CANADIAN PACIFIC RAILWAY LTD/CN
Form 40-F
March 15, 2012
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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, 2011

CANADIAN PACIFIC RAILWAY LIMITED

(Commission File No. 1-01342)

CANADIAN PACIFIC RAILWAY COMPANY

(Commission File No. 1-15272)

(Exact name of Registrant as specified in its charter)

		98-0355078
		(Canadian Pacific Railway Limited)
		98-0001377
CANADA	**4011**	**(Canadian Pacific Railway Company)**

(Province or other jurisdiction of incorporation or organization)	***(Primary Standard Industrial Classification Code Number)***	***(I.R.S. Employer Identification Number)***

Suite 500, Gulf Canada Square, 401-9th Avenue S.W., Calgary, Alberta, Canada T2P 4Z4

(403) 319-7000

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

CT Corporation System, 111 Eighth Avenue, New York, New York 10011, (212) 894-8940

(Name, address (including zip code) and telephone number (including area code) of Agent for Service of Registrant in the United States)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, without par value, of Canadian Pacific Railway Limited	**New York Stock Exchange**
Common Share Purchase Rights of Canadian Pacific Railway Limited	**New York Stock Exchange**
Perpetual 4% Consolidated Debenture Stock of Canadian Pacific Railway Company	**New York Stock Exchange**

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

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

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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, 2011, 169,993,842 Common Shares of Canadian Pacific Railway Limited (CPRL) were issued and outstanding. At December 31, 2011, 347,170,009 Ordinary Shares of Canadian Pacific Railway Company (CPRC) were issued and outstanding. All of the ordinary shares of CPRC are held by CPRL.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES x NO ¨

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PRIOR FILINGS MODIFIED AND SUPERSEDED

The Registrants Annual Report on Form 40-F for the year ended December 31, 2011, 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) and Form S-8 No. 333-140955 (Canadian Pacific Railway Limited).

In addition, this Annual Report on Form 40-F is incorporated by reference into or as an exhibit to, as applicable, the Registration Statement on Form F-9 No. 333-175032 (Canadian Pacific Railway Company), and the Registration Statement on Form F-10 No. 333-175033 (Canadian Pacific Railway Limited).

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

A. Annual Information Form

For the Annual Information Form of the Registrant for the year ended December 31, 2011 see pages 1 through 43 of the Registrant s 2011 Annual Information Form incorporated by reference and included herein.

B. Audited Annual Financial Statements

For audited consolidated financial statements (U.S. GAAP), including the reports of the independent public accounting firms with respect thereto, see pages 55 through 99 of the Registrant s 2011 Annual Report incorporated by reference and included herein.

C. Management s Discussion and Analysis

For management s discussion and analysis, see pages 3 through 54 of the Registrant s 2011 Annual Report incorporated by reference and included herein.

For the purposes of this Annual Report on Form 40-F, only pages 3 through 99 of the Registrant s 2011 Annual Report referred to above shall be deemed filed, and the balance of such 2011 Annual Report, except as it may be otherwise specifically incorporated by reference in the Registrant 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, 2011, 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, 2011, 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 provide a reasonable level of assurance that they are effective, they do not expect that the Registrants disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

MANAGEMENT S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

For management s report on internal control over financial reporting, see page 56 of the Registrant s 2011 Annual Report, incorporated by reference and included herein.

ATTESTATION REPORT OF THE INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

The effectiveness of the Registrants internal control over financial reporting as of December 31, 2011 has been audited by Deloitte & Touche LLP, Independent Registered Chartered Accountants, as stated in their report on pages 57 through 58 of the Registrant s 2011 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 Directors have signed acknowledgements that they have read, understood and agree to comply with the Code. The Registrant conducts mandatory on-line ethics training for officers and non-union employees. As part of the on-line ethics training, 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 President and Chief Executive Officer, the Executive Vice-President and Chief Financial Officer and the Senior Vice-President Finance. 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, Finance and Risk Committee; the Corporate Governance and Nominating Committee; the Management Resources and Compensation Committee; the Safety, Operations and Environment Committee; and the Pension 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. Green and Mr. Harris, have no material relationship with the Registrants and are independent. Mr. Green is not independent by virtue of the fact that he is the Chief Executive Officer of the Registrants. Mr. Harris is not independent as a former executive officer of the Registrants.

EXECUTIVE SESSIONS OF NON-MANAGEMENT DIRECTORS

The independent directors met in executive sessions without management present at the beginning and end of each meeting of the board of directors as well as at the beginning and end of each committee meeting.

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

Office of the Corporate Secretary

Canadian Pacific Railway

Suite 920, 401 9 Avenue S.W.

Calgary, Alberta

Canada, T2P 4Z4

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IDENTIFICATION OF AUDIT COMMITTEE AND AUDIT COMMITTEE FINANCIAL EXPERT

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

Krystyna T. Hoeg

Richard C. Kelly

John P. Manley

Linda J. Morgan

Roger Phillips

Hartley T. Richardson

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

FINANCIAL LITERACY OF AUDIT COMMITTEE MEMBERS

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

SERVICE ON OTHER PUBLIC COMPANY AUDIT COMMITTEES

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

No member of the Audit Committees of the Registrants serves on more than two public company audit committees in addition to the Audit Committee of either Registrant.

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PRINICIPAL ACCOUNTANT FEES AND SERVICES

Deloitte & Touche LLP (Deloitte), Independent Registered Chartered Accountants, was appointed as the Registrants external auditor in May 2011. As detailed in the following table, fees payable to Deloitte from the date of appointment as the Registrants external auditor, for the year ended December 31, 2011 totaled $2,213,600. Fees payable to PricewaterhouseCoopers LLP (PWC) (the Registrants independent auditors prior to May 2011) totaled $311,900 for the year ended December 31, 2011 and for the year ended December 31, 2010, totaled $2,525,200.

	Deloitte (1) Year Ended December 31, 2011	PWC (2) Year Ended December 31, 2011	Total Year Ended December 31, 2011	Total (3) Year ended December 31, 2010
Audit Fees	$ 1,612,600	$ 56,200	$ 1,668,800	$ 1,795,600
Audit-Related Fees	$ 251,000	$ 100,500	$ 351,500	$ 388,400
Tax Fees	$ 50,000	$ 155,200	$ 205,200	$ 341,200
All Other Fees	$ 300,000		$ 300,000	
TOTAL	$ 2,213,600	$ 311,900	$ 2,525,500	$ 2,525,200

(1) Fees paid to Deloitte for the fiscal year ended December 31, 2011 beginning after the appointment of Deloitte as principal auditor in May 2011

(2) Fees paid to PWC for the fiscal year ended December 31, 2011 up to the appointment of Deloitte as principal auditor in May 2011

(3) Fees paid to PWC for the fiscal year ended December 30, 2010

The nature of the services provided by the current and former independent public accounting firms under each of the categories indicated in the table is described below.

Audit Fees

Audit fees were for professional services rendered for the audit 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 Chartered Accountants and independent auditors on the effectiveness of internal controls over financial reporting.

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: the audit or interim review of financial statements of certain subsidiaries and of various pension and benefits plans of the Registrants; special attestation services as may be required by various government entities; access fees for technical accounting database resources; and general advice and assistance related to accounting and/or disclosure matters with respect to new and proposed U.S. and Canadian accounting standards, securities regulations, and/or laws.

Tax Fees

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

All Other Fees

Fees disclosed under this category would be for products and services other than those described under Audit Fees , Audit-Related Fees and Tax Fees above. These services consisted of services in connection with our business interruption and property damage claim.

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

INDEPENDENT PUBLIC ACCOUNTING FIRMS

The Audit Committee of each Registrant has adopted a written policy governing the pre-approval of audit and non-audit services to be provided to the Registrants by their independent public accounting firms. The policy is reviewed annually and the audit and non-audit services to be provided by their independent public accounting firms, as well as the budgeted amounts for such services, are pre-approved at that time. The Senior Vice-President Finance of the Registrants must submit to the Audit Committee at least quarterly a report of all services performed or to be performed by the independent public accounting firms pursuant to the policy. Any additional audit or non-audit services to be provided by the independent public accounting firms either not included among the pre-approved services or exceeding the budgeted amount for such pre-approved services by more than 10% must be individually pre-approved by the Audit Committee or its Chairman, who must report all such additional pre-approvals to the Audit Committee at its next meeting following the granting thereof. The independent public accounting firms annual audit services engagement terms and fees are subject to the specific pre-approval of the Audit Committee. In addition, prior to the granting of any pre-approval, the Audit Committee or its Chairman, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of the independent public accounting firms. 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 40 of the Registrants 2011 Annual Report incorporated by reference and included herein.

TABLE OF CONTRACTUAL COMMITMENTS

The table setting forth the Registrants contractual commitments is set forth on page 40 of the Registrants 2011 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 registered pursuant to Form 40-F; 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/ Karen L. Fleming
Name: Karen L. Fleming

Title: Corporate Secretary

Date: March 15, 2012

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EXHIBITS

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

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

March 5, 2012

SECTION 1: CORPORATE STRUCTURE

In this AIF, our , us , we , CP and the Company refer to Canadian Pacific Railway Limited (CPRL), CPRL and its subsidiaries, CPRL and more of its subsidiaries, or one or more of CPRL s subsidiaries, as the context may require.

1.1 Name, Address and Incorporation Information

Canadian Pacific Railway Limited was incorporated on June 22, 2001, as 3913732 Canada Inc. pursuant to the *Canada Business Corporations Act* (the CBCA). On July 20, 2001, CP amended its Articles of Incorporation to change its name to Canadian Pacific Railway Limited. On October 1, 2001, Canadian Pacific Limited (CPL) completed an arrangement (the Arrangement) pursuant to section 192 of the CBCA whereby it distributed to its common shareholders all of the shares of newly formed corporations holding the assets of four of CPL s five primary operating divisions. The transfer of Canadian Pacific Railway Company (CPRC), previously a wholly owned subsidiary of CPL, to CPRL was accomplished as part of a series of steps, pursuant to the terms of the Arrangement.

Our registered, executive and head office is located at Suite 500, 401 9th Avenue S.W., Calgary, Alberta T2P 4Z4.

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SECTION 2: INTERCORPORATE RELATIONSHIPS

2.1 Principal Subsidiaries

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

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

(1) This table does not include all of our subsidiaries. The assets and revenues of unnamed subsidiaries did not exceed 10% of the total consolidated assets or total consolidated revenues of CP individually, or 20% of the total consolidated assets or total consolidated revenues of CP in aggregate.

(2) Indirect wholly owned subsidiary of Canadian Pacific Railway Company.

(3) Wholly owned subsidiary of Soo Line Corporation.

(4) Indirect wholly owned subsidiary of the Soo Line Corporation.

(5) Wholly owned subsidiary of Canadian Pacific Railway Company.

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SECTION 3: GENERAL DEVELOPMENTS OF THE BUSINESS

3.1 Recent Developments

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

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

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

- managed our overall indebtedness by repaying US$246 million of maturing 2011 debt and called US$101 million of 2013 debt;
- made a $600 million voluntary prepayment to our main Canadian defined benefit pension plan;
- financed our voluntary pension prepayment and new locomotives at very attractive interest rates; and
- delivered consistent dividend growth by increasing our quarterly dividend to common shareholders by 11%, from $0.27 to $0.30 in 2011.

2010 Highlights

In 2010, CP announced a ten-year agreement with Teck Resources Limited (Teck). The agreement reflects the companies commitment to work together to achieve growth in the volume of coal shipped through a range of economic and marketplace dynamics and provides flexibility critical for a long term agreement.

In 2010, we made significant progress re-organizing the Company to reduce the total number of management layers. The new organizational structure is based on ensuring clear accountability and alignment and will facilitate more efficient decision making consistent with delivering on our multi-year service reliability, productivity and asset velocity objectives. The redesign reduced the number of operating regions.

During 2010, CP took on new initiatives targeted at permanently reducing structural costs. This included the consolidation of certain offices, as well as the consolidation of locomotive and freight car repair facilities.

In addition, we took further actions to strengthen our balance sheet and create and enhance the organization s financial flexibility. CP took advantage of low cost debt markets and used both debt and funds from operations to pre-fund the main Canadian defined benefit pension plan. This effectively put our cash to work more quickly and reduced expected future pension contributions. The actions taken have given the company significant flexibility in pension funding levels over the next 3-5 years.

Finally, with the strengthening economy in 2010, CP enjoyed a 13% increase in volumes (as measured by carloads) and delivered on the key objective of sustaining long train improvements while managing a busier network. Our multi-year capital plan included the intention to expand and increase the number of sidings that can accommodate long trains to allow further productivity improvements. Our 2011 capital plan included key improvements in productive IT and investment to support growth.

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SECTION 3: GENERAL DEVELOPMENTS OF THE BUSINESS

2009 Highlights

In 2009, CP was focused on evaluating the structure of our business. We continued with cost reduction strategies including Execution Excellence for Efficiency (or E3), which was the beginning of our larger variable cost initiatives, our structural cost reduction initiative and the application of lean management techniques to our core operation processes.

2009 was also a year where we focused on strengthening our balance sheet which included issuing equity in the first quarter. As well, we made a cash tender for outstanding debt and issued new debt to lengthen our maturity profile, smooth our repayment profile and strengthen near term liquidity. CP focused on managing working capital, which included selling certain non-core assets.

In the fourth quarter of 2009, CP terminated a contract with a lessee in order to cease through-train operations over the CP owned rail branch line between Smiths Falls and Sudbury, Ontario. Improved train efficiencies allowed us to move this service over our main line rather than using this bypass route. CP also made a voluntary prepayment to our defined benefit pension plan to reduce the volatility of future pension funding requirements.

In the third quarter of 2009, the Company sold certain non-core assets. Several significant properties were sold, including Windsor Station in Montreal, Quebec and land in Western Canada for transit purposes. Since the sale, CP continues to occupy a portion of Windsor Station through a lease for a 10-year period.

Also in 2009, the Company completed a sale of a portion of its investment in the Detroit River Tunnel Partnership (DRTP) to its existing partner, reducing the Company s ownership from 50% to 16.5%. Effective April 1, 2009, the Company discontinued proportionate consolidation and is accounting for its remaining investment in the DRTP under the equity method of accounting. Running rights remain unchanged.

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SECTION 4: DESCRIPTION OF THE BUSINESS

4.1 Our Background and Network

CPRC was incorporated by Letters Patent in 1881 pursuant to an Act of the Parliament of Canada. CPRC is one of Canada s oldest corporations. From our inception 131 years ago, we have developed into a fully integrated and technologically advanced Class I railway (a railroad earning a minimum of US$398.7 million in revenues annually) providing rail and intermodal freight transportation services over a 14,700-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 4,100 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, 5,400 miles in the U.S. Midwest and 1,100 miles in the U.S. Northeast. Our business is based on funnelling railway traffic from feeder lines and connectors, including secondary and branch lines, onto our high-density mainline railway network. We have extended our network reach by establishing alliances and connections with other major Class I railways in North America, which allows us to provide competitive services and access to markets across North America beyond our own rail network. We also provide service to markets in Europe and the Pacific Rim through direct access to the Port of Montreal and the Port Metro Vancouver in Vancouver, B.C., respectively.

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

4.2 Strategy

Our vision is to become the safest and most fluid railway in North America. Our objective is to create long-term value for our customers, shareholders and employees by disciplined execution of our Integrated Operating Plan (IOP); by executing on our Multi-Year Plan which enhances and supports our IOP; and by aligning all parts of the organization around our five core beliefs:

Service: Reliable and consistent service is our product. We are committed to executing our IOP in order to meet and exceed the needs of our customers in a cost-effective manner.

Safety: There is no job at CP that is so important that we can t take the time to do it safely. Our comprehensive safety framework safeguards our employees, the communities we operate through, the environment and our customers freight enabling us to provide an effective transportation solution.

Productivity and Efficiency: Based on a culture of continuous improvement and accountability, we are always looking for better, less costly, more reliable ways to operate our business.

People: We pride ourselves in our well trained and knowledgeable team of railroaders. We are committed to executing the IOP and collaboratively working with our customers.

Growth: We invest in our franchise to enhance productivity and service, which allows us to capitalize on growth opportunities with new and existing customers at low incremental cost.

4.2.1 Strategic Summary

We are taking a systematic approach to executing our strategy which is based on a disciplined execution of our IOP, the delivery of our Multi-Year Plan which supports the IOP and by ensuring clear accountabilities throughout the organization. CP s Multi-Year Plan provides a clear blueprint with three key elements: driving volume growth, expanding network capacity to safely and efficiently support higher volumes and cost control. This strategy and related investments have set us firmly on track to deliver on our goal of bringing CP s operating ratio down to 70% 72% for 2014, and we will strive for continued improvement beyond 2014.

4.2.2 Integrated Operating Plan

The IOP is the foundation of our railway operations. All key aspects of the operation are scheduled to drive service reliability and on-time shipment performance. This encompasses road train operations, our First Mile-Last Mile program and all mechanical, engineering and other maintenance activities. The IOP continues to be enhanced through Lean continuous improvement, simplification and standardization of business processes and improved information systems. Our IOP is supported by a culture of accountability built on clear established metrics tied to each position in the organization and incentives tied to performance.

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The underlying design principles of the IOP are:

- **Velocity** keeping our assets moving through an efficient, scheduled 24/7 operation;
- **Balance** train and car movements are balanced daily in each corridor, yard and terminal, which drives efficiencies and asset velocity; and
- **Network** all aspects of the network s operation are optimized to drive the best service, safety, productivity and efficiency outcome.

We are continuing to improve the IOP with the following multi-year programs:

First Mile-Last Mile this program drives improvements in service, asset velocity and enables low-cost growth by reducing railcars and creating additional terminal capacity.

Scheduled Bulk we continue to schedule our bulk train operations as part of our IOP. In grain, our efforts involve leveraging our grain elevator footprint by scheduling all aspects of our grain shipments, including First Mile-Last Mile switching and bulk unit train operations, all centered around a simplified network of origin grain hubs.

Long Trains this program is driving increased train lengths; improving service, safety, productivity and efficiency. It includes targeted infrastructure enhancements and the use of proprietary train marshaling software, which maximizes the use of distributed locomotive power.

Fuel Efficiency this program targets year-over-year improvements in fuel efficiency and reduced emissions. It consists of the acquisition of new locomotives, the remanufacturing of older locomotives and using new technologies which improve train handling and reduces idling. This program is enhanced by the disciplined execution of the IOP, improving velocity and driving fleet productivity.

Locomotive Reliability Centres we are consolidating the number of major locomotive repair facilities from eight to four highly efficient super shops which will result in improved maintenance capabilities, lower unit costs, reduced overheads and improved locomotive availability and reliability.

4.2.3 Markets

Our Multi-Year Plan is based on three major sources of growth: Asian demand for commodities; growth in energy production and North American economic growth.

Strong long-term fundamentals support our bulk commodities business as Asian economies develop, expand and diversify. We have 10-year contracts with both Teck for metallurgical coal and with Canpotex for export potash. We continue to develop our extensive grain network through expansions at existing high-throughput grain elevators, new elevator development and collaboration in planned expansion of oil seed processing.

In the energy sector, our franchise accesses the Bakken Oil Formation in North Dakota and Saskatchewan, the Alberta Industrial Heartland supporting the Oilsands, and the Marcellus Gas Formation in the northeastern U.S. and allows us to develop new long-haul markets. With the strong global demand for energy we are growing our shipments in crude oil, ethanol and energy-related inputs such as pipe and frac sand.

North American economic growth will result in additional opportunities in a number of lines of business, including intermodal, automotive and forest products. We are leveraging our relationships, capital investments and the disciplined execution of our IOP to enable growth in these markets. In addition, we continue to enhance our intermodal franchise by expanding on our co-location model and terminal network.

4.2.4 Investments

CP is committed to the renewal of its infrastructure and making investments for productivity and growth through network enhancements, locomotive upgrades and information technology (IT) renewal. During 2011, we completed the first year of our multi-year accelerated capital program.

Our network investment plans include investing $75 to $100 million to increase the productivity in our Western Corridor which supports approximately 40% of our volumes. Our targeted infrastructure investments supports the operation of longer trains and enables low-cost growth.

In addition, approximately $250 million in upgrades over the next few years are underway on CP s North Line, running from Winnipeg, Manitoba to Edmonton, Alberta. This program will result in an increase in track speeds and will support productivity and growth in potash, grain, energy related products and intermodal. By upgrading this

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portion of the network, route miles for some shipments will be reduced by between 5% 10%. This upgrade will provide operating flexibility, with a second routing option for traffic currently traversing over the more southerly mainline, improving overall service reliability and network speed.

In order to capitalize on growth in energy, agriculture and potash shipments, we are investing approximately $90 million in enhancements to our North/ South corridors in the U.S. Midwest. These upgrades will increase capacity, enhance routing flexibility and lift the efficiency on all the business that travels on these lines. Similar to the North Line improvements, the investments will enhance network resiliency facilitating increased train speeds, car miles per car day, fuel efficiency and reducing terminal dwell.

Managing the movement of assets and information is a critical business process. Our multi-year IT program includes upgrades to our Shipment management and SAP suites. Predictive technologies will become important to driving even more efficiencies in field operations. These planned multi-year system upgrades position CP to enhance labour productivity, improved asset management and provide better shipment visibility to all parties.

CP has deployed a series of strategies expected to deliver a 1% 2% per year improvement in fuel efficiency. Our plans include: expanding the application of fuel trip optimizer technology that assist train crews in efficient train handling; remanufacturing a portion of our older yard and local locomotive fleet at a 3 for 4 replacement ratio; the introduction of new stop-start technology that will reduce cold weather idling; and the renewal of our mainline locomotive fleet. In addition to improved fuel efficiency, reduced emissions and enhanced service reliability, this program will result in a more homogeneous fleet, further enhancing shop productivity. The re-manufacturing of older units will enhance inter-operability allowing for further productivity gains.

4.2.5 Finance

To support the Multi-Year Plan, which includes an accelerated capital program, the Company has continued to focus its efforts on the balance sheet to provide financial flexibility and preserve its investment grade rating while maintaining a competitive dividend.

Over the last three years, we have made $1.85 billion of solvency deficit contributions of which $1.75 billion were voluntary pension prepayments to our main Canadian defined benefit pension plan in order to provide stability and reduce volatility of our future funding requirements. These pension prepayments are accretive to earnings and are tax efficient resulting in low cash taxes over the next several years.

Additional measures taken to mitigate our pension funding volatility include, reducing our asset allocation to public equities, increasing our asset/ liability interest rate matching and implementing a dynamic de-risking plan that will further reduce our allocation to public equities as our funded ratio increases.

We have taken advantage of attractive interest rates and have tendered and refinanced a number of debt maturities by blending and extending them further into the future. As a result, we have no significant debt maturities over the next several years.

Principal sources of liquidity are generated from cash from operations and, where necessary, access to a recently negotiated $1 billion four year revolving credit agreement.

4.2.6 People

To successfully execute our strategy, Canadian Pacific is committed to investing in its people. We continue to promote an engaged and stable workforce through:

an organizational structure that provides for clear accountability and alignment across all functions;

an understanding and focus on our five core beliefs;

selection and development of the right employee for a required role;

training and appropriate resources for success; and

appropriate salary and incentive program that rewards performance.

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4.3 Partnerships, Alliances and Network Efficiency

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

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

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

- co-operation initiatives with the Canadian National Railway Company (CN) in the Port Metro Vancouver Terminal and B.C. Lower Mainland which was updated and re-signed in 2011;

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

- network infrastructure improvements on CP to improve freight and passenger train operations, by working with State Departments of Transportation and the Federal Railroad Administration (FRA) have advanced to the construction stage in the States of New York, Illinois and Wisconsin. Future rail investment is at the design and funding application stage, working with the State of Minnesota.

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

4.4 Network and Right-of-Way

Our 14,700-mile network extends from the Port Metro Vancouver on Canada s Pacific Coast to the Port of Montreal in eastern Canada, and to the U.S. industrial centres of Chicago; Detroit, Michigan; Newark, New Jersey; Philadelphia; New York City and Buffalo, New York; Kansas City, Missouri; and Minneapolis, Minnesota.

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

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4.4.1 The Western Corridor: Vancouver-Thunder Bay

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

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

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

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

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

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

Overview The Central Corridor connects with the Western Corridor at Moose Jaw. By running south to Chicago and Kansas City through the twin cities of Minneapolis and St. Paul, Minnesota and Milwaukee, Wisconsin, we provide a direct, single-carrier route between western Canada and the U.S. Midwest, providing access to Great Lakes and Mississippi River ports. The west end of the Central Corridor is proximate to the Powder River Basin located in Wyoming, the largest thermal coal producing region in the U.S. From Lacrosse, Wisconsin, the Central Corridor continues south towards Kansas City via the Quad Cities, providing an efficient route for traffic destined for southern U.S. and Mexican markets. Our Kansas City line also has a direct connection into Chicago and by extension points east to CP s network such as Toronto and the Port of Montreal.

Products Primary traffic categories transported on the Central Corridor include intermodal containers from the Port Metro Vancouver, fertilizers, chemicals, grain, coal, automotive and other agricultural products.

Feeder Lines We have operating rights over the BNSF line between Minneapolis and the twin ports of Duluth, Minnesota and Superior, Wisconsin. CP maintains its own yard facilities at the twin ports that provide an outlet for grain from the U.S. Midwest to the grain terminals at these ports, and a strategic entry point for large dimensional shipments that can be routed via CP s network to locations such as Alberta s Industrial Heartland to serve the needs of the oil sands and energy industry. The DM&E route from Winona, Minnesota to Colony, Wyoming and Rapid City, South Dakota provides access to key agricultural and industrial commodities. In North Dakota, CP s feeder line between Drake and Newtown, North Dakota is geographically situated in a highly-strategic region for Bakken oil production. CP also owns two significant feeder lines in North Dakota and western Minnesota operated by the Dakota Missouri Valley and Western Railroad, and the Northern Plains Railroad respectively. Both of these short lines are also active in providing service to agricultural and Bakken oil related customers.

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

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

4.4.3 The Eastern Corridor: Thunder Bay-Montreal and Detroit

Overview The Eastern Corridor extends from Thunder Bay through to its eastern terminus at Montreal and from Toronto to Chicago via Windsor/Detroit. Our Eastern Corridor provides shippers direct rail service from Toronto and Montreal to Calgary and Vancouver via our Western Corridor and to the U.S. via our Central Corridor. This is a key element of our transcontinental services, including our intermodal business. In addition, the Eastern Corridor provides 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 on 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.

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

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

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

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

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

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

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

Connections We have major connections with NS at Harrisburg and Allentown, Pennsylvania, and with CSX at Philadelphia. Multiple shortline connections exist throughout the corridor.

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

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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 signaling 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 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 2011 compared with 2010:

Business Category	2011	2010
Bulk	**44%**	43%
Merchandise	**30%**	29%
Intermodal	**26%**	28%

4.7 Revenues

The following table summarizes our annual freight revenues since 2009:

Freight Revenues (in millions, except for percentages)				% Change 2011	 2010
Business Category	**2011**	2010	2009	vs. 2010	vs. 2009
Bulk					
Grain	**$ 1,100**	$ 1,135	$ 1,137	(3)	
Coal	**556**	491	444	13	11

Sulphur and fertilizers	**549**	475	309	16	54
Total bulk	**2,205**	2,101	1,890	5	11
Merchandise					
Forest products	**189**	185	176	2	5
Industrial and consumer products	**1,017**	903	786	13	15
Automotive	**338**	316	230	7	37
Total merchandise	**1,544**	1,404	1,192	10	18
Intermodal	**1,303**	1,348	1,198	(3)	13
Total freight revenues	**$ 5,052**	$ 4,853	$ 4,280	4	13

4.7.1 Bulk

Our bulk business represented approximately 44% of total freight revenues in 2011.

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4.7.1.1 Grain

Our grain business accounted for approximately 22% of total freight revenues in 2011.

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

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

Railway revenues for the movement of export grain from western Canada are subject to legislative provisions. These provisions apply to defined commodities and origin/destination pairings set out in the Canada Transportation Act (CTA). The revenue formula included in the CTA is indexed annually to reflect changes in the input costs associated with transporting grain destined for export markets. For additional information, refer to Section 21 of our 2011 Management s Discussion and Analysis (MD&A), which is available on SEDAR at www.sedar.com in Canada, on EDGAR at www.sec.gov in the U.S. and on our website at www.cpr.ca.

4.7.1.2 Coal

Our coal business represented approximately 11% of total freight revenues in 2011.

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

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

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

4.7.1.3 Sulphur and Fertilizers

Sulphur and fertilizers business represented approximately 11% of total freight revenues in 2011.

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.

Alberta s oil and gas industry produces more than eight million tonnes of sulphur annually. 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.

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Fertilizers

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

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

4.7.2 Merchandise

Our merchandise business represented approximately 30% of total freight revenues in 2011.

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 4% of total freight revenues in 2011.

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 20% of total freight revenues in 2011.

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

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

4.7.2.3 Automotive

Our automotive business represented approximately 6% of total freight revenues in 2011.

Automotive traffic includes domestic, import and pre-owned vehicles as well as automotive parts. We transport finished vehicles from U.S. and Canadian assembly plants to the Canadian marketplace, and to other markets throughout North America via major interchanges at Detroit, Chicago and Buffalo. We also move imported vehicles to retail markets in Canada and the U.S. Midwest. A comprehensive network of automotive compounds is utilized to facilitate final delivery of vehicles to dealers throughout Canada and in the U.S.

4.7.3 Intermodal

Our intermodal business accounted for approximately 26% of total freight revenues in 2011.

Domestic intermodal freight consists primarily of manufactured consumer products moving in containers. International intermodal freight moves in marine containers between 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.

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International Intermodal

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

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

4.7.4 Other Revenue

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

4.7.5 Significant Customers

In 2011, 2010 and 2009 no one customer comprised more than 10% of total revenues and accounts receivable.

4.8 Railway Performance

We focus on safety, franchise investment, increasing network efficiency and improving asset utilization, train operations productivity and labour productivity. Detailed definitions of the performance indicators listed below are set out in Section 25, Glossary of Terms in our MD&A, which section is incorporated by reference herein. The following table summarizes the effect of these strategies based on industry-recognized performance indicators:

Performance Indicators				% Change	
For the year ended December 31	**2011**	2010 (1)	2009 (1)	2011 vs. 2010	2010 vs. 2009
Operations performance					
Freight gross ton-miles (GTMs) (millions)	**247,955**	242,757	209,475	2	16
Train miles (thousands)	**40,145**	39,576	34,757	1	14
Average number of active employees - expense	**14,169**	13,879	13,619	2	2
Average daily active cars on-line (thousands)(2)	**51.4**	50.9	46.6	1	9
Average daily active road locomotives on-line	**1,085**	1,016	785	7	29
Average train speed - AAR definition (mph)(2)	**21.3**	22.7	25.4	(6)	(11)
Average terminal dwell - AAR definition (hours)(2)	**19.9**	21.4	21.9	(7)	(2)
Car miles per car day(2)	**160.1**	159.4	142.6		12
Fuel efficiency(3)	**1.18**	1.17	1.19	1	(2)
Average train weight - excluding local traffic (tons)(2)	**6,593**	6,519	6,416	1	2
Average train length - excluding local traffic (feet)(2)	**5,665**	5,660	5,608		1
Locomotive productivity (daily average GTMs/active HP)(2)	**166.7**	176.6	187.4	(6)	(6)
Employee productivity (million GTMs/expense employee)	**17.5**	17.5	15.4		14
Safety indicators					

FRA personal injuries per 200,000 employee-hours	**1.86**	1.67	1.92	11	(13)
FRA train accidents per million train-miles	**1.85**	1.65	1.81	12	(9)

(1) Certain prior period figures have been reclassified to conform with current presentation or have been updated to reflect new information.
(2) Certain figures are excluding DM&E for 2009.
(3) Fuel efficiency is defined as U.S. gallons of locomotive fuel consumed per 1,000 Gross ton-miles (GTMs) freight and yard.

In the first half of 2011, we experienced significant disruptions to train operations across the network due to unusually severe winter weather and subsequent flooding which are reflected in our year-to-date operating metrics. In the second half of 2011, we saw a recovery of our network, and this set the stage for certain record setting operating metrics in the fourth quarter of 2011.

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GTMs for 2011 were 247,955 million, which increased by 2% compared with 242,757 million in 2010. This increase was primarily due to traffic mix changes. GTMs for 2010 were 242,757 million, which increased by 16% compared with 209,475 million in 2009. This increase was primarily due to an increase in traffic across all lines of business, other than grain which was relatively flat year-over-year.

Train miles for 2011 were relatively flat year-over-year. Train miles for 2010 increased by 14% compared with 2009. This increase was primarily due to increased traffic volumes and was partially offset by management s strategy of consolidating and running longer, heavier trains.

The average number of active expense employees for 2011 increased by 290, or 2%, compared with 2010. This increase was primarily due to additional hiring to address volume growth projections and attrition. The average number of active expense employees for 2010 increased by 260, or 2%, compared with 2009. This increase was primarily due to higher traffic volumes resulting from a stronger economy.

The average daily active cars on-line was relatively flat year-over-year. In the fourth quarter of 2011, there was a 14% improvement in average daily active cars on-line compared to the same period of 2010, reflecting improvements in dwell and speed. The average daily active cars on-line for 2010 increased by approximately 4,300 cars, or 9%, compared with 2009. This increase was primarily due to an increase in traffic across all lines of business, other than grain which was relatively flat.

The average daily active road locomotives on-line for 2011 increased by 69 units, or 7%, compared with 2010. This was primarily due to significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year which reduced network speed and added train miles for rerouting of traffic. The second half of 2011 saw a return to more normalized numbers. The average daily active road locomotives on-line for 2010 increased by 231 units, or 29%, compared with 2009. This increase was primarily due to increased volumes, traffic mix, and supply chain pipeline issues.

Average train speed was 21.3 miles per hour in 2011, a decline of 6%, from 22.7 miles per hour in 2010. This decline 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 and flooding in the first half of the year. The fourth quarter average train speed improved by 8% compared to the same period of 2010. Average train speed was 22.7 miles per hour in 2010, a decline of 11%, from 25.4 miles per hour in 2009. This decline was primarily due to increased volumes, traffic mix, and supply chain pipeline issues.

Average terminal dwell, the average time a freight car resides in a terminal, improved by 7% in 2011 to 19.9 hours, from 21.4 hours in 2010. In addition to the year-over-year improvements in terminal dwell, we realized a 20% reduction in the fourth quarter of 2011 compared to the same period of 2010, a record for CP. Average terminal dwell improved by 2% in 2010 when compared to 2009. These improvements were primarily due to programs supporting the execution of our IOP designed to improve asset velocity and a continued focus on the storage of surplus cars.

Car miles per car day were 160.1 in 2011, relatively flat compared to 159.4 in 2010. This was primarily due to poor operating fluidity due to significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year and was partially offset by various initiatives in the design and execution of our IOP focused on improving asset velocity. Our fourth quarter car miles per car day improved 20% compared to the same period in 2010, this was a record for CP. Car miles per car day were 159.4 in 2010, an increase of 12% from 142.6 in 2009. This increase was primarily due to various initiatives in the design and execution of our IOP focused on improving asset velocity.

Fuel efficiency declined by 1% in 2011 compared to 2010. This decline was primarily due to significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year. This decline was partially offset by the new fuel savings technology introduced on over 260 locomotives and continued focus on fuel conservation programs including idle reduction and train handling practices. Our fourth quarter fuel efficiency improved 3% compared to the same period of 2010. Fuel efficiency improved by 2% in 2010 compared with 2009. This improvement was primarily due to new fuel saving technology introduced on 200 locomotives and continued focus on fuel conservation programs including idle reduction and train handling practices.

Average train weight improved 1% to 6,593 tons in 2011 compared to 2010. This improvement was primarily due to our continued implementation of the long-train strategy in the bulk franchise. This was a record for CP. Average train weight improved in 2010 by 103 tons or 2% from 2009. This improvement was primarily due to increased traffic volumes and management s strategy of consolidating and running longer, heavier trains.

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Average train length was relatively flat year over year. Average train length increased in 2010 by 52 feet or 1% from 2009. This increase was primarily due to increased traffic volumes and management s strategy of consolidating and running longer, heavier trains.

Locomotive productivity, as measured by daily average GTMs per active horse power, decreased in 2011 by 6% from 2010. This decrease was primarily due to significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year. Locomotive productivity decreased in 2010 by 10.8 or 6% from 2009. The decrease in 2010 was mainly due to increased traffic volumes and supply chain issues.

Employee productivity, as measured by million GTMs per expense employee, was unchanged in 2011, compared to 2010. Employee productivity increased in 2010 by 14% from 2009. The increase was primarily due to management s strategy of consolidating and running longer, heavier trains.

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, IT, and freight cars and other equipment. On an accrual basis, we invested approximately $2.6 billion in our core assets from 2009 to 2011, with annual capital spending over this period averaging approximately 18% of revenues. This included approximately $1.8 billion invested in track and roadway, $0.3 billion in rolling stock, $0.2 billion in other equipment, $0.2 billion in IT and $0.1 billion in buildings.

4.9.1 Locomotive Fleet

Our road locomotive fleet is comprised largely of high-adhesion alternating current (AC) locomotives, which are fuel efficient and have superior adhesion and haulage capacity best suited to CP s network, grades and profile of our book of business. Our locomotive fleet now includes 797 AC locomotives. While AC locomotives represent approximately 64% of our road-freight locomotive fleet, they handle approximately 84% of our workload. Our investment in AC locomotives has helped to improve service reliability and generate cost savings in fuel, equipment rents and maintenance.

The 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	201		2		203
6-10	274				274
11-15	239				239
16-20	83				83
Over 20		456	267	188	911
Total	**797**	**456**	**269**	**188**	**1,710**

4.9.2 Railcar Fleet

We own, lease or manage approximately 58,100 freight cars. Approximately 17,000 are owned by CP, approximately 6,700 are hopper cars owned by Canadian federal and provincial government agencies, approximately 14,900 are leased on a short-term basis and 19,500 are held under long-term leases. Short-term leases on approximately 8,000 cars are scheduled to expire during 2012, and the leases on approximately 6,700 additional cars are scheduled to expire before the end of 2016.

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 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

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

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

4.11 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, 2011, 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.

4.12 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. FRA reporting guidelines. CP strives to continually improve its safety performance through key strategies and activities such as training and technology.

The FRA personal injury rate per 200,000 employee-hours for CP was 1.86 in 2011, 1.67 in 2010 and 1.92 in 2009. The increase in 2011 was primarily due to a higher number of minor injuries. The FRA train accident rate for CP in 2011 was 1.85 accidents per million train-miles, compared with 1.65 in 2010 and 1.81 in 2009. The increase in 2011 was primarily due to difficult operating conditions in the first half of the year.

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

4.13 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.

4.13.1 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 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 successfully 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, in 2008 and we are scheduled to be re-verified in 2012.

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4.13.2 Planning

We prepare an annual Corporate Environmental Plan and an 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.

4.13.3 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.

4.13.4 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$23 million.

4.13.5 Checking and Corrective Action

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

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

4.13.6 Management Review

Our Board of Directors Safety, Operations and Environment Committee conducts a semi-annual comprehensive review of environmental issues. An Environmental Lead Team, which is comprised of senior leaders of our Real Estate, Legal Services, Sales and Marketing, Finance, Operations, Supply Services, and Safety and Environmental Services departments, meets quarterly to review environmental matters.

4.13.7 Expenditures

We spent $38 million in 2011 for environmental management, including amounts spent on ongoing operations, fuel conservation, capital upgrades and remediation.

4.14 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.

4.15 Competitive Conditions

For a discussion of CP s competitive conditions in which we operate, please refer to the subsection titled Competition under Section 21, Business Risks in our MD&A, which subsection is incorporated by reference herein.

SECTION 5: DIVIDENDS

5.1 Declared Dividends and Dividend Policy

Dividends

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

Dividend amount	Record date	Payment date
$0.3000	March 30, 2012	April 30, 2012
$0.3000	December 30, 2011	January 30, 2012
$0.3000	September 30, 2011	October 31, 2011
$0.3000	June 24, 2011	July 25, 2011
$0.2700	March 25, 2011	April 25, 2011
$0.2700	December 31, 2010	January 31, 2011
$0.2700	September 24, 2010	October 25, 2010
$0.2700	June 25, 2010	July 26, 2010
$0.2475	March 26, 2010	April 26, 2010
$0.2475	December 31, 2009	January 25, 2010
$0.2475	September 25, 2009	October 26, 2009
$0.2475	June 26, 2009	July 27, 2009
$0.2475	March 27, 2009	April 27, 2009

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

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SECTION 6: CAPITAL STRUCTURE

6.1 Description of Capital Structure

The Company is authorized to issue an unlimited number of Common Shares, an unlimited number of First Preferred Shares and an unlimited number of Second Preferred Shares. At December 31, 2011, no First or Second Preferred Shares had been issued.

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

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

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

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

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

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

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

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

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

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

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

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

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SECTION 6: CAPITAL STRUCTURE

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

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

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

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

6.2 Security Ratings

The following information relating to the Company s credit ratings is provided as may relate to the Company s financing costs, liquidity and operations. Specifically, credit ratings affect the Company s ability to obtain short-term and long-term financing and/or the cost of such financing. 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.

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

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

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SECTION 6: CAPITAL STRUCTURE

The ratings provided by each of Standard & Poor s Corporation, Moody s Investors Service and Dominion Bond Rating Service have a stable outlook.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities and are indicators of the likelihood of payment and of the capacity and willingness of a company to meet its financial commitment on an obligation in accordance with the terms of the obligation. A description of the rating categories of each of the rating agencies in the table above is set out below.

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

The following table summarizes rating categories for respective rating agencies:

Moody s Investors Service	**Standard & Poor s**	**Dominion Bond Rating Service**	
Aaa	AAA	AAA	
Aa1	AA+	AA(high)	
Aa2	AA	AA	High Investment Grade
Aa3	AA-	AA(low)	
A1	A+	A(high)	
A2	A	A	
A3	A-	A(low)	
Baa1	BBB+	BBB(high)	
Baa2	BBB	BBB	Investment Grade
Baa3	BBB-	BBB(low)	
Ba1	BB+	BB(high)	
Ba2	BB	BB	
Ba3	BB-	BB(low)	
B1	B+	B(high)	Below Investment

B2	B	B	Grade
B3	B-	B(low)	
Caa	CCC	CCC	
Ca	CC	CC	
C	C	C	

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SECTION 7: MARKET FOR SECURITIES

7.1 Stock Exchange Listings

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

7.2 Trading Price and Volume

The following table provides the monthly trading information for our Common Shares on the Toronto Stock Exchange during 2011:

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	65.71	69.48	63.98	67.17	8,224,834
February	67.15	68.04	64.53	65.94	6,593,948
March	66.11	66.22	61.04	62.32	15,108,139
April	62.36	63.40	59.60	62.75	10,296,421
May	62.94	63.66	58.78	61.40	12,755,665
June	61.05	61.28	57.09	60.17	9,782,995
July	60.63	61.58	58.00	61.01	11,419,729
August	60.50	60.67	53.62	56.24	17,233,572
September	56.34	56.55	46.01	50.52	15,912,432
October	50.10	65.86	47.58	61.61	23,730,542
November	60.00	63.34	56.82	61.46	14,972,166
December	61.58	69.45	60.61	69.01	11,713,237

The following table provides the monthly composite trading information for our Common Shares on the New York Stock Exchange during 2011:

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	65.29	69.92	63.88	67.13	8,314,500
February	67.67	69.07	65.64	67.98	5,720,743
March	68.12	68.12	61.97	64.34	17,421,834
April	64.55	66.48	61.57	66.24	11,028,707
May	66.42	66.99	60.34	63.51	10,349,303
June	63.04	63.21	58.13	62.32	12,485,224
July	62.30	64.78	60.61	63.86	12,010,602
August	64.40	64.61	54.20	57.42	22,841,542
September	57.59	58.06	44.74	48.09	29,267,747
October	47.34	66.20	44.98	61.88	56,468,424
November	59.23	62.54	55.31	60.18	18,442,407
December	60.42	68.12	59.62	67.67	16,593,665

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SECTION 8: DIRECTORS AND OFFICERS

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

8.1 Directors

Name and Municipality of Residence	Position Held and Principal Occupation within the Preceding Five Years [1]	Year of Annual Meeting at which Term of Office Expires (Director Since)
J.E. Cleghorn, O.C., F.C.A.[3] Toronto, Ontario, Canada	Chairman, Canadian Pacific Railway Limited and Canadian Pacific Railway Company	2012 (2001)
T.W. Faithfull[3][4][5] Oxford, Oxfordshire, England	Retired President and Chief Executive Officer Shell Canada Limited (integrated oil and gas company)	2012 (2003)
R.L. George[5][6] Calgary, Alberta, Canada	Chief Executive Officer Suncor Energy Inc. (integrated energy company)	2012 (2011)
F.J. Green[4] Calgary, Alberta, Canada	President and Chief Executive Officer, Canadian Pacific Railway Limited and Canadian Pacific Railway Company	2012 (2006)
E.L. Harris[4][6] Spring Lake, Michigan, U.S.A.	Retired Executive Vice President and Chief Operations Officer, Canadian Pacific Railway Limited	2012 (2011)
K.T. Hoeg, C.A.[2][6] Toronto, Ontario, Canada	Former President and Chief Executive Officer of Corby Distilleries Limited (marketer and seller of spirits and wine)	2012 (2007)
T.L. Ingram[4][5] Jacksonville, Florida, U.S.A.	Former Executive Vice President and Chief Operating Officer, CSX Transportation Inc. (class 1 railroad)	2012 (2011)
R. C. Kelly[2][3][4] Denver, Colorado, U.S.A.	Retired Chairman and Chief Executive Officer Xcel Energy Inc. (a utility supplier of electric power and natural gas service)	2012 (2008)
The Hon. J.P. Manley, O.C.[2][3][6] Ottawa, Ontario, Canada	President and Chief Executive Officer, Canadian Council of Chief Executives (non-profit public policy, consultation and advocacy organization)	2012 (2006)
L.J. Morgan[2][4] Bethesda, Maryland, U.S.A.	Partner, Nossaman LLP (law firm)	2012 (2006)
M. Paquin[4][5] Montreal, Quebec, Canada	President and Chief Executive Officer, Logistec Corporation (international cargo-handling company)	2012 (2001)
M.E.J. Phelps, O.C.[3][5][6] West Vancouver, B.C., Canada	Chairman, Dornoch Capital Inc. (private investment company)	2012 (2001)
R. Phillips, O.C., S.O.M., F.Inst.P. [2][3][6] Regina, Saskatchewan, Canada	Retired President and Chief Executive Officer, IPSCO Inc. (steel manufacturing company)	2012 (2001)
D.W. Raisbeck[5][6] Sanibel, Florida, U.S.A	Retired Vice-Chairman, Cargill Inc. (producer and marketer of agricultural, financial and industrial products)	2012 (2009)

H.T. Richardson, C.M., O.M.(2)(4) Winnipeg, Manitoba, Canada	President and Chief Executive Officer, James Richardson & Sons, Limited (privately owned corporation)	2012 (2006)

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SECTION 8: DIRECTORS AND OFFICERS

Notes:

(1) J.E. Cleghorn was Chairman of the Board of SNC-Lavalin Group from May 2002 until May 2007. K.T. Hoeg was President and Chief Executive Officer of Corby Distilleries Limited from October 1996 to February 2007. R.C. Kelly was Chairman and Chief Executive Officer of Xcel Energy Inc. from September 2009 until September 2011, and was its Chairman of the Board, President and Chief Executive Officer from December 2005 until September 2009. The Hon. J.P. Manley was counsel at the law firm of McCarthy Tetrault LLP from May 2004 until December 2009. L.J. Morgan was Of Counsel (from February 2010 until September 2011), and before that a Partner (from September 2003 until February 2010), at the U.S. law firm of Covington & Burling LLP. D.W. Raisbeck was Vice-Chairman of Cargill Inc. from 1999 to 2009.

(2) Member of the Audit, Finance and Risk Committee.

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

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

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

(6) Member of the Pension Committee.

8.2 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

As a result of the announcement in May 2004 by Nortel Networks Corporation and Nortel Networks Limited (collectively, the Nortel Companies) of the need to restate certain of their previously reported financial results and the resulting delays in filing interim and annual financial statements for certain periods by the required filing dates under Ontario securities laws, the Ontario Securities Commission made a final order on May 31, 2004 prohibiting all trading by directors, officers and certain current and former employees including J.E. Cleghorn and J.P. Manley, both former directors. The Quebec and Alberta Securities commissions issued similar orders. The cease trade order issued by the Ontario Securities Commission was revoked on June 21, 2005. The Quebec and Alberta orders were revoked shortly thereafter. Mr. Cleghorn and Mr. Manley were not subject to the Quebec and Alberta orders. Following the March 10, 2006 announcement by the Nortel Companies of the need to restate certain of their previously reported financial results and the resulting delay in the filing of certain 2005 financial statements by the required filing dates, the Ontario Securities Commission issued a final management cease trade order on April 10, 2006 prohibiting all of the directors, officers and certain current and former employees including Mr. Cleghorn and Mr. Manley from trading in the securities of the Nortel Companies. The British Columbia and Quebec Securities commissions issued similar orders. The Ontario Securities Commission lifted the cease trade order effective June 8, 2006 and the British Columbia and the Quebec Securities commissions also lifted their cease trade orders shortly thereafter. Mr. Cleghorn and Mr. Manley were not subject to the British Columbia and Quebec orders.

Mr. Manley was a director of the Nortel Companies when the Nortel Companies applied for and was granted creditor protection under the Companies Creditors Arrangement Act on January 14, 2009.

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.

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SECTION 8: DIRECTORS AND OFFICERS

8.3 Senior Officers

As at March 5, 2012, the following were executive officers of CP:

Name and municipality of residence	Position held	Principal occupation within the preceding five years
J. E. Cleghorn, O.C., F.C.A. Toronto, Ontario, Canada	Chairman	Chairman, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Chairman, SNC-Lavalin Group Inc. (international engineering and construction firm)
F. J. Green Calgary, Alberta, Canada	President and Chief Executive Officer	President and Chief Executive Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited
J. M. Franczak Calgary, Alberta, Canada	Executive Vice- President and Chief Operations Officer	Executive Vice-President and Chief Operations Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Executive Vice-President Operations, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Senior Vice-President, Operations, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Group Vice-President, Operations, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President Operations, Canadian Pacific Railway Company; Vice-President, Transportation, Canadian Pacific Railway Company; Assistant Vice-President, Transportation, Canadian Pacific Railway Company
K. B. McQuade Mesquite, Nevada, U.S.A.	Executive Vice- President and Chief Financial Officer	Executive Vice-President and Chief Financial Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Executive Vice-President and Chief Operating Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Executive Vice-President and Chief Information Officer, Norfolk Southern Corporation
J. A. O Hagan Calgary, Alberta, Canada	Executive Vice-President and Chief Marketing Officer	Executive Vice-President and Chief Marketing Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Senior Vice-President, Marketing and Sales and Chief Marketing Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Senior Vice-President, Strategy and Yield, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President, Strategy and External Affairs, Canadian Pacific Railway Company; Vice-President, Strategy, Research and New Market Development, Canadian Pacific Railway Company

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SECTION 8: DIRECTORS AND OFFICERS

Name and municipality of residence	Position held	Principal occupation within the preceding five years
D. B. Campbell Calgary, Alberta, Canada	Senior Vice-President, Strategy and Financial Planning	Senior Vice-President Strategy and Financial Planning, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President, Finance, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President, Corporate Planning, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President Business Planning and Development, Canadian Pacific Railway Company
B. W. Grassby Calgary, Alberta, Canada	Senior Vice-President, Finance	Senior Vice-President Finance, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Senior Vice-President Finance and Comptroller, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President and Comptroller, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Acting Chief Financial Officer and Vice-President and Comptroller, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President and Comptroller, Canadian Pacific Railway Company and Canadian Pacific Railway Limited
J. D. Kampsen Calgary, Alberta, Canada	Vice-President and Comptroller	Vice-President and Comptroller, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Director of Finance, FedEx Corporation
M. G. Allison Calgary, Alberta, Canada	Vice-President and Treasurer	Vice-President and Treasurer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President and Treasurer, Suncor Energy, Inc.; Vice-President Process Integration, Suncor Energy Inc.; Vice-President Business Services - Natural Gas & Renewable Energy, Suncor Energy Inc.
P. J. Edwards Calgary, Alberta, Canada	Vice-President, Human Resources and Industrial Relations	Vice-President Human Resources and Industrial Relations, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President Human Resources, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Vice-President Human Resources, Canadian National Railway Company
P. A. Guthrie, Q.C. Municipal District of Rockyview, Alberta, Canada	Vice-President, Law and Risk Management	Vice-President, Law and Risk Management, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Assistant Vice-President Legal Services, Canadian Pacific Railway Company
K. L. Fleming Calgary, Alberta, Canada	Corporate Secretary	Corporate Secretary, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Associate Corporate Secretary, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Legal Counsel Labour & Employment Coordinator, Canadian Pacific Railway Company

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SECTION 8: DIRECTORS AND OFFICERS

8.4 Shareholdings of Directors and Officers

As at December 31, 2011, the directors and executive officers of CPRL owned or controlled a total of 122,465 shares representing approximately 0.07% of the outstanding shares at that date 169,993,842.

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SECTION 9: LEGAL PROCEEDINGS

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

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SECTION 10: TRANSFER AGENTS AND REGISTRARS

10.1 Transfer Agent

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

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

Requests for information should be directed to:

Computershare Investor Services Inc.

100 University Avenue, 9th Floor

Toronto, Ontario Canada

M5J 2Y1

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SECTION 11: INTERESTS OF EXPERTS

Deloitte & Touche LLP, Independent Registered Chartered Accountants, Calgary, Alberta, was appointed as the Company s external auditor on May 12, 2011 and have issued their audit opinion dated February 28, 2012, in respect of the Company s consolidated financial statements as of and for the year ended December 31, 2011.

Deloitte & Touche 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 are independent within the meaning of the rules of the Securities Act of 1933, as amended, and the applicable rules and regulations adopted by the U.S. Securities and Exchange Commission and the Public Company Accounting Oversight Board (United States).

The Company s former independent auditors were PricewaterhouseCoopers LLP, Chartered Accountants. PricewaterhouseCoopers LLP has issued an independent auditor s report dated February 24, 2011 on the consolidated balance sheet of the Company as at December 31, 2010 and the consolidated statements of income, comprehensive income, cash flows, and changes in shareholders equity for each of the two years in the period ended December 31, 2010. PricewaterhouseCoopers LLP has advised that they were independent with respect to CP within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta and within the meaning of Public Company Accounting Oversight Board Rule 3520, Auditor Independence.

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SECTION 12: AUDIT, FINANCE AND RISK COMMITTEE

12.1 Composition of the Audit, Finance and Risk Committee and Relevant Education and Experience

The following individuals comprise the entire membership of the Audit, Finance and Risk Committee (the Committee).

K. T. Hoeg Ms. Hoeg is the former President and Chief Executive Officer of Corby Distilleries Limited, a marketer and seller of spirits and wine, a position that she held from October 1996 to February 2007. She is currently a director of Imperial Oil Limited, Sun Life Financial Inc., Shoppers Drug Mart Corporation, Ganong Bros. Limited and Samuel, Son & Co., Limited. She is also on the Board of the Toronto East General Hospital. Ms. Hoeg is a Chartered Accountant (1982) and holds a B.Sc. from McMaster University, and a B.Com. and an M.Sc. from the University of Windsor.

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

The Hon. J. P. Manley Mr. Manley is President and Chief Executive Officer of the Canadian Council of Chief Executives. He has held that position since January 2010. From May 2004 to December 2009 he was counsel at the law firm of McCarthy Tétrault LLP. He is a director of Canadian Imperial Bank of Commerce, CAE Inc. and a director and Board Chair of Optosecurity Inc. (a private company). In addition, Mr. Manley serves on the Boards of MaRS Discovery District, National Arts Center Foundation, CARE Canada, The Conference Board of Canada and the Institute for Research on Public Policy. In October 2007 he was appointed by the Prime Minister to Chair the Independent Panel on Canada s role in Afghanistan. Mr. Manley was previously the Member of Parliament for Ottawa South from November 1988 to June 2004. As a Member of Parliament, Mr. Manley also held various positions in the Canadian Federal Government, including Deputy Prime Minister of Canada from January 2002 to December 2003, Minister of Finance from June 2002 to December 2003, Minister of Foreign Affairs from October 2000 to January 2002 and Minister of Industry prior thereto. He graduated from Carleton University with a B.A. and from the University of Ottawa with an LL.B. He was granted the designation C.Dir (Chartered Director) by McMaster University in 2006.

L. J. Morgan Ms. Morgan is a Partner at Nossaman LLP, a premier transportation infrastructure law firm based in the United States, where she plays a key role in the firm s transportation and public policy practices. Prior to joining Nossaman in September of 2011, she was Of Counsel, and before that a Partner, at Covington & Burling LLP, a United States based international law firm, where she chaired its transportation and government affairs practices. She also serves on the Board of Visitors for the Georgetown University Law Centre and the Business Advisory Committee for Northwestern University s Transportation Centre. Ms. Morgan was previously Chairman of the United States Surface Transportation Board, and its predecessor the Interstate Commerce Commission, from March 1995 to December 2002. Prior to joining the Interstate Commerce Commission, Ms. Morgan served as General Counsel to the Senate Committee on Commerce, Science and Transportation. Ms. Morgan has been granted the honour of Recognition in Chambers USA, Best Lawyers in America, and SuperLawyers for outstanding legal counsel in the transportation sector. She graduated from Vassar College with an A.B. and the Georgetown University Law Centre with a J.D., and is an alumna of the Program for Senior Managers in Government at Harvard University s John F. Kennedy School of Government.

R. Phillips Mr. Phillips is the Retired President and Chief Executive Officer of IPSCO Inc., a steel manufacturing company. He held that position from February 1982 until his retirement in December 2001. He is currently a director of Cliffs Natural Resources. Mr. Phillips is a Fellow of the Institute of Physics and a Member of the Canadian Association of Physicists. He is also President of La Sauciere Investments Inc., a private company. He was appointed an Officer of the Order of Canada in 1999 and was presented with the Saskatchewan Order of Merit in 2002. He graduated from McGill University in Montreal with a B.Sc. in Physics and Mathematics.

H.T. Richardson Mr. Richardson is President and Chief Executive Officer of James Richardson & Sons, Limited, a privately owned corporation involved in the international grain trade, real estate, oil and gas development, financial services, and private equity investments. He has held that position since April 1993. Mr. Richardson is a director of GMP Capital Inc. and Zalicus Inc. He is Chairman of the Canadian Council of Chief Executives; Past Chairman of the Business Council of Manitoba; Co-Chairman of TransCanada Trail Foundation; and Chairman of the Board of Governors for The Duke of Edinburgh s Award Charter for Business. Mr. Richardson s other affiliations include: The World Economic Forum, Global Leaders of Tomorrow, and the Young President s Organization. He is involved in a number of charitable endeavours and community organizations. He graduated from the University of Manitoba in

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SECTION 12: AUDIT, FINANCE AND RISK COMMITTEE

Winnipeg with a B.Com. (Hons.). The University of Manitoba conferred upon Mr. Richardson the honorary degree of Doctor of Laws in 2004. He was appointed to the Order of Canada in 2007 and to the Order of Manitoba in 2008.

Each of the aforementioned committee members has been determined by the board to be independent and financially literate within the meaning of National Instrument 52-110.

12.2 Pre-Approval of Policies and Procedures

The Committee has adopted a written policy governing the pre-approval of audit and non-audit services to be provided to CP by our independent auditors. The policy is reviewed annually and the audit and non-audit services to be provided by our independent auditors, as well as the budgeted amounts for such services, are pre-approved at that time. Our Senior Vice-President, Finance 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, Finance and Risk 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, Finance and Risk 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, and in relation to risk management matters 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, and risk management;
- the Corporation s compliance with 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.

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 six Directors, 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, set forth in

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SECTION 12: AUDIT, FINANCE AND RISK COMMITTEE

applicable securities laws or the rules of any stock exchange on which the Corporation s securities are listed for trading. No director who serves on the audit committee of more than two public companies other than the Corporation shall be eligible to serve as a member of the Committee, unless the Board of Directors has determined that such simultaneous service would not impair the ability of such member to effectively serve on the Committee. Determinations as to whether a particular Director satisfies the requirements for membership on the Committee shall be affirmatively made by the full Board.

3. Appointment of Committee Members

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

4. Committee Chair

The Board shall appoint a Chair for the Committee from among the Committee members.

5. 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.

6. Secretary of Committee

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

7. 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. In addition, the Chair of the Committee may call a special meeting of the Committee at any time.

8. Quorum

Three members of the Committee shall constitute a quorum.

9. 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.

10. 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.

11. 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 meeting of the Board). The minutes of its meetings shall be tabled at the next meeting of the Board.

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SECTION 12: AUDIT, FINANCE AND RISK COMMITTEE

12. Delegation

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

13. Report to Shareholders

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

14. 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.

15. 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.

16. 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

17. 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 legal and regulatory requirements. The external auditors are responsible for auditing the Corporation s financial statements. In carrying out its oversight responsibilities, the Committee does not provide any professional certification or special assurance as to the Corporation s financial statements or the external auditors work.

The Committee shall:

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SECTION 12: AUDIT, FINANCE AND RISK COMMITTEE

Audit Matters

External Auditors Report on Annual Audit

a) obtain and review annually prior to the completion of the external auditors annual audit of the year-end financial statements a report from the external auditors describing:

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

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

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

Management s/Internal Auditors Reports on External Audit Issues

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

Annual Financial Reporting Documents and External Auditors Report

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

(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 of the Corporation s internal controls and any special steps adopted in light of material control deficiencies; and

(v) the external auditors judgment about the 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 of Directors whether to approve the audited annual financial statements of the Corporation and the related Management s Discussion and Analysis, and report to the Board on the review by the Committee of the information derived from the financial statements contained in the Annual Information Form and Annual Report;

Interim Financial Statements and MD&A

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

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SECTION 12: AUDIT, FINANCE AND RISK COMMITTEE

Earnings Releases, Earnings Guidance

f) review and discuss earnings press releases, including the use of pro forma or adjusted information determined other than in accordance with generally accepted accounting principles, and the disclosure by the Corporation of earnings guidance and other financial information to the public including analysts and rating agencies, it being understood that such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and that the Committee need not discuss in advance each earnings release or each instance in which the Corporation discloses earnings guidance or other financial information; and be satisfied that adequate procedures are in place for the review of such public disclosures and periodically assess the adequacy of those procedures;

Material Litigation, Tax Assessments, Etc.

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

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, 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;

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SECTION 12: AUDIT, FINANCE AND RISK COMMITTEE

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 these 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 meeting following the granting any pre-approvals granted pursuant to such delegated authority;

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

o) review the external auditors engagement letter;

Oversight of Internal Audit

p) oversee the internal audit function by reviewing senior management action with respect to the appointment or dismissal of the Chief Internal Auditor; afford the Chief Internal Auditor unrestricted access to the Committee; review the charter, activities, organizational structure, and the skills and experience of the Internal Audit Department; discuss with management and the external auditors the competence, performance and cooperation of the internal auditors; and discuss with management the compensation of the internal auditors;

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

Internal Controls and Financial Reporting Processes

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

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

Complaints Processes

t) establish procedures for:

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

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

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

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SECTION 12: AUDIT, FINANCE AND RISK COMMITTEE

Separate Meetings with External Auditors, Internal Audit, Management

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

Finance

v) review all major financings, including financial statement information contained in related prospectuses, information circulars, etc., of the Corporation and its subsidiaries and annually review the Corporation s financing plans and strategies;

w) review management s plans with respect to Treasury operations, including such items as financial derivatives and hedging activities;

Risk

x) 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;

y) review management s program to obtain appropriate insurance to mitigate risks;

Terms of Reference and Performance Evaluation of Committee

z) review and reassess the adequacy of these Terms of Reference at least annually, and otherwise as it deems appropriate, and recommend changes to the Board. The Committee shall also undertake an annual evaluation of the Committee s performance.

Other

aa) 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.

bb) Report regularly to the Board of Directors on the activities of the Committee.

August 5, 2011

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SECTION 12: AUDIT, FINANCE AND RISK COMMITTEE

12.4 Audit and Non-Audit Fees and Services

Deloitte & Touche LLP (Deloitte) was appointed as the independent public auditor of the Company in May 2011 for fiscal year 2011. Prior to May 2011, and for fiscal years prior to 2011, PricewaterhouseCoopers LLP (PWC) was the independent public auditor of the Company.

In accordance with applicable laws and the requirements of stock exchanges and securities regulatory authorities, the audit committees of the Company must pre-approve all audit and non-audit services to be provided by the independent auditors.

Fees payable for the years ended December 31, 2011, and December 31, 2010, totaled $2,525,500 and $2,525,200, respectively, as detailed in the following table:

For the year ended December 31	Deloitte[(1)] 2011	PWC[(2)] 2011	**Total 2011**	Total[(3)] 2010
Audit Fees	$ 1,612,600	$ 56,200	**$ 1,668,800**	$ 1,795,600
Audit-Related Fees	251,000	100,500	**351,500**	388,400
Tax Fees	50,000	155,200	**205,200**	341,200
All Other Fees	300,000		**300,000**	
TOTAL	$ 2,213,600	$ 311,900	**$ 2,525,500**	$ 2,525,200

(1) Includes fees paid to Deloitte for the fiscal year ended December 31, 2011 beginning after the appointment of Deloitte as principal auditor in May 2011.

(2) Includes fees paid to PWC for the fiscal year ended December 31, 2011 up to the appointment of Deloitte as principal auditor in May 2011.

(3) Includes fees paid to PWC for the fiscal year ended December 31, 2010.

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 of CP s annual financial statements and services provided in connection with statutory and regulatory filings or engagements, including the attestation engagement for the independent auditors report on the effectiveness of internal controls over financial reporting.

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: the audit or review of financial statements of certain subsidiaries and of various pension and benefits plans of CP; special attestation services as may be required by various government entities; access fees for technical accounting database resources; and general advice and assistance related to accounting and/or disclosure matters with respect to new and proposed U.S. and Canadian accounting standards, securities regulations, and/or laws.

12.4.3 Tax Fees

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

12.4.4 All Other Fees

Fees disclosed under this category would be for products and services other than those described under Audit Fees , Audit-Related Fees and Tax Fees above. These services consisted of services in connection with our business interruption and property damage claim.

SECTION 13: FORWARD-LOOKING INFORMATION

This AIF contains certain forward-looking statements within the meaning of the *Private Securities Litigation Reform Act of 1995* (U.S.) and other relevant securities legislation relating, but not limited to expected improvements in operating efficiency and fluidity, the ability of information technology 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 to not place undue reliance on forward-looking information because it is possible that actual results will be different from our forward-looking information. In addition, except as required by law, we undertake no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information in this document involves numerous assumptions, inherent risks and uncertainties, including but not limited to the following factors: the ability to implement cost-cutting and efficiency initiatives, the effectiveness of new information technology and estimates of future costs.

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SECTION 14: ADDITIONAL INFORMATION

14.1 Additional Company Information

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

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

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

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

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NETWORK MAP

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CHAIRMAN S LETTER TO SHAREHOLDERS

The Board of Directors recognizes that strong and experienced leadership is critical to drive shareholder value and to advance the best interests of Canadian Pacific s investors, its employees, its customers and all other stakeholders.

CP s independent Board is composed of directors with extensive, relevant experience in railroads and complementary industries including energy, natural resources, food and agriculture, as well as leaders from the fields of law, government, banking and finance. During the past year, the Board was pleased to announce the addition of Rick George. Mr. George is the Chief Executive Officer of Suncor Energy, Canada s largest integrated energy company, a position he has held since 1991. Rick has had significant experience with the rail industry, as Suncor is both a supplier of fuel to the industry and a shipper of petroleum products by rail.

In 2011, the Board also announced the addition of Tony Ingram and Ed Harris, seasoned railroad executives who served at four of the seven Class I railroads in North America and together bring over 80 years of rail experience. Mr. Ingram and Mr. Harris have joined the Safety, Operations and Environment Committee, tasked by the Board with monitoring the progress of the Multi-Year Plan developed by management and fully endorsed by the Board. The additions of Rick, Tony and Ed have significantly strengthened our Board, and we look forward to benefiting from their broad range of experience for many years to come.

Under the close oversight of the Board, CP s management team has been aggressively and successfully executing on the Plan and its core pillars of driving volume growth, expanding network capacity to safely and efficiently support higher volumes, and controlling costs. The disciplined implementation has led to materially enhanced operational efficiency and further increased service quality and reliability, setting the stage for additional meaningful improvements of key operating and financial metrics going forward. These improvements will translate into enhanced value for shareholders.

The Board as well as the Safety, Operations and Environment Committee are encouraged by the Plan s most recent successes and will continue to hold CP s senior management fully accountable for reaching an Operating Ratio of 70 to 72 per cent for 2014 and delivering further improvements thereafter.

To ensure that we continue to fulfill our responsibility of advancing the interest of shareholders, we continue our director education program to further expand our knowledge of CP and the railway industry. Over the past year we have received regular reports and presentations involving the changing regulatory and business environment. We have also made site visits to enhance our first-hand knowledge of rail operations, including a tour of the world-class TTCI transportation research and testing facility focused on the transportation industry, which provides emerging technology solutions that are central to CP s strategy and Multi-Year Plan. I want to thank the directors for their ongoing, high level of engagement, their commitment to the railroad as well as for the extensive time they spend on CP matters every year.

Even through a challenging operating environment in 2011, CP has made great strides in the areas of governance, management and operations. The Board believes that Pershing Square s demand for management change would put at severe risk the significant forward momentum the Company is making on the Multi-Year Plan.

On behalf of the Board, I would like to extend our appreciation to Fred Green and his management team for aggressively and successfully implementing our Multi-Year plan and creating superior value for our shareholders and customers.

I also thank all employees of CP for their continued hard work and their unremitting commitment to safely delivering against our objectives, achieving new operational records, and setting new efficiency benchmarks.

Thank you for your continued support of CP.

Sincerely,

John E. Cleghorn, O.C., FCA

Chairman of the Board

March 5, 2012

CHIEF EXECUTIVE OFFICER S LETTER TO SHAREHOLDERS

Canadian Pacific s mission is to deliver value to our shareholders by aggressively and successfully executing on the Multi-Year Plan. CP s Multi-Year Plan is built on three pillars: driving volume growth, expanding network capacity to safely and efficiently support higher volumes and controlling costs. In addition, the Company is implementing its Multi-Year Plan through a focus on the organization s core beliefs: service, safety, productivity and efficiency, people and growth.

In 2011, CP s management team, with oversight from the Board of Directors, made meaningful progress in all three pillars of the Multi-Year Plan and we are beginning 2012 with operating momentum, excellent service and a stronger, more resilient rail network.

In the first half of 2011, the Company experienced extraordinary and prolonged weather that disrupted service and fluidity throughout the network. Our first priority was to re-establish the reputation for service which underpins our price and growth plans, and we have done just that. In grain, we filled 100 per cent of planned orders during the fourth quarter and achieved 92 per cent overall on-time daily car spotting. In Intermodal, we delivered on-time transcontinental train performance over 90 per cent during the fourth quarter.

CP also made improvements over the course of 2011 in our operating metrics, which are a leading indicator of both reliable service and financial results. Active cars online showed an improvement of 14 per cent versus fourth-quarter 2010 while handling five per cent more gross ton miles. We ended the year with record metrics in:

¨ Fuel efficiency of 1.17 gallons per 1,000 GTMs, matching the best-ever fourth-quarter performance;

¨ Train weights, which set a new full-year record; and

¨ Car miles per car day and terminal dwell, both fourth-quarter records, showing improvements of 20 per cent from the previous year.

CP has made further improvements to its operating metrics in 2012. The improvements in these and other metrics are early evidence that our Multi-Year Plan is producing the desired results and we expect further improvements as the Plan progresses.

In 2011, the first year of CP s post-recession multi-year capital program, we invested approximately $1.1 billion in our infrastructure. Under this program, we plan to invest between $1.1 and $1.2 billion in each of the next three years to deliver network improvements, locomotive upgrades and renewals, and enhanced information technology capability. The time, effort and capital invested in this program during 2011 contributed to CP achieving records in train weights, increased train speeds on our North Line and increased train lengths for export coal. These results are encouraging, but are only the first steps. We expect to see even greater operational and financial benefits as we deliver on years two, three and four of the capital program.

CP also finished the year with many successes in Marketing and Sales. During 2011, CP signed a number of commercial agreements with customers, terminal operators and ports that will drive supply chain improvement and enable growth. We have announced a new five-year agreement with Canadian Tire and a ten-year agreement with Canpotex. In addition, our scheduled grain program was successfully implemented in Canada.

CP is taking advantage of our network reach to expand markets for key bulk customers to meet Asian demand. We have used our Kansas City gateway and its Northeast U.S. destination points to extend our length of haul and increase revenue and profitability for oil and ethanol. Our successful market development activities have also enabled us to successfully take advantage of our access to the Bakken oil formation, the Marcellus gas formation and the Alberta oil sands area. As a result, CP is attracting new customers to invest in and ship energy-related products by rail. These products include crude oil, sulphur, fuels, diluents and materials key to the energy industry, such as frac sand and pipe. A key example of this kind of partnership is the recent announcement made by CP that it will be moving additional volumes of Bakken crude oil by unit train from the Van Hook logistics hub owned by the U.S. Development Group (USD), a high capacity facility that will become part of the largest crude by rail network in the US.

Given recent market successes and operating trends, in January we announced that we were able to narrow our operating ratio target for the next three years from the low 70s to 70-72 per cent, and we will not stop there as the Company achieves its goals, we will set new targets. This team s primary goal is to drive shareholder value by safely operating the business to realize our growth, service, and financial objectives.

Looking to 2012, CP expects to see continued strength in our operating performance and service reliability. These operating and service improvements are directly linked to the improved financial performance we expect starting in the first quarter of 2012. I would like to thank the employees of CP for their efforts in safely working through very challenging weather events in the first half of the year and delivering real operating improvements in the second half of 2011. We are already seeing the results of this hard work in 2012. In the year ahead, we are committed to delivering further operating improvement to drive enhanced financial performance and significant value for all stakeholders.

Sincerely,

Fred Green

President and Chief Executive Officer

March 5, 2012

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MANAGEMENT S DISCUSSION AND ANALYSIS

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, 2011 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, 2012

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

Unless otherwise indicated, all comparisons of results for 2011 and 2010 are against the results for 2010 and 2009, respectively. Unless otherwise indicated, all comparisons of results for the fourth quarter of 2011 are against the results for the fourth quarter of 2010.

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. Rail and intermodal transportation services are provided over a network of approximately 14,700 miles, serving the principal business centres of Canada from Montreal, Quebec, to Vancouver, British Columbia (B.C.), and the U.S. Northeast and Midwest regions. Our railway feeds directly into the U.S. heartland from the East and West coasts. Agreements with other carriers extend our market reach east of Montreal in Canada, throughout the U.S. and into Mexico. We transport bulk commodities, merchandise freight and intermodal traffic. Bulk commodities include grain, coal, sulphur and fertilizers. Merchandise freight consists of finished vehicles and automotive parts, as well as forest and industrial and consumer products. Intermodal traffic consists largely of high-value, time-sensitive retail goods in overseas containers that can be transported by train, ship and truck, and in domestic containers and trailers that can be moved by train and truck.

2. STRATEGY

Our vision is to become the safest and most fluid railway in North America. Our objective is to create long-term value for our customers, shareholders and employees by disciplined execution of our Integrated Operating Plan (IOP); by executing on our Multi-Year Plan which enhances and supports our IOP; and by aligning all parts of the organization around our five core beliefs:

- **Service:** Reliable and consistent service is our product. We are committed to executing our IOP in order to meet and exceed the needs of our customers in a cost-effective manner.
- **Safety:** There is no job at CP that is so important that we can t take the time to do it safely. Our comprehensive safety framework safeguards our employees, the communities we operate through, the environment and our customers freight enabling us to provide an effective transportation solution.
- **Productivity and Efficiency:** Based on a culture of continuous improvement and accountability, we are always looking for better, less costly, more reliable ways to operate our business.
- **People:** We pride ourselves in our well trained and knowledgeable team of railroaders. We are committed to executing the IOP and collaboratively working with our customers.
- **Growth:** We invest in our franchise to enhance productivity and service, which allows us to capitalize on growth opportunities with new and existing customers at low incremental cost.

Strategic Summary

We are taking a systematic approach to executing our strategy which is based on a disciplined execution of our IOP, the delivery of our Multi-Year Plan which supports the IOP and by ensuring clear accountabilities throughout the organization. CP s Multi-Year Plan provides a clear blueprint with three key elements: driving volume growth, expanding network capacity to safely and efficiently support higher volumes and cost control. This strategy and related investments have set us firmly on track to deliver on our goal of bringing CP s operating ratio down to 70% 72% for 2014, and we will strive for continued improvement beyond 2014.

Integrated Operating Plan

The IOP is the foundation of our railway operations. All key aspects of the operation are scheduled to drive service reliability and on-time shipment performance. This encompasses road train operations, our First Mile-Last Mile program and all mechanical, engineering and other maintenance activities. The IOP continues to be enhanced through Lean continuous improvement, simplification and standardization of business processes and improved information systems. Our IOP is supported by a culture of accountability built on clear established metrics tied to each position in the organization and incentives tied to performance.

The underlying design principles of the IOP are:

- **Velocity** keeping our assets moving through an efficient, scheduled 24/7 operation;
- **Balance** train and car movements are balanced daily in each corridor, yard and terminal, which drives efficiencies and asset velocity; and
- **Network** all aspects of the network s operation are optimized to drive the best service, safety, productivity and efficiency outcome.

We are continuing to improve the IOP with the following multi-year programs:

First Mile-Last Mile this program drives improvements in service, asset velocity and enables low-cost growth by reducing railcars and creating additional terminal capacity.

Scheduled Bulk we continue to schedule our bulk train operations as part of our IOP. In grain, our efforts involve leveraging our grain elevator footprint by scheduling all aspects of our grain shipments, including First Mile-Last Mile switching and bulk unit train operations, all centered around a simplified network of origin grain hubs.

Long Trains this program is driving increased train lengths; improving service, safety, productivity and efficiency.

It includes targeted infrastructure enhancements and the use of proprietary train marshaling software, which maximizes the use of distributed locomotive power.

Fuel Efficiency this program targets year-over-year improvements in fuel efficiency and reduced emissions. It consists of the acquisition of new locomotives, the remanufacturing of older locomotives and using new technologies which improve train handling and reduces idling. This program is enhanced by the disciplined execution of the IOP, improving velocity and driving fleet productivity.

Locomotive Reliability Centres we are consolidating the number of major locomotive repair facilities from eight to four highly efficient super shops which will result in improved maintenance capabilities, lower unit costs, reduced overheads and improved locomotive availability and reliability.

Markets

Our Multi-Year Plan is based on three major sources of growth: Asian demand for commodities; growth in energy production and North American economic growth.

Strong long-term fundamentals support our bulk commodities business as Asian economies develop, expand and diversify. We have 10-year contracts with both Teck for metallurgical coal and with Canpotex for export potash. We continue to develop our extensive grain network through expansions at existing high-throughput grain elevators, new elevator development and collaboration in planned expansion of oil seed processing.

In the energy sector, our franchise accesses the Bakken Oil Formation in North Dakota and Saskatchewan, the Alberta Industrial Heartland supporting the Oilsands, and the Marcellus Gas Formation in the northeastern U.S. and allows us to develop new long-haul markets. With the strong global demand for energy we are growing our shipments in crude oil, ethanol and energy-related inputs such as pipe and frac sand.

North American economic growth will result in additional opportunities in a number of lines of business, including intermodal, automotive and forest products. We are leveraging our relationships, capital investments and the disciplined execution of our IOP to enable growth in these markets. In addition, we continue to enhance our intermodal franchise by expanding on our co-location model and terminal network.

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Investments

CP is committed to the renewal of its infrastructure and making investments for productivity and growth through network enhancements, locomotive upgrades and information technology (IT) renewal. During 2011, we completed the first year of our multi-year accelerated capital program.

Our network investment plans include investing $75 to $100 million to increase the productivity in our Western Corridor which supports approximately 40% of our volumes. Our targeted infrastructure investments supports the operation of longer trains and enables low-cost growth.

In addition, approximately $250 million in upgrades over the next few years are underway on CP s North Line, running from Winnipeg, Manitoba to Edmonton, Alberta. This program will result in an increase in track speeds and will support productivity and growth in potash, grain, energy related products and intermodal. By upgrading this portion of the network, route miles for some shipments will be reduced by between 5% 10%. This upgrade will provide operating flexibility, with a second routing option for traffic currently traversing over the more southerly mainline, improving overall service reliability and network speed.

In order to capitalize on growth in energy, agriculture and potash shipments, we are investing approximately $90 million in enhancements to our North/ South corridors in the U.S. Midwest. These upgrades will increase capacity, enhance routing flexibility and lift the efficiency on all the business that travels on these lines. Similar to the North Line improvements, the investments will enhance network resiliency facilitating increased train speeds, car miles per car day, fuel efficiency and reducing terminal dwell.

Managing the movement of assets and information is a critical business process. Our multi-year IT program includes upgrades to our Shipment management and SAP suites. Predictive technologies will become important to driving even more efficiencies in field operations. These planned multi-year system upgrades position CP to enhance labour productivity, improve asset management and provide better shipment visibility to all parties.

CP has deployed a series of strategies expected to deliver a 1% 2% per year improvement in fuel efficiency. Our plans include: expanding the application of fuel trip optimizer technology that assist train crews in efficient train handling; remanufacturing a portion of our older yard and local locomotive fleet at a 3 for 4 replacement ratio; the introduction of new stop-start technology that will reduce cold weather idling; and the renewal of our mainline locomotive fleet. In addition to improved fuel efficiency, reduced emissions and enhanced service reliability, this program will result in a more homogeneous fleet, further enhancing shop productivity. The re-manufacturing of older units will enhance inter-operability allowing for further productivity gains.

Finance

To support the Multi-Year Plan, which includes an accelerated capital program, the Company has continued to focus its efforts on the balance sheet to provide financial flexibility and preserve its investment grade rating while maintaining a competitive dividend.

Over the last three years, we have made $1.85 billion of solvency deficit contributions of which $1.75 billion were voluntary pension prepayments to our main Canadian defined benefit pension plan in order to provide stability and reduce volatility of our future funding requirements. These pension prepayments are accretive to earnings and are tax efficient resulting in low cash taxes over the next several years.

Additional measures taken to mitigate our pension funding volatility include, reducing our asset allocation to public equities, increasing our asset/liability interest rate matching and implementing a dynamic de-risking plan that will further reduce our allocation to public equities as our funded ratio increases.

We have taken advantage of attractive interest rates and have tendered and refinanced a number of debt maturities by blending and extending them further into the future. As a result, we have no significant debt maturities over the next several years.

Principal sources of liquidity are generated from cash from operations and, where necessary, access to a recently negotiated $1 billion four year revolving credit agreement.

People

To successfully execute our strategy, Canadian Pacific is committed to investing in its people. We continue to promote an engaged and stable workforce through:

- an organizational structure that provides for clear accountability and alignment across all functions;
- an understanding and focus on our five core beliefs;
- selection and development of the right employee for a required role;
- training and appropriate resources for success; and
- appropriate salary and incentive program that rewards performance.

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2011 Summary

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

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

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

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

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

¨ financed our voluntary pension prepayment and new locomotives at very attractive interest rates; and

¨ delivered consistent dividend growth by increasing our quarterly dividend to common shareholders by 11%, from $0.27 to $0.30 in 2011.

3. FORWARD-LOOKING INFORMATION

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

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

By its nature, our forward-looking information involves numerous assumptions, inherent risks and uncertainties, including but not limited to the following factors: changes in business strategies; general North American and global economic and business conditions; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demands; 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; 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 liquidity of investments; various events that could disrupt operations, including severe weather, droughts, floods, avalanches and earthquakes; security threats and governmental response to them; and technological changes.

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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.

2012 Financial Assumptions

Defined benefit pension contributions are currently estimated to be between $100 million and $125 million in each of the next few years, a decrease from previous estimates of $125 million to $150 million. These contribution levels reflect the Company s intentions with respect to the rate at which we apply the voluntary prepayments to reduce contribution requirements. Defined benefit pension expense for 2012 is expected to be $41 million. For 2013, defined benefit pension expense is expected to be approximately $125 million, assuming normal equity market returns and modest increases in bond yields in 2012, discussed further in Section 22, Critical Accounting Estimates.

It is expected that expenditures on capital programs will be in the range of $1.1 billion to $1.2 billion in 2012, discussed further in Section 14, Liquidity and Capital Resources.

A tax rate in the range of 25% to 27% is expected in 2012, discussed further in Section 10, Other Income Statement Items. Undue reliance should not be placed on these assumptions and other forward-looking information.

4. ADDITIONAL INFORMATION

Additional information, including our Consolidated Financial Statements, Annual Information Form, press releases and other required filing documents, 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. The aforementioned documents are issued and made available in accordance with legal requirements and are not incorporated by reference into this MD&A.

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5. FINANCIAL HIGHLIGHTS

For the year ended December 31

(in millions, except percentages and per share data)	**2011[1]**	2010	2009[2]
Revenues	**$ 5,177**	$ 4,981	$ 4,402
Operating income	**967**	1,116	830
Net income	**570**	651	550
Basic earnings per share	**3.37**	3.86	3.31
Diluted earnings per share (EPS)	**3.34**	3.85	3.30
Dividends declared per share	**1.1700**	1.0575	0.9900
Return on capital employed (ROCE[3])	**7.4%**	8.7%	6.8%
Operating ratio	**81.3%**	77.6%	81.1%
Free cash[4][5]	**(724)**	(324)	(91)
Voluntary prepayments to the main Canadian defined benefit pension plan (included in Free cash above)	**(600)**	(650)	(500)
Total assets at December 31	**14,110**	13,676	14,155
Total long-term financial liabilities at December 31[6]	**4,812**	4,170	4,302

Diluted EPS ($) **Operating ratio (%)** **Return on capital employed[3] (%)**

[1] The 2011 figures include a $37 million tax benefit resulting from the resolution of certain income tax matters and adjustments related to previous-year tax filings and estimates.

[2] The 2009 figures include a $79 million, or $68 million after tax, gain on sales of significant properties; $55 million, or $38 million after tax, loss on termination of lease with shortline railway; $56 million tax benefit; and $81 million, or $69 million after tax, gain on the sale of a partnership interest.

[3] ROCE is defined as earnings before interest and taxes, divided by the average for the year of total assets, less current liabilities excluding current portion of long-term debt, as measured under GAAP. It is an all-encompassing measure of performance which measures how productively the Company uses its assets.

[4] This measure has no standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures of other companies. This measure is 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.

[5] Includes $600 million, $650 million and $500 million voluntary prepayments to the Company s main Canadian defined benefit pension plan in 2011, 2010 and 2009, respectively, discussed further in Section 14, Liquidity and Capital Resources and Section 22, Critical Accounting Estimates.

[6] Excludes deferred taxes of $1,819 million, $1,945 million and $1,819 million, and other non-financial long-term liabilities of $1,620 million, $1,447 million and $1,770 million for the years 2011, 2010 and 2009, respectively.

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6. OPERATING RESULTS

Income

Operating income was $967 million in 2011, a decrease of $149 million, or 13%, from $1,116 million in 2010.

This decrease was primarily due to:

- significant disruptions to train operations across the network in the first half of the year due to unusually severe winter weather and subsequent flooding;
- the net unfavourable impact of higher fuel costs;
- increased IT costs associated with outsourced infrastructure and maintenance services and planning expenses with respect to new applications in support of future growth;
- higher crew training expenses to meet business demand and attrition; and
- the net unfavourable impact of the change in foreign exchange (FX).

This decrease was partially offset by lower incentive and stock-based compensation expenses.

Net income was $570 million in 2011, a decrease of $81 million, or 12%, from $651 million in 2010. This decrease was primarily due to lower operating income and the unfavourable impact of expenses associated with the redemption of the 2013 debt discussed further in Section 14, Liquidity and Capital Resources, the unfavourable impact of FX losses on working capital, along with increased advisory fees related to shareholder matters in Other income and charges. This decrease was partially offset by lower income tax expense, driven primarily by the resolution of certain income tax matters and lower taxable income, discussed further in Section 10, Other Income Statement Items.

Operating income was $1,116 million in 2010, an increase of $286 million, or 34%, from $830 million in 2009. This increase was primarily due to improved revenues as a result of a strengthened economy, discussed further in Section 8, Lines of Business, and continued cost management activities. The increase in 2010 Operating income reflected the fact that in 2009 CP incurred a loss of $55 million which arose from the termination of a lease with a shortline railway. This was partially offset by the 2009 gain on sales of significant properties and the unfavourable impact of the change in FX.

Net income was $651 million in 2010, an increase of $101 million, or 18%, from $550 million in 2009. This increase was primarily due to higher Operating income.

This increase was partially offset by:

- the 2009 gain on sale of a partnership interest, discussed further in Section 10, Other Income Statement Items;
- an increase in income tax expense; and
- income tax recoveries in 2009, discussed further in Section 10, Other Income Statement Items.

Diluted Earnings per Share

Diluted EPS was $3.34 in 2011, a decrease of $0.51, or 13%, from $3.85 in 2010. This decrease was primarily due to lower Net income. Diluted EPS for 2011 includes a $0.22 per share income tax benefit, discussed further in Section 10, Other Income Statement Items. Diluted EPS was $3.85 in 2010, an increase of $0.55, or 17%, from $3.30 in 2009. This increase was primarily due to higher Net income, offset slightly by an increase in the number of common shares.

Operating Ratio

The operating ratio provides the percentage of revenues used to operate the railway, and is calculated as total operating expenses divided by total revenues. A lower percentage normally indicates higher efficiency in the operation of the railway. The operating ratio was 81.3% in 2011, an increase from 77.6% in 2010. The increase was primarily due to higher weather related costs and inefficiencies, higher fuel costs, increased IT costs and increased crew training costs. Our operating ratio was 77.6% in 2010, a decrease from 81.1% in 2009. This was primarily due to higher freight revenues and continued cost management initiatives.

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Return on Capital Employed

Return on capital employed at December 31, 2011 was 7.4% compared with 8.7% in 2010 and 6.8% in 2009. Driving these fluctuations over this period were the changes in earnings. The decrease in 2011 was due to lower earnings while the 2010 increase reflected higher earnings.

Impact of Foreign Exchange on Earnings

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

Canadian to U.S. dollar

Average exchange rates	**2011**	2010	2009
Year ended December 31	**$ 0.99**	$ 1.03	$ 1.15
For the three months ended December 31	**$ 1.02**	$ 1.02	$ 1.07

Canadian to U.S. dollar

Exchange rates	**2011**	2010	2009
Beginning of year January 1	**$ 0.99**	$ 1.05	$ 1.22
Beginning of quarter April 1	**$ 0.97**	$ 1.02	$ 1.26
Beginning of quarter July 1	**$ 0.96**	$ 1.06	$ 1.16
Beginning of quarter October 1	**$ 1.05**	$ 1.03	$ 1.07
End of quarter December 31	**$ 1.02**	$ 0.99	$ 1.05

Average Fuel Prices

(U.S. dollars per U.S. gallon)	**2011**	2010	2009
Year ended December 31	**$ 3.38**	$ 2.50	$ 2.04
For the three months ended December 31	**$ 3.45**	$ 2.68	$ 2.28

7. PERFORMANCE INDICATORS

				% Change	
For the year ended December 31	**2011**	2010[(1)]	2009[(1)]	2011 vs. 2010	2010 vs. 2009
Operations performance					
Freight gross ton-miles (millions)	**247,955**	242,757	209,475	2	16
Train miles (thousands)	**40,145**	39,576	34,757	1	14
Average number of active employees expense	**14,169**	13,879	13,619	2	2
Average daily active cars on-line (thousands)[(2)]	**51.4**	50.9	46.6	1	9

Average daily active road locomotives on-line	**1,085**	1,016	785	7	29
Average train speed AAR definition (mph)[3]	**21.3**	22.7	25.4	(6)	(11)
Average terminal dwell AAR definition (hours)	**19.9**	21.4	21.9	(7)	(2)
Car miles per car day[2]	**160.1**	159.4	142.6		12
Fuel efficiency[3]	**1.18**	1.17	1.19	1	(2)
Average train weight excluding local traffic (tons)[3]	**6,593**	6,519	6,416	1	2
Average train length excluding local traffic (feet)[3]	**5,665**	5,660	5,608		1
Locomotive productivity (daily average GTMs/active horse power (HP[2]))	**166.7**	176.6	187.4	(6)	(6)
Employee productivity (million GTMs/expense employee)	**17.5**	17.5	15.4		14
Safety indicators					
FRA personal injuries per 200,000 employee-hours	**1.86**	1.67	1.92	11	(13)
FRA train accidents per million train-miles	**1.85**	1.65	1.81	12	(9)

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

(2) Certain figures are excluding Dakota, Minnesota & Eastern Railroad Corporation (DM&E) for 2009.

(3) Fuel efficiency is defined as U.S. gallons of locomotive fuel consumed per 1,000 GTMs freight and yard.

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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.

In the first half of 2011, we experienced significant disruptions to train operations across the network due to unusually severe winter weather and subsequent flooding which are reflected in our year-to-date operating metrics. In the second half of 2011, we saw a recovery of our network, and this set the stage for certain record setting operating metrics in the fourth quarter of 2011. Refer to Section 12, Fourth-Quarter Summary for a detailed explanation and analysis of our performance indicators for the fourth quarter of 2011.

Operations Performance

GTMs for 2011 were 247,955 million, which increased by 2% compared with 242,757 million in 2010. This increase was primarily due to traffic mix changes. GTMs for 2010 were 242,757 million, which increased by 16% compared with 209,475 million in 2009. This increase was primarily due to an increase in traffic across all lines of business, other than grain which was relatively flat year-over-year.

Train miles for 2011 were relatively flat year-over-year. Train miles for 2010 increased by 14% compared with 2009. This increase was primarily due to increased traffic volumes and was partially offset by management s strategy of consolidating and running longer, heavier trains.

The average number of active expense employees for 2011 increased by 290, or 2%, compared with 2010. This increase was primarily due to additional hiring to address volume growth projections and attrition. The average number of active expense employees for 2010 increased by 260, or 2%, compared with 2009. This increase was primarily due to higher traffic volumes resulting from a stronger economy.

The average daily active cars on-line was relatively flat year-over-year. In the fourth quarter of 2011, there was a 14% improvement in average daily active cars on-line compared to the same period of 2010, reflecting improvements in dwell and speed. The average daily active cars on-line for 2010 increased by approximately 4,300 cars, or 9%, compared with 2009. This increase was primarily due to an increase in traffic across all lines of business, other than grain which was relatively flat.

The average daily active road locomotives on-line for 2011 increased by 69 units, or 7%, compared with 2010. This was primarily due to significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year which reduced network speed and added train miles for rerouting of traffic. The second half of 2011 saw a return to more normalized numbers. The average daily active road locomotives on-line for 2010 increased by 231 units, or 29%, compared with 2009. This increase was primarily due to increased volumes, traffic mix, and supply chain pipeline issues.

Average train speed was 21.3 miles per hour in 2011, a decline of 6%, from 22.7 miles per hour in 2010. This decline 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 and flooding in the first half of the year. The fourth quarter average train speed improved by 8% compared to the same period of 2010. Average train speed was 22.7 miles per hour in 2010, a decline of 11%, from 25.4 miles per hour in 2009. This decline was primarily due to increased volumes, traffic mix, and supply chain pipeline issues.

Average terminal dwell, the average time a freight car resides in a terminal, improved by 7% in 2011 to 19.9 hours, from 21.4 hours in 2010. In addition to the year-over-year improvements in terminal dwell, we realized a 20% reduction in the fourth quarter of 2011 compared to the same period of 2010, a record for CP. Average terminal dwell improved by 2% in 2010 when compared to 2009. These improvements were primarily due to programs supporting the execution of our IOP designed to improve asset velocity and a continued focus on the storage of surplus cars.

Car miles per car day were 160.1 in 2011, relatively flat compared to 159.4 in 2010. This was primarily due to poor operating fluidity as a result of significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year and was partially offset by various initiatives in the design and execution of our IOP focused on improving asset velocity. Our fourth quarter car miles per car day improved 20% compared to the same period in 2010, this was a record for CP. Car miles per car day were 159.4 in 2010, an increase of 12% from 142.6 in 2009. This increase was primarily due to various initiatives in the design and execution of our IOP focused on improving asset velocity.

Fuel efficiency declined by 1% in 2011 compared to 2010. This decline was primarily due to significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year. This decline was partially offset by the new fuel savings technology introduced on over 260 locomotives and continued focus on fuel conservation programs including idle reduction and train handling practices. Our fourth quarter fuel efficiency improved 3% compared to the same period of 2010. Fuel efficiency improved by 2% in 2010 compared with 2009. This improvement was primarily due to new fuel saving technology introduced on 200 locomotives and continued focus on fuel conservation programs including idle reduction and train handling practices.

Average train weight improved 1% to 6,593 tons in 2011 compared to 2010. This improvement was primarily due to our continued implementation of the long-train strategy in the bulk franchise. This was a record for CP. Average train weight improved in 2010 by 103 tons or 2% from 2009. This improvement was primarily due to increased traffic volumes and management s strategy of consolidating and running longer, heavier trains.

Average train length was relatively flat year-over-year. Average train length increased in 2010 by 52 feet, or 1%, from 2009. This increase was primarily due to increased traffic volumes and management s strategy of consolidating and running longer, heavier trains.

Locomotive productivity, as measured by daily average GTMs per active horse power, decreased in 2011 by 6% from 2010. This decrease was primarily due to significant disruptions to train operations across the network due to unusually severe winter weather and flooding in the first half of the year. Locomotive productivity decreased in 2010 by 6% from 2009. The decrease in 2010 was mainly due to increased traffic volumes and supply chain issues.

Employee productivity, as measured by million GTMs per expense employee, was unchanged in 2011, compared to 2010. Employee productivity increased in 2010 by 14% from 2009. The increase was primarily due to management s strategy of consolidating and running longer, heavier trains.

Safety Indicators

Safety is a key priority for our management and Board of Directors. Our two main safety indicators, personal injuries and train accidents, follow strict U.S. Federal Railroad Administration (FRA) reporting guidelines. CP strives to continually improve its safety performance through key strategies and activities such as training and technology.

The FRA personal injury rate per 200,000 employee-hours for CP was 1.86 in 2011, 1.67 in 2010 and 1.92 in 2009. The increase in 2011 was primarily due to a higher number of minor injuries.

The FRA train accident rate for CP in 2011 was 1.85 accidents per million train-miles, compared with 1.65 in 2010 and 1.81 in 2009. The increase in 2011 was primarily due to difficult operating conditions in the first half of the year.

8. LINES OF BUSINESS

Revenues

For the year ended December 31 (in millions)	2011	2010	2009	% Change 2011 vs. 2010	% Change 2010 vs. 2009
Freight revenues					
Grain	**$ 1,100**	$ 1,135	$ 1,137	(3)	
Coal	**556**	491	444	13	11
Sulphur and fertilizers	**549**	475	309	16	54
Forest products	**189**	185	176	2	5
Industrial and consumer products	**1,017**	903	786	13	15
Automotive	**338**	316	230	7	37
Intermodal	**1,303**	1,348	1,198	(3)	13
Total freight revenues	**5,052**	4,853	4,280	4	13
Other revenue	**125**	128	122	(2)	5
Total revenues	**$ 5,177**	$ 4,981	$ 4,402	4	13