Non-GAAP Measures - Unaudited

The Company presents non-GAAP measures, cash flow information and credit metrics to provide a basis for evaluating underlying earnings and liquidity trends in its business that can be compared with the results of operations in prior periods. These non-GAAP measures have no standardized meanings and are not defined by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies.

Credit Measures

Adjusted debt to Adjusted earnings before interest, tax, depreciation and amortization ("EBITDA") is a non-GAAP measure that management uses to evaluate CP's financial discipline with respect to capital markets credit sensitivities. Adjusted debt is defined as Long-term debt, Long-term debt maturing within one year and Short-term borrowing as reported on the Consolidated Balance Sheets adjusted for unfunded pension and other benefits liability, net of tax and the net present value of operating leases, which is discounted by the Company's effective interest rate for each of the periods presented. Adjusted EBITDA is calculated as Adjusted EBIT plus Depreciation and amortization, adjusted for net periodic pension and other benefit cost and operating lease expense.

The following tables reconcile Adjusted debt to Long-term debt and Adjusted EBITDA to Adjusted EBIT for the years ended December 31, 2013, 2012, and 2011. Refer to Section 15, Non-GAAP Measures of the 2013 annual MD&A for the reconciliation of Adjusted EBIT to Operating income for the years ended December 31, 2012 and 2011.

Reconciliation of Adjusted debt to Long-term debt

(in millions)		2013		2012		2011
Adjusted debt as at December 31	**$**	**5,394**	$	6,247	$	6,395
Less:						
Net unfunded pension and other benefits liability, net of tax		**-**		(1,042)		(1,004)
Net present value of operating leases[(1)]		**(518)**		(515)		(619)
Long-term debt as at December 31	**$**	**4,876**	$	4,690	$	4,772

[(1)] Operating leases were discounted at the Company's effective interest rate for each of the periods presented.

Reconciliation of Adjusted EBITDA to Adjusted EBIT

(in millions)		2013		2012		2011
Adjusted EBITDA for the year ended December 31	**$**	**2,464**	$	1,957	$	1,579
Add:						
Adjustment for net periodic pension and other benefit cost		**82**		63		27
Operating lease expense		**(154)**		(182)		(161)
Depreciation and amortization		**(565)**		(539)		(490)
Adjusted EBIT for the year ended December 31	**$**	**1,827**	$	1,299	$	955

Free Cash

Free cash and cash flow before dividends are non-GAAP measures that management considers to be indicators of liquidity. The measures are used by management to provide information with respect to the relationship between cash provided by operating activities and investment decisions and provide comparable measures for period to period changes. Free cash is calculated as cash provided by operating activities, less cash used in investing activities, excluding changes in restricted cash and cash equivalents used to collateralize letters of credit, and dividends paid, adjusted for changes in cash and cash equivalents balances resulting from foreign exchange ("FX") fluctuations.

Reconciliation of Free Cash

(Reconciliation of free cash to GAAP cash position) (in millions)	For the three months ended June 30		For the six months ended June 30	
	2014	2013	**2014**	2013
Cash provided by operating activities	**$ 645**	$ 520	**$ 932**	$ 787
Cash used in investing activities	**(45)**	(390)	**(262)**	(602)
Change in restricted cash and cash equivalents used to collateralize letters of credit	**(7)**	99	**(9)**	99
Dividends paid	**(62)**	(60)	**(123)**	(121)
Foreign exchange effect on cash and cash equivalents	**(12)**	9	**(4)**	8
Free cash[(1)]	**519**	178	**534**	171
Cash (used in) provided by financing activities, excluding dividend payment [(1)]	**(436)**	16	**(650)**	37
Change in restricted cash and cash equivalents used to collateralize letters of credit	**7**	(99)	**9**	(99)
Increase (decrease) in cash and cash equivalents, as shown on the Interim Consolidated Statements of Cash Flows	**90**	95	**(107)**	109
Cash and cash equivalents at beginning of period	**279**	347	**476**	333
Cash and cash equivalents at end of period	**$ 369**	$ 442	**$ 369**	$ 442

[(1)] These measures have no standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies.

Foreign Exchange Adjusted Variance

Foreign exchange adjusted variance ("FX adj. variance") allows certain financial results to be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons in the analysis of trends in business performance. Financial results at a constant currency are obtained by translating the previous period results in U.S. dollars at the foreign exchange rate of the comparable period of the current year. Measures at constant currency are considered non-GAAP measures and do not have any standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies.

(in millions of Canadian dollars)	For the three months ended June 30					For the six months ended June 30				
	2014	2013	Variance due to FX	Adjusted 2013 [(1)]	FX Adj. %[(1)]	**2014**	2013	Variance due to FX	Adjusted 2013 [(1)]	FX Adj. %[(1)]
Freight revenues	**$ 1,642**	$ 1,458	$ 57	$ 1,515	8%	**$ 3,116**	$2,917	$ 124	$ 3,041	2%
Other revenues	**39**	39	-	39	-	**74**	75	-	75	(1%)
Total revenues	**1,681**	1,497	57	1,554	8%	**3,190**	2,992	124	3,116	2%
Total operating expenses	**1,094**	1,077	34	1,111	(2%)	**2,180**	2,210	77	2,287	(5%)
Operating income	**$ 587**	$ 420	$ 23	$ 443	33%	**$ 1,010**	$ 782	$ 47	$ 829	22%

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