012 to 2016. The Company met this reduction target by the end of 2013 through job reductions, natural attrition and reducing the number of contractors.

As part of the key initiatives highlighted at the 2012 Investor Conference, we installed longer sidings in strategic locations across the network which helped improve our asset utilization and increase train length, weight and speed. The operational improvements from our longer sidings are evident in the longer train length and higher train weight throughout 2013 compared to the same periods of 2012. We also completed the construction of our new corporate headquarters at the Company owned Ogden Yard and will complete this transition by 2014.

Our year was not without its challenges as the Company experienced extensive network outages in June of this year due to historic flooding in Calgary and Southern Alberta that resulted in more than forty washouts over a four-day period. The significant outage negatively impacted our revenue growth by approximately $25 million.

In the beginning of 2014, the Company executed an agreement with Genesee & Wyoming Inc. for the sale of a portion of the DM&E line between Tracy, Minnesota and Rapid City, South Dakota, Colony, Wyoming and Crawford, Nebraska and connecting branch lines (DM&E West) as part of our 2012 initiative to assess the opportunities with this 660-mile portion of DM&E. The sale is subject to regulatory approval by the U.S. Surface Transportation Board (STB) and is expected to generate approximately US$215 million in gross proceeds, subject to closing adjustments. The Company recorded an asset impairment charge and accruals for future associated costs totaling $435 million ($257 million after tax) which impacted diluted earnings per share (EPS) by $1.46. For additional information on this sale, refer to Section 9, Operating Expenses of the 2013 Management Discussion and Analysis (MD&A) which is available on SEDAR at www.sedar.com in Canada, on EDGAR at www.sec.gov in the U.S. and on our website at www.cpr.ca.

2012 Highlights

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

Proxy Contest

In January 2012, Pershing Square Capital Management, L.P. (Pershing Square) launched a proxy contest in order to replace a minority of the Board of Directors of the Company (the Board) and to advocate for management change (the Proxy Contest). As a result of this contest, the Company incurred $27 million in advisory costs (advisory costs associated with shareholder matters) in the first six months of 2012 and a further $6 million was incurred in the fourth quarter of 2011. The proxy contest was settled in May 2012 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

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(US$9 million) of the amounts in dispute. The Company may receive repayment in other circumstances in the event of certain breaches by Mr. Harrison of his obligations under an employment agreement with the Company. In addition, the Company agreed to indemnify Mr. Harrison for certain other amounts sought for repayment by Mr. Harrison s former employer, to a maximum of $3 million plus legal fees, but as a result of the settlement of the aforementioned legal proceedings, such indemnity is no longer applicable.

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

Strike

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

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

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

Investor Conference

At Canadian Pacific s Investor conference in New York on December 4-5, 2012, CP s Chief Executive Officer E. Hunter Harrison outlined the Company s plan for change to improve service, increase the railway s efficiency, lower cost and grow the business.

Under the leadership of new management, the second half of 2012 included a rapid change

agenda where progress was made on this plan. Highlights of CP s evolution to a more competitive railway include:

- a new executive leadership team in place, including a new Senior Operations lead team, with a mandate for centralized planning and decentralized execution, that eliminates bureaucracy to make service decisions faster and closer to the customer;

- revamped intermodal and merchandise train services which provide faster transit times for customers, such as the new intermodal services connecting Vancouver to Chicago or Toronto;

the closure of hump-switching yards in Toronto, Winnipeg, Calgary and Chicago which provides significant cost savings and more efficient operating practices;

the closure of intermodal terminals in Milwaukee, Obico (Toronto), and Schiller Park (Chicago) which reduces CP s footprint and operating expenses while also facilitating efficient operating practices and reduced end-to-end transit times;

network design changes made after July 2012 allowed CP to reduce operating plan train miles by 39,000 per week, a 7 per cent improvement, and crew starts by approximately 30 per day, a 5 per cent improvement over previous designs from the first half of the year. Together, these design changes reduced annual operating costs, while increasing capacity; and

a reduction of the Company s active locomotive fleet by more than 195 engines in the second half of 2012, with more than 460 locomotives now stored, returned or declared surplus year-to-date. Over the course of 2012, CP has provided return notification on 5,400 rail cars.

Asset impairment and labour restructuring charges

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

$53 million labour restructuring charge ($39 million after tax), which unfavourably impacted diluted EPS by 22 cents;

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

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

2011 Highlights

The first half of 2011 was challenging, as CP experienced significant disruptions to its operations across our network. These disruptions were mainly due to unusually severe winter weather and the impact of subsequent flooding, in one case causing a mainline outage lasting for three weeks. These extraordinary conditions resulted in slower train speeds, reduced productivity and asset velocity and lower than expected volumes in the first half of the year. Our priority was to re-establish our reputation for service which underpins our price and growth plans.

In the second half of the year, we successfully reset our network. There was a strong focus on rebuilding our customer confidence, through improved service reliability. Despite these challenges, we were able to complete our planned capital program in 2011. Our continued work on building new sidings and extending our current ones to support our long-train strategy paid dividends; CP set a new full-year record in train weights in 2011. In addition, we set full year records in both terminal dwell and car miles per car day as a result of implementing our First Mile-Last Mile program in Canada. We expect further improvement as we continue to tighten standards in Canada and roll out the program in the U.S. We completed the second phase of our Locomotive Reliability Centre strategy, which

reduced the number of major locomotive repair facilities from eight to four highly efficient super shops with improved repair capabilities. These improved efficiencies allow us to do more with less and to reduce our asset pools and associated costs.

CP has signed several commercial agreements with customers, terminal operators and ports that will drive improvements in supply chain performance. In early 2012, we announced a new five-year agreement with Canadian Tire Corporation, Limited and a ten-year agreement with Canpotex Limited. In addition, CP has worked with its customers, leveraging technology to enhance car request management and implementing new productivity tools. Our scheduled grain program has been successfully implemented in Canada and was further extended to the U.S. in August 2012. We are also developing new volumes of PRB coal for export off the west coast of British Columbia.

During 2011, we continued to strengthen our balance sheet in order to maintain financial flexibility and reduce volatility. We put our surplus cash to work in 2011 on our strategic network enhancements, supporting our capital plans. In addition, we:

- managed our overall indebtedness by repaying US$246 million of maturing 2011 debt and called US$101 million of 2013 debt;

- made a $600 million voluntary prepayment to our main Canadian defined benefit pension plan;

- financed our voluntary pension prepayment and new locomotives at very attractive interest rates; and delivered consistent dividend growth by increasing our quarterly dividend to common shareholders by 11%, from $0.27 to $0.30.

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4. DESCRIPTION OF THE BUSINESS

4.1 Our Background and Network

CPRC was incorporated by Letters Patent in 1881 pursuant to an Act of the Parliament of Canada. CPRC is one of Canada s oldest corporations. From our inception 133 years ago, we have developed into a fully integrated and technologically advanced Class I railway (a railroad earning a minimum of US$433.2 million in revenues annually as defined by the Surface Transportation Board in the U.S.) providing rail and intermodal freight transportation services over a 14,400-mile network serving the principal business centres of Canada, from Montreal to Vancouver, British Columbia (B.C.), and the U.S. Midwest and Northeast regions.

We own approximately 10,600 miles of track. An additional 3,800 miles of track are owned jointly, leased or operated under trackage rights. Of the total mileage operated, approximately 6,000 miles are located in western Canada, 2,200 miles in eastern Canada, 5,100 miles in the U.S. Midwest and 1,100 miles in the U.S. Northeast. Our business is based on funnelling railway traffic from feeder lines and connectors, including secondary and branch lines, onto our high-density mainline railway network. We have extended our network reach by establishing alliances and connections with other major Class I railways in North America, which allow us to provide competitive services and access to markets across North America beyond our own rail network. We also provide service to markets in Europe and the Pacific Rim through direct access to the Port of Montreal and the Port Metro Vancouver in Vancouver, B.C., respectively.

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

4.2 Strategy

CP is driving change as it moves through its transformational journey to become the best railroad in North America, while creating long-term

value for shareholders. The Company is focused on providing customers with industry leading rail service; driving sustainable, profitable growth; optimizing our assets; and reducing costs, while remaining a leader in rail safety.

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

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

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

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

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

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

4.3 Partnerships, Alliances and Network Efficiency

Some customers goods may have to travel on more than one railway to reach their final destination. The transfer of goods between railways can cause delays and service interruptions. Our rail network connects

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to other North American rail carriers and, through partnerships, we continue to co-develop processes and products designed to provide seamless and efficient scheduled train service to these customers.

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

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

- co-operation initiatives with the Canadian National Railway Company (CN) in the Port Metro Vancouver Terminal and B.C. Lower Mainland;

- working very closely with all the Class I and other carriers that serve Chicago, Illinois under the Chicago Region Environmental and Transportation Efficiency (CREATE) program. Class Is, Amtrak, Metra and switching carriers Indiana Harbor Belt Railroad (IHB) and Belt Railway of Chicago (BRC) have partnered in CREATE to initiate operating and structural changes that will improve operating efficiency and fluidity in and around Chicago, the largest railroad hub in North America;

- CP working with the State Departments of Transportation of New York, Illinois, Wisconsin and Minnesota to develop plans for improved track infrastructure to support intercity passenger rail. This infrastructure will support the fluidity of passenger and freight traffic on shared CP track.

We also develop mutually beneficial arrangements with smaller railways, including shortline and regional carriers.

4.4 Network and Right-of-Way

Our 14,400-mile network extends from the Port Metro Vancouver on Canada s Pacific Coast to the Port of Montreal in eastern Canada, and to the U.S. industrial centres of Chicago; Detroit, Michigan; Newark, New Jersey; and Buffalo, New York; Kansas City, Missouri; and Minneapolis, Minnesota.

The map below depicts our core network:

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

4.4.1 The Western Corridor: Vancouver-Thunder Bay

Overview The Western Corridor links Vancouver with Thunder Bay, Ontario, which is the western Canadian terminus of our Eastern corridor. With service through Calgary, Alberta the Western Corridor is an important part of our routes between Vancouver and the U.S. Midwest, and between

Vancouver and Eastern Canada. The Western Corridor provides access to the Port of Thunder Bay, Canada s primary Great Lakes bulk terminal.

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

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international intermodal containers and domestic general merchandise traffic.

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

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

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

4.4.2 The Central Corridor: Moose Jaw-Chicago-Kansas City

Overview The Central Corridor connects with the Western Corridor at Moose Jaw. By running south

to Chicago and Kansas City through the twin Cities of Minneapolis and St. Paul, Minnesota and Milwaukee, Wisconsin, we provide a direct, single-carrier route between western Canada and the U.S. Midwest, providing access to Great Lakes and Mississippi River ports. From LaCrosse, Wisconsin, the Central Corridor continues south towards Kansas City via the Quad Cities, providing an efficient route for traffic destined for southern U.S. and Mexican markets. Our Kansas City line also has a direct connection into Chicago and by extension to points east on CP s network such as Toronto, Ontario and the Port of Montreal.

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

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

Dakota is geographically situated in a highly-strategic region for Bakken oil production. CP also owns two significant feeder lines in North Dakota and western Minnesota operated by the Dakota Missouri Valley and Western Railroad, and the Northern Plains Railroad respectively. Both of these short lines are also active in providing service to agricultural and Bakken-oil related customers.

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

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

4.4.3 The Eastern Corridor: Thunder Bay-Montreal and Detroit

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

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

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

Connections The Eastern Corridor connects with a number of shortline railways including routes from Montreal to Quebec City, Quebec and Montreal to St. John, New Brunswick and Searsport, Maine. CP owns a route to Temiscaming, Quebec via North Bay, Ontario operated by short line Ottawa Valley

Railway where connections are made with the Ontario Northland Railway. Connections are also made with CN at a number of locations, including Sudbury, North Bay, Windsor, London, Hamilton, Toronto in Ontario and Montreal and at Detroit and Buffalo with NS and CSX Corporation (CSX).

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

We have locomotive repair facilities at Montreal and Toronto and car repair facilities at Thunder Bay, Toronto and Montreal.

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

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

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

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

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

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

4.4.5 Right-of-Way

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

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

Where rail traffic is lighter, train movements are directed by written instructions transmitted electronically and by radio from rail traffic controllers to train crews. In some specific areas of intermediate traffic density, we use an automatic block signalling system in conjunction with written instructions from rail traffic controllers.

4.5 Quarterly Trends

Volumes of and, therefore, revenues from certain goods are stronger during different periods of the

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

4.6 Business Categories

The following table compares the percentage of our total freight revenue derived from each of our major business lines in 2013 compared with 2012 and 2011:

Business Category	2013	2012	2011
Bulk	42%	41%	44%
Merchandise	36%	34%	30%
Intermodal	22%	25%	26%

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4.7 Revenues

Freight revenues are earned from transporting bulk, merchandise and intermodal goods, and include fuel recoveries billed to our customers. The following table summarizes our annual freight revenues between 2011 and 2013:

Freight Revenues (in $ millions, except for percentages) Business Category	2013	2012	2011	% Change 2013 vs. 2012	 2012 vs. 2011
Bulk					
Grain	$ 1,300	$ 1,172	$ 1,100	11	7
Coal	627	602	556	4	8
Fertilizers and sulphur	570	520	549	10	(5)
Total bulk	2,497	2,294	2,205	9	4
Merchandise					
Forest products	206	193	189	7	2
Industrial and consumer products	1,548	1,268	1,017	22	25
Automotive	403	425	338	(5)	26
Total merchandise	2,157	1,886	1,544	14	22
Intermodal	1,328	1,370	1,303	(3)	5
Total freight revenues	$ 5,982	$ 5,550	$ 5,052	8	10

4.7.1 Bulk

Our bulk business represented approximately 42% of total freight revenues in 2013.

4.7.1.1 Grain

Our grain business accounted for approximately 22% of total freight revenues in 2013.

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

Our grain business is centred in two key agricultural areas: the Canadian prairies (Alberta, Saskatchewan and Manitoba) and the states of North Dakota, Minnesota, Iowa and South Dakota. Western Canadian grain is shipped primarily west to the Port Metro Vancouver and east to the Port of Thunder Bay for export. Grain is also shipped to the U.S. and to eastern Canada for domestic consumption. U.S.-originated export grain traffic is shipped to ports at Duluth and Superior. In partnership with other railways, we also move grain to export terminals in the U.S. Pacific Northwest and the Gulf of Mexico. Grain destined for domestic consumption moves east via Chicago to the U.S. Northeast or is interchanged with other carriers to the U.S. Southeast, Pacific Northwest and California markets.

Freight revenues for the movement of export grain from western Canada are subject to legislative provisions. These provisions apply to defined commodities and origin/destination pairings set out

in the Canada Transportation Act (CTA). The revenue formula included in the CTA is indexed annually to reflect changes in the input costs associated with transporting grain destined for export markets. For additional information, refer to Section 21, Business Risks of the 2013 MD&A.

4.7.1.2 Coal

Our coal business represented approximately 10% of total freight revenues in 2013.

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

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

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

4.7.1.3 Fertilizers and sulphur

Fertilizers and sulphur business represented approximately 10% of total freight revenues in 2013.

Fertilizers

Fertilizers traffic consists primarily of potash and chemical fertilizers. Our potash traffic moves mainly from Saskatchewan to offshore markets through the ports of Metro Vancouver, Thunder Bay and Portland, Oregon and to markets in the U.S. Chemical fertilizers are transported to markets in Canada and the U.S. from key production areas in the Canadian prairies. Phosphate fertilizer is also transported from U.S. and Canadian producers to markets in Canada and the northern U.S.

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

Sulphur

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

We transport approximately half of the sulphur that enters international markets from Canada and we are the leading transporter of formed sulphur shipped from gas plants in southern Alberta to the Port Metro Vancouver. The two largest shipping points in southern Alberta are Shantz and Waterton and both are located on our rail lines. Currently, our export traffic is destined mainly to China and Australia. In addition, we transport liquid sulphur from Scotford, Alberta, site of one of the largest refineries in the Edmonton area, and from other origins to the southeastern and northwestern U.S. for use in the fertilizer industry.

4.7.2 Merchandise

Our merchandise business represented approximately 36% of total freight revenues in 2013.

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

4.7.2.1 Forest Products

Our forest products business represented approximately 3% of total freight revenues in 2013.

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

4.7.2.2 Industrial and Consumer Products

Our industrial and consumer products business represented approximately 26% of total freight revenues in 2013.

Industrial and consumer products traffic include a wide array of commodities grouped under chemicals, energy and plastics as well as mine, metals and aggregates.

Our industrial and consumer products traffic is widely dispersed across our Canadian and U.S. network with large bases in Alberta, Ontario, Quebec and the Midwest U.S. We are also taking advantage of our Kansas City connection to move energy, chemical and steel products between the Gulf Coast and Alberta thus bypassing the busy Chicago rail interchange. We transport products to destinations throughout North America, including to and from ports. We also participate in the movement of products from the U.S. to Canadian destinations, including chemicals originating in and around the Gulf Coast and destined to points in eastern Canada.

4.7.2.3 Automotive

Our automotive business represented approximately 7% of total freight revenues in 2013.

Automotive traffic includes domestic, import and pre-owned vehicles as well as automotive parts. We transport finished vehicles from U.S. and Canadian

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assembly plants to the Canadian marketplace, and to other markets throughout North America via major interchanges at Detroit, Chicago and Buffalo. We also move imported vehicles to retail markets in Canada and the U.S. Midwest. A comprehensive network of automotive compounds is utilized to facilitate final delivery of vehicles to dealers throughout Canada and in the U.S.

4.7.3 Intermodal

Our intermodal business accounted for approximately 22% of total freight revenues in 2013.

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

Domestic Intermodal

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

International Intermodal

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

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

4.7.4 Fuel Cost Recovery Program

CP employs a fuel cost recovery program designed to automatically respond to fluctuations in fuel prices and help mitigate the financial impact of rising fuel prices. Fuel surcharge revenue is earned on individual shipments; as such, our fuel surcharge revenue is a function of our freight volumes. The short-term volatility in fuel prices may adversely or positively impact expenses and revenues.

4.7.5 Other Revenue

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

4.7.6 Significant Customers

In the full year of 2013, 2012 and 2011 no one customer comprised more than 10% of total revenues and accounts receivable.

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CANADIAN PACIFIC

4.8 Railway Performance

We focus on safety, train operation productivity, increasing network efficiency and improving asset utilization. The following table summarizes the effect of our Operating Plan based on industry-recognized performance indicators. Detailed definitions of the performance indicators listed below are included in Section 25, Glossary of Terms in the 2013 MD&A.

For the year ended December 31[1]	2013	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Operations Performance					
Freight gross ton-miles (GTMs) (millions)	267,629	254,354	247,995	5	3
Train miles (thousands)	37,817	40,270	40,145	(6)	
Average train weight - excluding local traffic (tons)	7,573	6,709	6,593	13	2
Average train length - excluding local traffic (feet)[2]	6,530	5,981	5,860	9	2
Average terminal dwell (hours)[3]	7.1	7.5	8.9	(5)	(16)
Average train speed (mph)[4]	18.2	18.0	15.2	1	18
Locomotive productivity (daily average GTMs/active horse power (HP))	216.0	179.8	166.7	20	8
Fuel efficiency (U.S. gallons of locomotive fuel consumed /1,000 GTMs)[5]	1.06	1.15	1.18	(8)	(3)
Total employees (average)[6][7]	15,011	16,999	16,097	(12)	6
Workforce (end of period)[8]	14,977	16,907	18,519	(11)	(9)
Safety indicators					
FRA personal injuries per 200,000 employee-hours	1.69	1.55	1.85	9	(16)
FRA train accidents per million train-miles	1.78	1.67	1.88	7	(11)

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

(2) Incorporates a new reporting methodology where average train length is the sum of each car and locomotive s equipment length multiplied by the distance travelled, divided by train miles. Local trains are excluded from this measure.

(3) Incorporates a new reporting definition where average terminal dwell measures the average time a freight car resides within terminal boundaries.

(4) Incorporates a new reporting definition where average train speed measures the line-haul movement from origin to destination including terminal dwell hours.

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

(6)

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

(7) 2012 average number of employees has been adjusted for the strike.

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

GTMs for 2013 were 267,629 million, which increased by 5% compared with 254,354 million in 2012. This increase was primarily due to higher traffic volumes in Industrial and consumer products and Grain partially offset by lower traffic volumes in Automotive and Intermodal and by the impact of volumes lost during the strike in the second quarter of 2012.

GTMs for 2012 were 254,354 million, which increased by 3% compared with 247,955 million in 2011. This increase was primarily due to higher traffic volumes in the Company s Intermodal and Merchandise franchises. This increase was offset by a reduction in bulk shipments, and the impact of volumes lost during the strike in the second quarter.

Train miles for 2013 decreased by 6% compared with 2012, driven by increases in both train weights and lengths. This improvement was due to the

Company s successful execution of the operating plan, partially offset by higher workload as measured by GTMs.

Train miles for 2012 were relatively flat compared with 2011, with higher workload offset by an increase in train weights. These changes were largely attributable to compressed train service transit schedules.

Average train weight increased in 2013 by 864 tons or 13% from 2012. Average train length increased in 2013 by 549 feet or 9% from 2012. Average train weight and train length benefited from increased workload moving in existing train service, ongoing network capacity and infrastructure investments and the successful execution of the Company s operating plan, which allowed for the operation of longer and heavier trains.

Average train weight increased in 2012 by 116 tons or 2% from 2011. Average train length increased in

2012 by 121 feet or 2% from 2011. Average train weight and train length increased slightly compared to the same period in 2011 primarily due to improvements in the second half of 2012. These improvements benefited from increased Merchandise and Intermodal workload moving in existing train service and the successful execution of the Company s operating plan. Improvements to average train weight were further enabled by the siding extension strategy, which allowed for the operation of longer and heavier trains.

Average terminal dwell, the average time a freight car resides in a terminal, decreased by 5% in 2013 to 7.1 hours from 7.5 hours in 2012. This decrease was primarily due to a continued focus on increasing yard productivity, terminal redesign, and the successful execution of the Company s operating plan.

Average terminal dwell, decreased by 16% in 2012 to 7.5 hours when compared to 8.9 in 2011. This decrease was primarily due to programs to improve asset velocity and storage of surplus cars.

Average train speed was 18.2 miles per hour in 2013, an increase of 1%, from 18.0 miles per hour in 2012. This increase was primarily due to improved asset velocity, decreased terminal dwell and successful execution of the Company s operating plan. Speed improvements were partially offset by an increase in bulk commodities, which move at a slower average speed than intermodal and merchandise traffic.

Average train speed was 18.0 miles per hour in 2012, an increase of 18%, from 15.2 miles per hour in 2011. This increase was primarily due to increased volumes, traffic mix, supply chain pipeline issues and significant disruptions to train operations across the network due to unusually severe winter weather in 2011 and flooding in the first half of 2011 and 2012.

Locomotive productivity increased in 2013 by 20% from 2012. This improvement is primarily the result of increased asset velocity due to more efficient operations, improved fleet reliability, and the successful execution of the Company s operating plan.

Locomotive productivity increased in 2012 by 8% from 2011. This increase was primarily due to improvements in network fluidity and the successful execution of the Company s operating plan.

Fuel efficiency improved by 8% in 2013 compared to 2012. This improvement is primarily due to lower horsepower to ton ratios as a result of increased train weights and focus on the fuel conservation strategies of the Company s operating plan.

Fuel efficiency improved by 3% in 2012 compared to 2011. This improvement was primarily due to improved operating conditions and the advancement of the Company s fuel conservation strategies including replacement of older units with new more fuel efficient locomotives.

The average number of total employees for 2013 decreased by 1,988, or 12%, compared with 2012. This decrease was primarily due to job reductions as a result of continuing strong operational performance and natural attrition.

The average number of total employees for 2012 increased by 902, or 6%, compared with 2011. This increase was primarily due to additional hiring early in the year to address volume growth projections and anticipated attrition over future quarters, partially offset by job reductions in the latter half of the year, improvements in labour productivity and the impact of the strike, including temporary layoffs.

The workforce on December 31, 2013 decreased by 1,930, or 11%, compared with December 31, 2012. This decrease was primarily due to job reductions as a result of continuing strong operational performance, natural attrition and fewer contractors. At our Investor Conference in New York on December 4-5, 2012, the Company outlined plans to reduce approximately 4,500 employee and/or contractor positions, from June 30, 2012 to 2016, through job reductions, natural attrition and reducing the number of contractors. The Company met the reduction target by the end of 2013.

The workforce on December 31, 2012 decreased by 1,612, or 9%, compared with December 31, 2011. This decrease was primarily due to job reductions in the latter half of the year as a result of improved operational performance, natural attrition and fewer contractors.

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

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The FRA personal injury rate per 200,000 employee-hours for CP was 1.69 in 2013, 1.55 in 2012 and 1.85 in 2011.

The FRA train accident rate for CP in 2013 was 1.78 accidents per million train-miles, compared with 1.67 in 2012 and 1.88 in 2011.

4.9 Franchise Investment

Franchise investment is an integral part of our multi-year capital program and supports our growth initiatives. Our annual capital program typically includes investments in track and facilities (including rail yards and intermodal terminals); locomotives; information technology (IT); and freight cars and other equipment. On an accrual basis, we invested approximately $3.6 billion in our core assets from 2011 to 2013, with annual capital spending over this period averaging approximately 20% of revenues. This included approximately $2.4 billion

invested in track and roadway, $0.5 billion in rolling stock, $0.3 billion in other equipment, $0.3 billion in IT and $0.1 billion in buildings.

4.9.1 Locomotive Fleet

Our locomotive fleet is comprised largely of high-adhesion alternating current (AC) locomotives, which are more fuel efficient and reliable and have superior hauling capacity compared with standard direct current (DC) locomotives. Our locomotive fleet now includes 827 AC locomotives. While AC locomotives represent approximately 66.9% of our road-freight locomotive fleet, they handle approximately 89.6% of our workload. Our investment in AC locomotives has helped to improve service reliability and generate cost savings in fuel, equipment rents and maintenance. There was a reduction of the Company s active locomotive fleet by 80 locomotives from Q1 to Q4 2013.

Following is a synopsis of our owned and leased locomotive fleet:

Number of Locomotives (owned and long-term leased)	Road Freight		Road	Yard	
Age in Years	AC	DC	Switcher	Switcher	Total
0-5	91	20	70		181
6-10	319				319
11-15	234				234
16-20	183				183
Over 20		389	248	97	734
Total	827	409	318	97	1,651

4.9.2 Railcar Fleet

We own, lease or manage approximately 47,600 freight cars. Approximately 16,300 are owned by CP, approximately 6,400 are hopper cars owned by Canadian federal and provincial government agencies and approximately 7,400 are leased on a short-term basis and 17,500 are held under long-term leases. Short-term leases on approximately 4,100 cars are scheduled to expire during 2014, and the leases on approximately 13,500 additional cars are scheduled to expire before the end of 2018.

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

4.10 Operating Plan (OP)

Our OP is the foundation for our scheduled railway operations, through which we strive to provide quality service for customers and improve asset utilization to achieve high levels of efficiency. The key principles upon which our OP is built include moving freight cars across the network with as few handlings as possible, creating balance in directional flow of trains in our corridors by day of week, and minimizing the time that locomotives and freight cars are idle.

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

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

We are committed to continuously improve scheduled railway operations as a means to achieve additional efficiencies that will enable further growth without the need to incur significant capital expenditures to accommodate the growth.

4.11 Information Services

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

4.12 Business Risks and Enterprise Risk Management

In the normal course of our operations, we are exposed to various business risks and uncertainties that can have an effect on our financial condition. CP s Enterprise Risk Management (ERM) program targets strategic risk areas to determine additional prevention or mitigation plans that can be undertaken to either reduce risk or enable

opportunities to be realized. The ERM process instills discipline in the approach to managing risk at CP and has been a contributing factor in providing focus on key areas. CP has managed to mitigate a number of strategic business risks using this focused approach.

The risks and our enterprise risk management are discussed in more detail in Section 21, Business Risks in the 2013 MD&A which is incorporated by reference herein.

4.13 Indemnifications

Pursuant to a trust and custodial services agreement with the trustee of the Canadian Pacific Railway Company Pension Trust Fund, we have undertaken to indemnify and save harmless the trustee, to the extent not paid by the fund, from any and all taxes, claims, liabilities, damages, costs and expenses arising out of the performance of the trustee s obligations under the agreement, except as a result of misconduct by the trustee. The indemnity includes liabilities, costs or expenses relating to any legal reporting or notification obligations of the trustee with respect to the defined contribution option of the pension plans or otherwise with respect to the assets of the pension plans that are not part of the fund. The indemnity survives the termination or expiry of the agreement with respect to claims and liabilities arising prior to the termination or expiry. At December 31, 2013, we had not recorded a liability associated with this indemnification, as we do not expect to make any payments pertaining to it.

Pursuant to our by-laws, we indemnify all of our current and former directors and officers. In addition to the indemnity provided by our by-laws, we also indemnify our directors and officers pursuant to indemnity agreements. We carry a liability insurance policy for directors and officers, subject to a maximum coverage limit and certain deductibles in cases where a director or officer is reimbursed for any loss covered by the policy.

4.14 Safety

Safety is a key priority for our management and Board of Directors. Our two main safety indicators personal injuries and train accidents follow strict U.S. Federal Railroad Administration (FRA) reporting guidelines. Detailed definition of the safety indicators discussed below is included in Section 25, Glossary of Terms in the 2013 MD&A.

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The FRA personal injury rate per 200,000 employee-hours for CP was 1.69 in 2013, compared with 1.55 in 2012 and 1.85 in 2011. The FRA train accident rate for CP in 2013 was 1.78 accidents per million train-miles, compared with 1.67 in 2012 and 1.88 in 2011. CP strives to continually improve its safety performance through our key strategies and activities such as training and technology.

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

4.15 Environmental Protection

We have implemented a comprehensive Environmental Management System, which uses the five elements of the ISO 14001 standard   policy, planning, implementation and operation, checking and corrective action, and management review   as described below. Further details are discussed in Section 21, Business Risks of the 2013 MD&A.

4.15.1 Policy

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

We are a partner in Responsible Care©, an initiative of the Chemistry Industry Association of Canada and the American Chemistry Council (ACC) in the U.S., an ethic for the safe and environmentally sound management of chemicals throughout their life cycle. Partnership in Responsible Care© involves a public commitment to continually improve the industry s environmental, health and safety performance. We completed our first Responsible Care© external verification in June 2002 and were

granted   Responsible Care© practice-in-place   status. We were successfully re-verified in 2005, 2008 and again in October of 2012. The next re-verification is planned for 2015.

4.15.2 Planning

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

4.15.3 Implementation and Operation

We have developed specific environmental programs to address areas such as air emissions, wastewater, management of vegetation, chemicals and waste, storage tanks and fuelling facilities, and environmental impact assessment. Our environmental specialists and consultants lead these programs.

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

4.15.4 Environmental Contamination

We continue to be responsible for remediation work on portions of a property in the State of Minnesota and continue to retain liability accruals for remaining future anticipated costs. The costs are expected to be incurred over a period of approximately 10 years. The state s voluntary investigation and remediation program will oversee the work to ensure it is completed in accordance with applicable standards. We currently estimate the remaining liability associated with these areas to be US$21 million.

4.15.5 Checking and Corrective Action

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

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

4.15.6 Management Review

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

4.15.7 Expenditures

We spent $36 million in 2013 for environmental management, including amounts spent on ongoing operations, fuel conservation, capital upgrades and remediation. We spent approximately the same amount for environmental management in 2012.

4.16 Insurance

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

4.17 Competitive Conditions

For a discussion of CP s competitive conditions in which we operate, please refer to Section 21, Business Risks included in the 2013 MD&A, which are incorporated by reference herein.

5. DIVIDENDS

5.1 Declared Dividends and Dividend Policy

Dividends

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

Dividend amount	Record date	Payment date
$0.3500	March 28, 2014	April 28, 2014
$0.3500	December 27, 2013	January 27, 2014
$0.3500	September 27, 2013	October 28, 2013
$0.3500	June 28, 2013	July 29, 2013
$0.3500	March 28, 2013	April 29, 2013
$0.3500	December 28, 2012	January 28, 2013
$0.3500	September 28, 2012	October 29, 2012
$0.3500	June 22, 2012	July 30, 2012
$0.3000	March 30, 2012	April 30, 2012
$0.3000	December 30, 2011	January 30, 2012
$0.3000	September 30, 2011	October 31, 2011
$0.3000	June 24, 2011	July 25, 2011
$0.2700	March 25, 2011	April 25, 2011

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

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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, 2013, no first or second Preferred Shares had been issued.

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

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

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

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

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

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

   b)

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

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

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

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

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The Company s debt securities are rated by three approved rating organizations Moody s Investors Service, Inc. (Moody s), Standard & Poor s Corporation and Dominion Bond Rating Service Limited (DBRS). Currently, our securities are rated as Investment Grade, shown in the table below:

Approved Rating Organization	Long-Term Debt Rating
Moody s Investors Service	Baa3
Standard & Poor s Corporation	BBB-
Dominion Bond Rating Service	BBB(low)

As at December 31, 2013, the ratings provided by each of Standard & Poor s Corporation, Moody s and DBRS have a stable outlook. On January 30, 2014, Moody s announced the Company s senior unsecured rating is under review for possible upgrade which is expected to conclude within the next ninety days. On the same day, DBRS also reaffirmed CP s Issuer Rating and the Unsecured Debentures and Medium-Term Notes ratings of BBB(low) with a change to positive trend.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities and are indicators of the

likelihood of payment and of the capacity and willingness of a company to meet its financial commitment on an obligation in accordance with the terms of the obligation. A description of the rating categories of each of the rating agencies in the table above is set out below.

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

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

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 our Common Shares on the Toronto Stock Exchange during 2013:

Toronto Stock Exchange Month	Opening Price per Share ($)	High Price per Share ($)	Low Price per Share ($)	Closing Price per Share ($)	Volume of Shares Traded
January	102.40	118.57	102.14	115.15	13,196,040
February	116.27	125.62	112.14	125.45	9,271,259
March	125.00	132.92	124.50	132.54	9,109,603
April	132.46	132.50	118.25	125.56	11,046,987
May	125.99	144.43	122.68	137.84	9,279,856
June	138.33	138.37	120.13	127.53	9,629,539
July	128.73	134.90	124.86	126.13	8,256,631
August	128.55	130.77	121.39	123.87	5,799,831
September	125.01	133.30	122.74	127.09	7,552,501
October	126.81	152.00	126.42	149.04	9,642,938
November	150.18	164.71	149.69	161.89	5,963,120
December	162.01	167.00	157.60	160.65	4,946,306

The following table provides the monthly composite trading information for our Common Shares on the New York Stock Exchange during 2013:

New York Stock Exchange Month	Opening Price per Share ($)	High Price per Share ($)	Low Price per Share ($)	Closing Price per Share ($)	Volume of Shares Traded
January	104.00	118.07	103.82	115.53	18,207,917
February	116.19	122.22	112.51	121.52	15,243,437
March	121.15	130.81	120.60	130.47	14,253,666
April	130.68	130.68	115.60	124.62	22,724,623
May	124.59	139.99	121.66	131.99	17,246,944
June	133.33	133.50	113.82	121.38	19,677,184
July	122.39	129.79	118.30	122.88	17,200,377

August	124.66	126.22	115.54	118.03	12,069,280
September	118.75	129.81	116.51	123.30	10,339,807
October	123.21	145.41	122.50	143.07	19,320,891
November	143.56	155.30	143.31	153.88	9,182,965
December	153.57	156.96	148.22	151.32	9,086,149

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8. DIRECTORS AND OFFICERS

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

8.1 Directors

Name and Municipality of Residence	Position Held and Principal Occupation within the Preceding Five Years [1]	Year of Annual Meeting at which Term of Office Expires (Director Since)
Paul G. Haggis Canmore, Alberta, Canada	Chairman, Canadian Pacific Railway Company and Canadian Pacific Railway Limited	2014 (2012)
William A. Ackman[3][4] New York, New York, U.S.A.	Founder, Chief Executive Officer Pershing Square Capital Management, L.P. (investment advisor)	2014 (2012)
Gary F. Colter[2][4] Mississauga, Ontario, Canada	President, CRS Inc. (corporate restructuring and strategy consulting company)	2014 (2012)
Isabelle Courville[2][6] Rosemere, Quebec, Canada	Corporate Director	2014 (2013)
E. Hunter Harrison[6] Wellington, Florida, U.S.A.	Chief Executive Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited	2014 (2012)
Paul C. Hilal[4][5] New York, New York, U.S.A.	Partner, Pershing Square Capital Management, L.P. (investment advisor)	2014 (2012)
Krystyna T. Hoeg, C.A. [3][5] Toronto, Ontario, Canada	Corporate Director	2014 (2007)
Richard C. Kelly [2][4] Denver, Colorado, U.S.A.	Retired Chairman and Chief Executive Officer, Xcel Energy Inc. (utility supplier of electric power and natural gas)	2014 (2008)
Rebecca MacDonald[3][5] Toronto, Ontario, Canada	Founder, Executive Chair, Just Energy Group Inc. (independent marketer of deregulated gas and electricity)	2014 (2012)
Dr. Anthony R. Melman[4][6] Toronto, Ontario, Canada	President and Chief Executive Officer, Acasta Capital (strategic and financial advisor)	2014 (2012)
Linda J. Morgan [2][6] Bethesda, Maryland, U.S.A.	Partner, Nossaman LLP (law firm)	2014 (2006)
The Hon. Jim Prentice, P.C., Q.C.[3][6]	Senior Executive Vice-President and Vice-Chairman	2014

Calgary, Alberta, Canada	Canadian Imperial Bank of Commerce (financial services)	(2013)
Andrew F. Reardon(5)(6)	Retired Chairman and Chief Executive Officer, TTX	2014
Marco Island, Florida, U.S.A.	Company (railcar leasing company)	(2013)
Stephen C. Tobias(3)(5)(6)	Former Vice-Chairman and Chief Operating Officer,	2014
Garnett, South Carolina, U.S.A.	Norfolk Southern Corporation (U.S. Class I railroad)	(2012)

(1) P.G. Haggis has been Chairman of the Board of Alberta Enterprise Corporation since March 2009 and was Chairman of the Board of C.A. Bancorp Inc. from July 2011 to March 2013. I. Courville has been Chair of the Laurentian Bank of Canada since March 2013 and was President, Hydro Quebec Distribution from 2011 to 2013 and President, Hydro Quebec TransEnergie from 2007 to 2011. E.H. Harrison was President and Chief Executive Officer of Canadian National Railway from 2003 to 2009. R.C. Kelly was President of Xcel Energy Inc. from 2005 to 2009. L.J. Morgan was Partner from 2003 to 2012 at Covington & Burling LLP. J. Prentice held various ministerial positions in the Government of Canada from 2006 to 2011. A.F. Reardon was Chairman and Chief Executive Officer in 2008, President and Chief Executive Officer from 2001 to 2008 of TTX Company and attorney of Reardon and Chasar LLP from 2008 to 2011. S.C. Tobias was Vice-Chairman and Chief Operating Officer of Norfolk Southern Corporation from 1998 to 2009.

(2) Member of the Audit Committee.

(3) Member of the Corporate Governance and Nominating Committee.

(4) Member of the Finance Committee.

(5) Member of the Management Resources and Compensation Committee.

(6) Member of the Safety, Operations and Environment Committee.

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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.

Mr. R. Kelly was President and Chief Executive Officer of NRG Energy, Inc. (NRG), a former subsidiary of Xcel Energy Inc. from June 6, 2002 to May 14, 2003, and a director of NRG from June 2000 to May 14, 2003. In May 2003, NRG and certain of NRG s affiliates filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code to restructure their debt. NRG emerged from bankruptcy on December 5, 2003.

8.3 Senior Officers

As at March 5, 2014, the following were executive officers of CP:

Name and Municipality of Residence	Position Held	Principal Occupation Within the Preceding Five Years
E.H. Harrison Wellington, Florida, U.S.A.	Chief Executive Officer	Chief Executive Officer; President and Chief Executive Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chairman of the Board, Dynegy Inc.; Interim President and Chief Executive Officer, Dynegy Inc.; President and Chief Executive Officer, Canadian National Railway Company
K.E. Creel Chicago, Illinois, U.S.A.	President and Chief Operating Officer	President and Chief Operating Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Executive Vice-President and Chief Operating Officer, Canadian National Railway Company; Executive Vice-President, Operations, Canadian National Railway Company
B.W. Demosky Calgary, Alberta, Canada	Executive Vice-President and Chief Financial Officer	Executive Vice-President and Chief Financial Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chief Financial Officer, Suncor Energy Inc.; Senior Vice-President of Business Services, Suncor Energy Inc.
J. A. O Hagan Calgary, Alberta, Canada	Executive Vice-President and Chief Marketing Officer	Executive Vice-President and Chief Marketing Officer; Senior Vice-President, Marketing and Sales and Chief Marketing Officer; Senior Vice-President, Strategy and Yield; Vice-President, Strategy and External Affairs, Canadian Pacific Railway Company and Canadian Pacific Railway Limited
P. J. Edwards	Vice-President, Human Resources and	Vice-President, Human Resources and Labour Relations; Vice-President Human Resources, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President

Calgary, Alberta, Canada	Labour Relations	Human Resources, Canadian National Railway Company
P. A. Guthrie, Q.C. Municipal District of Rockyview, Alberta, Canada	Chief Legal Officer and Corporate Secretary	Chief Legal Officer and Corporate Secretary; Vice-President, Law and Risk Management; Vice-President Law, Canadian Pacific Railway Company and Canadian Pacific Railway Limited
M. Redeker St. Albert, Alberta, Canada	Vice-President and Chief Information Officer	Vice-President and Chief Information Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chief Information Officer, ATB Financial; Chief Technology Officer, ATB Financial
M. Wallace Calgary, Alberta, Canada	Vice-President, Corporate Affairs and Chief of Staff	Vice-President, Corporate Affairs and Chief of Staff; Chief of Staff Office of the President and CEO, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Client Partner, Longview Communications Inc.; Head of Investor Relations, Husky Injection Molding Systems Inc.; Assistant Vice-President Public Affairs, Canadian National Railway Company

8.4 Shareholdings of Directors and Officers

As at December 31, 2013, the directors and executive officers of CPRL owned or controlled a total of 17,367,748 shares representing approximately 9.90% of the outstanding shares at

that date (175,451,268). Mr. Ackman exercises control over the voting and disposition of 17,159,888 of such shares which are beneficially owned by Pershing Square Capital Management, L.P. and its affiliates.

9. LEGAL PROCEEDINGS

We are involved in various claims and litigation arising in the normal course of business. There are no significant legal proceedings currently in progress.

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10. TRANSFER AGENTS AND REGISTRARS

10.1 Transfer Agent

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

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

Requests for information should be directed to:

Computershare Investor Services Inc.

100 University Avenue, 8th Floor

Toronto, Ontario, Canada

M5J 2Y1

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11. INTERESTS OF EXPERTS

Deloitte LLP, Chartered Accountants, Calgary, Alberta, have issued their audit report dated March 5, 2014, in respect of the Company s consolidated financial statements as at December 31, 2013 and 2012 and for each of the years in the three-year period ended December 31, 2013. Deloitte LLP is independent with respect to

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

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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). Each member of the Committee has been determined by the Board to be independent and financially literate as defined under National Instrument 52-110 Audit Committees.

G.F. Colter Mr. Colter is the President of CRS Inc., a corporate restructuring, strategic and management consulting company, which he founded in 2002. Previously, Mr. Colter spent 34 years with KPMG Canada and its predecessor firm Peat Marwick, where he was a Partner for 27 years, holding various senior positions, including Vice Chairman of Financial Advisory Services and member of the Management Committee from 1989 to 1998. From 1998 to 2000, Mr. Colter was Global Managing Partner of Financial Advisory Services and a member of a then new International Executive Team for KPMG International. In 2002, he retired as Vice Chairman of KPMG Canada. Since 2002, Mr. Colter has been a director of Owens-Illinois Inc. In 2003, he joined the board of Canadian Imperial Bank of Commerce and in 2004 he joined the board of Core-Mark Holding Company, Inc. In 2005, he joined the board of Retirement Residences REIT, later known as Revera Inc. Mr. Colter has a B.A. (Honours) in Business Administration from the Ivey Business School of the University of Western Ontario, and is a Fellow Chartered Accountant.

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

a Bachelor s degree in Engineering Physics from the École Polytechnique de Montréal and a Bachelor s degree in Civil Law from McGill University.

R. C. Kelly Mr. Kelly is the Retired Chairman and Chief Executive Officer of Xcel Energy Inc., a utility supplier of electric power and natural gas service in eight Western and Midwestern States. He held that position from September 2009 until retirement in September 2011. From December 2005 to September 2009 he was Chairman of the Board, President and Chief Executive Officer; from June to mid-December 2005 he served as President and Chief Executive Officer; and previous to that he served as Chief Financial Officer. Mr. Kelly is a director of Pacific Gas and Electric Corporation and is Chairman of the Board of Trustees, Regis University. Mr. Kelly earned both an M.B.A. and a Bachelor s degree in accounting from Regis University.

L. J. Morgan Ms. Morgan is a Partner at Nossaman LLP, a premier transportation infrastructure law firm based in the United States. Prior to joining Nossaman in September of 2011, she was a Partner at Covington & Burling LLP, a United States based international law firm, where she chaired its transportation and government affairs practices. She also serves on the Board of Visitors for the Georgetown University Law Center and the Business Advisory Committee for Northwestern University s Transportation Center. Ms. Morgan was previously Chairman of the United States Surface Transportation Board, and its predecessor the Interstate Commerce Commission, from March 1995 to December 2002. Prior to joining the Interstate Commerce Commission, Ms. Morgan served as General Counsel to the

Senate Committee on Commerce, Science and Transportation. She graduated from Vassar College with an A.B. and the Georgetown University Law Center with a J.D., and is an alumna of the Program for Senior Managers in Government at Harvard University s John F. Kennedy School of Government.

12.2 Pre-Approval of Policies and Procedures

The Committee has adopted a written policy governing the pre-approval of audit and non-audit services to be provided to CP by our independent auditors. The policy is reviewed annually and the audit and non-audit services to be provided by our

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

12.3 Audit Committee Charter

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

A. Committee and Procedures

1. Purpose

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

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

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

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

2. Composition of Committee

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

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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) by its Chairman, approve the expense claims of the Chief Executive Officer and of the Chairman of the Board of Directors, and the Chairman shall, at least annually, provide a report to the Committee on such expense claims which report shall be reviewed and discussed;

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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.

November 27, 2013

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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 for fiscal year 2011.

In accordance with applicable laws and the requirements of stock exchanges and securities regulatory authorities, the Audit Committee of the Company must pre-approve all audit and non-audit services to be provided by the independent auditors. Fees payable to Deloitte LLP for the years ended December 31, 2013, and December 31, 2012, totaled $2,213,000 and $2,166,100, respectively, as detailed in the following table:

	Year ended December 31, 2013	Year ended December 31, 2012
Audit Fees	$ 1,943,000	$ 2,090,300
Audit-Related Fees	228,500	27,500
Tax Fees	41,500	48,300
All Other Fees		
TOTAL	$ 2,213,000	$ 2,166,100

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

12.4.1 Audit Fees

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

12.4.2 Audit-Related Fees

Audit-related fees were for attestation and related services reasonably related to the performance of the audit or review of the annual financial

statements, but which are not reported under Audit Fees above. These services consisted of audit work related to securities filings.

12.4.3 Tax Fees

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

12.4.4 All Other Fees

Fees disclosed under this category would be for products and services other than those described under Audit Fees , Audit-Related Fees and Tax Fees above. There were no such services in 2013 or 2012.

13. FORWARD-LOOKING INFORMATION

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

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

By its nature, our forward-looking information involves numerous assumptions, inherent risks and uncertainties, including but not limited to the following factors: changes in business strategies;

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

There are more specific factors that could cause actual results to differ materially from those described in the forward-looking statements contained in this AIF. These more specific factors are identified and discussed in Section 21, Business Risks and elsewhere in the 2013 MD&A.

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14. ADDITIONAL INFORMATION

14.1 Additional Company Information

Additional information about CP is available on SEDAR (System for Electronic Document Analysis and Retrieval) at www.sedar.com in Canada, and on the U.S. Securities and Exchange Commission s website (EDGAR) at www.sec.gov. The aforementioned information is issued and made available in accordance with legal requirements and is not incorporated by reference into this AIF except as specifically stated.

Additional information, including directors and officers remuneration and indebtedness, principal

holders of our securities and securities authorized for issuance under equity compensation plans, where applicable, is contained in the information circular for our most recent annual meeting of shareholders at which directors were elected.

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

This information is also available on our website at www.cpr.ca.

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Canadian Pacific

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FINANCIAL HIGHLIGHTS

$ in millions, except per share data, or unless otherwise indicated	2013	2012	2011
Financial results			
Revenues	**$ 6,133**	$ 5,695	$ 5,177
Operating income	**1,420**	949	967
Operating income, excluding significant items (1)(2)	**1,844**	1,309	967
Net income	**875**	484	570
Income, excluding significant items (1)(2)	**1,132**	753	538
Diluted earnings per share	**4.96**	2.79	3.34
Diluted earnings per share, excluding significant items (1)(2)	**6.42**	4.34	3.15
Dividend declared per share	**1.4000**	1.3500	1.1700
Additions to properties	**1,236**	1,148	1,104
Financial position			
Total assets	**17,060**	14,727	14,110
Long-term debt, including current portion	**4,876**	4,690	4,745
Shareholders equity	**7,097**	5,097	4,649
Financial ratios (%)			
Operating ratio	**76.8**	83.3	81.3
Operating ratio, excluding significant items (1)(2)	**69.9**	77.0	81.3
Debt-to-total capitalization	**40.7**	47.9	50.7

(1) These earnings measures have no standardized meanings prescribed by U.S. GAAP and, therefore, are unlikely to be comparable to similar measures of other companies. These earnings measures are described further and reconciled to the most directly comparable GAAP measure in Section 15 Non-GAAP Measures of our Management s Discussion and Analysis included within this Annual Report.

(2) Significant items in 2013 were: an asset impairment charge and accruals for future costs totalling $435 million ($257 million after tax) relating to the anticipated sale of DM&E West, a recovery of $7 million ($5 million after tax) for our 2012 labour restructuring initiative, management transition costs related to the change of our Chief Financial Officer totalling $5 million ($4 million after tax), an income tax expense of $7 million as a result of the change in British Columbia s corporate income tax rate, and US$9 million (US$6 million after tax) from the favourable settlement of certain management transition amounts which had been subject to legal proceedings. Significant items in 2012 were: an impairment of the Powder River Basin and another investment of $185 million ($111 million after tax), an impairment charge of certain locomotives of $80 million ($59 million after tax), a labour restructuring charge of $53 million ($39 million after tax), management transition costs of $42 million ($29 million after tax), advisory fees related to shareholder matters of $27 million ($20 million after tax) and an income tax expense of $11 million as a result of the increase in the Ontario corporate income tax rate. Significant items in 2011 were: advisory fees related to shareholder matters of $6 million ($5 million after tax) and the $37 million income tax benefit from the resolution of certain income tax matters.

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A MESSAGE FROM CEO E . HUNTER HARRISON

E. Hunter Harrison

Chief Executive Officer

and

Keith Creel

President and Chief Operating Officer

DEAR SHAREHOLDERS:

We ve achieved record results in record time, and we re still picking up speed. Our folks are doing a great job across the board, making even better progress than I d hoped to achieve by this point. I m very proud of them. I believe this is the start of a long run of success, driven by doing the right things.

No doubt about it, we ve proved some people wrong. Some said we had no credible plan. Others said we had geographic challenges that could not be overcome. Quite a few said our goal of reaching an operating ratio of 65 by 2016 was unrealistic and unachievable.

Well, the skeptics got one thing right they said what we sought to do had never been accomplished by any railway team in history. The pace of our improvement so far has indeed been historic. We re a year to a year and a half ahead of plan across just about every measure, and CP stock appreciation and market cap growth have been unprecedented.

Record financial results

We reported record revenues of $6.1 billion in 2013, up 8 per cent over 2012 results. Adjusted net income was $1.1 billion, or $6.42 per diluted share, which was a 48 per cent improvement versus 2012 performance. We improved our adjusted operating ratio by 710 basis points to 69.9 for 2013, an all-time record for CP.

We generated $530 million in free cash flow, a big jump from the $93 million we reported in 2012. Strong cash flow gives our management team maximum flexibility for strategies to invest in our business and deliver returns to our investors. We are in the midst of considering the right strategic mix for cash deployment going forward.

Building velocity

We continued to build forward momentum in creating the kind of railroad I envisioned when I took this job. We re driving longer trains, which means fewer train starts, faster network velocity and better service at lower cost. The progress we made in this area contributed to dramatic improvement in fuel efficiency, train weight, car velocity and locomotive productivity, all of which are on or ahead of schedule to reach our 2016 goals.

To support this strategy, we have been investing in longer sidings across the network, many of which came on line in late 2013, and we have plans to install more sidings in 2014. This will enable continued improvements in train length, weight, velocity and productivity over the long term.

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Our 2013 safety performance came in just short of last year s record numbers. While that s encouraging, it s not good enough. Safety is critical to our people, our communities, our company and our industry. We re investing in technology and focusing on culture to drive meaningful improvement in this area.

More to come

When we have such dramatic success in the beginning, people have a tendency to think the run is over, or close to it. It s an attitude we ve fought in each turnaround I ve been a part of. But if you take a look at my history, you ll never see a point where we said, That s it. It s time to take a break and rest on our laurels.

We re not resting. We re pushing forward, staying focused on the Foundations of railroading service, cost, assets, safety and people and working to get better in each area. We are now confident that we can reach an operating ratio of 65 or better in 2014, two years ahead of plan. More important, we re starting to get the credibility we need to convert our superior service offering into profitable revenue growth.

Great people, great future

I like to think I m a pretty good railroader. I can see what needs to be done and I can put together a solid plan, but if I don t have people around me who can execute, we re not going to be successful. In a relatively short time, we have

assembled a stellar team of motivated, highly committed railroaders. And they are getting it done.

This is the important thing to understand: What we re building here is not a flash in the pan. It s not done with tricks or smoke and mirrors. The things we re doing today and what we re teaching our people will serve this company and its investors for years to come.

Our focus going forward will be on controlled, sustainable, profitable growth. At the same time, we re going to be as aggressive as we ve always been in our efforts to control our costs and keep people safe. I know from experience that when we do that, good things happen.

Thanks for staying on this train. We re going to keep it moving forward with ever-increasing velocity.

Sincerely,

E. Hunter Harrison

Chief Executive Officer

Canadian Pacific Railway Limited

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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, 2013 prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All information has been prepared in accordance with GAAP, except as described in Section 15, Non-GAAP Measures of this MD&A. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars.

March 5, 2014

In this MD&A, our , us , we , CP , Canadian Pacific and the Company refer to Canadian Pacific Railway Limited (CPRL), CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL s subsidiaries, as the context may require. Other terms not defined in the body of this MD&A are defined in Section 25, Glossary of Terms.

Unless otherwise indicated, all comparisons of results for 2013 and 2012 are against the results for 2012 and 2011, respectively. Unless otherwise indicated, all comparisons of results for the fourth quarter of 2013 are against the results for the fourth quarter of 2012.

1. BUSINESS PROFILE

Canadian Pacific Railway Limited, through its subsidiaries, operates a transcontinental railway in Canada and the United States (U.S.) and provides logistics and supply chain expertise. We provide rail and intermodal transportation services over a network of approximately 14,400 miles, serving the principal business centres of Canada from Montreal, Quebec, to Vancouver, British Columbia (B.C.), and the U.S. Northeast and Midwest regions. Our railway feeds directly into the U.S. heartland from the East and West coasts. Agreements with other carriers extend our market reach east of Montreal in Canada, throughout the U.S. and into Mexico. We transport bulk commodities, merchandise freight and intermodal traffic. Bulk commodities include grain, coal, fertilizers and sulphur. Merchandise freight consists of finished vehicles and automotive parts, as well as forest and industrial and consumer products. Intermodal traffic consists largely of high-value, time-sensitive retail goods in overseas containers that can be transported by train, ship and truck, and in domestic containers and trailers that can be moved by train and truck.

2. STRATEGY

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

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

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

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

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

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

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

3. FORWARD-LOOKING INFORMATION

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

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

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

There are more specific factors that could cause actual results to differ materially from those described in the forward-looking statements contained in this MD&A. These more specific factors are identified and discussed in Section 21, Business Risks and elsewhere in this MD&A. Other risks are detailed from time to time in reports filed by CP with securities regulators in Canada and the United States.

Financial Assumptions

Defined benefit pension expectations

Defined benefit pension contributions are currently estimated to be between $90 million and $110 million in each year to 2016. This contribution level reflects the Company s intentions with respect to the rate at which we apply the voluntary prepayments made in previous years to reduce contribution requirements. Defined benefit pension credits for 2014 and 2015 are expected to be approximately $50 million for each year. These pension contributions and pension expense and pension income estimates are based on a number of economic and demographic assumptions and are sensitive to changes in the assumptions or to actual experience differing from the assumptions. Pensions are discussed further in Section 22, Critical Accounting Estimates.

Financial expectations for 2014

The Company expects revenue growth to be 6-7%, operating ratio of 65% or lower and diluted earnings per share (EPS) growth to be 30% or greater from 2013 annual diluted EPS, excluding significant items, of $6.42, discussed further in Section 15, Non-GAAP Measures. CP plans to spend approximately $1.2 to $1.3 billion on capital programs in 2014, discussed further in Section 14, Liquidity and Capital Resources. Key assumptions for full year 2014 financial expectations include:

- an average fuel cost per gallon of US$3.50 per U.S. gallon;
- defined benefit pension credit of approximately $50 million;
- Canadian to U.S. dollar exchange rate of 1.05; and
- an income tax rate of 28% discussed further in Section 10, Other Income Statement Items and Section 15, Non-GAAP Measures.

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

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4. ADDITIONAL INFORMATION

Additional information, including our Consolidated Financial Statements, Annual Information Form, press releases and other required filing documents, are available on SEDAR at www.sedar.com in Canada, on EDGAR at www.sec.gov in the U.S. and on our website at www.cpr.ca. The aforementioned documents are issued and made available in accordance with legal requirements and are not incorporated by reference into this MD&A.

5. FINANCIAL HIGHLIGHTS

For the year ended December 31

(in millions, except percentages and per share data)	**2013**	2012	2011
Revenues	**$ 6,133**	$ 5,695	$ 5,177
Operating income	**1,420**	949	967
Operating income, excluding significant items(1)(5)	**1,844**	1,309	967
Net income	**875**	484	570
Basic earnings per share	**5.00**	2.82	3.37
Diluted earnings per share	**4.96**	2.79	3.34
Diluted earnings per share, excluding significant items(1)(5)	**6.42**	4.34	3.15
Dividends declared per share	**1.4000**	1.3500	1.1700
Return on capital employed (ROCE(2))	**9.5%**	6.9%	7.4%
Operating ratio	**76.8%**	83.3%	81.3%
Operating ratio, excluding significant items(1)(5)	**69.9%**	77.0%	81.3%
Free cash(1)(3)	**530**	93	(724)
Voluntary prepayments to the main Canadian defined benefit pension plan (included in Free cash above)			(600)
Total assets at December 31	**17,060**	14,727	14,110
Total long-term financial liabilities at December 31(4)	**4,784**	4,735	4,812

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

(1) This measure has no standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures of other companies. These earnings measures and significant items are discussed further in Section 15, Non-GAAP Measures along with a reconciliation of free cash to GAAP cash position in Section 14, Liquidity and Capital Resources.

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

(3) Includes $600 million voluntary prepayments to the Company s main Canadian defined benefit pension plan in 2011, discussed further in Section 22, Critical Accounting Estimates.

(4) Total long-term financial liabilities excludes: deferred taxes of $2,903 million, $2,092 million and $1,819 million, and other non-financial long-term liabilities of $898 million, $1,573 million and $1,620 million for the years 2013, 2012 and 2011 respectively.

(5) Significant items are discussed further in Section 15, Non-GAAP Measures.

6. OPERATING RESULTS

Income

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

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

This increase was partially offset by:

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

Operating income was $949 million in 2012, a decrease of $18 million, or 2%, from $967 million in 2011. This decrease was primarily due to:

- asset impairment and labour restructuring charges of $318 million;
- higher volume variable expenses;
- higher incentive and stock-based compensation expenses;
- the net impact of the strike in the second quarter;
- higher depreciation and amortization expenses; and
- management transition costs of $42 million, reflected in Compensation and benefits and Purchased services and other.

This decrease was partially offset by:

- increased volumes of traffic, generating higher freight revenue;
- efficiency savings derived from improved operating performance, asset utilization and improved operating conditions;
- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes with full margin coverage;
- higher freight rates; and
- the favourable impact of the change in FX.

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

Net income was $484 million in 2012, a decrease of $86 million, or 15%, from $570 million in 2011. This decrease was primarily due to:

- an increase in income tax expense primarily due to the impact of a tax recovery in the fourth quarter of 2011 of $37 million from the resolution of certain income tax items;
- an increase in net interest expense due to new debt issuances in 2011;
- an increase in Other income and charges due to advisory fees related to shareholder matters; and
- lower Operating income.

Diluted Earnings per Share

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

Diluted EPS was $2.79 in 2012, a decrease of $0.55, or 16% from $3.34 in 2011. This decrease was primarily due to lower Net income. Diluted EPS for 2012 included a $1.55 per share charge for labour restructuring and asset impairment, discussed further in Section 9, Operating Expenses, advisory costs due to shareholder matters, management transition costs and Ontario corporate tax rate change, discussed further in Section 15, Non-GAAP Measures. Diluted EPS, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was $4.34 in 2012, an increase of $1.19, or 38%, from $3.15 in 2011. This increase was primarily due to higher Operating income, excluding significant items, discussed further in Section 15, Non-GAAP Measures.

Diluted EPS, excluding significant items, and Operating income, excluding significant items, have no standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies.

Operating Ratio

The operating ratio provides the percentage of revenues used to operate the railway, and is calculated as operating expenses divided by revenues. A lower percentage normally indicates higher efficiency in the operation of the railway. Our operating ratio was 76.8% in 2013, a decrease from 83.3% in 2012. This improvement was primarily due to efficiency savings, increased volumes of traffic and higher freight rates partially offset by a higher asset impairment charge.

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

Our operating ratio was 83.3% in 2012, an increase from 81.3% in 2011. The increase was primarily due to asset impairment and labour restructuring charges and management transition costs, which negatively impacted operating ratio by 630 basis points. The operating ratio, excluding significant items was 77.0% in 2012, a decrease from 81.3% in 2011. This improvement was primarily due to an increase in volumes of traffic and efficiency savings derived from improved operating performance, asset utilization and improved operating conditions.

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

Return on Capital Employed

The calculation of ROCE utilizes Earnings Before Interest and Taxes (EBIT) on a rolling twelve month basis. ROCE was 9.5% at December 31, 2013, compared with 6.9% in 2012. This improvement was primarily due to higher earnings partially offset by a higher asset impairment charge. Excluding the significant items in 2013 and 2012 from EBIT, Adjusted ROCE was 12.4% at December 31, 2013, compared with 9.8% in 2012. This improvement was primarily due to higher earnings.

ROCE was 6.9% at December 31, 2012, compared with 7.4% in 2011. The decrease in 2012 and 2011 was primarily due to lower earnings. Excluding the significant items from EBIT, Adjusted ROCE was 9.8% at December 31, 2012, compared with 7.5% in 2011.

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

Calculation of Adjusted ROCE

(in millions)	**2013**	2012	2011

EBIT for the year ended December 31[1]	**$ 1,403**	$ 912	$ 949
Adjusted EBIT for the year ended December 31[1]	**$ 1,827**	$ 1,299	$ 955
Average for the twelve months of total assets, less current liabilities excluding the current portion of long-term debt	**$ 14,711**	$ 13,251	$ 12,809
ROCE[1]	**9.5%**	6.9%	7.4%
Adjusted ROCE[1][2]	**12.4%**	9.8%	7.5%

[1] EBIT, Adjusted EBIT, ROCE and Adjusted ROCE have no standardized meaning prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures of other companies. These earnings measures are discussed further in Section 15, Non-GAAP Measures.

[2] Adjusted ROCE is defined as Adjusted EBIT divided by the average for twelve months of Total assets, less current liabilities, excluding current portion of long-term debt, as measured under GAAP.

Impact of Foreign Exchange on Earnings

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

Canadian to U.S. dollar Average exchange rates	**2013**	2012	2011
For the year ended December 31	**$ 1.03**	$ 1.00	$ 0.99
For the three months ended December 31	**$ 1.04**	$ 0.99	$ 1.02

Canadian to U.S. dollar Exchange rates	**2013**	2012	2011
Beginning of year January 1	**$ 0.99**	$ 1.02	$ 0.99
Beginning of quarter April 1	**$ 1.02**	$ 1.00	$ 0.97
Beginning of quarter July 1	**$ 1.05**	$ 1.02	$ 0.96
Beginning of quarter October 1	**$ 1.03**	$ 0.98	$ 1.05
End of quarter December 31	**$ 1.06**	$ 0.99	$ 1.02

Average Fuel Price

(U.S. dollars per U.S. gallon)	**2013**	2012	2011
For the year ended December 31	**$ 3.47**	$ 3.45	$ 3.38
For the three months ended December 31	**$ 3.51**	$ 3.47	$ 3.45

7. PERFORMANCE INDICATORS

				% Change	
For the year ended December 31[1]	**2013**	2012	2011	2013 vs. 2012	2012 vs. 2011
Operations Performance					
Freight gross ton-miles (GTMs) (millions)	**267,629**	254,354	247,995	5	3
Train miles (thousands)	**37,817**	40,270	40,145	(6)	
Average train weight excluding local traffic (tons)	**7,573**	6,709	6,593	13	2
Average train length excluding local traffic (feet)[3]	**6,530**	5,981	5,860	9	2
Average terminal dwell (hours)[3]	**7.1**	7.5	8.9	(5)	(16)
Average train speed (mph)[4]	**18.2**	18.0	15.2	1	18

Locomotive productivity (daily average GTMs/active horse power (HP))	**216.0**	179.8	166.7	20	8
Fuel efficiency (U.S. gallons of locomotive fuel consumed /1,000 GTMs)(5)	**1.06**	1.15	1.18	(8)	(3)
Total employees (average)(6)(7)	**15,011**	16,999	16,097	(12)	6
Workforce (end of period)(8)	**14,977**	16,907	18,519	(11)	(9)
Safety indicators					
FRA personal injuries per 200,000 employee-hours	**1.69**	1.55	1.85	9	(16)
FRA train accidents per million train-miles	**1.78**	1.67	1.88	7	(11)

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

(2) Incorporates a new reporting methodology where average train length is the sum of each car and locomotive s equipment length multiplied by the distance travelled, divided by train miles. Local trains are excluded from this measure.

(3) Incorporates a new reporting definition where average terminal dwell measures the average time a freight car resides within terminal boundaries.

(4) Incorporates a new reporting definition where average train speed measures the line-haul movement from origin to destination including terminal dwell hours.

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

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

(7) 2012 average number of employees has been adjusted for the strike.

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

The indicators listed in this table are key measures of our operating performance. Definitions of these performance indicators are provided in Section 25, Glossary of Terms.

Operations Performance

GTMs for 2013 were 267,629 million, which increased by 5% compared with 254,354 million in 2012. This increase was primarily due to higher traffic volumes in Industrial and consumer products and Grain partially offset by lower traffic volumes in Automotive and Intermodal and by the impact of volumes lost during the strike in the second quarter of 2012.

GTMs for 2012 were 254,354 million, which increased by 3% compared with 247,955 million in 2011. This increase was primarily due to higher traffic volumes in the Company s Intermodal and Merchandise franchises. This increase was partially offset by a reduction in bulk shipments, and the impact of volumes lost during the strike in the second quarter.

Train miles for 2013 decreased by 6% compared with 2012, driven by increases in both train weights and lengths. This improvement was due to the Company s successful execution of the operating plan, partially offset by higher workload as measured by GTMs.

Train miles for 2012 were relatively flat compared with 2011, with higher workload offset by an increase in train weights. These changes were largely attributable to compressed train service transit schedules.

Average train weight increased in 2013 by 864 tons or 13% from 2012. Average train length increased in 2013 by 549 feet or 9% from 2012. Average train weight and train length benefited from increased workload moving in existing train service, ongoing network capacity and infrastructure investments and the successful execution of the Company s operating plan, which allowed for the operation of longer and heavier trains.

Average train weight increased in 2012 by 116 tons or 2% from 2011. Average train length increased in 2012 by 121 feet or 2% from 2011. Average train weight and train length increased slightly compared to the same period in 2011 primarily due to improvements in the second half of 2012. These improvements benefited from increased Merchandise and Intermodal workload moving in existing train service and the successful execution of the Company s operating plan. Improvements to average train weight were further enabled by the siding extension strategy, which allowed for the operation of longer and heavier trains.

Average terminal dwell, the average time a freight car resides in a terminal, decreased by 5% in 2013 to 7.1 hours from 7.5 hours in 2012. This decrease was primarily due to a continued focus on increasing yard productivity, terminal redesign, and the successful execution of the Company s operating plan.

Average terminal dwell, decreased by 16% in 2012 to 7.5 hours when compared to 8.9 in 2011. This decrease was primarily due to programs to improve asset velocity and storage of surplus cars.

Average train speed was 18.2 miles per hour in 2013, an increase of 1%, from 18.0 miles per hour in 2012. This increase was primarily due to improved asset velocity, decreased terminal dwell and successful execution of the Company s operating plan. Speed improvements were partially offset by an increase in bulk commodities, which move at a slower average speed than intermodal and merchandise traffic.

Average train speed was 18.0 miles per hour in 2012, an increase of 18%, from 15.2 miles per hour in 2011. This increase was primarily due to increased volumes, traffic mix, supply chain pipeline issues and significant disruptions to train operations across the network due to unusually severe winter weather in 2011 and flooding in the first half of 2011 and 2012.

Locomotive productivity increased in 2013 by 20% from 2012. This improvement is primarily the result of increased asset velocity due to more efficient operations, improved fleet reliability and the successful execution of the Company s operating plan.

Locomotive productivity increased in 2012 by 8% from 2011. This increase was primarily due to improvements in network fluidity and the successful execution of the Company s operating plan.

Fuel efficiency improved by 8% in 2013 compared to 2012. This improvement is primarily due to lower horsepower to ton ratios as a result of increased train weights and focus on the fuel conservation strategies of the Company s operating plan.

Fuel efficiency improved by 3% in 2012 compared to 2011. This improvement was primarily due to improved operating conditions and the advancement of the Company s fuel conservation strategies including replacement of older units with new more fuel efficient locomotives.

The average number of total employees for 2013 decreased by 1,988, or 12%, compared with 2012. This decrease was primarily due to job reductions as a result of continuing strong operational performance and natural attrition.

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The average number of total employees for 2012 increased by 902, or 6%, compared with 2011. This increase was primarily due to additional hiring early in the year to address volume growth projections and anticipated attrition over future quarters, partially offset by job reductions in the latter half of the year, improvements in labour productivity and the impact of the strike, including temporary layoffs.

The workforce on December 31, 2013 decreased by 1,930, or 11%, compared with December 31, 2012. This decrease was primarily due to job reductions as a result of continuing strong operational performance, natural attrition and fewer contractors. At our Investor Conference in New York on December 4-5, 2012, the Company outlined plans to reduce approximately 4,500 employee and/or contractor positions, from June 30, 2012 to 2016, through job reductions, natural attrition and reducing the number of contractors. The Company met the 4,500 positions reduction target by the end of 2013.

The workforce on December 31, 2012 decreased by 1,612, or 9%, compared with December 31, 2011. This decrease was primarily due to higher job reductions in the latter half of the year as a result of improved operational performance, natural attrition and fewer contractors.

Safety Indicators

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

The FRA personal injury rate per 200,000 employee-hours for CP was 1.69 in 2013, 1.55 in 2012 and 1.85 in 2011.

The FRA train accident rate for CP in 2013 was 1.78 accidents per million train-miles, compared with 1.67 in 2012 and 1.88 in 2011.

8. LINES OF BUSINESS

Revenues

2013 Freight Revenues

2012 Freight Revenues

For the year ended December 31 (in millions)	**2013**	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Freight revenues					
Grain	**$ 1,300**	$ 1,172	$ 1,100	11	7
Coal	**627**	602	556	4	8
Fertilizers and sulphur	**570**	520	549	10	(5)
Industrial and consumer products	**1,548**	1,268	1,017	22	25
Automotive	**403**	425	338	(5)	26
Forest products	**206**	193	189	7	2
Intermodal	**1,328**	1,370	1,303	(3)	5
Total freight revenues	**5,982**	5,550	5,052	8	10
Other revenues	**151**	145	125	4	16
Total revenues	**$ 6,133**	$ 5,695	$ 5,177	8	10

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Our revenues are primarily derived from transporting freight. Other revenues are generated primarily from leasing of certain assets, switching fees, contracts with passenger service operators, and logistics management services.

In the full year of 2013, 2012 and 2011 no one customer comprised more than 10% of total revenues and accounts receivable.

2013 TO 2012 COMPARATIVES

Freight Revenues

Freight revenues are earned from transporting bulk, merchandise and intermodal goods, and include fuel recoveries billed to our customers. Freight revenues were $5,982 million in 2013, an increase of $432 million, or 8% from $5,550 million in 2012. This increase was primarily due to:

- higher shipments, as measured by RTMs, of Industrial and consumer products, Grain, Fertilizers and sulphur and Coal;
- increased freight rates;
- the favourable impact of the change in FX;
- the impact of the strike in 2012 on Canadian shipments; and
- higher fuel surcharge revenues due to an increase in traffic volumes with full margin coverage.

This increase was partially offset by lower shipments in Intermodal and Automotive and the impact of the network outages in the second quarter of 2013.

Fuel Cost Recovery Program

CP employs a fuel cost recovery program designed to automatically respond to fluctuations in fuel prices and help mitigate the financial impact of rising fuel prices. Fuel surcharge revenue is earned on individual shipments; as such, our fuel surcharge revenue is a function of our freight volumes. The short-term volatility in fuel prices may adversely or positively impact expenses and revenues.

Grain

Grain transported by CP consists of both whole grains, such as wheat, corn, soybeans and canola, and processed products such as meals, oils, and flour. Canadian grain products are primarily transported to ports for export and to Canadian and U.S. markets for domestic consumption. U.S. grain products are shipped from the Midwestern U.S. to other points in the Midwest, the Pacific Northwest and northeastern U.S. Grain revenue was $1,300 million in 2013, an increase of $128 million, or 11% from $1,172 million in 2012. This increase was primarily due to:

- higher Canadian originating grain shipments to the west coast due to stronger export demand;

- higher U.S. originating grain shipments to the U.S. Midwest due to increased U.S. crop production in areas served by CP;
- increased freight rates; and
- the favourable impact of the change in FX.

Coal

Our Canadian coal business consists primarily of metallurgical coal transported from southeastern B.C. to the ports of Vancouver, B.C. and Thunder Bay, Ontario, and to the U.S. Midwest. Our U.S. coal business consists primarily of the transportation of thermal coal and petroleum coke within the U.S. Midwest or for export through west coast ports. Coal revenue was $627 million in 2013, an increase of $25 million, or 4% from $602 million in 2012. This increase was primarily due to higher Canadian originating shipments of metallurgical coal due to increased demand and increased freight rates and was partially offset by lower U.S. originating thermal coal shipments as a result of soft market conditions.

Fertilizers and Sulphur

Fertilizers and sulphur include potash, chemical fertilizers and sulphur shipped mainly from western Canada to the ports of Vancouver, B.C. and Portland, Oregon, and to other Canadian and U.S. destinations. Fertilizers and sulphur revenue was $570 million in 2013, an increase of $50 million, or 10% from $520 million in 2012. This increase was primarily due to:

- higher potash and sulphur shipments due to stronger demand;
- increased freight rates;
- higher fuel surcharge revenues due to an increase in traffic volumes with full margin coverage; and
- the favourable impact of the change in FX.

Industrial and Consumer Products

Industrial and consumer products include chemicals, plastics, aggregates, steel, minerals, ethanol and other energy-related products, other than coal, shipped throughout North America. Industrial and consumer products revenue was $1,548 million in 2013, an increase of $280 million, or 22% from $1,268 million in 2012. This increase was primarily due to:

- higher volumes as a result of strong market demand and growth in movement of energy related commodities and energy related inputs;
- increased freight rates; and
- the favourable impact of the change in FX.

Automotive

Automotive consists primarily of three core finished vehicle traffic segments: imported vehicles, Canadian produced and U.S. produced vehicles. These segments move through Port of Metro Vancouver to eastern Canadian markets; to the U.S. from Ontario production facilities; and to Canadian markets, respectively. Automotive revenue was $403 million in 2013, a decrease of $22 million, or 5% from $425 million in 2012. This decrease was primarily due to lower volumes as a result of the exit from selected customer lanes and a customer shifting production to another facility not served by CP.

Forest Products

Forest products include lumber, wood pulp, paper products and panel transported from key producing areas in western Canada, Ontario and Quebec to various destinations in North America. Forest products revenue was $206 million in 2013, an increase of $13 million, or 7% from $193 million in 2012. This increase was primarily due to:

- higher lumber and panel shipments due to improving U.S. housing market conditions;
- increased freight rates; and
- the favourable impact of the change in FX.

Intermodal

CP s intermodal portfolio consists of domestic and international services. Our domestic business consists primarily of the movement of manufactured consumer products in containers within North America. The international business handles the movement of marine containers between ports and North American inland markets. Intermodal revenue was $1,328 million in 2013, a decrease of $42 million, or 3% from $1,370 million in 2012. This decrease was primarily due to the exit of certain international customer contracts and selected terminal closures partially offset by:

- increased domestic container volumes;

- increased freight rates; and
- the favourable impact of the change in FX.

Other Revenue

Other revenue was $151 million in 2013, an increase of $6 million, or 4% from $145 million in 2012. This increase was primarily due to higher interline switching.

2012 TO 2011 COMPARATIVES

Revenue variances below compare 2012 to 2011 figures.

Freight Revenues

Freight revenues were $5,550 million in 2012, an increase of $498 million, or 10% from $5,052 million in 2011. This increase was primarily due to higher:

- volumes in Industrial and consumer products, Coal and Automotive;
- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes with full margin coverage;
- freight rates for all lines of business; and
- the favourable impact of the change in FX.

This increase was partially offset by lower shipments in Fertilizers and sulphur and the strike impacting Canadian originating shipments in the second quarter of 2012.

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CANADIAN PACIFIC

Grain

Grain revenue was $1,172 million in 2012, an increase of $72 million, or 7%, from $1,100 million in 2011. This increase was primarily due to:

- increased Canadian originating traffic volumes, as measured in carloads, in the first half of 2012 due to strong demand;
- increased U.S. originating traffic volumes, in the second half of 2012 due to higher overall production in CP s draw territory;
- increased freight rates;
- higher fuel surcharge revenues due to the change in fuel price; and
- the favourable impact of the change in FX.

This increase was partially offset by lower U.S. originated shipments in the first half of the year due to a poor 2011 harvest in CP s draw territory and the strike impacting Canadian originating shipments in the second quarter of 2012.

Coal

Coal revenue was $602 million in 2012, an increase of $46 million, or 8%, from $556 million in 2011. This increase was primarily due to higher:

- Canadian metallurgical coal shipments due to strong overall demand;
- U.S. thermal coal volumes to Midwestern U.S. markets;
- interline shipments of thermal coal from the Powder River Basin (PRB) through Canadian west coast ports; and
- fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes.

This increase was partially offset by the strike impacting Canadian originating shipments in the second quarter of 2012.

Fertilizers and Sulphur

Fertilizers and sulphur revenue was $520 million in 2012, a decrease of $29 million, or 5%, from $549 million in 2011. This decrease was primarily due to lower export potash shipments reflecting weaker export market demand and was partially offset by higher:

- dry and wet fertilizer shipments in the second half of the year due to increased demand;
- domestic potash shipments due to strong domestic demand;
- fuel surcharge revenues due to the change in fuel price; and
- freight rates.

Industrial and Consumer Products

Industrial and consumer products revenue was $1,268 million in 2012, an increase of $251 million, or 25%, from $1,017 million in 2011. This increase was primarily due to:

- higher volumes due to strong market demand and growth in the Bakken Oil Formation, the Alberta Industrial Heartland and the Marcellus Gas Formation and for energy related inputs;
- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes;
- increased freight rates; and
- the favourable impact of the change in FX.

Automotive

Automotive revenue was $425 million in 2012, an increase of $87 million, or 26%, from $338 million in 2011. This increase was primarily due to:

- increased shipments as a result of higher North American automotive production and consumption;
- recovery of production by Japanese manufacturers from the impacts of the 2011 tsunami;
- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes; and
- increased freight rates.

Forest Products

Forest products revenue was $193 million in 2012, an increase of $4 million, or 2%, from $189 million in 2011. This increase was primarily due to higher:

- shipments of lumber and panel products due to improving market conditions;
- freight rates; and
- fuel surcharge revenues due to the change in fuel price.

This increase was partially offset by the strike impacting Canadian shipments in the second quarter and weaker market conditions for pulp and paper products.

Intermodal

Intermodal revenue was $1,370 million in 2012, an increase of $67 million, or 5%, from $1,303 million in 2011. This increase was primarily due to:

- higher shipments driven by increased consumer demand;
- improved service and operating performance;
- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes; and
- increased freight rates.

This increase was partially offset by lower shipments through the Port of Montreal as a result of softness in the European economy and the strike impacting Canadian shipments in the second quarter.

Other Revenue

Other revenue was $145 million in 2012, an increase of $20 million, or 16%, from $125 million in 2011. This increase was primarily due to higher leasing and passenger revenues.

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CANADIAN PACIFIC

Volumes

2013 Carloads

2013 Revenue ton-miles

For the year ended December 31	**2013**	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Carloads (in thousands)					
Grain	**438**	433	450	1	(4)
Coal	**330**	337	313	(2)	8
Fertilizers and sulphur	**185**	177	199	5	(11)
Industrial and consumer products	**519**	469	421	11	11
Automotive	**146**	162	145	(10)	12
Forest products	**66**	67	72	(1)	(7)
Intermodal	**1,004**	1,024	997	(2)	3
Total carloads	**2,688**	2,669	2,597	1	3
Revenue ton-miles (in millions)					
Grain	**33,983**	33,082	32,481	3	2
Coal	**23,172**	22,375	21,041	4	6
Fertilizers and sulphur	**18,170**	17,058	20,468	7	(17)
Industrial and consumer products	**37,875**	30,469	24,122	24	26
Automotive	**2,329**	2,482	2,080	(6)	19
Forest products	**4,619**	4,713	4,960	(2)	(5)
Intermodal	**24,101**	24,853	23,907	(3)	4
Total revenue ton-miles	**144,249**	135,032	129,059	7	5

Changes in freight volumes generally contribute to corresponding changes in freight revenues and certain variable expenses, such as fuel, equipment rents and crew costs.

Volumes in 2013, as measured by total carloads, increased by approximately 19,000 units, or 1% compared to the same period of 2012. This increase in carloads was primarily due to higher:

¨ volumes as a result of strong market demand and growth in movement of energy related commodities and for energy related inputs;

¨ domestic container shipments in Intermodal;

¨ Canadian originating shipments of metallurgical coal due to increased demand;

- domestic and export potash shipments; and
- Canadian originating grain shipments to the west coast due to stronger export demand.

This increase in carloads was partially offset by lower:

- import and export shipments in Intermodal;
- U.S. originating thermal coal shipments as a result of soft market conditions; and
- overall Automotive shipments.

Volumes in 2012, as measured by total carloads, increased by approximately 72,000 units, or 3% compared to the same period of 2011. This increase in carloads was primarily due to higher:

- volumes due to strong market demand and growth in the Bakken Oil Formation, the Alberta Industrial Heartland and the Marcellus Gas Formation and for energy related inputs;
- Intermodal traffic volumes driven by increased consumer demand;
- volumes of Canadian metallurgical coal shipments, U.S. thermal coal volumes to Midwestern U.S. markets and from the PRB through Canadian west coast ports; and
- Automotive shipments as a result of higher North American automotive production and consumption.

This increase in carloads was partially offset by lower:

- export potash shipments reflecting weaker export market demand;
- lower U.S. originated grain shipments in the first half of the year due to a poor 2011 harvest in CP s draw territory; and
- weaker market conditions for pulp and paper in Forest products.

Revenue ton-miles in 2013 increased by approximately 9,217 million, or 7%, compared to the same period of 2012. This increase was primarily due to higher:

- volumes in energy related commodities and energy related inputs;
- Canadian originating shipments of metallurgical coal;

- domestic and export potash volumes; and
- Canadian originating shipments of grain.

This increase in RTMs was partially offset by lower:

- import and export shipments in Intermodal;
- U.S. originating thermal coal shipments; and
- overall Automotive shipments.

Revenue ton-miles in 2012 increased by approximately 5,973 million, or 5%, compared to the same period of 2011. This increase was primarily due to higher:

- shipments of energy related commodities which have an above average length of haul;
- Canadian originating shipments of metallurgical coal volumes through Port Metro Vancouver; and
- Intermodal shipments through Port Metro Vancouver.

This increase in RTMs was partially offset by lower export potash shipments in Fertilizers and sulphur and lower pulp and paper volumes in Forest products.

CANADIAN PACIFIC

Freight Revenue per Carload

For the year ended December 31 (dollars)	2013	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Freight revenue per carload					
Grain	**$ 2,964**	$ 2,707	$ 2,444	9	11
Coal	**1,904**	1,786	1,776	7	1
Fertilizers and sulphur	**3,083**	2,938	2,759	5	6
Industrial and consumer products	**2,982**	2,704	2,416	10	12
Automotive	**2,758**	2,623	2,331	5	13
Forest products	**3,132**	2,881	2,625	9	10
Intermodal	**1,324**	1,338	1,307	(1)	2
Total freight revenue per carload	**$ 2,226**	$ 2,079	$ 1,945	7	7

Total freight revenue per carload in 2013 increased by 7% compared to 2012. This increase was primarily due to:

- increased freight rates;
- the favourable impact of the change in FX; and
- increased volumes of traffic generating higher freight revenue per carload.

Total freight revenue per carload in 2012 increased by 7% compared to 2011. This increase was primarily due to:

- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes with full margin coverage;
- increased freight rates; and
- the favourable impact of the change in FX.

Freight Revenue per Revenue Ton-Mile

For the year ended December 31	2013	2012	2011	% Change 2013	2012

(cents)				vs. 2012	vs. 2011
Freight revenue per revenue ton-mile					
Grain	**3.82**	3.54	3.39	8	4
Coal	**2.71**	2.69	2.64	1	2
Fertilizers and sulphur	**3.14**	3.05	2.68	3	14
Industrial and consumer products	**4.09**	4.16	4.22	(2)	(1)
Automotive	**17.27**	17.12	16.25	1	5
Forest products	**4.46**	4.10	3.81	9	8
Intermodal	**5.51**	5.51	5.45		1
Total freight revenue per revenue ton-mile	**4.15**	4.11	3.91	1	5

Freight revenue per RTM increased by 1% in 2013 compared to 2012 primarily due to increased freight rates and the favourable impact of the change in FX.

Freight revenue per RTM increased by 5% in 2012 compared to 2011. This increase was primarily due to:

- higher fuel surcharge revenues due to the change in fuel price and an increase in traffic volumes with full margin coverage;
- increased freight rates;
- a decrease in export shipments of potash which generate a lower freight revenue per RTM; and
- the favourable impact of the change in FX.

This increase was partially offset by traffic mix changes due to strong growth in energy related inputs and outputs, which generate lower revenue per RTM.

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9. OPERATING EXPENSES

2013 Operating expenses

2012 Operating expenses

For the year ended December 31 (in millions)	2013	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Operating expenses					
Compensation and benefits[1]	**$ 1,418**	$ 1,506	$ 1,426	(6)	6
Fuel	**1,004**	999	968	1	3
Materials	**249**	238	243	5	(2)
Equipment rents	**173**	206	209	(16)	(1)
Depreciation and amortization	**565**	539	490	5	10
Purchased services and other[1]	**876**	940	874	(7)	8
Asset impairments	**435**	265		64	
Labour restructuring	**(7)**	53			
Total operating expenses	**$ 4,713**	$ 4,746	$ 4,210	(1)	13

[1] As a result of the management transition, $20 million and $22 million were charged in Compensation and benefits and Purchased services and other, respectively in 2012. The US$9 million recovery due to the favourable settlement of litigation recorded in the first quarter of 2013 and $5 million management transition costs recorded in the fourth quarter of 2013 were charged to Purchased services and other and Compensation and benefits, respectively.

Operating expenses were $4,713 million in 2013, a decrease of $33 million, or 1%, from $4,746 million in 2012. This decrease was primarily due to:

- efficiencies generated from improved operating performance, asset utilization, and insourcing of certain IT activities;
- higher labour restructuring charges in 2012 and associated experience gains in 2013;
- lower management transition costs, reflected in Compensation and benefits and Purchased services and other; and
- higher land sales in 2013.

This decrease was partially offset by:

- a higher asset impairment charge in 2013;

- higher volume variable expenses as a result of an increase in workload;
- the unfavourable impact of the change in FX;
- higher incentive compensation resulting from improved corporate performance and higher stock-based compensation;
- wage and benefit inflation; and
- higher depreciation and amortization expenses.

2013 TO 2012 COMPARATIVES

Compensation and Benefits

Compensation and benefits expense includes employee wages, salaries, fringe benefits and stock-based compensation. Compensation and benefits expense was $1,418 million in 2013, a decrease of $88 million, or 6%, from $1,506 million in 2012. This decrease was primarily due to:

- lower costs achieved through job reductions;
- road and yard crew efficiencies as a result of continuing strong operational performance;
- a reduction in train crew training costs from a lower number of employees; and
- lower management transition costs.

This decrease was partially offset by:

- higher incentive compensation resulting from improved corporate performance and higher stock-based compensation;
- wage and benefit inflation;
- an increase in personnel in certain areas of the business as part of our insourcing strategy, offset by efficiency savings recorded in Purchased services and other;
- the unfavourable impact of the change in FX;
- crew and dispatching costs saved as a result of the strike in 2012; and
- higher pension expense.

Fuel

Fuel expense consists mainly of fuel used by locomotives and includes provincial, state and federal fuel taxes. Fuel expense was $1,004 million in 2013, an increase of $5 million, or 1%, from $999 million in 2012. This increase was primarily due to an increase in workload as measured by GTMs and an unfavourable change in FX, partially offset by an improvement in fuel efficiency as a result of increased train weights and a focus on the fuel conservation strategies of the Company s operating plan.

Materials

Materials expense includes the cost of material used for track, locomotive, freight car, building maintenance and software sustainment. Materials expense was $249 million in 2013, an increase of $11 million or 5%, from $238 million in 2012. This increase was primarily due to higher third party freight car repair material costs, the majority of which were recovered through third party billings recorded in Purchased services and other. This increase was partially offset by reduced locomotive and train servicing and maintenance costs as a result of the storage of less fuel efficient locomotives.

Equipment Rents

Equipment rents expense includes the cost to lease freight cars, intermodal equipment, and locomotives from other companies including railways, net of rental income received from other railways for the use of our equipment. Equipment rents expense was $173 million in 2013, a decrease of $33 million or 16% from $206 million in 2012.

This decrease reflects freight car and locomotive operating efficiencies which have contributed to improved asset velocity. As a result, the Company required fewer freight cars and locomotives reducing the payments made to foreign railways for the use of their freight cars and permitting the return and sublease of certain leased freight cars and locomotives. This decrease was partially offset the unfavourable impact of the change in FX.

Depreciation and Amortization

Depreciation and amortization expense represents the charge associated with the use of track and roadway, buildings, rolling stock, information systems and other depreciable assets. Depreciation and amortization expense was $565 million for 2013, an increase of $26 million, or 5%, from $539 million in the same period of 2012. This increase was primarily due to higher depreciable assets as a result of our capital program.

Purchased Services and Other

For the year ended December 31 (in millions)	**2013**	2012	2011	% Change 2013 vs. 2012	% Change 2012 vs. 2011
Purchased services and other					
Support and facilities	**$ 400**	$ 420	$ 382	(5)	10
Track and operations	**214**	192	191	11	1
Intermodal	**159**	153	147	4	4
Equipment	**60**	89	75	(33)	19
Casualty	**63**	80	80	(21)	
Other	**18**	29	24	(38)	21
Land sales	**(38)**	(23)	(25)	65	(8)
Total purchased services and other	**$ 876**	$ 940	$ 874	(7)	8

Purchased services and other expense encompasses a wide range of costs, including expenses for joint facilities, personal injuries and damage, environmental remediation, property and other taxes, contractor and consulting fees, insurance, gains on land sales and equity earnings. Purchased services and other expense was $876 million in 2013, a decrease of $64 million, or 7% from $940 million in 2012. The decrease was primarily due to:

- efficiencies generated from improved operating performance, asset utilization and insourcing of certain IT activities;
- management transition costs of $22 million in 2012 and the $9 million favourable settlement of litigation in 2013 related to management transition, included in Other;
- higher recoveries from third parties related to freight car repair costs, included in Equipment;
- higher land sales in 2013;
- a favourable adjustment to the Workers Compensation Board (WCB) liability mainly due to a higher discount rate and favourable claims experience, reported in Casualty;
- lower third party repair costs for freight cars being returned to the lessors, included in Equipment; and
- contract termination costs associated with a locomotive warranty service agreement as part of our insourcing strategy in 2012, included in Equipment.

The decrease was partially offset by:

- the unfavourable change in FX;
- increased relocation costs related to our labour strategy, included in Track and operations;
- a higher number of overhauls performed on locomotives, included in Equipment;
- higher facilities and utility costs, included in Support and facilities; and
- higher property and other taxes, included in Support and facilities.

Asset Impairments

The Company executed an agreement with Genesee & Wyoming Inc (G&W) for the sale of a portion of CP s Dakota, Minnesota & Eastern (DM&E) line between Tracy, Minnesota and Rapid City, South Dakota, Colony, Wyoming and Crawford, Nebraska and connecting branch lines (DM&E West). The sale, which is subject to regulatory approval by the Surface Transportation Board (STB), is expected to generate approximately US$215 million in gross proceeds, subject to closing adjustments and is expected to close in 2014.

As a result, in the fourth quarter of 2013, the Company recorded an asset impairment charge and accruals for future costs associated with the sale totaling $435 million ($257 million after tax). The impairment was comprised of $426 million ($249 million after tax) to Property, plant and equipment, Goodwill and intangible assets totaling $8 million ($7 million after tax) and a total of $1 million ($1 million after tax) in accruals for future costs associated with the sale. The impairment charge and associated accruals for future sales costs were recorded as Asset impairments and charged against income.

During the fourth quarter of 2012, the Company recorded an asset impairment charge related to its investment in the PRB and another investment of $185 million ($111 million after tax) and an impairment loss on a certain series of locomotives of $80 million ($59 million after tax).

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CANADIAN PACIFIC

As part of the acquisition of DM&E in 2007, CP acquired the option to extend its network into coal mines in the PRB. CP deferred plans to this option indefinitely due to continued deterioration in the market for domestic thermal coal. The Company recorded an asset impairment charge totaling $180 million ($107 million after tax) in the fourth quarter of 2012.

In the fourth quarter of 2012, CP reached a decision to dispose of a certain series of locomotives to improve operating efficiencies and recorded an impairment charge of $80 million ($59 million after tax) based on an impairment test on these assets.

Labour Restructuring

In the fourth quarter of 2012, CP recorded a charge of $53 million ($39 million after tax) for a labour restructuring initiative. The majority of the resulting position reductions were completed in 2013 with the remaining positions to be eliminated by the end of 2014. As a result of favourable experience, the Company recorded a recovery of $7 million ($5 million after tax) in the fourth quarter of 2013 for the labour restructuring initiative recorded in 2012.

2012 TO 2011 COMPARATIVES

Operating expense variances below compare 2012 to 2011 figures.

Operating Expenses

Operating expenses were $4,746 million in 2012, an increase of $536 million, or 13%, from $4,210 million in 2011. This increase was primarily due to:

- asset impairment and labour restructuring charges;
- higher volume variable expenses, such as fuel, crews and intermodal operations, as a result of an increase in workload;
- higher incentive and stock-based compensation expenses driven by improved operating and stock performance as compared to 2011;
- higher depreciation and amortization expenses;
- management transition costs, reflected in Compensation and benefits and Purchased services and other;
- higher IT costs associated with infrastructure and maintenance services;
- the unfavourable impact of the change in FX; and
- higher fuel prices.

This increase was partially offset by:

- improved operating performance, asset utilization and operating conditions;
- certain volume variable expenses saved as a result of the strike in the second quarter of 2012; and
- an insurance recovery recognized in the first quarter of 2012, related to flooding in southern Alberta and Saskatchewan in 2010.

Compensation and Benefits

Compensation and benefits expense was $1,506 million in 2012, an increase of $80 million, or 6%, from $1,426 million in 2011. This increase was primarily due to:

- increased incentive and stock-based compensation expenses driven by improved operating and stock performance as compared to 2011;
- higher crew costs as a result of an increase in workload, measured by GTMs;
- an increase in the number of employees in the first half of 2012, to meet business demand and anticipated attrition;
- charges associated with management transition;
- labour and benefits inflation; and
- the unfavourable impact of the change in FX.

This increase was partially offset by:

- operational efficiencies which favourably impacted yard and road crew costs;
- savings from reduced overtime hours;
- crew and dispatching costs saved as a result of the strike;
- a reduction in training costs for running trade employees relative to 2011, due to fewer new hires; and
- a reduction in pension expense.

Fuel

Fuel expense was $999 million in 2012, an increase of $31 million, or 3%, from $968 million in 2011. This increase was primarily due to:

- increased traffic volumes, as measured by GTMs;
- higher fuel prices;
- the unfavourable impact of the change in FX; and
- the gain on settled diesel futures contracts recorded in 2011.

This increase was partially offset by a favourable change in fuel efficiency, reflecting improved operational fluidity, storage of older less fuel efficient locomotives, and a continued focus on the Company s fuel conservation strategies.

Materials

Materials expense was $238 million in 2012, a decrease of $5 million, or 2%, from $243 million in 2011. Improved operating conditions as compared to 2011 reduced the need for freight car repairs, and increased locomotive availability combined with the storage of less reliable and less efficient locomotives reduced locomotive repair costs. This decrease was partially offset by additional licensing, maintenance and support costs associated with software.

Equipment Rents

Equipment rents expense was $206 million in 2012, a decrease of $3 million, or 1%, from $209 million in 2011. This decrease reflects freight car and locomotive operating efficiencies and improved operating conditions which have contributed to improved asset velocity. As a result, the Company has required fewer freight cars and locomotives, reducing the payments made to foreign railways for the use of their freight cars and permitting the return of certain leased freight cars.

These benefits were partially offset by:

- lower receipts, reflecting reduced usage of CP owned freight cars by foreign railways;
- higher freight car lease costs due to higher rates; and
- the unfavourable impact of the change in FX.

Depreciation and Amortization

Depreciation and amortization expense was $539 million in 2012, an increase of $49 million, or 10%, from $490 million in 2011. This increase was primarily due to higher depreciable assets as a result of our capital program and the acceleration of depreciation on certain legacy IT assets as we invest and renew our IT infrastructure.

Purchased Services and Other

Purchased services and other expense was $940 million in 2012, an increase of $66 million, or 8%, from $874 million in 2011. The increase was primarily due to:

- management transition costs of $22 million, included in Other;
- higher IT costs associated with infrastructure and maintenance services, reported in Support and facilities;
- increased third party repair costs for freight cars being returned to lessors and a higher number of overhauls performed on locomotives, included in Equipment;
- increased expenses related to higher workload, included in Track and operations, Intermodal and Equipment;
- termination costs of a warranty service agreement as part of our insourcing strategy, included in Equipment; and
- the unfavourable impact of the change in FX.

The increase was partially offset by:

- the favourable impact of improved operating conditions, impacting Support and facilities and Track and operations;
- an insurance recovery recognized in the first quarter of 2012, related to flooding in southern Alberta and Saskatchewan in 2010, included in Other; and
- lower relocation expenses, included in Track and operations.

10. OTHER INCOME STATEMENT ITEMS

Other Income and Charges

Other income and charges consists of gains and losses from the change in foreign exchange on long-term debt (LTD) and working capital, various costs related to financing, shareholder costs, gains and losses associated with changes in the fair value of non-hedging derivative instruments, equity income and other non-operating expenditures. Other income and charges was an expense of $17 million in 2013, compared to expense of $37 million in 2012. This decrease was primarily due to advisory fees related to shareholder matters in 2012, partially offset by FX losses on LTD and U.S. dollar denominated working capital compared to FX gains in 2012. Other income and charges was an expense of $37 million in 2012, compared to expense of $18 million in 2011. This increase was primarily due to higher advisory fees related to shareholder matters in 2012 and lower gains on long-term floating rate notes. This increase was partially offset by FX gains on LTD and working capital compared to FX losses in 2011.

Net Interest Expense

Net interest expense includes interest on long-term debt and capital leases. Net interest expense was $278 million in 2013, an increase of $2 million, or 1%, from $276 million in 2012. This increase was primarily due to the unfavourable impact of the change in FX rates on U.S. dollar denominated interest expense partially offset by higher interest income and the impact of principal repayments of debt securities. Net interest expense was $276 million in 2012, an increase of $24 million, or 10%, from $252 million in 2011. This increase was primarily due to new debt issuances in 2011 as well as the unfavourable impact in the change in FX rates on U.S. dollar denominated interest expense. This was partially offset by the retirement of debt securities in 2011 and higher interest capitalized on capital projects in 2012. Debt issuances and retirements are discussed further in Section 14, Liquidity and Capital Resources.

Income Taxes

Income tax expense was $250 million in 2013, an increase of $98 million, or 64%, from $152 million in 2012. This increase was primarily due to higher earnings in 2013 and the increase in the province of British Columbia s corporate income tax rate in the third quarter of 2013. Income tax expense was $152 million in 2012, an increase of $25 million, or 20%, from $127 million in 2011. This increase was primarily due to the impact of a tax recovery in the fourth quarter of 2011 of $37 million from the resolution of certain income tax matters and the impact of the province of Ontario s corporate income tax rate change in 2012. This was partially offset by lower income before tax. The effective income tax rate for 2013 was 22%, compared with 24%, and 18% for 2012 and 2011 respectively. We expect a normalized 2014 income tax rate of approximately 28%. The 2014 outlook on our normalized income tax rate is based on certain assumptions about events and developments that may or may not materialize or that may be offset entirely or partially by other events and developments (discussed further in Section 21, Business Risks and Section 22, Critical Accounting Estimates). We expect to have an increase in our cash tax payments in future years reflecting higher earnings.

11. QUARTERLY FINANCIAL DATA

For the quarter ended	**2013**				2012			
(in millions, except per share data)	**Dec. 31(1)**	**Sep. 30(2)**	**Jun. 30**	**Mar. 31(3)**	Dec. 31(4)	Sep. 30	Jun. 30(5)	Mar. 31(6)
Total revenue	**$ 1,607**	**$ 1,534**	**$ 1,497**	**$ 1,495**	$ 1,502	$ 1,451	$ 1,366	$ 1,376
Operating income	**114**	**524**	**420**	**362**	60	376	239	274
Net income	**82**	**324**	**252**	**217**	15	224	103	142
Basic earnings per share	**$ 0.47**	**$ 1.85**	**$ 1.44**	**$ 1.25**	$ 0.08	$ 1.31	$ 0.60	$ 0.83
Diluted earnings per share	**0.47**	**1.84**	**1.43**	**1.24**	0.08	1.30	0.60	0.82

(1) Significant items included in the fourth quarter of 2013 were an asset impairment charge and accruals for future costs related to the anticipated sale of DM&E West totaling $435 million ($257 million after tax), a recovery of $7 million ($5 million after tax) for our 2012 labour restructuring initiative and $5 million ($4 million after tax) of management transition costs.

(2) Significant items included in the third quarter of 2013 was an Income tax expense of $7 million as a result of the change in the province of British Columbia s corporate income tax rate, which required the re-calculation of the Company s Deferred income tax liability as at January 1, 2013, discussed further in Section 10, Other Income Statement Items.

(3) Significant items included in the first quarter of 2013 was a recovery of US$9 million (US$6 million after tax) from a litigation settlement related to management transition.

(4) Significant items included in the fourth quarter of 2012 were an impairment of the PRB and other investment of $185 million ($111 million after tax), an asset impairment of certain locomotives of $80 million ($59 million after tax) and a labour restructuring charge of $53 million ($39 million after tax).

(5) Significant items included in the second quarter of 2012 were management transition costs of $42 million ($29 million after tax), advisory fees related to shareholder matters of $13 million ($10 million after tax) and the $11 million impact of the increase in the Ontario corporate income tax rate.

(6) Significant item in the first quarter of 2012 was the advisory fees related to shareholder matters of $14 million ($10 million after tax).

Quarterly Trends

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

12. FOURTH-QUARTER SUMMARY

For the three months ended December 31

(in millions)	**2013**	2012	% Change
Revenues			
Grain	**$ 385**	$ 355	8
Coal	**157**	156	1
Fertilizers and sulphur	**126**	133	(5)
Industrial and consumer products	**413**	335	23
Automotive	**105**	99	6
Forest products	**49**	46	7
Intermodal	**335**	340	(1)
Total freight revenues	**1,570**	1,464	7
Other revenues	**37**	38	(3)
Total revenues	**1,607**	1,502	7
Operating expenses			
Compensation and benefits	**343**	378	(9)
Fuel	**262**	256	2
Materials	**65**	60	8
Equipment rents	**39**	48	(19)
Depreciation and amortization	**144**	140	3
Purchased services and other	**212**	242	(12)
Asset Impairments	**435**	265	64
Labour restructuring	**(7)**	53	
Total operating expenses	**1,493**	1,442	4
Operating income	**$ 114**	$ 60	90

Operating Results

Operating income was $114 million in the fourth quarter of 2013, an increase of $54 million, or 90%, from $60 million in the same period of 2012. This increase was primarily due to:

- efficiencies generated from improved operating performance, asset utilization and insourcing of certain IT activities;
- higher labour restructuring charges in 2012 and associated experience gains in 2013;
- higher freight rates;
- increased volumes of traffic, as measured by RTMs, generating higher freight revenue;

- the favourable impact of the change in FX;
- higher land sales;
- a favourable adjustment in WCB liability primarily due to higher discount rate and favourable claims experience in 2013; and
- an insurance recovery related to flooding in 2011.

This increase was partially offset by:

- a higher asset impairment charge in 2013;
- higher volume variable expenses as a result of an increase in workload and difficult winter conditions;
- wage and benefits inflation; and
- higher stock-based compensation expenses.

Net income was $82 million in the fourth quarter of 2013, an increase of $67 million, or 447%, from $15 million in the same period of 2012. This increase was primarily due to higher Operating income partially offset by higher Income tax expense due to the impact of higher earnings and the increase in the province of British Columbia s corporate income tax rate.

Diluted Earnings per Share

Diluted EPS was $0.47 in the fourth quarter of 2013, an increase of $0.39, or 488%, from $0.08 in the same period of 2012. Diluted EPS, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was $1.91 in the fourth quarter of 2013, an increase of $0.63, or 49%, from $1.28 in the same period of 2012. These increases were primarily due to higher Net income.

Operating Ratio

Our operating ratio was 92.9% in the fourth quarter of 2013, compared with 96.0% in the same period of 2012. This decrease was primarily due to efficiency savings and lower labour restructuring charges in 2013 partially offset by a higher asset impairment charge.

The operating ratio, excluding significant items, discussed further in Section 15, Non-GAAP Measures, was 65.9% in the fourth quarter of 2013, a decrease of 74.8% compared to the same period in 2012. This improvement was primarily due to an increase in efficiency savings, increased volumes of traffic and higher freight rates.

PERFORMANCE INDICATORS

For the three months ended December 31[1]	2013	2012	% Change 2013 vs. 2012
Operations Performance			
Freight gross ton-miles (millions)	**68,531**	66,204	4
Train miles (thousands)	**9,341**	10,046	(7)
Average train weight excluding local traffic (tons)	**7,844**	7,014	12
Average train length excluding local traffic (feet)[2]	**6,668**	6,198	8
Average terminal dwell (hours)[3]	**7.9**	7.4	7
Average train speed (mph)[4]	**17.6**	17.6	
Locomotive productivity (daily average GTMs/active HP)	**223.2**	197.1	13
Fuel efficiency (U.S. gallons of locomotive fuel consumed/1,000 GTMs)[5]	**1.06**	1.14	(7)
Total employees (average)[6][7]	**14,677**	16,369	(10)
Workforce (end of period)[8]	**14,977**	16,907	(11)
Safety indicators			
FRA personal injuries per 200,000 employee-hours	**1.77**	2.05	(14)
FRA train accidents per million train-miles	**1.35**	1.68	(20)

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

(2) Incorporates a new reporting methodology where average train length is the sum of each car and locomotive s equipment length multiplied by the distance travelled, divided by train miles. Local trains are excluded from this measure.

(3) Incorporates a new reporting definition where average terminal dwell measures the average time a freight car resides within terminal boundaries.

(4) Incorporates a new reporting definition where average train speed measures the line-haul movement from origin to destination including terminal dwell hours.

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

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

(7) 2012 average number of employees has been adjusted for the strike.

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

Operations Performance

GTMs for the fourth quarter of 2013 were 68,531 million, which increased by 4% compared with 66,204 million in the same period of 2012. This increase was primarily due to higher traffic volumes in Industrial and consumer products and Grain offset by lower traffic volumes in Intermodal and Automotive.

Train miles for the fourth quarter of 2013 were 9,341 miles, a decrease of 7% compared with 10,046 miles in the same period of 2012. This decrease was driven by improvements in both train weights and lengths due to the Company s successful execution of the operating plan, partially offset by higher workload as measured by GTMs.

In the fourth quarter of 2013, average train weight increased by 830 tons or 12% and average train length increased by 470 feet or 8% from the same period of 2012. Average train weight and train length benefited from increased workload moving in existing train service and through ongoing network capacity and infrastructure investments which allowed for the operation of longer and heavier trains.

Average terminal dwell increased by 7% in the fourth quarter of 2013 to 7.9 hours from 7.4 hours in the same period of 2012. This increase was primarily due to yard processing workload and partially offset by our continued focus on improvements to yard productivity, terminal redesign and the successful execution of the Company s operating plan.

Average train speed was 17.6 miles per hour in the fourth quarter of 2013, unchanged when compared to the same period of 2012. This was primarily due to challenging operating conditions and an increase in bulk commodities, which move at a slower average speed than intermodal and merchandise traffic, offset through ongoing network capacity and infrastructure investments and the successful execution of the Company s operating plan.

Locomotive productivity, which is daily average GTMs/active HP, increased in the fourth quarter of 2013 by 13% from the same period of 2012. This improvement is primarily the result of increased asset velocity due to more efficient operations, improved fleet reliability, and the successful execution of the Company s operating plan.

Fuel efficiency improved by 7% in the fourth quarter of 2013 compared to the same period of 2012. This improvement is primarily due to lower horsepower to ton ratios as a result of increased train weight and continued focus on the fuel conservation strategies of the Company s operating plan.

Safety Indicators

The FRA personal injury rate per 200,000 employee-hours for CP was 1.77 in the fourth quarter of 2013 compared with 2.05 in same period of 2012.

The FRA train accident rate for CP in the fourth quarter of 2013 was 1.35 accidents per million train-miles, compared with 1.68 in same period of 2012.

Freight Revenues

Freight revenues were $1,570 million in the fourth quarter of 2013, an increase of $106 million, or 7%, from $1,464 million in the same period of 2012. This increase was primarily due to:

- increased volumes of traffic, as measured by RTMs in Industrial and consumer products, Grain, Fertilizer and sulphur, and Automotive;
- the favourable impact of the change in FX; and
- higher freight rates.

This increase was partially offset by lower shipments in Forest products, Coal, and Intermodal.

Grain

Grain revenue was $385 million in the fourth quarter of 2013, an increase of $30 million, or 8%, from $355 million in the same period of 2012. This increase was primarily due to:

- higher Canadian originating shipments due to stronger export demand and record Canadian crop production;
- the favourable impact of the change in FX; and
- increased freight rates.

This increase was partially offset by lower U.S. originating shipments.

Coal

Coal revenue was $157 million in the fourth quarter of 2013, an increase of $1 million, or 1%, from $156 million in the same period of 2012. This increase was primarily due to:

- higher overall Canadian originating shipments of metallurgical coal due to increased demand;
- increased freight rates; and
- the favourable impact of the change in FX.

This increase was partially offset by lower U.S. originating thermal coal shipments as a result of soft market conditions.

Fertilizers and Sulphur

Fertilizers and sulphur revenue was $126 million in the fourth quarter of 2013, a decrease of $7 million, or 5%, from $133 million in the same period of 2012. This decrease was primarily due to lower fertilizer shipments as a result of a late harvest and a narrow application window. This decrease was partially offset by higher export potash shipments and the favourable impact of the change in FX.

Industrial and Consumer Products

Industrial and consumer products revenue was $413 million in the fourth quarter of 2013, an increase of $78 million, or 23%, from $335 million in the same period of 2012. This increase was primarily due to:

- higher volumes as a result of growth in movement of energy related commodities and energy related inputs;
- the favourable impact of the change in FX; and
- increased freight rates.

Automotive

Automotive revenue was $105 million in the fourth quarter of 2013, an increase of $6 million, or 6%, from $99 million in the same period of 2012. This increase was primarily due to:

- movements of one-time dimensional loads of transformers and windmills in 2012;
- the favourable impact of the change in FX; and
- increased freight rates.

Forest Products

Forest products revenue was $49 million in the fourth quarter of 2013, an increase of $3 million, or 7%, from $46 million in the same period of 2012. This increase was primarily due to the favourable impact of the change in FX, and increased freight rates. This increase was partially offset by lower lumber and panel shipments due to the exit of certain customer contracts in western Canada, and lower pulp and paper shipments due to reduced plant production and production outages at customers on our lines.

Intermodal

Intermodal revenue was $335 million in the fourth quarter of 2013, a decrease of $5 million, or 1%, from $340 million in the same period of 2012. This decrease was primarily due to the exit of certain customer contracts and selected terminal closures. This decrease was partially offset by:

- increased domestic container volumes;
- the favourable impact of the change in FX; and
- increased freight rates.

Other Revenue

Other revenue was $37 million in the fourth quarter of 2013, essentially unchanged from $38 million in the same period of 2012.

Operating Expenses

Operating expenses were $1,493 million in the fourth quarter of 2013, an increase of $51 million, or 4%, from $1,442 million in the same period of 2012. This increase was primarily due to:

- a higher asset impairment charge in 2013;

- the unfavourable impact of the change in FX;
- higher volume variable expenses as a result of an increase in workload and difficult winter conditions;
- wage and benefit inflation; and
- higher stock-based compensation.

This increase was partially offset by:

- efficiencies generated from improved operating performance, asset utilization, and insourcing of certain IT activities;
- higher labour restructuring charges in 2012 and associated experience gains in 2013;
- higher land sales in 2013;
- a favourable WCB adjustment mainly due to a higher discount rate and favourable claims experience in 2013; and
- an insurance recovery related to flooding in 2011.

Compensation and Benefits

Compensation and benefits expense was $343 million in the fourth quarter of 2013, a decrease of $35 million, or 9%, from $378 million in the same period of 2012. This decrease was primarily due to:

- lower costs achieved through job reductions;
- road and yard crew efficiencies as a result of continuing strong operational performance despite higher costs from difficult winter conditions;
- a reduction in train crew training costs resulting from a lower number of employees;

- lower management transition costs in 2013; and
- reduced pension expense.

This decrease was partially offset by:

- wage and benefit inflation;
- higher stock-based compensation expense;
- increase in personnel in certain areas of the business as part of our insourcing strategy, offset by efficiency savings recorded in Purchased services and other; and
- the unfavourable impact of the change in FX.

Fuel

Fuel expense was $262 million in the fourth quarter of 2013, an increase of $6 million, or 2%, from $256 million in the same period of 2012. This increase was primarily due to an unfavourable change in FX, the change in workload, as measured by GTMs, and difficult winter conditions, partially offset by improvement in fuel efficiency as a result of increased train weights and focus on the fuel conservation strategies of the Company s operating plan.

Materials

Materials expense was $65 million in the fourth quarter of 2013, an increase of $5 million, or 8%, from $60 million in the same period of 2012. This increase was primarily due to higher third party freight car repair material costs, the majority of which were recovered through third party billings recorded in Purchased services and other and the unfavourable change in FX. This increase was partially offset by reduced maintenance and servicing costs for locomotives as higher locomotive availability, the storage of less reliable and efficient locomotives and improved fluidity across the network lowered costs.

Equipment Rents

Equipment rents expense was $39 million in the fourth quarter of 2013, a decrease of $9 million, or 19%, from $48 million in the same period of 2012. This decrease reflected freight car and locomotive operating efficiencies which have contributed to improved asset velocity. As a result, the Company required fewer freight cars and locomotives reducing the payments made to foreign railways for the use of their freight cars and permitting the return and sublease of certain leased freight cars and locomotives.

Depreciation and Amortization

Depreciation and amortization expense was $144 million in the fourth quarter of 2013, an increase of $4 million, or 3%, from $140 million in the same period of 2012. This increase was primarily due to higher depreciable assets as a result of our capital program.

Purchased Services and Other

For the three months ended December 31

(in millions)	2013	2012	% Change
Purchased services and other			
Support and facilities	**$ 100**	$ 109	(8)
Track and operations	**62**	54	15
Intermodal	**41**	40	3
Equipment	**17**	19	(11)
Casualty	**4**	19	(79)
Other	**6**	2	200
Land sales	**(18)**	(1)	1,700
Total purchased services and other	**$ 212**	$ 242	(12)

Purchased services and other expense was $212 million in the fourth quarter of 2013, a decrease of $30 million, or 12%, from $242 million in the same period of 2012. This decrease was primarily due to:

- efficiencies generated from improved operating performance, asset utilization and insourcing of certain IT activities;
- higher land sales in 2013;

- a favourable WCB adjustment mainly due to a higher discount rate and favourable claims experience in 2013, reported in Casualty; and
- an insurance recovery in the fourth quarter of 2013, related to flooding in 2011, reported in Other.

This decrease was partially offset by the unfavourable impact of the change in FX and higher property and other taxes, included in Support and facilities.

Other Income Statement Items

Other Income and Charges

Other income and charges was an expense of $6 million in the fourth quarter of 2013, compared with an expense of $3 million in the same period of 2012. The increase was primarily due to FX losses on LTD and U.S. dollar denominated working capital.

Net Interest Expense

Net interest expense was $70 million in the fourth quarter of 2013, essentially unchanged from $69 million in the same period of 2012.

Income Taxes

Income tax expense was a recovery of $44 million in the fourth quarter of 2013, compared to a recovery of $27 million in the same period of 2012. This increase was primarily due to the higher asset impairment charge incurred, partially offset by higher pre-tax income in the fourth quarter of 2013.

Liquidity and Capital Resources

During the fourth quarter of 2013, the Company generated cash and cash equivalents of $147 million, compared with $126 million generated in the same period of 2012. This increase in cash and cash equivalents was primarily due to improved pre-tax earnings and higher proceeds from the sale of properties and other assets. This increase in cash and cash equivalents was partially offset by:

- higher additions to properties in 2013;
- increase in Restricted cash and cash equivalents in 2013 related to the collateralization of letters of credit, discussed further in Section 21, Business Risks; and
- lower proceeds from the issuance of common shares in 2013 resulting from the exercising of options.

13. CHANGES IN ACCOUNTING POLICY

2013 Accounting Change

Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, an amendment to FASB Accounting Standards Codification (ASC) Topic 220. The update requires disclosure of amounts reclassified out of Accumulated other comprehensive income by component. In addition, an entity is required to present either on the face of the statement of operations or in the notes, significant amounts reclassified out of

Accumulated other comprehensive income by the respective line items of Net income but only if the amount reclassified is required to be reclassified to Net income in its entirety in the same reporting period. For amounts not reclassified in their entirety to Net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. This ASU is effective prospectively for fiscal years, and interim periods within those years beginning after December 15, 2012. The disclosure requirements of this ASU for the year ended December 31, 2013 are presented as a note in the annual Consolidated Financial Statements.

14. LIQUIDITY AND CAPITAL RESOURCES

The Company believes adequate amounts of cash and cash equivalents are available in the normal course of business to provide for ongoing operations, including the obligations identified in the tables in Section 19, Contractual Commitments and Section 20, Future Trends and Commitments. We are not aware of any trends or expected fluctuations in our liquidity that would create any deficiencies. Liquidity risk is discussed in Section 21, Business Risks. The following discussion of operating, investing and financing activities describes our indicators of liquidity and capital resources.

Operating Activities

Cash provided by operating activities was $1,950 million in 2013, an increase of $622 million from cash provided by operating activities of $1,328 million in 2012. This increase was primarily due to improved pre-tax earnings, partially offset by higher income tax payments and the purchase of material as part of the Company s insourcing strategy.

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Cash provided by operating activities was $1,328 million in 2012, an increase of $816 million from cash provided by operating activities of $512 million in 2011. This increase was primarily due to:

- significantly lower pension contributions compared with 2011, which included $600 million of solvency deficit contributions all of which were represented by a voluntary prepayment to the Company s main Canadian defined benefit pension plan, discussed further in Section 22, Critical Accounting Estimates; and
- higher cash generating earnings: the labour restructuring and asset impairment charges in the fourth quarter of 2012 did not result in any significant cash outflows, discussed further in Section 9, Operating Expenses.

Investing Activities

Cash used in investing activities was $1,597 million in 2013, an increase of $586 million from cash used in investing activities of $1,011 million in 2012. This increase was primarily due to:

- increase in Restricted cash and cash equivalents related to the collateralizing of letters of credit, discussed further in Section 21, Business Risks;
- higher additions to properties associated with our capital program;
- proceeds from the sale of long-term floating rate notes in 2012, discussed further in Section 22, Critical Accounting Estimates; and
- a $20 million interest free loan made in 2013 pursuant to a court order to a corporation owned by a court appointed trustee. This amount will be held in trust until the resolution of legal proceedings with regard to CP s entitlement to an exercised purchase option of a building. If successful in these proceedings, title to the building will transfer to CP with an additional payment of $20 million; otherwise the loan will be repaid.

Cash used in investing activities was $1,011 million in 2012, a decrease of $33 million from cash used in investing activities of $1,044 million in 2011. This decrease was primarily due to higher proceeds from the sale of long-term floating rate notes, discussed further in Section 22, Critical Accounting Estimates, offset in part by higher additions to properties associated with our capital program.

Additions to properties (capital programs) in 2014 are expected to be approximately $1.2 to $1.3 billion. Planned capital programs include approximately $850 million to preserve capacities through replacement or renewal of depleted assets, between $200 and $275 million for network capacity expansions, business development projects and productivity initiatives and between $50 and $75 million to address capital regulated by governments, principally Positive Train Control (PTC) and locomotive engine upgrades to meet emission standards.

Capital Programs

For the year ended December 31			
(in millions, except for miles and crossties)	**2013**	2012	2011

Additions to properties			
Track and roadway	**$ 831**	$ 744	$ 756
Buildings	**48**	38	47
Rolling stock	**169**	155	179
Information systems	**110**	105	99
Other	**107**	110	72
Total accrued additions to properties	**1,265**	1,152	1,153
Less:			
Other non-cash transactions	**29**	4	49
Cash invested in additions to properties (per Consolidated Statements of Cash Flows)	**$ 1,236**	$ 1,148	$ 1,104
Track installation capital programs			
Track miles of rail laid (miles)	**429**	470	532
Track miles of rail capacity expansion (miles)	**24**	32	31
Crossties installed (thousands)	**926**	794	885

Of the total capital additions to properties noted in the table above, costs for the renewal of the railway, including track and roadway, buildings and rolling stock were approximately $905 million in 2013. The costs for renewal of the railway in 2012 and 2011 were $708 million and $680 million respectively. Costs related to normal repairs and maintenance of the railroad have been expensed and presented within operating expenses. Approximately $816 million, $830 million and $836 million were expensed during the years ended December 31, 2013, 2012 and 2011, respectively. Repairs and maintenance does not have a standardized definition and, therefore is unlikely to be comparable to similar measures of other companies and definitions applied by regulators.

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We intend to finance capital expenditures with available cash from operations, but may partially finance these expenditures with new debt, capital leases and temporary draws on our credit facility. Our decisions on funding equipment acquisitions will be influenced by such factors as optimizing our capital structure and maintaining our debt covenants and investment grade rating, as well as the amount of cash flow we believe can be generated from operations and the prevailing capital market conditions.

Financing Activities

Cash used in financing activities was $220 million in 2013, as compared to cash used in financing activities of $30 million in 2012 and cash provided by financing activities of $217 million in 2011.

Cash used in financing activities in 2013 was primarily for the payment of dividends and the repayment of long-term debt. These uses of cash were partially offset by proceeds from the issuance of common shares resulting from the exercising of options.

Cash used in financing activities in 2012 was primarily for the payment of dividends, the repayment of long-term debt and short-term borrowings. These uses of cash were largely offset by proceeds from the issuance of common shares resulting from the exercising of options and from the issuance of US$71 million 4.28% Senior Secured Notes due in 2027 for net proceeds of $71 million.

Cash provided by financing activities in 2011 was primarily from:

- the issuance of CDN$125 million 5.10% 10-year Medium Term Notes, US$250 million 4.50% 10-year Notes and US$250 million 5.75% 30-year Notes for net proceeds of $618 million. These proceeds were largely used to make a $600 million voluntary prepayment to the Company s main Canadian defined benefit pension plan;

- the issuance of US$139 million 3.88% Series A and B Senior Secured Notes due in 2026 for net proceeds of $139 million; and

- $28 million in short-term borrowings.

These proceeds were partially offset by;

- the redemption of US$246 million 6.25% 10-year Notes for a total cost of $251 million;

- the redemption of US$101 million 5.75% 5-year Notes pursuant to a call offer for a total cost of $113 million, which included a redemption premium paid to note holders to redeem the Notes; and

- the payments of dividends.

The Company has available, as sources of financing, up to $1.2 billion under its revolving credit facility and up to $191 million under its bilateral letter of credit facilities, discussed further in Section 21, Business Risks.

Debt to Total Capitalization

Debt to total capitalization is the sum of long-term debt, long-term debt maturing within one year and short-term borrowing, divided by debt plus total Shareholders equity as presented on our Consolidated Balance Sheets. At December 31, 2013, our debt to total capitalization decreased to 40.7%, compared with 47.9% at December 31, 2012. This decrease was largely due to an increase in equity driven by earnings and a decrease in

Pension and other benefit liabilities.

At December 31, 2012, our debt to total capitalization decreased to 47.9%, compared with 50.7% at December 31, 2011. This decrease was largely due to an increase in equity driven by earnings and an increase in share capital resulting from the exercise of options.

Calculation of Interest Coverage Ratio

For the year ended December 31

(in millions, except for coverage ratios)	**2013**	2012	2011
EBIT[1]	**$ 1,403**	$ 912	$ 949
Adjusted EBIT[1]	**$ 1,827**	$ 1,299	$ 955
Net interest expense	**$ 278**	$ 276	$ 252
Interest coverage ratio[1]	**5.0**	3.3	3.8
Adjusted interest coverage ratio[1]	**6.6**	4.7	3.8

[1] Interest coverage ratio, Adjusted interest coverage ratio, EBIT and Adjusted EBIT have no standardized meanings prescribed by U.S. GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies. These earnings measures are described in this section and are discussed further in Section 15, Non-GAAP Measures.

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Interest coverage ratio is measured, on a rolling twelve month basis, EBIT divided by Net interest expense, discussed further in Section 15, Non-GAAP Measures. At December 31, 2013, our interest coverage ratio was 5.0, compared with 3.3 in 2012. This improvement was primarily due to a year-over-year increase in EBIT. In 2013 and 2012, EBIT was negatively impacted by asset impairment charges. In 2012, EBIT was further impacted by labour restructuring, advisory costs due to shareholder matters, and management transition costs, discussed further in Section 15, Non-GAAP Measures.

Excluding these significant items from EBIT, Adjusted interest coverage ratio was 6.6 at December 31, 2013, compared with 4.7 in 2012. This increase was primarily due to an increase in Adjusted EBIT. Adjusted interest coverage ratio and significant items are discussed further in Section 15, Non-GAAP Measures.

Our interest coverage ratio was 3.3 at December 31, 2012, compared with 3.8 in 2011. This reduction was primarily due to a year-over-year increase in Net interest expense and a reduction in EBIT which was negatively impacted by labour restructuring, asset impairment charges, advisory costs due to shareholder matters, and management transition costs in 2012, discussed further in Section 15, Non-GAAP Measures.

Excluding these significant items from EBIT, Adjusted interest coverage ratio was 4.7 at December 31, 2012, compared with 3.8 in 2011. This increase was primarily due to an increase in Adjusted EBIT. Adjusted interest coverage ratio and significant items are discussed further in Section 15, Non-GAAP Measures.

Calculation of Free Cash[(1)]

(Reconciliation of free cash to GAAP cash position)

For the year ended December 31 (in millions)	**2013**	2012	2011
Voluntary prepayments to the main Canadian defined benefit pension plan	**$**	$	$ (600)
Other operating cash flows	**1,950**	1,328	1,112
Cash provided by operating activities	**1,950**	1,328	512
Cash used in investing activities	**(1,597)**	(1,011)	(1,044)
Change in restricted cash and cash equivalents used to collateralize letters of credit[(2)]	**411**		
Dividends paid	**(244)**	(223)	(193)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	**10**	(1)	1
Free cash[(1)]	**530**	93	(724)
Cash provided by financing activities, excluding dividend payment	**24**		