



NEWS

www.cpr.ca (TSX:CP) (NYSE:CP)

Release: July 22, 2020

CP demonstrates resiliency of the PSR operating model, reports record-low Q2 operating ratio

Calgary - Canadian Pacific Railway Limited (TSX: CP) (NYSE: CP) today announced second-quarter results, including revenues of \$1.79 billion, diluted earnings per share ("EPS") of \$4.66, adjusted diluted EPS of \$4.07 and an operating ratio of 57.0 percent.

"The CP family of railroaders has achieved these results during some of the most challenging conditions the world has experienced in recent memory," said Keith Creel, CP President and Chief Executive Officer. "Our second-quarter results showcase the resiliency of our people and of the precision scheduled railroading (PSR) operating model. The COVID-19 pandemic has created immense challenges, but CP has risen to the occasion, adapted and responded to the benefit of our customers, communities and shareholders. The pride I feel each day coming to work with this team has never been stronger."

Second-quarter highlights

- Revenues decreased by 9 percent to \$1.79 billion from \$1.98 billion last year
- Reported diluted EPS of \$4.66, a 10 percent decrease from \$5.17 last year, and adjusted diluted EPS of \$4.07, a 5 percent decrease from \$4.30 last year
- Operating ratio was a second-quarter record 57.0 percent, a 140 basis point improvement over last year's second-quarter operating ratio of 58.4 percent

"While economic uncertainty remains, we're controlling what we can control - our costs," said Creel. "Our strong bulk franchise, which included record movements for Canadian grain and potash in the first half of the year, helped to offset some of the declines we experienced in other lines of business. Given our strong cost control measures, industry-leading execution of the PSR model, and improved clarity on the volume environment, we now expect positive adjusted diluted EPS growth for the year. As a result of the continued strength of our balance sheet, we have also restarted our share repurchase program."

Additionally, CP announced yesterday it was increasing the quarterly dividend payable to shareholders to \$0.95 per share on CP's outstanding common shares, an increase of approximately 15 percent to the previous quarterly dividend of \$0.83 per share, and marking the fifth consecutive year CP has increased its quarterly dividend. The announcement continues the path toward meeting CP's stated goal of achieving a 25 percent adjusted dividend payout ratio.

Updated outlook

Based on the strength of the company's performance to date, CP now expects to deliver adjusted diluted EPS growth year over year¹. CP continues to expect capital expenditures of \$1.6 billion and a mid-single digit decline in revenue ton-miles.

CP's revised earnings guidance assumes a Canadian-to-U.S. dollar exchange rate of approximately 1.35 as compared to 1.40 previously, other components of net periodic benefit recovery to decrease by approximately \$40 million as compared to 2019 and an effective tax rate of approximately 24.8 percent as a result of the accelerated reduction of the Alberta corporate tax rate as compared to 25.0 percent previously.

"The completion of our recent acquisition of the Central Maine and Québec Railway, combined with our continuing pipeline of unique growth opportunities, provides me with optimism for the remainder of 2020 and into 2021," Creel said.

¹ CP's expectation for positive growth in 2020 adjusted diluted EPS is relative to 2019's adjusted diluted EPS of \$16.44. CP's reported diluted EPS was \$17.52 in 2019.

Conference call details

CP will discuss its results with the financial community in a conference call beginning at 9:30 a.m. eastern time (7:30 a.m. mountain time) today.

Conference call access

Toronto participants dial-in number: 1-647-427-7450
Operator assisted toll-free dial-in number: 1-888-231-8191
Callers should dial in 10 minutes prior to the call.

Webcast

We encourage you to access the webcast and presentation material in the Investors section of CP's website at investor.cpr.ca

A replay of the second-quarter conference call will be available by phone through to July 29, 2020 at 416-849-0833 or toll-free 1-855-859-2056, password 6888887.

Non-GAAP measures

Although CP has provided a forward-looking non-GAAP measure (adjusted diluted EPS) and a target non-GAAP measure (adjusted dividend payout ratio), management is unable to reconcile, without unreasonable efforts, the forward-looking adjusted diluted EPS and target adjusted dividend payout ratio to the most comparable GAAP measures (diluted EPS and dividend payout ratio, respectively), due to unknown variables and uncertainty related to future results. These unknown variables may include unpredictable transactions of significant value. In past years, CP has recognized significant asset impairment charges, management transition costs related to senior executives and discrete tax items. These or other similar, large unforeseen transactions affect diluted EPS but may be excluded from CP's adjusted diluted EPS. Additionally, the U.S.-to-Canadian dollar exchange rate is unpredictable and can have a significant impact on CP's reported results but may be excluded from CP's adjusted diluted EPS. In particular, CP excludes the FX impact of translating the Company's debt and lease liabilities, the impact from changes in income tax rates and a provision for uncertain tax item from adjusted diluted EPS. Please see Note on forward-looking information below for further discussion.

For information regarding non-GAAP measures, including reconciliations to the nearest GAAP measures, see the attached supplementary schedule Non-GAAP Measures.

Note on forward-looking information

This news release contains certain forward-looking information and forward-looking statements (collectively, "forward-looking information") within the meaning of applicable securities laws. Forward-looking information includes, but is not limited to, statements concerning expectations, beliefs, plans, goals, objectives, assumptions and statements about possible future events, conditions, and results of operations or performance. Forward-looking information may contain statements with words or headings such as "financial expectations", "key assumptions", "anticipate", "believe", "expect", "plan", "will", "outlook", "should" or similar words suggesting future outcomes. This news release contains forward-looking information relating, but not limited to, statements concerning 2020 volume including as measured in revenue ton-miles, adjusted diluted EPS growth, capital program investments, the U.S.-to-Canadian dollar exchange rate, annualized effective tax rate, other components of net periodic benefit recovery, target adjusted dividend payout ratio, cost control efforts, the success of our business, our operations, priorities and plans, anticipated financial and operational performance, including the anticipated performance of the Central Maine and Québec Railway, business prospects, demand for our services and growth opportunities.

The forward-looking information contained in this news release is based on current expectations, estimates, projections and assumptions, having regard to CP's experience and its perception of historical trends, and includes, but is not limited to, expectations, estimates, projections and assumptions relating to: North American and global economic growth; commodity demand growth; sustainable industrial and agricultural production; commodity prices and interest rates; foreign exchange rates (as specified herein); effective tax rates (as specified herein); performance of our assets and equipment; sufficiency of our budgeted capital expenditures in carrying out our

business plan; geopolitical conditions, applicable laws, regulations and government policies; the availability and cost of labour, services and infrastructure; the satisfaction by third parties of their obligations to CP; our ability to realize upon business plans including cost control efforts; and the continued impact of COVID-19 on CP businesses, operating results, cash flows and/or financial condition. Although CP believes the expectations, estimates, projections and assumptions reflected in the forward-looking information presented herein are reasonable as of the date hereof, there can be no assurance that they will prove to be correct. Current conditions, economic and otherwise, render assumptions, although reasonable when made, subject to greater uncertainty.

Undue reliance should not be placed on forward-looking information as actual results may differ materially from those expressed or implied by forward-looking information. By its nature, CP's forward-looking information involves inherent risks and uncertainties that could cause actual results to differ materially from the forward looking information, including, but not limited to, the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks associated with agricultural production, such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demand; changes in commodity prices; uncertainty surrounding timing and volumes of commodities being shipped via CP; inflation; geopolitical instability; changes in laws, regulations and government policies, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; changes in fuel prices; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions and discount rates on the financial position of pension plans and investments; trade restrictions or other changes to international trade arrangements; climate change; various events that could disrupt operations, including severe weather, such as droughts, floods, avalanches and earthquakes, and cybersecurity attacks, as well as security threats and governmental response to them, and technological changes; and the pandemic created by the outbreak of the novel strain of coronavirus (and the disease known as COVID-19) and resulting effects on economic conditions, the demand environment for logistics requirements and energy prices, restrictions imposed by public health authorities or governments, fiscal and monetary policy responses by governments and financial institutions, and disruptions to global supply chains. The foregoing list of factors is not exhaustive. These and other factors are detailed from time to time in reports filed by CP with securities regulators in Canada and the United States. Reference should be made to "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Statements" in CP's annual and interim reports on Form 10-K and 10-Q.

The forward-looking information contained in this news release is made as of the date hereof. Except as required by law, CP undertakes no obligation to update publicly or otherwise revise any forward-looking information, or the foregoing assumptions and risks affecting such forward-looking information, whether as a result of new information, future events or otherwise.

About Canadian Pacific

Canadian Pacific is a transcontinental railway in Canada and the United States with direct links to major ports on the west and east coasts. CP provides North American customers a competitive rail service with access to key markets in every corner of the globe. CP is growing with its customers, offering a suite of freight transportation services, logistics solutions and supply chain expertise. Visit cpr.ca to see the rail advantages of CP. CP-IR

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FINANCIAL STATEMENTS

INTERIM CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(in millions of Canadian dollars, except share and per share data)	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Revenues (Note 3)				
Freight	\$ 1,752	\$ 1,931	\$ 3,752	\$ 3,657
Non-freight	40	46	83	87
Total revenues	1,792	1,977	3,835	3,744
Operating expenses				
Compensation and benefits	347	383	745	789
Fuel	131	236	343	445
Materials	50	54	109	111
Equipment rents	33	34	69	69
Depreciation and amortization	195	183	387	343
Purchased services and other	266	265	578	622
Total operating expenses	1,022	1,155	2,231	2,379
Operating income	770	822	1,604	1,365
Less:				
Other (income) expense (Note 4)	(86)	(40)	125	(87)
Other components of net periodic benefit recovery (Note 13)	(86)	(98)	(171)	(195)
Net interest expense	118	112	232	226
Income before income tax expense	824	848	1,418	1,421
Income tax expense (Note 5)	189	124	374	263
Net income	\$ 635	\$ 724	\$ 1,044	\$ 1,158
Earnings per share (Note 6)				
Basic earnings per share	\$ 4.68	\$ 5.19	\$ 7.67	\$ 8.28
Diluted earnings per share	\$ 4.66	\$ 5.17	\$ 7.64	\$ 8.25
Weighted-average number of shares (millions) (Note 6)				
Basic	135.6	139.7	136.1	139.9
Diluted	136.1	140.2	136.6	140.4
Dividends declared per share	\$ 0.8300	\$ 0.8300	\$ 1.6600	\$ 1.4800

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

(in millions of Canadian dollars)	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Net income	\$ 635	\$ 724	\$ 1,044	\$ 1,158
Net gain (loss) in foreign currency translation adjustments, net of hedging activities	31	15	(34)	31
Change in derivatives designated as cash flow hedges	1	4	3	6
Change in pension and post-retirement defined benefit plans	45	21	90	41
Other comprehensive income before income taxes	77	40	59	78
Income tax (expense) recovery on above items	(47)	(22)	13	(44)
Other comprehensive income (Note 7)	30	18	72	34
Comprehensive income	\$ 665	\$ 742	\$ 1,116	\$ 1,192

See Notes to Interim Consolidated Financial Statements.

**INTERIM CONSOLIDATED BALANCE SHEETS AS AT
(unaudited)**

(in millions of Canadian dollars)	June 30	December 31
	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 277	\$ 133
Accounts receivable, net (Note 8)	776	805
Materials and supplies	192	182
Other current assets	110	90
	1,355	1,210
Investments (Note 9)	223	341
Properties	20,019	19,156
Goodwill and intangible assets (Note 9)	291	206
Pension asset	1,214	1,003
Other assets	460	451
Total assets	\$ 23,562	\$ 22,367
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,577	\$ 1,693
Long-term debt maturing within one year (Note 10, 11)	91	599
	1,668	2,292
Pension and other benefit liabilities	784	785
Other long-term liabilities	544	562
Long-term debt (Note 10, 11)	9,457	8,158
Deferred income taxes	3,644	3,501
Total liabilities	16,097	15,298
Shareholders' equity		
Share capital	1,990	1,993
Additional paid-in capital	53	48
Accumulated other comprehensive loss (Note 7)	(2,450)	(2,522)
Retained earnings	7,872	7,550
	7,465	7,069
Total liabilities and shareholders' equity	\$ 23,562	\$ 22,367

See Contingencies (Note 15)

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in millions of Canadian dollars)	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Operating activities				
Net income	\$ 635	\$ 724	\$ 1,044	\$ 1,158
Reconciliation of net income to cash provided by operating activities:				
Depreciation and amortization	195	183	387	343
Deferred income tax expense (recovery) (Note 5)	49	(18)	88	20
Pension recovery and funding (Note 13)	(62)	(89)	(127)	(177)
Foreign exchange (gain) loss on debt and lease liabilities (Note 4)	(86)	(37)	129	(82)
Other operating activities, net	27	18	(45)	63
Change in non-cash working capital balances related to operations	77	(60)	(152)	(191)
Cash provided by operating activities	835	721	1,324	1,134
Investing activities				
Additions to properties	(502)	(459)	(857)	(683)
Investment in Central Maine & Québec Railway (Note 9)	19	—	19	—
Proceeds from sale of properties and other assets	5	8	7	14
Other	10	(4)	1	(5)
Cash used in investing activities	(468)	(455)	(830)	(674)
Financing activities				
Dividends paid	(112)	(91)	(226)	(182)
Issuance of CP Common Shares	5	10	29	14
Purchase of CP Common Shares (Note 12)	(44)	(257)	(545)	(464)
Issuance of long-term debt, excluding commercial paper (Note 10)	(1)	—	958	397
Repayment of long-term debt, excluding commercial paper	(10)	(480)	(25)	(485)
Net (repayment) issuance of commercial paper (Note 10)	(20)	246	(573)	246
Net (decrease) increase in short-term borrowings (Note 10)	(140)	—	5	—
Other	—	—	11	—
Cash used in financing activities	(322)	(572)	(366)	(474)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	(15)	(1)	16	(2)
Cash position				
Increase (decrease) in cash and cash equivalents	30	(307)	144	(16)
Cash and cash equivalents at beginning of period	247	352	133	61
Cash and cash equivalents at end of period	\$ 277	\$ 45	\$ 277	\$ 45
Supplemental disclosures of cash flow information:				
Income taxes paid	\$ 5	\$ 108	\$ 144	\$ 257
Interest paid	\$ 63	\$ 83	\$ 220	\$ 232

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

(in millions of Canadian dollars except per share data)	For the three months ended June 30					
	Common shares (in millions)	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at April 1, 2020	135.6	\$ 1,985	\$ 51	\$ (2,480)	\$ 7,399	\$ 6,955
Net income	—	—	—	—	635	635
Other comprehensive income (Note 7)	—	—	—	30	—	30
Dividends declared (\$0.8300 per share)	—	—	—	—	(113)	(113)
Effect of stock-based compensation expense	—	—	4	—	—	4
CP Common Shares repurchased (Note 12)	(0.1)	(3)	—	—	(49)	(52)
Shares issued under stock option plan	—	8	(2)	—	—	6
Balance at June 30, 2020	135.5	\$ 1,990	\$ 53	\$ (2,450)	\$ 7,872	\$ 7,465
Balance at April 1, 2019	139.8	\$ 1,997	\$ 46	\$ (2,027)	\$ 6,798	\$ 6,814
Net income	—	—	—	—	724	724
Other comprehensive income (Note 7)	—	—	—	18	—	18
Dividends declared (\$0.8300 per share)	—	—	—	—	(115)	(115)
Effect of stock-based compensation expense	—	—	3	—	—	3
CP Common Shares repurchased (Note 12)	(0.9)	(14)	—	—	(282)	(296)
Shares issued under stock option plan	0.2	13	(4)	—	—	9
Balance at June 30, 2019	139.1	\$ 1,996	\$ 45	\$ (2,009)	\$ 7,125	\$ 7,157

(in millions of Canadian dollars except per share data)	For the six months ended June 30					
	Common shares (in millions)	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at December 31, 2019, as previously reported	137.0	\$ 1,993	\$ 48	\$ (2,522)	\$ 7,550	\$ 7,069
Impact of accounting change (Note 2)	—	—	—	—	(1)	(1)
Balance at January 1, 2020, as restated	137.0	\$ 1,993	\$ 48	\$ (2,522)	\$ 7,549	\$ 7,068
Net income	—	—	—	—	1,044	1,044
Other comprehensive income (Note 7)	—	—	—	72	—	72
Dividends declared (\$1.6600 per share)	—	—	—	—	(225)	(225)
Effect of stock-based compensation expense	—	—	9	—	—	9
CP Common Shares repurchased (Note 12)	(1.7)	(24)	—	—	(496)	(520)
Shares issued under stock option plan	0.2	21	(4)	—	—	17
Balance at June 30, 2020	135.5	\$ 1,990	\$ 53	\$ (2,450)	\$ 7,872	\$ 7,465
Balance at January 1, 2019	140.5	\$ 2,002	\$ 42	\$ (2,043)	\$ 6,630	\$ 6,631
Net income	—	—	—	—	1,158	1,158
Other comprehensive income (Note 7)	—	—	—	34	—	34
Dividends declared (\$1.4800 per share)	—	—	—	—	(206)	(206)
Effect of stock-based compensation expense	—	—	8	—	—	8
CP Common Shares repurchased (Note 12)	(1.6)	(24)	—	—	(457)	(481)
Shares issued under stock option plan	0.2	18	(5)	—	—	13
Balance at June 30, 2019	139.1	\$ 1,996	\$ 45	\$ (2,009)	\$ 7,125	\$ 7,157

See Notes to Interim Consolidated Financial Statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020

(unaudited)

1 Basis of presentation

These unaudited interim Consolidated Financial Statements of Canadian Pacific Railway Limited ("CP", or "the Company"), expressed in Canadian dollars, reflect management's estimates and assumptions that are necessary for their fair presentation in conformity with generally accepted accounting principles in the United States of America ("GAAP"). They do not include all disclosures required under GAAP for annual financial statements and should be read in conjunction with the 2019 annual Consolidated Financial Statements and notes included in CP's 2019 Annual Report on Form 10-K. The accounting policies used are consistent with the accounting policies used in preparing the 2019 annual Consolidated Financial Statements, except for the newly adopted accounting policy discussed in Note 2.

CP's operations can be affected by seasonal fluctuations such as changes in customer demand and weather-related issues. This seasonality could impact quarter-over-quarter comparisons.

In management's opinion, the unaudited interim consolidated financial statements include all adjustments (consisting of normal and recurring adjustments) necessary to present fairly such information. Interim results are not necessarily indicative of the results expected for the fiscal year.

2 Accounting changes

Implemented in 2020

Financial Instruments - Credit Losses

On January 1, 2020, the Company adopted the new Accounting Standards Update ("ASU") 2016-13, issued by the Financial Accounting Standards Board ("FASB"), and all related amendments under FASB Accounting Standards Codification ("ASC") Topic 326, Financial Instruments - Credit Losses. Using a modified retrospective approach, the Company recognized a cumulative-effect adjustment to its opening retained earnings balance in the period of adoption. Accordingly, comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The impact of the adoption of ASC 326 as at January 1, 2020 was an increase in the allowance for credit losses of \$1 million, with the offsets to "Deferred income taxes" and "Retained earnings" on the Company's Interim Consolidated Balance Sheet. See Note 8 for further discussion of the current period credit loss.

Simplification of Financial Disclosures about Guarantors

During the second quarter of 2020, the Company early adopted the Securities and Exchange Commission amendments to the financial disclosure requirements for guarantors and issuers of guaranteed securities, as specified in Rule 3-10 of Regulation S-X. The amendments simplify disclosure requirements by replacing condensed consolidating financial information ("CCFI") with summarized financial information and expanded qualitative non-financial disclosures about the guarantees, issuers, and guarantors. This disclosure can be found in the Liquidity and Capital Resources section of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations in CP's Q2 2020 Quarterly Report on Form 10-Q.

3 Revenues

The following table disaggregates the Company's revenues from contracts with customers by major source:

(in millions of Canadian dollars)	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Freight				
Grain	\$ 446	\$ 422	\$ 864	\$ 802
Coal	131	173	281	331
Potash	146	136	258	250
Fertilizers and sulphur	77	63	147	120
Forest products	81	78	159	151
Energy, chemicals and plastics	341	346	832	661
Metals, minerals and consumer products	133	205	322	378
Automotive	34	104	121	180
Intermodal	363	404	768	784
Total freight revenues	1,752	1,931	3,752	3,657
Non-freight excluding leasing revenues	25	30	54	57
Revenues from contracts with customers	1,777	1,961	3,806	3,714
Leasing revenues	15	16	29	30
Total revenues	\$ 1,792	\$ 1,977	\$ 3,835	\$ 3,744

Contract liabilities

Contract liabilities represent payments received for performance obligations not yet satisfied and relate to deferred revenue, and are presented as components of "Accounts payable and accrued liabilities" and "Other long-term liabilities" on the Company's Interim Consolidated Balance Sheets.

The following table summarizes the changes in contract liabilities:

(in millions of Canadian dollars)	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Opening balance	\$ 112	\$ 73	\$ 146	\$ 2
Revenue recognized that was included in the contract liability balance at the beginning of the period	(37)	(3)	(73)	(2)
Increase due to consideration received, net of revenue recognized during the period	4	4	6	74
Closing balance	\$ 79	\$ 74	\$ 79	\$ 74

4 Other (income) expense

(in millions of Canadian dollars)	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Foreign exchange (gain) loss on debt and lease liabilities	\$ (86)	\$ (37)	\$ 129	\$ (82)
Other foreign exchange losses (gains)	1	(4)	(4)	(6)
Other	(1)	1	—	1
Other (income) expense	\$ (86)	\$ (40)	\$ 125	\$ (87)

5 Income taxes

(in millions of Canadian dollars)	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Current income tax expense	\$ 140	\$ 142	\$ 286	\$ 243
Deferred income tax expense (recovery)	49	(18)	88	20
Income tax expense	\$ 189	\$ 124	\$ 374	\$ 263

The effective tax rates for the three and six months ended June 30, 2020 were 22.98% and 26.38%, respectively, compared to 14.63% and 18.50%, respectively for the same periods of 2019.

For the three months ended June 30, 2020, the effective tax rate was 25.00%, excluding the discrete item of the foreign exchange ("FX") gain of \$86 million on debt and lease liabilities.

For the three months ended June 30, 2019, the effective tax rate was 25.75%, excluding the discrete items of the FX gain of \$37 million on debt and lease liabilities and an \$88 million deferred income tax recovery from the revaluation of deferred income tax balances as at January 1, 2019 on the enactment of Alberta provincial corporate income tax rate decrease.

For the six months ended June 30, 2020, the effective tax rate was 25.00%, excluding the discrete item of the FX loss of \$129 million on debt and lease liabilities.

For the six months ended June 30, 2019, the effective tax rate was 25.75%, excluding the discrete items of the FX gain of \$82 million on debt and lease liabilities and the aforementioned deferred tax recovery of \$88 million on the Alberta provincial corporate income tax rate decrease.

6 Earnings per share

Basic earnings per share has been calculated using Net income for the period divided by the weighted-average number of shares outstanding during the period. The number of shares used in the earnings per share calculations are reconciled as follows:

(in millions)	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Weighted-average basic shares outstanding	135.6	139.7	136.1	139.9
Dilutive effect of stock options	0.5	0.5	0.5	0.5
Weighted-average diluted shares outstanding	136.1	140.2	136.6	140.4

For the three and six months ended June 30, 2020, there were 0.2 million options excluded from the computation of diluted earnings per share because their effects were not dilutive (three and six months ended June 30, 2019 - nil and 0.1 million, respectively).

7 Changes in Accumulated other comprehensive loss ("AOCL") by component

(in millions of Canadian dollars)	For the three months ended June 30				Total ⁽¹⁾
	Foreign currency net of hedging activities ⁽¹⁾	Derivatives and other ⁽¹⁾	Pension and post-retirement defined benefit plans ⁽¹⁾		
Opening balance, April 1, 2020	\$ 119	\$ (52)	\$ (2,547)		(2,480)
Other comprehensive loss before reclassifications	(3)	(2)	—		(5)
Amounts reclassified from accumulated other comprehensive loss	—	2	33		35
Net other comprehensive (loss) income	(3)	—	33		30
Closing balance, June 30, 2020	\$ 116	\$ (52)	\$ (2,514)		(2,450)
Opening balance, April 1, 2019	\$ 113	\$ (61)	\$ (2,079)		(2,027)
Other comprehensive (loss) income before reclassifications	(1)	1	—		—
Amounts reclassified from accumulated other comprehensive loss	—	2	16		18
Net other comprehensive (loss) income	(1)	3	16		18
Closing balance, June 30, 2019	\$ 112	\$ (58)	\$ (2,063)		(2,009)

⁽¹⁾ Amounts are presented net of tax.

(in millions of Canadian dollars)	For the six months ended June 30				Total ⁽¹⁾
	Foreign currency net of hedging activities ⁽¹⁾	Derivatives and other ⁽¹⁾	Pension and post-retirement defined benefit plans ⁽¹⁾		
Opening balance, January 1, 2020	\$ 112	\$ (54)	\$ (2,580)		(2,522)
Other comprehensive income (loss) before reclassifications	4	(2)	—		2
Amounts reclassified from accumulated other comprehensive loss	—	4	66		70
Net other comprehensive income	4	2	66		72
Closing balance, June 30, 2020	\$ 116	\$ (52)	\$ (2,514)		(2,450)
Opening balance, January 1, 2019	\$ 113	\$ (62)	\$ (2,094)		(2,043)
Other comprehensive loss before reclassifications	(1)	—	(1)		(2)
Amounts reclassified from accumulated other comprehensive loss	—	4	32		36
Net other comprehensive (loss) income	(1)	4	31		34
Closing balance, June 30, 2019	\$ 112	\$ (58)	\$ (2,063)		(2,009)

⁽¹⁾ Amounts are presented net of tax.

Amounts in Pension and post-retirement defined benefit plans reclassified from AOCL are as follows:

(in millions of Canadian dollars)	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Amortization of prior service costs ⁽¹⁾	\$ —	\$ 1	\$ —	\$ 1
Recognition of net actuarial loss ⁽¹⁾	45	20	90	41
Total before income tax	45	21	90	42
Income tax recovery	(12)	(5)	(24)	(10)
Total net of income tax	\$ 33	\$ 16	\$ 66	\$ 32

⁽¹⁾ Impacts "Other components of net periodic benefit recovery" on the Interim Consolidated Statements of Income.

8 Accounts receivable, net

Accounts receivable from customers are recognized initially at fair value and subsequently measured at amortized cost less allowance for expected credit losses. Losses on accounts receivable are estimated based on historical credit loss experience of receivables with similar risk characteristics. Historical loss experience is adjusted to reflect any management expectations that current or future conditions will differ from conditions that existed for the period over which historical information is evaluated.

To determine expected credit losses, customer receivables are disaggregated by credit characteristics, type of customer service, customer line of business, and receivable aging.

(in millions of Canadian dollars)	For the three months ended June 30, 2020			For the six months ended June 30, 2020		
	Freight	Non- freight	Total	Freight	Non- freight	Total
Allowance for credit losses, opening balance ⁽¹⁾	\$ (27)	\$ (14)	\$ (41)	\$ (27)	\$ (16)	\$ (43)
Current period credit loss provision, net	1	—	1	1	2	3
Allowance for credit losses, closing balance	\$ (26)	\$ (14)	\$ (40)	\$ (26)	\$ (14)	\$ (40)

⁽¹⁾ Opening balance at January 1, 2020 was restated as described in Note 2.

(in millions of Canadian dollars)	As at June 30, 2020		
	Freight	Non- freight	Total
Total accounts receivable	\$ 633	\$ 183	\$ 816
Allowance for credit losses	(26)	(14)	(40)
Total accounts receivable, net	\$ 607	\$ 169	\$ 776

Receivables are considered to be in default and are written off against the allowance for credit losses when it is probable that all remaining contractual payments due will not be collected in accordance with the terms of the customer contracts. Subsequent recoveries of amounts previously written off are credited to earnings in the period recovered.

9 Business combination

On December 30, 2019, CP purchased 100% of Central Maine & Québec Railway Canada Inc. ("CMQ Canada") and Central Maine & Québec Railway U.S. ("CMQ U.S.") (together "CMQ").

The acquisition of CMQ Canada did not require regulatory approval and was accounted for as a business combination under the acquisition method of accounting on December 30, 2019.

The acquisition of CMQ U.S. was subject to approval from the United States Surface Transportation Board ("STB"). From the December 30, 2019 date of purchase, all purchased shares of CMQ U.S. were held in an independent voting trust (the "Trust") pending the STB's approval of CP's application for control of CMQ U.S. Approval was granted with an effective date of June 3, 2020. Between December 30, 2019 and June 3, 2020, CP accounted for its acquisition of CMQ U.S. as an equity method investment. During this time, CP paid additional consideration for CMQ of \$3 million, representing changes from the finalization of previously estimated closing date working capital.

On June 3, 2020 the Trust was dissolved and CP assumed control of CMQ U.S. At this time, CP accounted for its acquisition in CMQ U.S. as a business combination using the acquisition method of accounting. Accordingly, the acquired tangible and intangible assets and assumed liabilities were recorded at their estimated fair values as at June 3, 2020 and results from operations and cash flows were consolidated prospectively. There was no material change in the acquisition-date fair value of the equity interest held by the Company in CMQ U.S. immediately before the acquisition date. Fair values were determined primarily through the use of an income approach.

The purchase price allocation was prepared on a preliminary basis and is subject to change as additional information becomes available concerning the fair value and tax bases of the net assets acquired. Any adjustments to the purchase price allocation will be made as soon as practicable but no later than one year from the date of acquisition.

The following summarizes the estimated fair values of the acquired assets and liabilities of CMQ U.S. at June 3, 2020:

(in millions of Canadian dollars)	June 3, 2020
Fair value of net assets acquired:	
Cash and cash equivalents	\$ 22
Accounts receivable, net	2
Properties	54
Intangible assets	27
Accounts payable and accrued liabilities	(13)
Other long-term liabilities	(5)
Total identifiable assets and liabilities	\$ 87
Goodwill	51
	\$ 138
Consideration:	
Fair value of previously held equity method investment	\$ 138

Goodwill of \$51 million relates primarily to expected operating business synergies between the Company and CMQ U.S. The factors that contribute to the goodwill are revenue growth from customers which are currently not served by CP, access to new routes, and an assembled workforce. Goodwill recognized is not deductible for tax purposes.

Intangible assets of \$27 million reflect customer lists acquired in the purchase of CMQ U.S., and have amortization periods of 20 years.

Acquired cash and cash equivalents of \$22 million is presented as a reduction of cash used in investing activities in the Company's Interim Consolidated Statement of Cash Flows for the three and six months ended June 30, 2020, and is presented net of finalized closing working capital adjustments for CMQ of \$3 million as described above.

CP has not provided pro forma information relating to the pre-acquisition period as it is not material.

10 Debt

Issuance of long-term debt

During the three months ended March 31, 2020, the Company issued U.S. \$500 million 2.050% 10-year unsecured notes due March 5, 2030 for net proceeds of approximately U.S. \$495 million (\$662 million) and \$300 million 3.050% 30-year unsecured notes due March 9, 2050 for net proceeds of approximately \$296 million. These notes pay interest semi-annually and carry a negative pledge.

Credit facility

The Company's revolving credit facility consists of a U.S. \$1.0 billion tranche maturing September 27, 2024 and a U.S. \$300 million tranche maturing September 27, 2021. During the three months ended March 31, 2020, the Company drew U.S. \$100 million from the U.S. \$300 million tranche of its revolving credit facility. During the three months ended June 30, 2020, the Company repaid this amount in full. As at June 30, 2020, the revolving credit facility was undrawn (December 31, 2019 - undrawn). The Company presents draws and repayments on its revolving credit facility in the Company's Interim Consolidated Statements of Cash Flows on a net basis.

Commercial paper program

The Company has a commercial paper program which enables it to issue commercial paper up to a maximum aggregate principal amount of U.S. \$1.0 billion in the form of unsecured promissory notes. This commercial paper program is backed by the U.S. \$1.3 billion revolving credit facility. As at June 30, 2020, the Company had no commercial paper borrowings outstanding (December 31, 2019 - U.S. \$397 million). The Company presents issuances and repayments of commercial paper, all of which have a maturity of less than 90 days, in the Company's Interim Consolidated Statements of Cash Flows on a net basis.

11 Financial instruments

A. Fair values of financial instruments

The Company categorizes its financial assets and liabilities measured at fair value into a three-level hierarchy established by GAAP that prioritizes those inputs to valuation techniques used to measure fair value based on the degree to which they are observable.

The three levels of the fair value hierarchy are as follows: Level 1 inputs are quoted prices in active markets for identical assets and liabilities; Level 2 inputs, other than quoted prices included within Level 1, are observable for the asset or liability either directly or indirectly; and Level 3 inputs are not observable in the market.

The carrying values of financial instruments equal or approximate their fair values with the exception of long-term debt as at:

(in millions of Canadian dollars)	June 30, 2020	December 31, 2019
Long-term debt (including current maturities):		
Fair value	\$ 12,115	\$ 10,149
Carrying value	9,548	8,757

All long-term debt is classified as Level 2. The estimated fair value of current and long-term borrowings has been determined based on market information where available, or by discounting future payments of principal and interest at estimated interest rates expected to be available to the Company at period end.

B. Financial risk management

The effect of the Company's net investment hedge for the three and six months ended June 30, 2020 was an unrealized FX gain of \$264 million and an unrealized FX loss of \$291 million, respectively (three and six months ended June 30, 2019 - unrealized FX gains of \$120 million and \$240 million, respectively) recognized in "Other comprehensive income".

12 Shareholders' equity

On December 17, 2019, the Company announced a normal course issuer bid ("NCIB"), commencing December 20, 2019, to purchase up to 4.80 million Common Shares in the open market for cancellation on or before December 19, 2020. As at June 30, 2020, the Company had purchased 1.90 million Common Shares for \$620 million under this NCIB.

On October 19, 2018, the Company announced a NCIB, commencing October 24, 2018, to purchase up to 5.68 million Common Shares for cancellation on or before October 23, 2019. The Company completed this NCIB on October 23, 2019.

All purchases were made in accordance with the respective NCIB at prevailing market prices plus brokerage fees, or such other prices that were permitted by the Toronto Stock Exchange, with consideration allocated to share capital up to the average carrying amount of the shares and any excess allocated to "Retained earnings".

The following table provides activities under the share repurchase programs:

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Number of Common Shares repurchased ⁽¹⁾	150,860	956,243	1,606,714	1,663,921
Weighted-average price per share ⁽²⁾	\$ 341.27	\$ 308.84	\$ 323.54	\$ 288.80
Amount of repurchase (in millions of Canadian dollars) ⁽²⁾	\$ 52	\$ 296	\$ 520	\$ 481

⁽¹⁾ Includes shares repurchased but not yet cancelled at end of period.

⁽²⁾ Includes brokerage fees.

13 Pension and other benefits

In the three months ended June 30, 2020, the Company made contributions of \$6 million (three months ended June 30, 2019 - \$12 million) to its defined benefit pension plans. In the six months ended June 30, 2020, the Company made contributions of \$15 million (six months ended June 30, 2019 - \$23 million) to its defined benefit pension plans.

Net periodic benefit costs for defined benefit pension plans and other benefits included the following components:

(in millions of Canadian dollars)	For the three months ended June 30			
	Pensions		Other benefits	
	2020	2019	2020	2019
Current service cost (benefits earned by employees)	\$ 35	\$ 27	\$ 3	\$ 3
Other components of net periodic benefit (recovery) cost:				
Interest cost on benefit obligation	101	113	4	5
Expected return on fund assets	(236)	(237)	—	—
Recognized net actuarial loss	44	20	1	—
Amortization of prior service costs	—	—	—	1
Total other components of net periodic benefit (recovery) cost	(91)	(104)	5	6
Net periodic benefit (recovery) cost	\$ (56)	\$ (77)	\$ 8	\$ 9

(in millions of Canadian dollars)	For the six months ended June 30			
	Pensions		Other benefits	
	2020	2019	2020	2019
Current service cost (benefits earned by employees)	\$ 70	\$ 54	\$ 6	\$ 6
Other components of net periodic benefit (recovery) cost:				
Interest cost on benefit obligation	203	225	9	10
Expected return on fund assets	(473)	(474)	—	—
Recognized net actuarial loss	88	41	2	2
Amortization of prior service costs	—	—	—	1
Total other components of net periodic benefit (recovery) cost	(182)	(208)	11	13
Net periodic benefit (recovery) cost	\$ (112)	\$ (154)	\$ 17	\$ 19

14 Stock-based compensation

At June 30, 2020, the Company had several stock-based compensation plans including stock option plans, various cash-settled liability plans, and an employee share purchase plan. These plans resulted in an expense for the three and six months ended June 30, 2020 of \$43 million and \$54 million, respectively (three and six months ended June 30, 2019 - an expense of \$39 million and \$73 million, respectively).

Stock option plan

In the six months ended June 30, 2020, under CP's stock option plans, the Company issued 215,943 options at the weighted-average price of \$350.65 per share, based on the closing price on the grant date. Pursuant to the employee plan, these options may be exercised upon vesting, which is between 12 months and 48 months after the grant date, and will expire after seven years.

Under the fair value method, the fair value of the stock options at grant date was approximately \$15 million. The weighted-average fair value assumptions were approximately:

	For the six months ended June 30, 2020
Expected option life (years) ⁽¹⁾	4.75
Risk-free interest rate ⁽²⁾	1.29%
Expected stock price volatility ⁽³⁾	23.11%
Expected annual dividends per share ⁽⁴⁾	\$3.3200
Expected forfeiture rate ⁽⁵⁾	4.40%
Weighted-average grant date fair value per option granted during the period	\$68.86

⁽¹⁾ Represents the period of time that awards are expected to be outstanding. Historical data on exercise behaviour or, when available, specific expectations regarding future exercise behaviour were used to estimate the expected life of the option.

⁽²⁾ Based on the implied yield available on zero-coupon government issues with an equivalent term commensurate with the expected term of the option.

⁽³⁾ Based on the historical volatility of the Company's stock price over a period commensurate with the expected term of the option.

⁽⁴⁾ Determined by the current annual dividend at the time of grant. The Company does not employ different dividend yields throughout the contractual term of the option. On July 21, 2020, the Company announced an increase in its quarterly dividend to \$0.9500 per share, representing \$3.8000 on an annual basis.

⁽⁵⁾ The Company estimates forfeitures based on past experience. This rate is monitored on a periodic basis.

Performance share unit plans

During the six months ended June 30, 2020, the Company issued 97,710 Performance Share Units ("PSUs") with a grant date fair value of approximately \$34 million and 10,029 Performance Deferred Share Units ("PDSUs") with a grant date fair value, including value of expected future matching units, of approximately \$4 million. PSUs and PDSUs attract dividend equivalents in the form of additional units based on dividends paid on the Company's Common Shares, and vest approximately three years after the grant date, contingent upon CP's performance ("performance factor"). The fair value of these PSUs and PDSUs is measured periodically until settlement using a lattice-based valuation model. Vested PSUs are settled in cash. Vested PDSUs are settled in cash pursuant to the Deferred Share Unit ("DSU") Plan and are eligible for a 25% match if the holder has not exceeded their share ownership requirements, and are paid out only when the holder ceases their employment with CP.

The performance period for PSUs and PDSUs issued in the six months ended June 30, 2020 is January 1, 2020 to December 31, 2022 and the performance factors are Return on Invested Capital ("ROIC"), Total Shareholder Return ("TSR") compared to the S&P/TSX 60 Index, and TSR compared to Class I railways.

The performance period for PSUs issued in 2017 was January 1, 2017 to December 31, 2019, and the performance factors for these PSUs were ROIC, TSR compared to the S&P/TSX Capped Industrial Index, and TSR compared to S&P 1500 Road and Rail Index. The resulting payout was 193% of the outstanding units multiplied by the Company's average share price calculated using the last 30 trading days preceding December 31, 2019. In the first quarter of 2020, payouts occurred on the total outstanding awards, including dividends reinvested, totalling \$76 million on 121,225 outstanding awards.

Deferred share unit plan

During the six months ended June 30, 2020, the Company granted 15,430 DSUs with a grant date fair value of approximately \$5 million. DSUs vest over various periods of up to 48 months and are only redeemable for a specified period after employment is terminated. During the six months ended June 30, 2020, payouts totaling \$7 million were made in respect of 21,762 vested DSUs, including dividends reinvested. The expense for DSUs is recognized over the vesting period for both the initial subscription price and the change in value between reporting periods.

15 Contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions it considers to be adequate for such actions. While the final outcome with respect to actions outstanding or pending at June 30, 2020 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's business, financial position or results of operations.

Legal proceedings related to Lac-Mégantic rail accident

On July 6, 2013, a train carrying petroleum crude oil operated by Montréal Maine and Atlantic Railway ("MMAR") or a subsidiary, Montréal Maine & Atlantic Canada Co. ("MMAC" and collectively the "MMA Group"), derailed in Lac-Mégantic, Québec. The derailment occurred on a section of railway owned and operated by the MMA Group and while the MMA Group exclusively controlled the train.

Following the derailment, MMAC sought court protection in Canada under the *Companies' Creditors Arrangement Act* and MMAR filed for bankruptcy in the U.S. Plans of arrangement were approved in both Canada and the U.S. (the "Plans"), providing for the distribution of approximately \$440 million amongst those claiming derailment damages.

A number of legal proceedings, set out below, were commenced in Canada and the U.S. against CP and others:

- (1) Québec's Minister of Sustainable Development, Environment, Wildlife and Parks ordered various parties, including CP, to remediate the derailment site (the "Cleanup Order") and served CP with a Notice of Claim for \$95 million for those costs. CP appealed the Cleanup Order and contested the Notice of Claim with the Administrative Tribunal of Québec. These proceedings are stayed pending determination of the Attorney General of Québec ("AGQ") action (paragraph 2 below).
- (2) The AGQ sued CP in the Québec Superior Court claiming \$409 million in damages, which was amended and reduced to \$315 million (the "AGQ Action"). The AGQ Action alleges that: (i) CP was responsible for the petroleum crude oil from its point of origin until its delivery to Irving Oil Ltd.; and (ii) CP is vicariously liable for the acts and omissions of the MMA Group.
- (3) A class action in the Québec Superior Court on behalf of persons and entities residing in, owning or leasing property in, operating a business in, or physically present in Lac-Mégantic at the time of the derailment was certified against CP on May 8, 2015 (the "Class Action"). Other defendants including MMAC and Mr. Thomas Harding ("Harding") were added to the Class Action on January 25, 2017. The Class Action seeks unquantified damages, including for wrongful death, personal injury, property damage, and economic loss.
- (4) Eight subrogated insurers sued CP in the Québec Superior Court claiming approximately \$16 million in damages, which was amended and reduced to approximately \$15 million (the "Promutuel Action"), and two additional subrogated insurers sued CP claiming approximately \$3 million in damages (the "Royal Action"). Both actions contain similar allegations as the AGQ Action. The actions do not identify the subrogated parties. As such, the extent of any overlap between the damages claimed in these actions and under the Plans is unclear. The Royal Action is stayed pending determination of the consolidated proceedings described below.

On December 11, 2017, the AGQ Action, the Class Action and the Promutuel Action were consolidated. These consolidated claims are currently scheduled for a joint liability trial commencing September 15, 2021, followed by a damages trial, if necessary.

- (5) Forty-eight plaintiffs (all individual claims joined in one action) sued CP, MMAC, and Harding in the Québec Superior Court claiming approximately \$5 million in damages for economic loss and pain and suffering, and asserting similar allegations as in the Class Action and the AGQ Action. The majority of the plaintiffs opted-out of the Class Action and all but two are also plaintiffs in litigation against CP, described in paragraph 7 below. This action is stayed pending determination of the consolidated claims described above.
- (6) The MMAR U.S. bankruptcy estate representative commenced an action against CP in November 2014 in the Maine Bankruptcy Court claiming that CP failed to abide by certain regulations and seeking damages for MMAR's loss in business value (as yet unquantified). This action asserts that CP knew or ought to have known that the shipper misclassified the petroleum crude oil and therefore should have refused to transport it.
- (7) The class and mass tort action commenced against CP in June 2015 in Texas (on behalf of Lac-Mégantic residents and wrongful death representatives) and the wrongful death and personal injury actions commenced against CP in June 2015 in Illinois and Maine, were all transferred and consolidated in Federal District Court in Maine (the "Maine Actions"). The Maine Actions allege that CP negligently misclassified and improperly packaged the petroleum crude oil. On CP's motion, the Maine Actions were dismissed. The plaintiffs are appealing the dismissal decision, which may be heard in September 2020.
- (8) The trustee for the wrongful death trust commenced Carmack Amendment claims against CP in North Dakota Federal Court, seeking to recover approximately U.S. \$6 million for damaged rail cars and lost crude and reimbursement for the settlement paid by the consignor and the consignee under the Plans (alleged to be U.S. \$110 million and U.S. \$60 million, respectively). This action is scheduled for trial on October 20, 2020.

At this stage of the proceedings, any potential responsibility and the quantum of potential losses cannot be determined. Nevertheless, CP denies liability and is vigorously defending these proceedings.

Environmental liabilities

Environmental remediation accruals, recorded on an undiscounted basis unless a reliable, determinable estimate as to an amount and timing of costs can be established, cover site-specific remediation programs.

The accruals for environmental remediation represent CP's best estimate of its probable future obligation and include both asserted and unasserted claims, without reduction for anticipated recoveries from third parties. Although the recorded accruals include CP's best estimate of all probable costs, CP's total environmental remediation costs cannot be predicted with certainty. Accruals for environmental remediation may change from time to time as new information about previously untested sites becomes known, and

as environmental laws and regulations evolve and advances are made in environmental remediation technology. The accruals may also vary as the courts decide legal proceedings against outside parties responsible for contamination. These potential charges, which cannot be quantified at this time, may materially affect income in the particular period in which a charge is recognized. Costs related to existing, but as yet unknown, or future contamination will be accrued in the period in which they become probable and reasonably estimable.

The expense included in "Purchased services and other" for the three and six months ended June 30, 2020 was \$3 million and \$4 million, respectively (three and six months ended June 30, 2019 - \$1 million and \$2 million, respectively). Provisions for environmental remediation costs are recorded in "Other long-term liabilities", except for the current portion which is recorded in "Accounts payable and accrued liabilities". The total amount provided at June 30, 2020 was \$82 million (December 31, 2019 - \$77 million). Payments are expected to be made over 10 years through 2029.



Summary of Rail Data

<u>Financial (millions, except per share data)</u>	<u>Second Quarter</u>				<u>Year-to-date</u>			
	<u>2020</u>	<u>2019</u>	<u>Total Change</u>	<u>% Change</u>	<u>2020</u>	<u>2019</u>	<u>Total Change</u>	<u>% Change</u>
<u>Revenues</u>								
Freight	\$ 1,752	\$ 1,931	\$ (179)	(9)	\$ 3,752	\$ 3,657	\$ 95	3
Non-freight	40	46	(6)	(13)	83	87	(4)	(5)
Total revenues	<u>1,792</u>	<u>1,977</u>	<u>(185)</u>	<u>(9)</u>	<u>3,835</u>	<u>3,744</u>	<u>91</u>	<u>2</u>
<u>Operating expenses</u>								
Compensation and benefits	347	383	(36)	(9)	745	789	(44)	(6)
Fuel	131	236	(105)	(44)	343	445	(102)	(23)
Materials	50	54	(4)	(7)	109	111	(2)	(2)
Equipment rents	33	34	(1)	(3)	69	69	—	—
Depreciation and amortization	195	183	12	7	387	343	44	13
Purchased services and other	266	265	1	—	578	622	(44)	(7)
Total operating expenses	<u>1,022</u>	<u>1,155</u>	<u>(133)</u>	<u>(12)</u>	<u>2,231</u>	<u>2,379</u>	<u>(148)</u>	<u>(6)</u>
Operating income	770	822	(52)	(6)	1,604	1,365	239	18
Less:								
Other (income) expense	(86)	(40)	(46)	115	125	(87)	212	(244)
Other components of net periodic benefit recovery	(86)	(98)	12	(12)	(171)	(195)	24	(12)
Net interest expense	118	112	6	5	232	226	6	3
Income before income tax expense	824	848	(24)	(3)	1,418	1,421	(3)	—
Income tax expense	189	124	65	52	374	263	111	42
Net income	<u>\$ 635</u>	<u>\$ 724</u>	<u>\$ (89)</u>	<u>(12)</u>	<u>\$ 1,044</u>	<u>\$ 1,158</u>	<u>\$ (114)</u>	<u>(10)</u>
Operating ratio (%)	<u>57.0</u>	<u>58.4</u>	<u>(1.4)</u>	<u>(140) bps</u>	<u>58.2</u>	<u>63.5</u>	<u>(5.3)</u>	<u>(530) bps</u>
Basic earnings per share	<u>\$ 4.68</u>	<u>\$ 5.19</u>	<u>\$ (0.51)</u>	<u>(10)</u>	<u>\$ 7.67</u>	<u>\$ 8.28</u>	<u>\$ (0.61)</u>	<u>(7)</u>
Diluted earnings per share	<u>\$ 4.66</u>	<u>\$ 5.17</u>	<u>\$ (0.51)</u>	<u>(10)</u>	<u>\$ 7.64</u>	<u>\$ 8.25</u>	<u>\$ (0.61)</u>	<u>(7)</u>
<u>Shares Outstanding</u>								
Weighted average number of basic shares outstanding (millions)	135.6	139.7	(4.1)	(3)	136.1	139.9	(3.8)	(3)
Weighted average number of diluted shares outstanding (millions)	136.1	140.2	(4.1)	(3)	136.6	140.4	(3.8)	(3)
<u>Foreign Exchange</u>								
Average foreign exchange rate (US\$/Canadian\$)	0.72	0.75	(0.03)	(4)	0.74	0.75	(0.01)	(1)
Average foreign exchange rate (Canadian\$/US\$)	1.39	1.34	0.05	4	1.36	1.33	0.03	2



Summary of Rail Data (Continued)

<u>Commodity Data</u>	Second Quarter					Year-to-date				
	2020	2019	Total Change	% Change	FX Adjusted % Change ⁽¹⁾	2020	2019	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight Revenues (millions)										
- Grain	\$ 446	\$ 422	\$ 24	6	3	\$ 864	\$ 802	\$ 62	8	6
- Coal	131	173	(42)	(24)	(24)	281	331	(50)	(15)	(15)
- Potash	146	136	10	7	5	258	250	8	3	2
- Fertilizers and sulphur	77	63	14	22	20	147	120	27	23	20
- Forest products	81	78	3	4	—	159	151	8	5	3
- Energy, chemicals and plastics	341	346	(5)	(1)	(3)	832	661	171	26	25
- Metals, minerals and consumer products	133	205	(72)	(35)	(37)	322	378	(56)	(15)	(17)
- Automotive	34	104	(70)	(67)	(68)	121	180	(59)	(33)	(34)
- Intermodal	363	404	(41)	(10)	(11)	768	784	(16)	(2)	(3)
Total Freight Revenues	<u>\$ 1,752</u>	<u>\$ 1,931</u>	<u>\$ (179)</u>	<u>(9)</u>	<u>(11)</u>	<u>\$ 3,752</u>	<u>\$ 3,657</u>	<u>\$ 95</u>	<u>3</u>	<u>1</u>
Freight Revenue per Revenue Ton-Mile (RTM) (cents)										
- Grain	4.39	4.46	(0.07)	(2)	(4)	4.50	4.50	—	—	(1)
- Coal	3.02	3.15	(0.13)	(4)	(4)	3.20	3.09	0.11	4	4
- Potash	2.66	2.59	0.07	3	—	2.68	2.55	0.13	5	4
- Fertilizers and sulphur	6.24	6.70	(0.46)	(7)	(8)	6.31	6.51	(0.20)	(3)	(5)
- Forest products	6.14	6.05	0.09	1	(2)	6.12	6.12	—	—	(2)
- Energy, chemicals and plastics	7.56	4.96	2.60	52	50	6.23	4.96	1.27	26	25
- Metals, minerals and consumer products	7.09	7.15	(0.06)	(1)	(4)	6.93	7.11	(0.18)	(3)	(5)
- Automotive	26.15	23.69	2.46	10	7	26.54	23.26	3.28	14	12
- Intermodal	5.45	5.67	(0.22)	(4)	(5)	5.50	5.70	(0.20)	(4)	(4)
Total Freight Revenue per RTM	<u>4.90</u>	<u>4.85</u>	<u>0.05</u>	<u>1</u>	<u>(1)</u>	<u>5.01</u>	<u>4.82</u>	<u>0.19</u>	<u>4</u>	<u>3</u>
Freight Revenue per Carload										
- Grain	\$ 3,767	\$ 3,731	\$ 36	1	(1)	\$ 3,945	\$ 3,895	\$ 50	1	—
- Coal	2,205	2,227	(22)	(1)	(1)	2,281	2,235	46	2	2
- Potash	3,106	3,063	43	1	(1)	3,094	3,038	56	2	1
- Fertilizers and sulphur	4,611	4,468	143	3	2	4,623	4,317	306	7	5
- Forest products	4,629	4,216	413	10	6	4,466	4,242	224	5	3
- Energy, chemicals and plastics	5,430	3,959	1,471	37	35	5,055	3,977	1,078	27	26
- Metals, minerals and consumer products	2,949	3,218	(269)	(8)	(11)	3,117	3,225	(108)	(3)	(5)
- Automotive	2,857	3,302	(445)	(13)	(16)	3,017	3,180	(163)	(5)	(7)
- Intermodal	1,439	1,517	(78)	(5)	(6)	1,475	1,529	(54)	(4)	(4)
Total Freight Revenue per Carload	<u>\$ 2,777</u>	<u>\$ 2,694</u>	<u>\$ 83</u>	<u>3</u>	<u>1</u>	<u>\$ 2,839</u>	<u>\$ 2,704</u>	<u>\$ 135</u>	<u>5</u>	<u>4</u>

⁽¹⁾ This earnings measure has no standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. This measure is defined and reconciled in Non-GAAP Measures of this Earnings Release.



Summary of Rail Data (Continued)

<u>Commodity Data (Continued)</u>	<u>Second Quarter</u>				<u>Year-to-date</u>			
	<u>2020</u>	<u>2019</u>	<u>Total Change</u>	<u>% Change</u>	<u>2020</u>	<u>2019</u>	<u>Total Change</u>	<u>% Change</u>
Millions of RTM								
- Grain	10,169	9,452	717	8	19,185	17,804	1,381	8
- Coal	4,337	5,492	(1,155)	(21)	8,772	10,724	(1,952)	(18)
- Potash	5,490	5,242	248	5	9,628	9,815	(187)	(2)
- Fertilizers and sulphur	1,233	940	293	31	2,328	1,842	486	26
- Forest products	1,319	1,289	30	2	2,596	2,468	128	5
- Energy, chemicals and plastics	4,512	6,971	(2,459)	(35)	13,361	13,330	31	—
- Metals, minerals and consumer products	1,877	2,867	(990)	(35)	4,648	5,315	(667)	(13)
- Automotive	130	439	(309)	(70)	456	774	(318)	(41)
- Intermodal	6,660	7,128	(468)	(7)	13,971	13,750	221	2
Total RTMs	35,727	39,820	(4,093)	(10)	74,945	75,822	(877)	(1)
Carloads (thousands)								
- Grain	118.4	113.1	5.3	5	219.0	205.9	13.1	6
- Coal	59.4	77.7	(18.3)	(24)	123.2	148.1	(24.9)	(17)
- Potash	47.0	44.4	2.6	6	83.4	82.3	1.1	1
- Fertilizers and sulphur	16.7	14.1	2.6	18	31.8	27.8	4.0	14
- Forest products	17.5	18.5	(1.0)	(5)	35.6	35.6	—	—
- Energy, chemicals and plastics	62.8	87.4	(24.6)	(28)	164.6	166.2	(1.6)	(1)
- Metals, minerals and consumer products	45.1	63.7	(18.6)	(29)	103.3	117.2	(13.9)	(12)
- Automotive	11.9	31.5	(19.6)	(62)	40.1	56.6	(16.5)	(29)
- Intermodal	252.2	266.4	(14.2)	(5)	520.6	512.7	7.9	2
Total Carloads	631.0	716.8	(85.8)	(12)	1,321.6	1,352.4	(30.8)	(2)

	<u>Second Quarter</u>					<u>Year-to-date</u>				
	<u>2020</u>	<u>2019</u>	<u>Total Change</u>	<u>% Change</u>	<u>FX Adjusted % Change⁽¹⁾</u>	<u>2020</u>	<u>2019</u>	<u>Total Change</u>	<u>% Change</u>	<u>FX Adjusted % Change⁽¹⁾</u>
Operating Expenses (millions)										
Compensation and benefits	\$ 347	\$ 383	\$ (36)	(9)	(11)	\$ 745	\$ 789	\$ (44)	(6)	(6)
Fuel	131	236	(105)	(44)	(46)	343	445	(102)	(23)	(24)
Materials	50	54	(4)	(7)	(7)	109	111	(2)	(2)	(2)
Equipment rents	33	34	(1)	(3)	(6)	69	69	—	—	(1)
Depreciation and amortization	195	183	12	7	6	387	343	44	13	12
Purchased services and other	266	265	1	—	(1)	578	622	(44)	(7)	(8)
Total Operating Expenses	\$ 1,022	\$ 1,155	\$ (133)	(12)	(13)	\$ 2,231	\$ 2,379	\$ (148)	(6)	(7)

⁽¹⁾ This earnings measure has no standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. This measure is defined and reconciled in Non-GAAP Measures of this Earnings Release.



Summary of Rail Data (Continued)

	Second Quarter				Year-to-date			
	2020	2019	Total Change	% Change	2020	2019	Total Change	% Change
<u>Operations Performance</u>								
Gross ton-miles ("GTMs") (millions)	63,077	72,717	(9,640)	(13)	134,410	137,571	(3,161)	(2)
Train miles (thousands)	6,865	8,373	(1,508)	(18)	15,238	16,196	(958)	(6)
Average train weight - excluding local traffic (tons)	9,984	9,295	689	7	9,544	9,088	456	5
Average train length - excluding local traffic (feet)	8,089	7,523	566	8	7,713	7,350	363	5
Average terminal dwell (hours)	6.5	6.4	0.1	2	6.4	7.1	(0.7)	(10)
Average train speed (miles per hour, or "mph") ⁽¹⁾	22.4	22.4	—	—	22.0	21.8	0.2	1
Locomotive productivity (GTMs / operating horsepower) ⁽²⁾	212	207	5	2	206	196	10	5
Fuel efficiency ⁽³⁾	0.921	0.934	(0.013)	(1)	0.947	0.972	(0.025)	(3)
U.S. gallons of locomotive fuel consumed (millions) ⁽⁴⁾	58.1	67.9	(9.8)	(14)	127.4	133.7	(6.3)	(5)
Average fuel price (U.S. dollars per U.S. gallon)	1.63	2.61	(0.98)	(38)	1.98	2.51	(0.53)	(21)
<u>Total Employees and Workforce</u>								
Total employees (average) ⁽⁵⁾	12,001	13,274	(1,273)	(10)	12,244	13,059	(815)	(6)
Total employees (end of period) ⁽⁵⁾	11,988	13,330	(1,342)	(10)	11,988	13,330	(1,342)	(10)
Workforce (end of period) ⁽⁶⁾	12,033	13,365	(1,332)	(10)	12,033	13,365	(1,332)	(10)
<u>Safety Indicators</u> ⁽⁷⁾								
FRA personal injuries per 200,000 employee-hours	1.12	1.00	0.12	12	1.14	1.46	(0.32)	(22)
FRA train accidents per million train-miles	1.06	0.87	0.19	22	1.02	1.23	(0.21)	(17)

⁽¹⁾ Average train speed is defined as a measure of the line-haul movement from origin to destination including terminal dwell hours. It is calculated by dividing the total train miles travelled by the total train hours operated. This calculation does not include delay time related to customers or foreign railroads and excludes the time and distance travelled by: i) trains used in or around CP's yards; ii) passenger trains; and iii) trains used for repairing track.

⁽²⁾ Locomotive productivity is defined as daily GTMs divided by daily average operating horsepower. Operating horsepower excludes units offline, tied up or in storage, or in use on other railways, and includes foreign units online.

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

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

⁽⁵⁾ An employee is defined as an individual currently engaged in full-time, part-time, or seasonal employment with CP.

⁽⁶⁾ Workforce is defined as total employees plus contractors and consultants.

⁽⁷⁾ FRA personal injuries per 200,000 employee-hours for the six months ended June 30, 2019 was previously reported as 1.47, restated to 1.46 for the current report. FRA train accidents per million train-miles for the three and six months ended June 30, 2019 were previously reported as 0.77 and 1.18, restated to 0.87 and 1.23, respectively for the current report. These adjustments reflect new information available within specified periods stipulated by the FRA but that exceed the Company's financial reporting timeline.



Non-GAAP Measures

The Company presents Non-GAAP measures to provide a basis for evaluating underlying earnings and liquidity trends in the Company's business that can be compared with the results of operations in prior periods. In addition, these Non-GAAP measures facilitate a multi-period assessment of long-term profitability, allowing management and other external users of the Company's consolidated financial information to compare profitability on a long-term basis, including assessing future profitability, with that of the Company's peers.

These Non-GAAP measures have no standardized meaning and are not defined by accounting principles generally accepted in the United States of America ("GAAP") and, therefore, may not be comparable to similar measures presented by other companies. The presentation of these Non-GAAP measures is not intended to be considered in isolation from, as a substitute for, or as superior to the financial information presented in accordance with GAAP.

Non-GAAP Performance Measures

The Company uses adjusted earnings results including Adjusted income and Adjusted diluted earnings per share ("EPS") to evaluate the Company's operating performance and for planning and forecasting future business operations and future profitability. These Non-GAAP measures provide meaningful supplemental information regarding operating results because they exclude certain significant items that are not considered indicative of future financial trends either by nature or amount. As a result, these items are excluded for management assessment of operational performance, allocation of resources and preparation of annual budgets. These significant items may include, but are not limited to, restructuring and asset impairment charges, individually significant gains and losses from sales of assets, the foreign exchange ("FX") impact of translating the Company's debt and lease liabilities (including borrowings under the credit facility), discrete tax items, and certain items outside the control of management. These items may not be non-recurring. However, excluding these significant items from GAAP results allows for a consistent understanding of the Company's consolidated financial performance when performing a multi-period assessment including assessing the likelihood of future results. Accordingly, these Non-GAAP financial measures may provide insight to investors and other external users of the Company's consolidated financial information.

Significant items that impact reported earnings for the first six months of 2020, the twelve months of 2019, and the last six months of 2018 include:

2020:

- during the year to date, a non-cash loss of \$129 million (\$116 million after deferred tax) due to FX translation of debt and lease liabilities that unfavourably impacted Diluted EPS by 95 cents as follows:
 - in the second quarter, an \$86 million gain (\$82 million after deferred tax) that favourably impacted Diluted EPS by 59 cents; and
 - in the first quarter, a \$215 million loss (\$198 million after deferred tax) that unfavourably impacted Diluted EPS by \$1.44.

2019:

- in the fourth quarter, a deferred tax expense of \$24 million as a result of a provision for an uncertain tax item of a prior period that unfavourably impacted Diluted EPS by 17 cents;
- in the second quarter, a deferred tax recovery of \$88 million due to the change in the Alberta provincial corporate income tax rate that favourably impacted Diluted EPS by 63 cents; and
- during the course of the year, a net non-cash gain of \$94 million (\$86 million after deferred tax) due to FX translation of debt and lease liabilities as follows:
 - in the fourth quarter, a \$37 million gain (\$32 million after deferred tax) that favourably impacted Diluted EPS by 22 cents;
 - in the third quarter, a \$25 million loss (\$22 million after deferred tax) that unfavourably impacted Diluted EPS by 15 cents;
 - in the second quarter, a \$37 million gain (\$34 million after deferred tax) that favourably impacted Diluted EPS by 24 cents; and
 - in the first quarter, a \$45 million gain (\$42 million after deferred tax) that favourably impacted Diluted EPS by 30 cents.

2018:

- a net non-cash loss of \$75 million (\$70 million after deferred tax) due to FX translation of debt as follows:
 - in the fourth quarter, a \$113 million loss (\$103 million after deferred tax) that unfavourably impacted Diluted EPS by 72 cents; and
 - in the third quarter, a \$38 million gain (\$33 million after deferred tax) that favourably impacted Diluted EPS by 23 cents.



2020 Outlook and Target Adjusted Dividend Payout Ratio

Based on the strength of the Company's performance to date, on July 22, 2020, CP updated the outlook for 2020 that CP had previously updated on April 21, 2020. The Company now expects to deliver Adjusted diluted EPS growth year over year based on Adjusted diluted EPS of \$16.44 in 2019. CP continues to expect volume, as measured in RTMs, to be down mid-single digits and capital expenditures of \$1.6 billion as the Company takes advantage of available track time to better position the network for recovery and support long-term shareholder returns. CP's revised earnings guidance assumes an FX rate of approximately \$1.35 USD/CAD as compared to \$1.40 USD/CAD previously, other components of net periodic benefit recovery to decrease by approximately \$40 million as compared to 2019 and an effective tax rate of approximately 24.8 percent as a result of the accelerated reduction of the Alberta corporate tax rate as compared to 25.0 percent previously. Adjusted diluted EPS is defined and discussed further below.

Over the long term, CP targets an Adjusted dividend payout ratio of 25.0% to 30.0%. Adjusted dividend payout ratio is calculated as dividends declared per share divided by Adjusted diluted EPS. This ratio is a measure of shareholder return and provide information on the Company's ability to declare dividends on an ongoing basis.

Although CP has provided a forward-looking Non-GAAP measure (Adjusted diluted EPS) and a target Non-GAAP measure (Adjusted dividend payout ratio), management is unable to reconcile, without unreasonable efforts, the forward-looking Adjusted diluted EPS and target Adjusted dividend payout ratio to the most comparable GAAP measures (diluted EPS and dividend payout ratio, respectively), due to unknown variables and uncertainty related to future results. These unknown variables may include unpredictable transactions of significant value. In past years, CP has recognized significant asset impairment charges, management transition costs related to senior executives and discrete tax items. These or other similar, large unforeseen transactions affect diluted EPS but may be excluded from CP's Adjusted diluted EPS. Additionally, the U.S.-to-Canadian dollar exchange rate is unpredictable and can have a significant impact on CP's reported results but may be excluded from CP's Adjusted diluted EPS. In particular, CP excludes the FX impact of translating the Company's debt and lease liabilities, the impact from changes in income tax rates and a provision for uncertain tax item from Adjusted diluted EPS. Please see Note on Forward-Looking Information in this Earnings Release for further discussion.

Reconciliation of GAAP Performance Measures to Non-GAAP Performance Measures

The following tables reconcile the most directly comparable measures presented in accordance with GAAP to the Non-GAAP measures:

Adjusted income is calculated as Net income reported on a GAAP basis adjusted for significant items.

(in millions)	For the three months ended June 30		For the six months ended June 30		For the twelve months ended December 31
	2020	2019	2020	2019	2019
Net income as reported	\$ 635	\$ 724	\$ 1,044	\$ 1,158	\$ 2,440
Less significant items (pre-tax):					
Impact of FX translation gain (loss) on debt and lease liabilities	86	37	(129)	82	94
Add:					
Tax effect of adjustments ⁽¹⁾	4	3	(13)	6	8
Income tax rate changes	—	(88)	—	(88)	(88)
Provision for uncertain tax item	—	—	—	—	24
Adjusted income	\$ 553	\$ 602	\$ 1,160	\$ 994	\$ 2,290

⁽¹⁾ The tax effect of adjustments was calculated as the pre-tax effect of the adjustments multiplied by the applicable tax rate for the above items of 5.62% and 9.87% for the three and six months ended June 30, 2020, 9.47% and 7.82% for the three and six months ended June 30, 2019, and 8.55% for the twelve months ended December 31, 2019, respectively. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the significant items.



Adjusted diluted earnings per share is calculated using Adjusted income, as defined above, divided by the weighted-average diluted number of Common Shares outstanding during the period as determined in accordance with GAAP.

	For the three months ended June 30		For the six months ended June 30		For the twelve months ended December 31
	2020	2019	2020	2019	2019
Diluted earnings per share as reported	\$ 4.66	\$ 5.17	\$ 7.64	\$ 8.25	17.52
Less significant items (pre-tax):					
Impact of FX translation gain (loss) on debt and lease liabilities	0.63	0.27	(0.94)	0.58	0.67
Add:					
Tax effect of adjustments ⁽¹⁾	0.04	0.03	(0.09)	0.04	0.05
Income tax rate changes	—	(0.63)	—	(0.63)	(0.63)
Provision for uncertain tax item	—	—	—	—	0.17
Adjusted diluted earnings per share	\$ 4.07	\$ 4.30	\$ 8.49	\$ 7.08	16.44

⁽¹⁾ The tax effect of adjustments was calculated as the pre-tax effect of the adjustments multiplied by the applicable tax rate for the above items of 5.62% and 9.87% for the three and six months ended June 30, 2020, 9.47% and 7.82% for the three and six months ended June 30, 2019, and 8.55% for the twelve months ended December 31, 2019, respectively. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the significant items.

Adjusted Return on Invested Capital ("Adjusted ROIC")

Adjusted ROIC is calculated as Adjusted return divided by Adjusted average invested capital. Adjusted return is defined as Net income adjusted for interest expense, tax effected at the Company's adjusted annualized effective tax rate, and significant items in the Company's Consolidated Financial Statements, tax effected at the applicable tax rate. Adjusted average invested capital is defined as the sum of total Shareholders' equity, Long-term debt, and Long-term debt maturing within one year, as presented in the Company's Consolidated Financial Statements, each averaged between the beginning and ending balance over a rolling 12-month period, adjusted for the impact of significant items, tax effected at the applicable tax rate, on closing balances as part of this average. Adjusted ROIC excludes significant items reported in the Company's Consolidated Financial Statements, as these significant items are not considered indicative of future financial trends either by nature or amount, and excludes interest expense, net of tax, to incorporate returns on the Company's overall capitalization. Adjusted ROIC is a performance measure that measures how productively the Company uses its long-term capital investments, representing critical indicators of good operating and investment decisions made by management, and is an important performance criteria in determining certain elements of the Company's long-term incentive plan. Adjusted ROIC is reconciled below from Return on average shareholders' equity, the most comparable measure calculated in accordance with GAAP.

Beginning in the first quarter of 2020, CP aligned the reconciliation sequence for Adjusted ROIC to start with Net income, with no change to the calculated Adjusted return.

Calculation of Return on average shareholders' equity

(in millions, except for percentages)	For the twelve months ended June 30	
	2020	2019
Net income as reported	\$ 2,326	\$ 2,325
Average shareholders' equity	\$ 7,311	\$ 6,866
Return on average shareholders' equity	31.8%	33.9%



Reconciliation of Net income to Adjusted return

(in millions)	For the twelve months ended June 30	
	2020	2019
Net income as reported	\$ 2,326	\$ 2,325
Add:		
Net interest expense	454	452
Tax on interest ⁽¹⁾	(113)	(114)
Significant items:		
Impact of FX translation loss (gain) on debt and lease liabilities (pre-tax)	117	(7)
Tax on significant items ⁽²⁾	(11)	1
Income tax recovery from income tax rate changes	—	(88)
Provision for uncertain tax item	24	—
Adjusted return	\$ 2,797	\$ 2,569

⁽¹⁾ Tax was calculated at the adjusted annualized effective tax rate of 24.69% and 25.03% for the twelve months ended June 30, 2020 and 2019, respectively.

⁽²⁾ Tax was calculated as the pre-tax effect of the adjustments multiplied by the applicable tax rate for the above items of 9.68% and 14.62% for the twelve months ended June 30, 2020 and 2019, respectively.

Reconciliation of Average shareholders' equity to Adjusted average invested capital

(in millions)	For the twelve months ended June 30	
	2020	2019
Average shareholders' equity	\$ 7,311	\$ 6,866
Average Long-term debt, including long-term debt maturing within one year	9,044	8,511
	\$ 16,355	\$ 15,377
Less:		
Income tax recovery from income tax rate changes	—	44
Provision for uncertain tax item	(12)	—
Adjusted average invested capital	\$ 16,367	\$ 15,333

Calculation of Adjusted ROIC

(in millions, except for percentages)	For the twelve months ended June 30	
	2020	2019
Adjusted return	\$ 2,797	\$ 2,569
Adjusted average invested capital	\$ 16,367	\$ 15,333
Adjusted ROIC	17.1%	16.8%

Free Cash

Free cash is calculated as Cash provided by operating activities, less Cash used in investing activities, adjusted for changes in cash and cash equivalents balances resulting from FX fluctuations, and the acquisition of Central Maine and Québec Railway ("CMQ"). Free cash is a measure that management considers to be an indicator of liquidity. Free cash is useful to investors and other external users of the Company's Consolidated Financial Statements as it assists with the evaluation of the Company's ability to generate cash from its operations without incurring additional external financing. The acquisition of CMQ is not indicative of investment trends and has also been excluded from Free cash. Positive Free cash indicates the amount of cash available for reinvestment in the business, or cash that can be returned to investors through dividends, stock repurchase programs, debt retirements or a combination of these. Conversely, negative Free cash indicates the amount of cash that must be raised from investors through new debt or equity issues, reduction in available cash balances or a combination of these. Free cash should be considered in addition to, rather than as a substitute for, Cash provided by operating activities.



Reconciliation of Cash Provided by Operating Activities to Free Cash

(in millions)	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Cash provided by operating activities	\$ 835	\$ 721	\$ 1,324	\$ 1,134
Cash used in investing activities	(468)	(455)	(830)	(674)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	(15)	(1)	16	(2)
Less:				
Investment in Central Maine and Québec Railway	19	—	19	—
Free cash	\$ 333	\$ 265	\$ 491	\$ 458

Foreign Exchange Adjusted % Change

FX adjusted % change 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 result variances at constant currency are obtained by translating the comparable period of the prior year results denominated in U.S. dollars at the foreign exchange rates of the current period.

FX adjusted % changes in revenues are further used in calculating FX adjusted % change in freight revenue per carload and RTM. FX adjusted % changes in revenues are as follows:

(in millions)	For the three months ended June 30				
	Reported 2020	Reported 2019	Variance due to FX	FX Adjusted 2019	FX Adjusted % Change
Freight revenues by line of business					
Grain	\$ 446	\$ 422	\$ 9	\$ 431	3
Coal	131	173	—	173	(24)
Potash	146	136	3	139	5
Fertilizers and sulphur	77	63	1	64	20
Forest products	81	78	3	81	—
Energy, chemicals and plastics	341	346	5	351	(3)
Metals, minerals and consumer products	133	205	7	212	(37)
Automotive	34	104	3	107	(68)
Intermodal	363	404	4	408	(11)
Freight revenues	1,752	1,931	35	1,966	(11)
Non-freight revenues	40	46	—	46	(13)
Total revenues	\$ 1,792	\$ 1,977	\$ 35	\$ 2,012	(11)



For the six months ended June 30

(in millions)	Reported 2020	Reported 2019	Variance due to FX	FX Adjusted 2019	FX Adjusted % Change
Freight revenues by line of business					
Grain	\$ 864	\$ 802	\$ 10	\$ 812	6
Coal	281	331	—	331	(15)
Potash	258	250	3	253	2
Fertilizers and sulphur	147	120	2	122	20
Forest products	159	151	3	154	3
Energy, chemicals and plastics	832	661	6	667	25
Metals, minerals and consumer products	322	378	8	386	(17)
Automotive	121	180	4	184	(34)
Intermodal	768	784	5	789	(3)
Freight revenues	3,752	3,657	41	3,698	1
Non-freight revenues	83	87	—	87	(5)
Total revenues	\$ 3,835	\$ 3,744	\$ 41	\$ 3,785	1

FX adjusted % changes in operating expenses are as follows:

For the three months ended June 30

(in millions)	Reported 2020	Reported 2019	Variance due to FX	FX Adjusted 2019	FX Adjusted % Change
Compensation and benefits	\$ 347	\$ 383	\$ 5	\$ 388	(11)
Fuel	131	236	7	243	(46)
Materials	50	54	—	54	(7)
Equipment rents	33	34	1	35	(6)
Depreciation and amortization	195	183	1	184	6
Purchased services and other	266	265	5	270	(1)
Total operating expenses	\$ 1,022	\$ 1,155	\$ 19	\$ 1,174	(13)

For the six months ended June 30

(in millions)	Reported 2020	Reported 2019	Variance due to FX	FX Adjusted 2019	FX Adjusted % Change
Compensation and benefits	\$ 745	\$ 789	\$ 6	\$ 795	(6)
Fuel	343	445	9	454	(24)
Materials	109	111	—	111	(2)
Equipment rents	69	69	1	70	(1)
Depreciation and amortization	387	343	2	345	12
Purchased services and other	578	622	7	629	(8)
Total operating expenses	\$ 2,231	\$ 2,379	\$ 25	\$ 2,404	(7)

FX adjusted % change in operating income is as follows:

For the three months ended June 30

(in millions)	Reported 2020	Reported 2019	Variance due to FX	FX Adjusted 2019	FX Adjusted % Change
Operating income	\$ 770	\$ 822	\$ 16	\$ 838	(8)



For the six months ended June 30

(in millions)	Reported 2020	Reported 2019	Variance due to FX	FX Adjusted 2019	FX Adjusted % Change
Operating income	\$ 1,604	\$ 1,365	\$ 16	\$ 1,381	16

Adjusted Net Debt to Adjusted EBITDA Ratio

Adjusted net debt to Adjusted earnings before interest, tax, depreciation and amortization ("EBITDA") ratio is calculated as Adjusted net debt divided by Adjusted EBITDA. The Adjusted net debt to Adjusted EBITDA ratio is a key credit measure used to assess the Company's financial capacity. The ratio provides information on the Company's ability to service its debt and other long-term obligations. The Adjusted net debt to Adjusted EBITDA ratio is reconciled below from the Long-term debt to Net income ratio, the most comparable measure calculated in accordance with GAAP.

Calculation of Long-term Debt to Net Income Ratio

(in millions, except for ratios)	2020	2019
Long-term debt including long-term debt maturing within one year as at June 30	\$ 9,548	\$ 8,539
Net income for the twelve months ended June 30	2,326	2,325
Long-term debt to Net income ratio	4.1	3.7

Reconciliation of Long-term Debt to Adjusted Net Debt

Adjusted net debt is defined as Long-term debt, Long-term debt maturing within one year and Short-term borrowing as reported on the Company's Consolidated Balance Sheets adjusted for pension plans deficit, operating lease liabilities recognized on the Company's Consolidated Balance Sheets, and Cash and cash equivalents.

(in millions)	2020	2019
Long-term debt including long-term debt maturing within one year as at June 30	\$ 9,548	\$ 8,539
Add:		
Pension plans deficit ⁽¹⁾	294	263
Operating lease liabilities	343	375
Less:		
Cash and cash equivalents	277	45
Adjusted net debt as at June 30	\$ 9,908	\$ 9,132

⁽¹⁾ Pension plans deficit is the total funded status of the Pension plans in deficit only.



Reconciliation of Net Income to EBIT, Adjusted EBIT and Adjusted EBITDA

Earnings before interest and tax ("EBIT") is calculated as Net income before Net interest expense and Income tax expense. Adjusted EBIT excludes significant items reported in both Operating income and Other (income) expense. Adjusted EBITDA is calculated as Adjusted EBIT plus operating lease expense and Depreciation and amortization, less Other components of net periodic benefit recovery.

(in millions)	For the twelve months ended June 30	
	2020	2019
Net income as reported	\$ 2,326	\$ 2,325
Add:		
Net interest expense	454	452
Income tax expense	817	656
EBIT	3,597	3,433
Less significant items (pre-tax):		
Impact of FX translation (loss) gain on debt and lease liabilities	(117)	7
Adjusted EBIT	3,714	3,426
Add:		
Operating lease expense	80	102
Depreciation and amortization	750	697
Less:		
Other components of net periodic benefit recovery	357	388
Adjusted EBITDA	\$ 4,187	\$ 3,837

Calculation of Adjusted Net Debt to Adjusted EBITDA Ratio

(in millions, except for ratios)	2020	2019
Adjusted net debt as at June 30	\$ 9,908	\$ 9,132
Adjusted EBITDA for the twelve months ended June 30	4,187	3,837
Adjusted net debt to Adjusted EBITDA ratio	2.4	2.4