ANNUAL INFORMATION FORM
MARCH 1, 2006

CANADIAN PACIFIC RAILWAY Ingenuity.

TABLE OF CONTENTS

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

CORPORATE STRUCTURE

Unless the context requires otherwise, "our", "us", "we", "CPR" and "the Company" refer to Canadian Pacific Railway Limited and, where applicable, its subsidiaries, including Canadian Pacific Railway Company ("CPRC").

Name, Address and Incorporation Information

Canadian Pacific Railway Limited ("the Company" or "CPR") was incorporated on June 22, 2001, as 3913732 Canada Inc. pursuant to the *Canada Business Corporations Act* ("the CBCA"). On July 20, 2001, CPR amended its Articles of Incorporation to change its name to Canadian Pacific Railway Limited. On October 1, 2001, Canadian Pacific Limited ("CPL") completed an arrangement ("the Arrangement") whereby it distributed to its common shareholders all of the shares of newly formed corporations holding the assets of four of CPL's five primary operating divisions. The Arrangement was effected as an arrangement pursuant to section 192 of the CBCA. On September 26, 2001, the Arrangement was approved by the shareholders of CPL, and CPRC, previously a wholly owned subsidiary of CPL, was transferred to CPR, effective October 1, 2001. The transfer was accomplished as part of a series of steps, pursuant to the terms of the Arrangement, whereby CPL transferred all of its outstanding shares of CPRC to a CPL subsidiary, 3921760 Canada Inc. ("3921760"). CPL then transferred all of its outstanding shares of 3921760 to CPR, and CPR amalgamated with 3921760.

Our registered office, executive offices and principal place of business are located at Suite 500, 401 - 9th Avenue S.W., Calgary, Alberta T2P 4Z4.

INTERCORPORATE RELATIONSHIPS

Principal Subsidiaries

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

Principal Subsidiary	Incorporated under the laws of	Percentage of voting securities held directly or indirectly	Percentage of non-voting securities beneficially owned, or over which control or direction is exercised
Canadian Pacific Railway Company	Canada	100%	Not applicable.
Soo Line Corporation (1)	Minnesota	100%	Not applicable.
Soo Line Railroad Company (2)	Minnesota	100%	Not applicable.
Delaware and Hudson Railway Company, Inc. (2)	Delaware	100%	Not applicable.

(1) Indirect wholly owned subsidiary of Canadian Pacific Railway Company.
(2) Wholly owned subsidiary of Soo Line Corporation.

Recent Developments

We continually seek to grow the value and scale of our core business through infrastructure-sharing and joint-service programs with other railways, strategic capital investment programs, and operating plan strategies. Combined with the ongoing improvement of our locomotive fleet, these strategies facilitate more predictable and fluid train operations between major terminals.

In January 2006, CPR and Canadian National Railway Company ("CN") entered into an agreement, which assists in the optimization of railway infrastructure in the lower mainland of British Columbia ("B.C.") Under the arrangement, we will operate the trains of both railways using CPR crews from Boston Bar, B.C. (60 km east of Hope), to the terminals on the south shore of Burrard Inlet in Vancouver, and return to North Bend (near Boston Bar). CN will operate the trains of both railways using CN crews from Boston Bar to the terminals on the north shore of Burrard Inlet and return to North Bend. We will provide all switching on the south shore of Burrard Inlet (with the exception of the Burlington Northern Santa Fe Railway barge slip) and CN will provide all switching on the north shore of Burrard Inlet. In addition, we will handle the coal trains of both railways from Boston Bar to the Roberts Bank coal port at Delta, B.C., and return to North Bend.

In 2005, a significant investment was made in the western portion of our rail network to improve trade and capacity between the Port of Vancouver in B.C. and the Canadian prairies. Western commodities, such as coal from the B.C. interior, and grain, sulphur and fertilizers from the prairies, are being transported to the West Coast of Canada in growing volumes. Similarly, increased trade with China and other Asian countries generates additional volumes of containerized freight in this region. We expanded train capacity on our western rail network by 12%, or approximately four extra trains per day. The expansion work was completed on time and within budget. It included:

- ten projects between Moose Jaw, Saskatchewan, and Calgary, Alberta, to extend sidings and lay sections of double track;
- three projects in Alberta, between Edmonton and Calgary, to extend sidings and build a new siding;
- twelve projects between Calgary and the Port of Vancouver to extend sidings and lay sections of double track.

A siding is a limited length of track parallel to the main line which enables trains running in either direction to pass each other. Longer sidings permit the use of longer trains, resulting in more freight moved per train and fewer trains required to move the same volume of freight traffic. Longer sidings also reduce the number of locomotives required to move the same amount of freight in a given rail corridor. We have identified other corridor bottlenecks on our network and a plan is in place to provide appropriate capacity in order to increase train density and capacity on all of our major routes.

In November 2005, we executed an agreement to sell to Indiana Rail Road Company our 92.3-mile Latta subdivision in Indiana between Bedford and Fayette, near Terre Haute. The sale is expected to close in the first half of 2006, subject to the approval of the U.S. Surface Transportation Board ("STB"). The sale includes trackage rights over CSX Transportation, Inc. ("CSX") rail lines from Chicago, Illinois, to Terre Haute, Indiana, and from Bedford to New Albany in Indiana, and over the Norfolk Southern Railway ("NS") line from New Albany to Louisville, Kentucky.

In 2004, we entered into an agreement with CN and NS to provide a significantly shorter, more direct routing over our Delaware and Hudson Railway Company, Inc. ("D&H") lines for NS-CN interline traffic moving between eastern Canada and the eastern U.S. Under the agreement:

- CN traffic destined for the eastern U.S. will move in our trains on the D&H line in New York between Rouses Point and Saratoga Springs under our freight haulage arrangement with NS;
- this CN traffic will then move in NS trains over the D&H line between Saratoga Springs and the NS connection near Harrisburg, Pennsylvania, under our trackage rights agreements with NS.

The agreement generated approximately one train per day of new business in each direction, seven days a week on the D&H. This arrangement is improving traffic density and providing additional revenue.

On June 30, 2004, we entered into a Memorandum of Understanding with NS in an effort to improve the efficiency of railway operations and enhance rail service to customers of the D&H. Definitive agreements were reached, providing for:

- NS to provide yard services for CPR at Buffalo, New York;
- NS to haul CPR traffic between Buffalo and Binghamton in New York;
- CPR to grant trackage rights to NS between Binghamton and Saratoga Springs;
- CPR to haul NS traffic between Rouses Point, and Saratoga Springs;
- CPR to provide yard services for NS at Binghamton;
- NS to grant CPR trackage rights over certain NS lines in the vicinity of Buffalo; and
- NS to grant CPR trackage rights between Detroit, Michigan, and Chicago, Illinois.

Operations under the agreements have commenced, and the last of the associated regulatory exemptions were obtained from the STB in the second quarter of 2005. We are now realizing the benefits and savings from these agreements.

In 2003, we extended remote-control locomotive operations, using Locotrol® technology, to encompass the region between Moose Jaw, Saskatchewan, and Toronto, Ontario, and extended the use of Locotrol® to intermodal and mixed-freight trains, from bulk trains. As a result, we became the first railway in Canada to operate intermodal freight trains with mid-train remote-control locomotives. Remote-control locomotives enable us to run intermodal trains approaching three kilometres in length year-round. Previously, trains had to be shortened in cold temperatures to prevent loss of air brake pressure.

We also completed in 2003 a $25-million capital investment to extend the length of 16 rail sidings in northern and eastern Ontario to increase operating efficiency and reduce costs. Also in 2003, we sold to CN our Edmunston Spur, a lower-density 7.8-mile rail line in northern New Brunswick. This line runs between Grand Falls and Cyr Junction, near St. Leonard. We also sold our Wisconsin & Southern Railroad, a 32.5-mile line in Wisconsin that runs from Madison to Watertown.

DESCRIPTION OF THE BUSINESS

Our Background and Network

CPRC was incorporated by Letters Patent in 1881 pursuant to an Act of the Parliament of Canada. CPRC is one of Canada's oldest corporations and was North America's first transcontinental railway. From our inception 125 years ago, we have developed into a fully-integrated and technologically advanced Class 1 railway (a railroad earning a minimum of US$258.5 million in revenues annually) providing rail and intermodal freight transportation services over a 13,600-mile network serving the principal business centres of Canada, from Montreal, Quebec, to Vancouver, B.C., and the U.S. Midwest and Northeast regions.

We own approximately 9,300 miles of track. An additional 4,300 miles of track are jointly owned, leased or operated under trackage rights. Of the total mileage operated, approximately 6,650 miles are located in western Canada, 2,200 miles in eastern Canada, 3,250 miles in the U.S. Midwest and 1,500 miles in the U.S. Northeast. Our business is based on funnelling railway traffic from feeder lines and connectors, including secondary and branch lines, onto our high-density mainline railway network. We have extended our network reach by establishing alliances and connections with other major Class 1 railways in North America, which allow us to provide competitive services and access to markets across North America beyond our own rail network. We also provide service to markets in Europe and the Pacific Rim through direct access to the Port of Montreal, Quebec, and the Port of Vancouver, respectively.

Our network accesses the U.S. market directly through two wholly owned subsidiaries: Soo Line Railroad Company ("Soo Line"), a Class 1 railway operating in the U.S. Midwest; and the D&H, which operates between eastern Canada and major U.S. Northeast markets, including New York City, New York; Philadelphia, Pennsylvania; and Washington, D.C.

Strategy

Our objective is to create long-term value for customers, shareholders, communities and employees, primarily by profitably growing within the footprint of our core rail franchise. We seek to accomplish this objective through the following three-part strategy:

- generating quality revenue growth by realizing the benefits of demand growth in our bulk, intermodal and merchandise business lines with targeted infrastructure capacity investments linked to global trade opportunities;
- improving productivity by leveraging strategic marketing and operating partnerships, executing a scheduled railway (our Integrated Operating Plan) and driving more value from existing assets and resources (improving "fluidity"); and
- continuing to develop a dedicated, professional and knowledgeable workforce that is committed to safety and sustainable financial performance through steady improvement in profitability, increased cash flow and a competitive return on investment.

Partnerships, Alliances and Network Efficiency

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

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

Recent Class 1 railway initiatives include:

- a CPR-CN directional running agreement over about 100 miles of parallel CPR and CN track in Ontario between Waterfall (near Sudbury) and Parry Sound. The trains of both railways operate eastbound over CN's line and westbound over our line;
- a CPR-CN haulage agreement under which CPR transports CN freight over about 300 miles of CPR track in Ontario between Thunder Bay and Franz;
- CPR-CN initiatives in the Port of Vancouver Terminal and B.C. Lower Mainland;
- a CPR-NS trackage rights agreement to handle NS traffic over our D&H lines in the U.S. Northeast; and
- a CPR-NS track connection at Detroit, Michigan that provides service between eastern Canada and the U.S. Midwest.

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

In November 2005, CPR and the Fraser River Port Authority ("FRPA") entered into a cooperation agreement to enhance service through the Fraser River port, south of the Port of Vancouver, and capture growth opportunities in global trade. Under the agreement, CPR and FRPA will consult on market and trade outlooks and business development opportunities, coordinate investments, and engage in multi-modal planning to build or expand port and rail infrastructure, such as terminals and track. FRPA will also support efforts to enhance our access to Fraser River facilities to help meet increased demand for rail service.

In April 2005, we signed a cooperation agreement with the Vancouver Port Authority ("VPA") to work on joint capacity developments to more fully capture expanding Asia-Pacific trade opportunities. Joint initiatives include marketing programs and domestic public policy advocacy to increase competitiveness, operational efficiencies and customer service at the Port of Vancouver. There is also a commitment by both parties to ensure that the Port of Vancouver is the most secure port system on the West Coast of the Americas. CPR and VPA will also advocate a policy framework in Canada that fosters private sector investment in an integrated transportation system, including marine, rail, road and air, and encourages coordinated federal and provincial investment in Canada's aging transportation network in local communities.

Network and Right-of-Way

Our 13,600-mile network extends from the Port of Vancouver on Canada's Pacific Coast to the Port of Montreal in eastern Canada, and to the U.S. industrial centres of Chicago, Illinois; Newark, New Jersey; Philadelphia, Pennsylvania; and New York City and Buffalo, New York.

Our network is composed of four primary corridors: Western, Southern, Central, and Eastern. These corridors are comprised of main lines, totalling approximately 4,750 miles, supported by secondary and branch rail lines ("feeder lines") that carry traffic to and from the main lines.

The Western Corridor: Vancouver-Moose Jaw

Overview — The Western Corridor links Vancouver with Moose Jaw, which is the western Canadian terminus of our Southern and Central corridors. With service through Calgary the Western Corridor is an important part of our routes between Vancouver and the U.S. Midwest, and between Vancouver and central and eastern Canada.

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

Feeder Lines — We support our Western Corridor with three significant feeder lines. The "Coal Route" links southeastern B.C. coal deposits to the Western Corridor and to the Roberts Bank terminal at the Port of Vancouver. The "Calgary-Edmonton-Scotford Route" provides rail access to central Alberta's petrochemical industries and natural resources markets. The "Pacific CanAm Route" connects Calgary and Medicine Hat, Alberta, with Union Pacific Railroad Company ("UP") at Kingsgate, B.C.

Connections — Our Western Corridor connects with UP at Kingsgate and with Burlington Northern Santa Fe Railway ("BNSF") at Coutts, Alberta, and at New Westminster and Huntingdon in B.C. This corridor also connects with CN at Red Deer, Alberta; Calgary; Edmonton; Kamloops; and several locations in the Vancouver Area.

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

Other — In 2005, we completed a series of capacity expansion projects in the Western Corridor, which increased capacity in this corridor by approximately four trains per day. These projects are discussed further in the section "General Development of the Business" in this AIF.

The Southern Corridor: Moose Jaw-Chicago

Overview — The Southern Corridor connects with the Western Corridor at Moose Jaw. By running south to Chicago through the twin cities of Minneapolis and St. Paul in Minnesota, and through Milwaukee, Wisconsin, we provide a direct, single-carrier route between western Canada and the U.S. Midwest.

Products — Primary traffic categories transported on the Southern Corridor include intermodal containers from the Port of Vancouver, Canadian fertilizers, chemicals, grain, coal, and automotive and U.S. agricultural products.

Feeder Lines — We support the Southern Corridor with a major feeder line connecting Glenwood, Minnesota, and Winnipeg, Manitoba. This line is both a gathering network for U.S. grain and a route for Canadian fertilizers and merchandise traffic destined to the U.S.

We have operating rights over the BNSF line between Minneapolis and the twin ports of Duluth, Minnesota, and Superior, Wisconsin. This line provides an outlet for grain from the U.S. Midwest to the grain terminals at these ports.

We also provide service on a route from Chicago to Louisville, Kentucky, through a combination of operating rights and owned lines. General merchandise traffic and a significant amount of coal traffic from mines in southern Indiana move over this route, which is the subject of a sale to the Indiana Rail Road Company (discussed further in the "General Development of the Business" section of this AIF).

Connections — Our Southern Corridor connects with all major railways at Chicago. Outside of Chicago, we have major connections with BNSF at Minneapolis and at Minot, North Dakota; with UP at St. Paul; and with CSX and NS at Louisville. We also connect with CN at Minneapolis, Milwaukee and Chicago. Our Southern Corridor also links to several shortline railways that primarily serve grain and coal producing areas in the U.S.

Yards and Repair Facilities — We support rail operations on the Southern Corridor with main rail yards in Chicago, St. Paul and Glenwood. We own 49% of the Indiana Harbor Belt Railroad Company, a switching railway serving Greater Chicago and northwest Indiana, and have two major intermodal terminals in Chicago and one in Minneapolis. In addition, we have a major locomotive repair facility at St. Paul and car repair facilities at St. Paul and Chicago.

The Central Corridor: Moose Jaw-Toronto

Overview — The Central Corridor extends from Moose Jaw through Winnipeg to its eastern terminus at Toronto. We complement the Central Corridor with a secondary route in Ontario that is leased and operated by Ottawa Valley Railway. This secondary route connects Sudbury and Smiths Falls, Ontario, and expedites the movement of our traffic between Montreal and western Canada. Our Central Corridor provides shippers direct rail service from Toronto and Montreal to Calgary and Vancouver via our Western Corridor. This is a key element of our transcontinental intermodal and other services. The Central Corridor also provides access to the Port of Thunder Bay, Ontario, Canada's primary Great Lakes bulk terminal.

Products — Major traffic categories transported on the Central Corridor include Canadian grain, coal, forest and industrial and consumer products, intermodal containers, automotive products and general merchandise.

Feeder Lines — We support the Central Corridor with a main feeder line connecting Edmonton with Winnipeg, through Saskatoon and Regina in Saskatchewan. This line is an important collector of Canadian grain and fertilizer.

*Connection*s — The Central Corridor connects with BNSF at Emerson, Manitoba, and with a number of shortline railways. This corridor also connects with CN at Regina, Saskatoon, Winnipeg, Thunder Bay and Sudbury.

Yards and Repair Facilities — We support our rail operations on the Central Corridor with major rail yards at Saskatoon, Winnipeg, Toronto and Thunder Bay. Our largest intermodal facility is located in the northern Toronto suburb of Vaughan and serves the Greater Toronto and southwestern Ontario areas. We also operate intermodal terminals at Thunder Bay, Winnipeg, Saskatoon and Regina.

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

The Eastern Corridor

Overview — The Eastern Corridor provides an important link between the major population centres of eastern Canada, the U.S. Midwest and the U.S. Northeast. The corridor supports our market position at the Port of Montreal by providing one of the shortest rail routes for European cargo destined to the U.S. Midwest. The Eastern Corridor consists of a route between Montreal and Detroit, which we own and maintain, coupled with a trackage rights arrangement on NS track between Detroit and Chicago and a long-term rail car haulage contract with CSX that links Detroit with our lines in Chicago.

Products — Major traffic categories transported on the Eastern Corridor include intermodal containers, automotive, and forest and industrial and consumer products, as well as truck trailers moving in roll-on/roll-off Expressway service between Montreal and Toronto.

Feeder Lines — The Eastern Corridor connects with important feeder lines. Our route between Montreal and Sunbury, Pennsylvania, in combination with trackage rights over other railways, provides us with direct access to New York City; Albany, New York; Philadelphia; Newark, New Jersey; and Washington, D.C. The line between Guelph Junction, Ontario and Binghamton, including haulage rights over NS lines, links industrial southern Ontario with key U.S. connecting rail carriers at Buffalo and with the Montreal-to-Sunbury line at Binghamton.

Connections – The Eastern Corridor connects with all major railways at Chicago. We also have major connections with NS at Detroit, Buffalo, and at Harrisburg and Allentown in Pennsylvania, and with CSX at Detroit, Buffalo, Albany, Philadelphia, and Washington D.C. In addition, our eastern corridor connects with CN at Montreal,Toronto, Windsor and London, Ontario.

Yards and Repair Facilities — We support our Eastern Corridor with major rail yards and terminals in Chicago, Toronto, Montreal and Binghamton. There are also have intermodal facilities in Montreal and Detroit, as well as a second intermodal facility in Toronto dedicated to serving the Eastern Corridor. Terminals for our Expressway service are located in Montreal and at Milton and Agincourt in the Greater Toronto area. In addition to repair facilities in Toronto and Chicago, we have locomotive and car repair facilities in Montreal and Binghamton.

Other — We announced on June 30, 2004, a restructuring of the D&H whereby D&H and NS provide yard and haulage services for each other under an agreement (discussed further in the section “General Development of the Business” in this AIF) This restructuring has reduced costs and provided new income for the D&H. The STB in the second quarter of 2005 approved the final changes stemming from the agreement.

Right of Way

Our rail network is standard gauge, which is used by all of the major railways in Canada, the U.S. and Mexico. Continuous welded rail is used on almost all of our mainline. Virtually all of the network and primary feeder trackage is 100-pound or heavier rail, suitable for the movement of 286,000-pound cars.

We use different train control systems on portions of our owned track, depending on the volume of rail traffic. Centralized traffic control signals are used to authorize the movement of trains where traffic is heaviest.

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

Business Categories

The following table compares the percentage of our total freight revenue derived from each of our major business lines in 2005 compared with 2004.

Business Category	2005	2004
Bulk……………………………………………………….	45%	44%
Merchandise………………………………………………	28%	29%
Intermodal…………………………………………………	27%	27%

Freight Revenues

The following table summarizes our freight revenues since 2003:

Freight Revenues (in $ millions, except for percentages) Business Category	Fiscal 2005	Fiscal 2005 Growth Rate as Compared to Fiscal 2004	Fiscal 2004	Fiscal 2004 Growth Rate as Compared to Fiscal 2003	Fiscal 2003
Bulk					
Grain…………………………………....	754	12.9 %	668	3.7 %	644
Coal……………………………………….	729	37.5 %	530	19.4 %	444
Sulphur and	447	(2.8)%	460	10.0 %	418
Total bulk	1,930	16.4 %	1,658	10.1 %	1,506
Merchandise					
Forest products………………………….	334	3.7 %	322	(2.1)%	329
Industrial and consumer products……..	543	12.9 %	481	4.6 %	460
Automotive……………………………….	298	3.1 %	289	(4.9)%	304
Total merchandise	1,175	7.6 %	1,092	(0.1) %	1,093
Intermodal……………………………….	1,161	12.2 %	1,035	11.8 %	926
Total freight revenues	4,266	12.7 %	3,785	7.4 %	3,525

Bulk

Our bulk business represented approximately 45% of total freight revenues in 2005.

Grain

Our grain business comprised approximately 18% of total freight revenues in 2005.

Grain transported by CPR consists of both whole grains, including wheat, corn, soybeans and canola, and processed products, such as canola meal, vegetable oil and flour.

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

Railway rates for the movement of export grain in western Canada are subject to special legislative provisions. These provisions apply to defined commodities and origin/destination pairings set out in the *Canada Transportation Act* ("CTA"). The revenue formula included in the CTA is indexed annually to reflect changes in the input costs associated with transporting grain destined for export markets. For additional information, refer to the "Regulation and Other Issues" section in this AIF.

Coal

Our coal businesses represented approximately 17% of total freight revenues in 2005.

Most of the coal we handle is metallurgical and destined for export through the Port of Vancouver for use in the steel-making process in the Pacific Rim, Europe and South America.

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

In the U.S., we move primarily thermal coal from the Powder River and Illinois Basins for use in power-generating plants. Our U.S. coal business also includes petroleum coke shipments to power-generating facilities.

Sulphur and Fertilizers

Sulphur and fertilizers business represented approximately 10% of total freight revenues in 2005.

- Sulphur

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

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

- Fertilizers

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

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

Merchandise

Our merchandise business represented approximately 28% of total freight revenues in 2005.

Merchandise products move in trains of mixed freight and in a variety of car types and service involves delivering products to many different customers and destinations.

We move large volumes of merchandise traffic through a network of truck-rail transload facilities managed by our Canadian Pacific Logistics Solutions ("CPLS") division, which provides simplified logistics solutions tailored to resolve complex supply chain issues.

Forest Products

Our forest products business represented approximately 8% of total freight revenues in 2005.

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

Industrial and Consumer Products

Our industrial and consumer products business represented approximately 13% of total freight revenues in 2005.

Industrial and consumer products traffic includes an array of commodities grouped as plastics, aggregates, minerals, metals, steel, chemicals and energy-related products.

Our industrial and consumer products traffic is widely dispersed throughout North America, with large bases in Alberta, Ontario, Quebec and the U.S. Midwest. The location of mines, steel mills and aggregate facilities adjacent to our rail lines provides for the convenient shipment of a diverse group of industrial products for a wide range of customers. We transport products to destinations throughout North America and to and from ports. We also participate in the movement of products from the U.S. to Canadian destinations, including chemicals originating in and around the Gulf Coast and destined to points in eastern Canada.

Automotive

Our automotive business represented approximately 7% of total freight revenues in 2005.

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

Intermodal

Our intermodal business accounted for approximately 27% of total freight revenues in 2005.

Domestic intermodal freight is comprised primarily of manufactured consumer products moving in containers.

International intermodal freight moves in marine containers between ports and North American inland markets.

Domestic Intermodal

Our domestic intermodal segment consists primarily of long-haul intra-Canada and cross-border business. Key service factors in domestic intermodal include consistent on-time delivery, the ability to provide door-to-door service and the availability of value-added services. The majority of our domestic intermodal business originates in Canada where we market our services directly to retailers, providing complete door-to-door service and maintaining direct relationships with our customers. In the U.S., our service is delivered mainly through wholesalers.

International Intermodal

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

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

Recent investments in terminals and track infrastructure, and operating and service initiatives have enhanced our strategic position for future growth.

Expressway

Expressway is an innovative intermodal transportation service operating in the Montreal-Toronto corridor. It works in partnership with the trucking industry providing service to motor carriers and private fleet operators. Expressway uses a flexible drive-on/drive-off ramp system and can handle a wide variety of trailers on specialized platforms in dedicated trains.

Yield Management

Our customers demand competitively priced transportation service and many compete in global markets. In order to offer competitive prices to our customers, we have redesigned our train operations and terminal processes. We are also continually striving to increase productivity through cost-reduction programs and to improve asset utilization through initiatives aimed at targeted growth, product efficiency and maximizing value from existing resources. A key initiative, undertaken by our yield management team, has been to standardize our price and yield business processes.

Other Business

We earn additional revenues through the sale or lease of assets. These arrangements include infrastructure and operating agreements with government-sponsored commuter rail authorities, the sale of our rights to lay fibre optic cable along our right-of-way, and contracts with passenger service operators. We also operate the "Royal Canadian Pacific", a luxury passenger train comprised of our vintage business car fleet.

Economic Dependence

At December 31, 2005, one customer comprised 14.5% of total revenues and 8.0% of our total accounts receivable. At December 31, 2004, one customer comprised 11.7% of total revenues and 12.4% of our total accounts receivable. In 2003, we did not generate more than 10% of our revenues from any single customer.

Railway Performance

We focus on franchise investment, increasing network efficiency and improving asset utilization, train operations productivity and labour productivity. The following table summarizes the effect of these strategies on industry-recognized performance indicators:

	Year ended December 31				
Performance Indicators	2005	2004	2003	2002	2001
Gross ton-miles (GTM) (millions)(1)	242,100	236,451	221,884	209,596	212,928
Revenue ton-miles (RTM) (millions)(2)	125,303	123,627	114,599	107,689	110,622
Train-miles (thousands)(3)	43,054	41,344	40,470	38,299	38,162
Average number of active employees(4)	16,448	16,056	16,126	16,116	16,987
Average train weights (tons)(5)	5,623	5,719	5,483	5,473	5,580
Traffic density (GTMs per mile of road operated, excluding track on which CPR has haulage rights (thousands))	17,767	17,113	16,023	15,107	15,326
Employee productivity (GTMs per average active employee (thousands))	14,719	14,727	13,759	13,005	12,535
Fuel efficiency (U.S. gallons of fuel per 1,000 GTMs)	1.18	1.20	1.24	1.24	1.25
Locomotive utilization (GTMs per active locomotive per day (thousands))	658	675	664	673	681

Notes:

(1) Gross Ton-Miles of freight measure the movement of total train weight over a distance of one mile. (Total train weight is comprised of the weight of the freight cars, their contents and any inactive locomotives.)

(2) Revenue ton-miles of freight measure the movement of one revenue-producing ton of freight over a distance of one mile.

(3) Train-miles measure the distance traveled by the lead locomotive on each train operating over our track. An increase in GTMs without a corresponding increase in train-miles indicates higher efficiency.

(4) Average number of active employees is the average number of actively employed workers for the period. This includes employees who are taking vacation and statutory holidays and other forms of short-term paid leave, and excludes individuals who have a continuing employment relationship with us but are not currently working. This indicator is calculated by adding the monthly average employee counts and dividing the total by the number of months in the period.

(5) Average train weights is the result of dividing GTMs by train-miles. It represents the average total weight of all our trains operating over our track and track on which we have running rights.

Franchise Investment

Franchise investment is an integral part of our multi-year capital program and supports our growth initiatives. Our annual capital program typically includes investments in track and facilities (including rail yards and intermodal terminals); locomotives; information technology; and freight cars and other equipment.

We invested approximately $2.3 billion in our core assets from 2003 to 2005, with annual capital spending over this period averaging approximately 19% of revenues. This included approximately $1.5 billion invested in track and facilities, $0.3 billion in locomotives, $0.2 billion in information technology and $0.3 billion in freight cars and other equipment.

Locomotive Fleet Modernization

We continue to upgrade our locomotive fleet by acquiring high-adhesion alternating current ("AC") locomotives, which are more fuel efficient and reliable and have superior haulage capacity compared with standard direct current ("DC") locomotives. Our locomotive fleet now includes 642 AC locomotives. While AC locomotives represent approximately 56% of our road-freight locomotive fleet, they handle about 80% of our workload. Our investment in AC locomotives has helped to improve service reliability and generate cost savings in fuel, equipment rents and maintenance. It has also allowed us to remove from service 844 older locomotives and to more efficiently utilize our repair and maintenance facilities.

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

	Number of Locomotives (owned and leased)				
Age in Years	Road Freight AC	Road DC	Yard Switcher	Switcher	Total
0-5	294	--	--	--	294
6-10	348	--	--	--	348
11-15	--	--	--	--	--
16-20	--	88	93	--	181
Over 20	--	419	176	251	846
Totals	642	507	269	251	1,669

Railcar Fleet Modernization

We own or lease approximately 52,000 freight cars, of which we own approximately 23,000 and 7,400 are hopper cars owned by Canadian federal and provincial government agencies. Long-term leases on approximately 4,000 cars are scheduled to expire during 2006, and the leases on approximately 10,400 additional cars are scheduled to expire before the end of 2009.

Our covered hopper car fleet, used for transporting grain, consists of owned and leased cars. A portion of the fleet used for the export of grain is leased from the Government of Canada, which has announced its intention to transfer ownership of its cars to the Farmer Rail Car Coalition. However, the transfer remains subject to final reviews by the Canadian government and the timing and terms of the transfer having yet to be determined. Regardless of ownership, we will seek to continue leasing these cars under commercial terms that support an efficient low-cost grain handling and transportation system.

Integrated Operating Plan

Our Integrated Operating Plan ("IOP") is the foundation for our scheduled railway operations that strive to generate quality service for customers and improve asset utilization to achieve high levels of efficiency.

Scheduled operations are key to making connections at intermediate terminals and meeting delivery commitments.

Under our IOP, trains are scheduled to run consistently at times agreed upon with our customers. To accomplish this, we establish a plan for each rail car that covers its entire trip from point of origin to final destination. Cars with similar destinations are consolidated into blocks. This reduces delays at intermediate locations by simplifying processes for employees, eliminating the duplication of work and helping to ensure traffic moves fluidly through rail yards and terminals.

These measures improve transit times for shipments throughout our network and increase car availability for customers. Our IOP also increases efficiency by more effectively scheduling employee shifts, locomotive maintenance, track repair and material supply.

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

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

Information Technology

As a 24-hour-a-day, 7-day-a-week business, we rely heavily on our computer systems to schedule all components of our operations. Computer applications map out complex interconnections of freight cars, locomotives, facilities, track and train crews to meet more than 10,000 individual customer service commitments every day. We use an intricate automated traffic forecasting system that determines freight car routings and the workload in our yards by using sophisticated, industry-specific software and generating time-distance diagrams to examine track capacity.

During 2005, we completed the implementation of TYES, a new yard management system. Using waybill information, TYES triggers classification instructions to the computer system in our yards so that individual shipments are matched to freight-car blocks, which in turn are matched to trains. A trip plan is created for each customer's shipment and integrated with train planning and yard applications to ensure that the instructions issued for the customer's shipment are consistent with the information given to the customer. With TYES now fully implemented, we have completed our Service Excellence suite of operating systems. These operating systems manage the overall movement of our customers' shipments and provide railway managers with highly reliable data on shipment performance, transit times, connections with other trains, train and yard capacities, and locomotive requirements. This data is used to make adjustments to the IOP to achieve specific service and productivity targets and ensure all design objectives are fulfilled.

We plan to commence implementation of the TRIEX system during 2006 to further improve our intermodal service offering. TRIEX will provide a customer self-service offering, including reservations, proof of delivery and full shipment tracking. TRIEX will also give us the means to have more sophisticated pricing options and simplify our billing processes.

During 2005, we signed a license agreement with SAP Canada to leverage use of its software beyond managing assets and expenditures to other areas, such as revenue management, supplier management and pricing.

In addition, with the outsourcing of a substantial amount of our information technology infrastructure to world-class service providers, our information technology focus is on leveraging information and applications to improve railway productivity and obtaining more value from our existing assets and resources.

Labour Productivity and Efficiency

We continually take steps to improve the effectiveness of our organizational structure in order to increase productivity and efficiency. Since 1996, we have improved communication and decision-making, simplified the organization's management structure, and increased the responsibility given to management personnel. We regularly review our organizational processes, workforce needs and related organizational costs with a focus on improving the productivity and efficiency of our workforce while reducing expenses.

In the second quarter of 2003, we began a program to eliminate 820 positions by consolidating administrative functions, applying new information technology to increase productivity in administrative areas and yard operations, and to increase car and locomotive maintenance efficiency. The originally targeted 820 reductions were substantially completed by the end of 2005.

In the fourth quarter of 2005, we began a restructuring initiative to further improve efficiency in our administrative areas. This initiative is expected to eliminate approximately 400 management and administration positions. As part of this initiative, we introduced a voluntary incentive retirement program for long-service employees in Canada. The majority of the reductions are expected to be complete by the end of the first quarter of 2006.

In order to stimulate and reward employee participation in our efficiency initiatives, we have implemented a number of incentive-based compensation programs designed to allow eligible unionized and non-unionized to share in the profits they help generate.

Risk Factors

Competition

The freight transportation industry is highly competitive. We face intense competition for freight transportation in Canada and the U.S., including competition from other railways and trucking companies. We are subject to competition for freight traffic from other Class 1 railways, particularly BNSF, CN, CSX, NS and UP. Competition is based mainly on price, quality of service and access to markets. Competition with the trucking industry is generally based on freight rates, flexibility of service and transit time performance. Any improvement in the cost structure or service of our competitors could increase competition and have a materially adverse effect on our business or operating results.

There was significant consolidation of the railway industry in North America during the 1990s, which led to larger railway companies. These companies offer services in large market areas and compete with us in these markets. Increased competition from current and future competitors in the railway industry could adversely affect our competitive position, financial condition and operating results.

Economic and Other Conditions

Our freight volumes and revenues are largely dependent upon the health of the North American and global economies and other factors affecting the volumes and patterns of international trade. We are also sensitive to factors such as weather, security threats, commodity pricing and global supply and demand, as well as those affecting North America's agricultural, mining, forest products, consumer products, import/export and automotive sectors. These factors are beyond the influence or control of the railway industry generally and CPR specifically.

Fuel Prices

Fuel expense constitutes a significant portion of our operating costs. Fuel price volatility can, therefore, have a material effect on operating results. Prices can be influenced by local and international supply disruptions stemming from the loss of crude oil production or refining capacity. These disruptions can be caused by weather conditions, unplanned infrastructure failures or geopolitical events. We employ a fuel surcharge program to manage our exposure to price fluctuations. Our fuel surcharge program partially offsets fuel cost increases by levying an incremental charge on dollar revenue. In addition to the fuel surcharge, we may from time to time sell or purchase crude-related derivative instruments. To the extent that fuel costs decline below the levels specified in any such derivative instrument, we will not receive the full benefit of the reduction.

Foreign Exchange Risk

We conduct our business and receive revenues primarily in Canadian dollars, however, a significant portion of our revenues, expenses, assets and debt are denominated in U.S. dollars. Thus, our results are affected by fluctuations in the exchange rate between these currencies. In addition, changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) affect the competitiveness in world markets of the goods we transport and, in turn, positively or negatively affect our revenues and expenses. From time to time we may sell or purchase forward U.S. dollars at fixed rates in future periods to manage our exposure to fluctuations in exchange rates between Canadian and U.S. dollars on future revenue streams and certain U.S. dollar expenditures. To the extent that exchange rates decline below the rate fixed by such futures contracts, we will not receive the full benefit of these contracts.

Interest Rate Risk

We may enter into long-term debt agreements to finance capital purchases when we do not have the outright free cash to purchase the capital assets, or if we elect to utilize cash for other purposes. By doing so, we expose ourselves to increased interest costs on future fixed-debt instruments and existing variable rate debt instruments should market interest rates increase. In addition, the present value of our assets and liabilities will also vary with interest rate changes. We may enter into forward rate agreements ("Interest or Treasury Locks") to lock in rates for a future date, thereby gaining protection from any subsequent interest rate increases. We may also enter into swap agreements whereby one party agrees to pay a fixed rate of interest while the other party pays a floating rate. We may incur higher costs, depending on the direction of interest rates and on our contracted rate.

Regulatory Authorities

Our railway operations in Canada are subject to regulations under the CTA, the *Railway Safety Act* and certain other statutes administered by the Canadian Transportation Agency and the federal Minister of Transport. Our U.S. railway operations are subject to regulation by the STB and the Federal Railroad Administration ("FRA"). We are also subject to federal, provincial, state and local laws and regulations dealing with health, security, safety, labour, environmental, rate and other matters, all of which may affect our business or operating results.

In addition, we are subject to statutory and regulatory directives in the U.S. addressing homeland security concerns. Future decisions by the U.S. government on homeland security matters or decisions by the industry in response to security threats to the North American rail network could have a materially adverse effect on our business or operating results.

Environmental Laws and Regulations

Our operations and real estate assets are subject to extensive federal, provincial, state and local environmental laws and regulations governing emissions to the air, discharges to waters and the handling, storage, transportation and disposal of waste and other materials. We transport hazardous materials and periodically use hazardous materials in our operations. Any findings that we have violated such laws or regulations could have a materially adverse effect our business or operating results.

In certain locations, we operate on properties that have been used for railways for over a century. As a result, historic releases of hazardous waste or materials may be discovered, requiring remediation of our properties or subjecting us to liability for damages, the cost of which could materially affect our business or operating results. Changing regulations and remedial approaches in Canada and the U.S. will ultimately impact the costs of remediation and overall environmental liability. The regulatory trend towards increased protection of human health from specific chemicals may mean sites that were previously remediated, or that did not require action, could be subject to further scrutiny. There is a possibility that an accidental release of hazardous waste or materials on our properties could occur and the costs of remediation of properties affected by such accidental release could materially affect our business or operating results.

In the operation of a railway, it is possible that derailments or other accidents may occur that could cause harm to human health or to the environment. As a result, we may incur costs in the future to address any such harm, including costs relating to the performance of clean-ups, natural resource damages and compensatory or punitive damages relating to harm to individuals or property. These costs could materially affect our business or operating results.

Labour Relations

Relations with our employees could deteriorate due to disputes related to, among other things, wage or benefit levels or our response to changes in government regulation of workers and the workplace. Our operations rely heavily on our employees. Any labour shortage or stoppage caused by poor relations with employees, including those represented by unions, could adversely affect our ability to provide services and the costs of providing such services, which could materially harm our business or operating results and may materially harm relationships with our customers.

Certain of our union agreements are currently under renegotiation, as discussed in the section “Labour Relations” in this AIF. We cannot guarantee these negotiations will be resolved in a timely manner or on favourable terms.

Pension Plans

We maintain defined benefit and defined contribution pension plans. The defined benefit plans' unfunded liabilities have increased significantly, mainly as a result of current low interest rates. Pension funding requirements are dependent upon different factors, including interest rate levels, asset returns, regulatory requirements for funding purposes, and changes to pension plan benefits. In the absence of favourable changes in these factors, we will have to satisfy the under-funded amounts of our plans through cash contributions from time to time. These cash outlays for funding could materially affect our business.

Indemnifications

Pursuant to a trust and custodial services agreement with the trustee of the Canadian Pacific Railway Company Pension Trust Fund, we have undertaken to indemnify and save harmless the trustee, to the extent not paid by the Fund, from any and all taxes, claims, liabilities, damages, costs and expenses arising out of the performance of the trustee’s obligations under the agreement, except as a result of misconduct by the trustee. The indemnity includes liabilities, costs or expenses relating to any legal reporting or notification obligations of the trustee with respect to the defined contribution option of the pension plans or otherwise with respect to the assets of the pension plans that are not part of the Fund. The indemnity survives the termination or expiry of the agreement with respect to claims and liabilities arising prior to the termination or expiry. At December 31, 2005, we had not recorded a liability associated with this indemnification, as we do not expect to make any payments pertaining to it.

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

Safety

Safety is a key priority for our management and Board of Directors. We use two key safety indicators, each of which follows strict U.S. FRA reporting guidelines. In 2005, the rate of FRA personal injuries per 200,000 employee hours (100 employee years in 2004) was 2.3, down 15% from 2004 and down 26% from 2003.

The rate of FRA reportable train accidents per million train miles was 2.1 in 2005, unchanged from 2004, and up 17% from 1.8 in 2003. In 2005, improvements in train safety on CPR’s track were offset by an increase in train accidents involving CPR trains while on track owned by other railways. The increase in 2004, compared with 2003, occurred mainly during the first two quarters of 2004, and in particular, during unusually cold weather early in the year.

Our Safety and Health Management Committee provides ongoing focus, leadership, commitment and support for efforts to improve the safety of our operations as well as the safety and health of our employees. The committee is comprised of CPR’s Chief Executive Officer, President and representatives from various operations departments, including safety, environmental and police. Our Safety Framework governs the safety management process, which involves more than 1,000 employees in planning and implementing safety-related activities. This management process, combined with planning that encompasses all operational functions, ensures a continuous and consistent focus on safety.

Border Security

CPR was the first railway in North America to be approved under a new Canada Border Services Agency (“CBSA”) program to streamline clearance at the border for imports from the U.S. Under the Customs Self-Assessment (“CSA”) program, goods and shippers approved as low risk have a virtual fast lane into Canada on our railway. Eligible goods include finished vehicles, parts for vehicles, food products and other common items frequently imported from the U.S.

The CSA program reduces the cost of compliance with Canada's import regulations, as approved importers can file monthly summary customs reports on their shipments instead of a report on each shipment. Approved importers also benefit from improved efficiencies, as their goods can be delivered directly to their facilities without stopping for inspection at the border or waiting for customs clearance. We benefit from improved freight car velocity with shipments for customers approved under CSA moving more easily across the border.

We are also a certified carrier with the U.S. Customs and Border Protection's ("CBP") Customs - Trade Partnership Against Terrorism ("C-TPAT") program and the CBSA's Partners in Protection ("PIP") program. C-TPAT and PIP are partnership programs that seek to strengthen overall supply chain and border security.

Under a joint Declaration of Principles signed in April 2003, we made a commitment to work with the CBSA and CBP to install a new Vehicle and Cargo Inspection System ("VACIS") at five of our border crossings. Rail VACIS uses non-intrusive gamma ray technology to scan U.S.-bound rail shipments. All five VACIS systems are now fully operational. The joint government-industry initiative to enhance the security of U.S.-bound rail shipments ensures trade continues to flow between Canada and the U.S. These measures were part of the larger process of implementing the Smart Border Declaration adopted by Canada and the U.S. in December 2001.

Additional work is also being undertaken at Windsor, Ontario, to secure the rail corridor between the Windsor VACIS facility and the U.S. border. Work on this secure corridor initiative is expected to be complete by the end of the first quarter of 2006.

Labour Relations

At December 31, 2005, approximately 80% of our workforce was unionized, with approximately 80% of our workforce located in Canada. Unionized employees are represented by a total of 36 bargaining agents. Seven bargaining agents represent our employees in Canada and the remaining 29 represent employees in our U.S. operations.

Labour Relations – Canada

Agreements are currently in place with five of the seven bargaining units in Canada. In 2005 and early 2006, we negotiated the following settlements with bargaining units in Canada:

- A four-year collective agreement with the Teamsters Canada Rail Conference ("TCRC"), elected as bargaining agent by train crew employees in June 2004. The agreement, which extends to the end of 2006, was ratified on January 17, 2005. Our collective agreement with the previous bargaining agent expired on December 31, 2002.
- A three-year collective agreement with the Teamsters Canada Rail Conference, Maintenance of Way Employees Division ("TCRC-MWD"), certified as bargaining agent by track maintenance employees in July 2004. The agreement, which extends to the end of 2006, was ratified on March 18, 2005. Our collective agreement with the former bargaining agent expired on December 31, 2003.
- A three-year collective agreement with the Canadian Auto Workers ("CAW"), representing employees who maintain and repair locomotives and freight cars. The agreement, which extends to the end of 2007, was ratified on March 24, 2005.
- A five-year collective agreement, extending to the end of 2009, with the International Brotherhood of Electrical Workers ("IBEW"), representing signal maintainers. The agreement, which extends to the end of 2009, was ratified on September 16, 2005.
- A Memorandum of Settlement with the Canadian Pacific Police Association ("CPPA"), representing CPR Police sergeants and constables. The agreement, which was reached on January 12, 2006, has been submitted to a ratification vote. Results of the vote and a decision on the term of the agreement are expected in February 2006.
- A Memorandum of Settlement, for a three-year renewal agreement to the end of 2008, with the Teamsters Canada Rail Conference, Rail Canada Traffic Controllers ("TCRC-RCTC"), representing employees who control train traffic. The agreement, which was reached on January 20, 2006, has been submitted to a ratification vote. Results of the vote are expected in March 2006.

Labour Relations – U.S.

Most U.S. Class 1 railroads negotiate labour agreements collectively on a national basis. At the end of 2004, a new round of bargaining commenced with all 13 national unions. There have been no settlements to date. In a new approach, seven unions, including the Teamsters union, which represents locomotive engineers and track maintenance workers, formed a coalition at the national bargaining table. Negotiations with the coalition and with the union representing conductors are currently in mediation.

Several difficult issues, such as health care cost containment, more flexible use of employees and contractors, and the implementation of a single person crew, present significant challenges for the parties.

Soo Line and D&H have elected to negotiate independently of the national bargaining process.

We are party to collective agreements with 29 bargaining units: 15 on the Soo Line and 14 on the D&H.

Agreements with 14 of the 15 bargaining units on the Soo Line are currently open for renegotiation. Our agreement with yard supervisors extends to the end of 2009. Negotiations have commenced with track maintainers, conductors, clerks, car repair employees, mechanical labourers, machinists, electricians, train dispatchers, signal repair employees, police, blacksmiths and boilermakers, sheetmetal workers, and train service employees. Negotiations with the Teamsters, representing locomotive engineers, resulted in both parties agreeing to binding arbitration, which was held in November 2005. An arbitration decision issued January 26, 2006, satisfactorily finalized an agreement.

D&H has agreements in place with 10 unions representing freight car repair employees, clerks, locomotive engineers, signal repair employees, mechanical supervisors, mechanical labourers, machinists, sheet metal workers, electricians, and police. Negotiations are continuing with the remaining four bargaining units, which represent track maintainers, conductors and trainpersons, engineering supervisors, and yard supervisors.

Environmental Protection

We have implemented a comprehensive Environmental Management System ("EMS"), which uses the five elements of the ISO 14001 standard – policy, planning, implementation and operation, checking and corrective action, and management review – as described below.

Policy

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

Our partnership in Responsible Care® is a key part of our commitment as we strive to be a leader in railway and public safety. Responsible Care®, an initiative of the Canadian Chemical Producers Association, is an ethic for the safe and environmentally sound management of chemicals throughout their life cycle. Partnership in Responsible Care® involves a public commitment to continually improve the industry's environmental, health and safety performance. We successfully completed our first Responsible Care® external verification in June 2002 and were granted "Responsible Care® practice-in-place" status. We were successfully re-verified in 2005.

We have also been a partner of the American Chemistry Council ("ACC") since 1999 and are currently working with the ACC and its Transportation Partner Group to develop verification protocols and processes for our U.S. facilities.

Planning

We prepare an annual Corporate Environmental Plan, which includes details of our environmental goals and objectives as well as high-level strategies and tactics. The plan is used by various departments to integrate key corporate environmental strategies into their business plans.

Implementation and Operation

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

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

We have taken a proactive position to the remediation of historically impacted sites and have an accounting accrual for environmental costs that extends to 2015.

Environmental Contamination

In the fourth quarter of 2004, we recorded a $90.9-million charge for costs associated with investigation, characterization, remediation and other applicable actions related to environmental contamination at a property in the U.S., which includes areas previously leased to third parties. We are participating in the State of Minnesota's voluntary investigation and clean-up program at the east side of the property. The property is the subject of ongoing fieldwork being undertaken in conjunction with the appropriate State of Minnesota authorities to determine the extent and magnitude of the contamination and the appropriate remediation plan. We filed with the State of Minnesota in 2005 a response action plan for the east side of the property. The costs are expected to be incurred over approximately 10 years.

In the third quarter of 2005, we reached a binding settlement in relation to a lawsuit with a potentially responsible party involving portions of past environmental contamination at a property in the U.S. The lawsuit against this other party has been dismissed and the party has accepted responsibility for designated portions of the property and paid us a settlement sum in partial payment of the response costs we have incurred.

As a result of the settlement, we were able to reverse accrued liabilities related to the property and recognize a total reduction of $33.9 million to the special charges accrued in prior years. Under applicable accounting rules, this reduction could not be recognized until the outcome of the lawsuit or any binding settlement with the other responsible party became known.

We continue to be responsible for remediation work on portions of the property not addressed by the binding settlement, and continue to retain liability accruals for remaining future expected costs. This work, along with all work addressed under the binding settlement, will be overseen by the State of Minnesota's voluntary investigation and clean-up program to ensure that all such remaining work at the property is completed in accordance with applicable standards.

Checking and Corrective Action

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

Audits are followed by a formal Corrective Action Planning ("CAP") process that ensures findings are addressed in a timely manner. Progress is monitored against completion targets and reported quarterly to senior management. Completion targets have been substantially met every year since the CAP process was created in 1999.

Management Review

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

Expenditures

We spent $32.6 million in 2005 for environmental management, including amounts spent for ongoing operations, capital upgrades and remediation.

Regulation and Other Issues

Our rail operations in Canada are subject to regulation of service, rate setting, network rationalization and safety by the CTA, the *Railway Safety Act* and certain other statutes. Our U.S. rail operations are subject to regulations administered by the STB and the FRA.

Canadian Regulation

Our economic activities, including matters relating to rates, level of service obligations and line discontinuance, are subject to the provisions of the CTA.

The CTA contains shipper rate and service protections, including final-offer arbitration, competitive line rates, and compulsory interswitching, which allows a shipper to request a railway to move its traffic to the nearest competitive interchange point with another railway within a 30-kilometre radius for a regulated fee. However, to gain recourse to certain of these protections, shippers must establish that they would suffer substantial commercial harm if the relief sought were not granted. These shipper protections also extend to western Canadian grain transportation.

In late March 2005, the federal government introduced a bill with miscellaneous changes to the CTA. Progress of the bill through Parliament ceased when Parliament was dissolved on November 29, 2005. It is not known whether the newly elected federal government will reintroduce the proposed changes.

Canada's federally regulated railways are also subject to the *Railway Safety Act*, which governs safety and operational aspects of the industry, and to the *Canadian Transportation Accident Investigation and Safety Board Act*. They are also subject to legislation relating to the environment and the transportation of hazardous materials.

U.S. Regulation

There have been efforts in recent years to re-regulate certain aspects of the U.S. rail industry previously deregulated under the *Staggers Rail Act of 1980*. The rail industry opposes re-regulation.

The STB regulates a variety of railway matters, including: service levels; certain freight car rental payments; certain rail traffic rates; the terms under which railways may gain access to each other's facilities and traffic; mergers and acquisitions of railways; and the abandonment, sale and discontinuance of operations on rail lines.

We believe STB regulations governing mergers and consolidation of Class 1 railways require applicants to demonstrate that a proposed transaction would be in the public interest and would enhance competition, where necessary, to offset any negative effects.

The FRA governs all safety-related aspects of railway operations and, therefore, has jurisdiction over our operations in the U.S. State and local regulatory agencies may also exercise jurisdiction over certain safety and operational matters of local significance.

Insurance

We maintain insurance policies to protect our assets and to protect against liabilities. Our insurance policies include, but are not limited to, liability insurance, director and officer liability insurance, automobile insurance and property insurance. The property insurance program includes business interruption coverage, which would respond in the event of catastrophic damage to our infrastructure. We believe our insurance is adequate to protect us from known and unknown liabilities.

Related-party Transactions

No rail services were provided to related parties in 2005.

Declared Dividends and Dividend Policy

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

Dividend Amount	Record Date	Payment Date
$0.1275	March 28, 2003	April 28, 2003
$0.1275	June 27, 2003	July 28, 2003
$0.1275	September 26, 2003	October 27, 2003
$0.1275	December 24, 2003	January 26, 2004
$0.1275	March 26, 2004	April 26, 2004
$0.1275	June 25, 2004	July 26, 2004
$0.1325	September 24, 2004	October 25, 2004
$0.1325	December 31, 2004	January 31, 2005
$0.1325	March 25, 2005	April 25, 2005
$0.1500	June 24, 2005	July 25, 2005
$0.1500	September 30, 2005	October 31, 2005
$0.1500	December 30, 2005	January 30, 2006
$0.1875	March 31, 2006	April 24, 2006

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

CAPITAL STRUCTURE

Description of Capital Structure

The Company is authorized to issue an unlimited number of Common Shares, an unlimited number of First Preferred Shares and an unlimited number of Second Preferred Shares. At December 31, 2005, no Preferred Shares had been issued.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Security Ratings

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

Approved Rating Organization	Long-Term Debt
Moody's Investors Service	Baa2
Standard & Poor's	BBB
Dominion Bond Rating Service	BBB(high)

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

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

Moody's Investors Service	Standard & Poor's	Dominion Bond Rating Service	
Aaa	AAA	AAA	
Aa1	AA+	AA(high)	
Aa2	AA	AA	High Investment Grade
Aa3	AA-	AA(low)	
A1	A+	A(high)	
A2	A	A	
A3	A-	A(low)	
Baa1	BBB+	BBB(high)	Investment Grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB(low)	
Ba1	BB+	BB(high)	
Ba2	BB	BB	
Ba3	BB-	BB(low)	
B1	B+	B(high)	Below Investment Grade
B2	B	B	
B3	B-	B(low)	
Caa	CCC	CCC	
Ca	CC	CC	
C	C	C	

MARKET FOR SECURITIES

Stock Exchange Listings

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

Trading Price and Volume

The following chart provides the monthly trading information for our Common Shares on the Toronto Stock Exchange during 2005.

Month	Opening Price per Share ($)	High Price per Share ($)	Low Price per Share ($)	Closing Price per Share ($)	Number of Trades Performed	Volume of Shares Traded
January	41.30	42.20	38.70	42.00	26,976	13,370,864
February	41.80	44.08	41.09	43.87	21,897	10,445,569
March	43.90	46.52	41.55	43.75	27,485	16,967,490
April	43.90	46.09	42.08	43.95	32,878	21,381,092
May	43.95	46.88	43.45	46.15	27,921	14,554,520
June	46.01	46.49	41.46	42.39	32,616	19,606,925
July	43.29	48.12	41.79	47.50	30,485	13,214,295
August	47.50	47.95	44.82	44.82	28,758	13,780,242
September	44.80	50.49	44.46	50.04	34,531	13,238,456
October	50.04	51.50	46.60	48.55	37,440	14,744,250
November	48.79	50.38	46.70	50.25	36,103	18,231,934
December	51.10	52.70	47.00	48.71	51,300	16,928,700

The following chart provides the monthly trading information for our Common Shares on the New York Stock Exchange during 2005.

Month	Opening Price per Share ($)	High Price per Share ($)	Low Price per Share ($)	Closing Price per Share ($)	Number of Trades Performed	Volume of Shares Traded
January	34.50	34.81	31.52	33.68	14,116	6,571,300
February	33.63	35.80	33.20	35.47	8,594	3,031,700
March	35.40	38.05	34.33	35.97	11,364	3,855,700
April	36.06	37.85	33.75	34.92	17,896	7,835,600
May	35.00	37.33	34.25	36.95	11,639	3,775,900
June	37.01	37.24	33.60	34.51	15,167	4,979,100
July	34.51	39.26	33.71	38.84	14,878	5,303,200
August	38.84	39.92	37.36	37.83	14,038	3,848,100
September	37.73	43.30	37.40	42.96	16,082	4,425,400
October	42.97	43.87	39.78	41.27	19,997	5,486,400
November	41.27	43.15	39.56	43.14	22,187	6,766,300
December	43.80	45.34	40.77	41.95	25,427	7,753,400

On May 31, 2005, we completed the filings required for a normal course issuer bid to enable the Company to purchase for cancellation up to 2.5 million of the outstanding Common Shares during the 12-month period from June 6, 2005, to June 5, 2006. The number of shares that may be purchased represents approximately 1.6% of the 158,976,508 Common Shares outstanding on May 25, 2005. Purchases may be made through the facilities of the Toronto Stock Exchange and the New York Stock Exchange. The price paid for shares will be the market price at the time of purchase. The purchases, made using surplus funds, are intended to mitigate dilution that may occur as a result of the issuance of Common Shares pursuant to the exercise of stock options under our compensation programs. We also believe that the market price of our Common Shares could be such that the purchase of Common Shares may be an attractive and appropriate use of corporate funds in light of potential benefits to remaining shareholders. From June 6, 2005, to January 31, 2006, 1,761,000 Common Shares were purchased at an average price of $45.77 per share.

Shareholders may obtain, without charge, a copy of our Notice of Intention to Make a Normal Course Issuer Bid by writing The Office of the Corporate Secretary, Canadian Pacific Railway Limited, Suite 920, Gulf Canada Square, 401- 9th Avenue S.W., Calgary, Alberta, T2P 4Z4, or by telephone at (403)319-7165 or 1-866-861-4289, by fax at (403)319-6770, or by e-mail to Shareholder@cpr.ca.

On February 21, 2006, we announced our intention, subject to regulatory approval, to expand the normal course issuer bid program and to renew it at the time of its scheduled expiry date to enable us to purchase up to 5.5 million shares. The remaining share repurchases will occur during 2006.

DIRECTORS AND OFFICERS

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

Directors

Name and municipality of residence	Positions held and principal occupations within the preceding five years (1)	Year of annual meeting at which term of office expires (director since)
S.E. Bachand (2)(3)(5) Ponte Vedra Beach, Florida, U.S.A.	Retired President and Chief Executive Officer, Canadian Tire Corporation, Limited (hard goods retailer specializing in automotive, sports and leisure and home products)	2006 (2001)
J.E. Cleghorn, O.C., F.C.A. (2)(3)(6) Toronto, Ontario, Canada	Chairman, SNC-Lavalin Group Inc., (international engineering and construction firm)	2006 (2001)
T.W. Faithfull (3)(4)(5) Oxford, Oxfordshire, England	Retired President and Chief Executive Officer Shell Canada Limited (oil and gas company)	2006 (2003)
J.E. Newall, O.C. (3) Calgary, Alberta, Canada	Chairman, Canadian Pacific Railway Limited, and NOVA Chemicals Corporation (chemicals company producing styrenics, olefins and polyolefin products)	2006 (2001)
Dr. J.R. Nininger (3)(4)(5) Ottawa, Ontario, Canada	Retired President and Chief Executive Officer, The Conference Board of Canada (private not-for-profit research group)	2006 (2001)
M. Paquin (2)(3)(4) Montreal, Quebec, Canada	President and Chief Executive Officer, Logistec Corporation (international cargo-handling company)	2006 (2001)
M.E.J. Phelps, O.C. (3)(4)(5)(6) West Vancouver, B.C., Canada	Chairman, Dornoch Capital Inc. (private investment company)	2006 (2001)
R. Phillips, O.C. (2)(3)(6) Regina, Saskatchewan, Canada	Retired President and Chief Executive Officer, IPSCO Inc. (steel manufacturing company)	2006 (2001)
R.J. Ritchie Calgary, Alberta, Canada	Chief Executive Officer, Canadian Pacific Railway Limited	2006 (2001)
M.W. Wright (2)(3)(5) Longboat Key, Florida, U.S.A.	Retired Chairman of the Board and Chief Executive Officer, SUPERVALU INC. (food distributor and grocery retailer)	2006 (2001)

Notes:

(1) S.E. Bachand was President and Chief Executive Officer of Canadian Tire Corporation, Limited from March 1993 to August 2000. J.E. Cleghorn was Chairman and Chief Executive Officer of the Royal Bank of Canada from January 1995 to July 2001. T.W. Faithfull was President and Chief Executive Officer of Shell Canada Limited from April 1999 to July 2003. Dr. J.R. Nininger was President and Chief Executive Officer of The Conference Board of Canada from September 1978 to August 2001. M.E.J. Phelps was Chairman and Chief Executive Officer of Westcoast Energy Inc. from June 1988 to March 2002. R. Phillips was President and Chief Executive Officer of IPSCO Inc. from February 1982 to December 2001. R.J Ritchie was President and Chief Executive Officer of Canadian Pacific Railway Company from July 1996 until his appointment as Chief Executive Officer in November 2005, and was President and Chief Executive Officer of Canadian Pacific Railway Limited from October 2001 to November 2005. M.W. Wright was Chairman and Chief Executive Officer of SUPERVALU INC. from June 1981 until June 2001 and Chairman until June 2002.

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

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

(4) Member of the Environmental and Safety Committee.

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

(6) Member of the Pension Trust Fund Committee.

Cease Trade Orders

S.E. Bachand was a director of Krystal Bond Inc. when it was subject to a cease trade order on April 12, 2002, for failure to file financial statements. It has since ceased to operate as a going concern. J.E. Cleghorn, a director of Nortel Networks Corporation and Nortel Networks Limited was subject to a cease trade order, prohibiting trading in Nortel Networks securities, issued in May 2004 for failure by Nortel Networks to file certain financial statements. The cease trade order, issued by the Ontario Securities Commission against directors, officers and certain other current and former employees of Nortel Networks, was revoked on June 21, 2005.

Senior Officers

The following are executive officers of CPR:

Name and municipality of residence	Position held	Principal occupations within the preceding five years
J.E. Newall, O.C. Calgary, Alberta, Canada	Chairman	Chairman, NOVA Chemicals Corporation (chemicals company producing styrenics, olefins and polyolefin products)
R.J. Ritchie Calgary, Alberta, Canada	Chief Executive Officer	Chief Executive Officer, Canadian Pacific Railway Company; President and Chief Executive Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited
F.J. Green Calgary, Alberta, Canada	President and Chief Operating Officer	President and Chief Operating Officer, Canadian Pacific Railway Company; Executive Vice-President and Chief Operating Officer, Canadian Pacific Railway Company and Canadian Pacific Railway Limited; Executive Vice-President, Marketing and Operations, Canadian Pacific Railway Company; Senior Vice-President, Marketing, Canadian Pacific Railway Company; Vice-President, Marketing, Canadian Pacific Railway Company
M.T. Waites Municipal District of Rocky View, Alberta, Canada	Executive Vice-President and Chief Financial Officer	Executive Vice-President and Chief Financial Officer, Chief Executive Officer, U.S. Network, Canadian Pacific Railway Company; Executive Vice-President and Chief Financial Officer, Canadian Pacific Railway Company; Vice-President and Comptroller, Canadian Pacific Railway Company
W.P. Bell Calgary, Alberta, Canada	Vice-President, Investor Relations	Vice-President, Investor Relations, Canadian Pacific Railway Company; Vice-President, E-Business, Canadian Pacific Railway Company; Vice-President, Logistics Systems, Canadian Pacific Railway Company
P. Clark Calgary, Alberta, Canada	Vice-President, Communications and Public Affairs	Vice-President, Communications and Public Affairs, Canadian Pacific Railway Company
J.J. Doolan [(1)] Municipal District of Rocky View, Alberta, Canada	Vice-President and Treasurer	Vice-President and Treasurer, Canadian Pacific Railway Company; Assistant Treasurer, Canadian Pacific Railway Limited and Canadian Pacific Railway Company; President, River Ridge Financial Management Ltd. (financial consulting and management company)

DIRECTORS AND OFFICERS

Name and municipality of residence	Position held	Principal occupations within the preceding five years
B.W. Grassby Calgary, Alberta, Canada	Vice-President and Comptroller	Vice-President and Comptroller, Canadian Pacific Railway Company; Vice-President, Finance, and Secretary, Controller and Assistant Secretary, CAE Electronics Ltd. (provider of technologies for civil aviation and military use)
P.A. Guthrie, Q.C. Municipal District of Rocky View, Alberta, Canada	Vice-President, Law	Vice-President, Law, Canadian Pacific Railway Company; Assistant Vice-President Legal Services and General Counsel, Canadian Pacific Railway Company; Chief Regulatory Counsel, Canadian Pacific Railway Company
T.A. Robinson (1) Calgary, Alberta, Canada	Assistant Treasurer	Assistant Treasurer, Canadian Pacific Railway Limited and Canadian Pacific Railway Company; Assistant Comptroller, Canadian Pacific Railway Company; Assistant Vice-President, Customer Service, Canadian Pacific Railway Company; General Manager, Operations, Canadian Pacific Railway Company
D.F. Barnhardt Calgary, Alberta, Canada	Corporate Secretary	Corporate Secretary, Canadian Pacific Railway Company; Lawyer/Commercial Coordinator, Canadian Pacific Railway Company
G.A. Feigel Calgary, Alberta, Canada	Assistant Corporate Secretary	Assistant Corporate Secretary, Canadian Pacific Railway Company; Assistant Corporate Secretary, Canadian Pacific Limited

(1) T.A. Robinson replaced J.J. Doolan as Vice-President and Treasurer, effective January 1, 2006.

Shareholdings of Directors and Officers

As at December 31, 2005, the directors and senior officers, as a group, beneficially owned, either directly or indirectly, or exercised control or direction over a total of 157,185 Common Shares of CPR, representing 0.10% of the outstanding Common Shares as of that date.

Announcements

Mr. Robert J. Ritchie, CEO, will retire from CPR on May 5, 2006, and will not be eligible to stand for re-election as a director.

Mr. J.E. Newall, Chairman of the Board, will retire on May 5, 2006, having attained the retirement age of 70 years for directors under our By-Laws.

We are involved in various claims and litigation arising in the normal course of business. Following are the only significant legal proceedings currently in progress.

Stoney Tribal Council v. Canada, EnCana and CPR

The Stoney Tribal Council has filed an action against CPR and others in the amount of $150 million for alleged trespass and unlawful removal of oil and gas from reserve lands.

It is too early to make an assessment of the amount in question in this action, an assessment of the merits of the claim, the likelihood that the Plaintiffs will succeed against any or all of the Defendants or the degree to which we may be entitled to indemnity from other parties. We believe adequate provision has been made in our financial statements for this lawsuit.

Derailment – Minot, North Dakota

On January 18, 2002, one of our trains derailed outside of Minot, North Dakota. The site of the derailment was immediately west of the city and adjacent to a residential neighbourhood. Thirty-one cars of the 112 cars on the train derailed. Five cars containing anhydrous ammonia catastrophically ruptured and a vapour plume covered the derailment site and surrounding area.

Immediately following the derailment, we began a process of environmental remediation and monitoring at a cost in excess of US$8 million. In addition, we have settled almost 30,000 claims from residents of the Minot area for damages relating to the derailment.

Several hundred individual lawsuits have been filed against CPR in Hennepin County, Minnesota, associated with the Minot derailment. A judge has been appointed by the Minnesota state court to hear all of these cases. That judge has ruled that we will not be subject to punitive damages. We are working closely with our insurers to resolve as many cases as possible. To date, we have succeeded in settling the case involving wrongful death and three other cases in which the plaintiffs were seriously injured.

In addition to the individual lawsuits in Hennepin County, a class action lawsuit has been filed in federal court in North Dakota.

We believe adequate provision has been made in our financial statements for this lawsuit.

TRANSFER AGENTS AND REGISTRARS

Transfer Agent

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

Computershare Trust Company of New York serves as co-transfer agent and co-registrar for CPR's Common Shares in New York.

Requests for information should be directed to:

Computershare Investor Services Inc.
100 University Avenue, 9th Floor
Toronto, Ontario, Canada
M5J 2Y1

INTERESTS OF EXPERTS

The Company's auditors are PricewaterhouseCoopers LLP, Chartered Accountants. PricewaterhouseCoopers LLP has prepared an independent auditors' report dated February 10, 2006, in respect of our consolidated financial statements, with accompanying notes as at and for the years ended December 31, 2005, 2004 and 2003. PricewaterhouseCoopers LLP has advised that it is independent with respect to CPR within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta and the rules of the U.S. Securities and Exchange Commission.

OUR AUDIT, FINANCIAL AND RISK MANAGEMENT COMMITTEE

Composition of the Audit, Financial and Risk Management Committee and Relevant Education and Experience

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

Stephen E. Bachand - Mr. Bachand is the Retired President and Chief Executive Officer of Canadian Tire Corporation, Limited, a hard goods retailer specializing in automotive, sports and leisure, and home products. He held that position from March 1993 until his retirement in August 2000. He is a director of the Bank of Montreal and Fairmont Hotels & Resorts Inc. He graduated from Williams College in Williamstown, Massachusetts, with a B.A., and from the Darden School of the University of Virginia with an M.B.A.

John E. Cleghorn - Mr. Cleghorn is the Chairman and a director of SNC-Lavalin Group Inc., an international engineering and construction firm. He is the retired Chairman and Chief Executive Officer of the Royal Bank of Canada. He held that position from January 1995 until his retirement in July 2001. He is a director of Molson Coors Brewing Company, Nortel Networks Corporation and Nortel Networks Limited. He is a member of the Desautels Faculty of Management International Advisory Board and Governor Emeritus of McGill University, Immediate Past Chairman and a director of Historica Foundation of Canada, Chancellor Emeritus of Wilfrid Laurier University and a director of the Atlantic Salmon Federation. He graduated from McGill University in Montreal with a B.Com. and is a chartered accountant.

Madeleine Paquin - Ms. Paquin is the President and Chief Executive Officer and a director of Logistec Corporation, an international cargo-handling company. She has held that position since January 1996. She is also a director of Aéroports de Montréal. She graduated from École des Hautes Études Commerciales, Université de Montréal with a G.D.A.S. and from the Richard Ivey School of Business, University of Western Ontario with an H.B.A.

Roger Phillips (Chair) - Mr. Phillips is the Retired President and Chief Executive Officer of IPSCO Inc., a steel manufacturing company. He held that position from February 1982 until his retirement in December 2001. He is a director of Inco Limited, Toronto Dominion Bank, Imperial Oil Limited and Cleveland-Cliffs Inc. Mr. Phillips is a Fellow of the Institute of Physics and a Member of the Canadian Association of Physicists. He is also President of La Sauciere Investments Inc., a private company. He was appointed an Officer of the Order of Canada in 1999 and was presented with the Saskatchewan Order of Merit in 2002. He graduated from McGill University in Montreal with a B.Sc. in Physics and Mathematics.

Michael W. Wright - Mr. Wright is the Retired Chairman of the Board and Chief Executive Officer of SUPERVALU INC., a food distributor and grocery retailer. He was Chairman and Chief Executive Officer from June 1981 to June 2001 and Chairman until June 2002. He is a Past Chairman of Food Distributors International and the Food Marketing Institute, and is a director of Wells Fargo & Company, Honeywell International, Inc., S.C. Johnson & Son, Inc., and Cargill Inc. He is a Trustee Emeritus of the University of Minnesota Foundation, and is a member of the University of Minnesota Law School Board of Visitors and the Board of Trustees of St. Thomas Academy. He graduated from the University of Minnesota with a B.A. and from the University of Minnesota Law School with a J.D. (Honours).

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

Pre-Approval of Policies and Procedures

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

Audit, Finance and Risk Management Committee Charter

The term "the Company" herein shall refer to each of CPRL and CPRC, and the terms "Board," "Directors", "Board of Directors" and "Committee" shall refer to the Board, Directors, Board of Directors, or Committee of CPRL or CPRC, as applicable.

A. Committee and Procedures

1. Purposes

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

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

The Committee also prepares, if required, an audit committee report for inclusion in the Company's annual management proxy circular, in accordance with applicable rules and regulations.

The Company's external auditors shall report directly to the Committee.

2. Composition of Committee

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

3. Appointment of Committee Members

Members of the Committee shall be appointed from time to time by the Board and shall hold office at the pleasure of the Board. Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board. The Board shall fill a vacancy whenever necessary to maintain a Committee membership of at least three directors.

4. Committee Chair

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

5. Absence of Committee Chair

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

6. Secretary of Committee

The Committee shall appoint a Secretary who need not be a director of the Company.

7. Meetings

The Committee shall have regularly scheduled meetings at least once every quarter and shall meet at such other times during each year, as it deems appropriate. In addition, the Chair of the Committee may call a special meeting of the Committee at any time.

8. *Quorum*

Three members of the Committee shall constitute a quorum.

9. *Notice of Meetings*

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

10. *Attendance of Others at Meetings*

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

11. *Procedure, Records and Reporting*

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

12. *Delegation*

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

13. *Report to Shareholders*

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

14. *Guidelines to Exercise of Responsibilities*

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

15. *Use of Outside Legal, Accounting or Other Advisors; Appropriate Funding*

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

The Company shall provide the Committee with appropriate funding, as determined by the Committee, for payment of:

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

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

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

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

16. *Remuneration of Committee Members*

No member of the Committee shall receive from the Company or any of its affiliates any compensation other than the fees to which he or she is entitled as a director of the Company or a member of a committee of the Board. Such fees may be paid in cash and/or shares, options or other in-kind consideration ordinarily available to directors.

B. Mandate

17. The Committee's role is one of oversight. Management is responsible for; preparing the interim and annual financial statements of the Company; maintaining a system of risk assessment and internal controls to provide reasonable assurance

that assets are safeguarded and that transactions are authorized, recorded and reported properly; maintaining disclosure controls and procedures to ensure that it is informed on a timely basis of material developments and the Company complies with its public disclosure obligations; and ensuring compliance by the Company with legal and regulatory requirements. The external auditors are responsible for auditing the Company's financial statements. In carrying out its oversight responsibilities, the Committee does not provide any professional certification or special assurance as to the Company's financial statements or the external auditors' work.

The Committee shall:

Audit Matters

External Auditors' Report on Annual Audit

a) obtain and review annually, prior to the completion of the external auditors' annual audit of the year-end financial statements, a report from the external auditors describing:
   (i) all critical accounting policies and practices to be used;
   (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors; and
   (iii) other material written communications between the external auditors and management, such as any management letter or schedule of unadjusted differences;

Management's and Internal Auditors' Reports on External Audit Issues

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

Annual Financial Reporting Documents and External Auditors' Report

c) meet to review with management and the external auditors the Company's annual financial statements, the report of the external auditors thereon, the related Management's Discussion and Analysis, and the information derived from the financial statements, as contained in the Annual Information Form and the Annual Report. Such review will include obtaining assurance from the external auditors that the audit was conducted in a manner consistent with applicable law and will include a review of:
   (i) all major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting policies or principles;
   (ii) all significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including the effect on the financial statements of alternative methods within generally accepted accounting principles;
   (iii) the effect of regulatory and accounting issues as well as off-balance sheet structures on the financial statements;
   (iv) all major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies; and
   (v) the external auditors' judgment about the quality, and not just the acceptability, of the accounting principles applied in the Company's financial reporting;

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

Interim Financial Statements and MD&A

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

Earnings Releases and Earnings Guidance

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

Material Litigation, Tax Assessments, Etc.

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

Oversight of External Auditors

h) subject to applicable law relating to the appointment and removal of the external auditors, be directly responsible for the appointment, retention, termination, compensation and oversight of the external auditors; and be responsible for the resolution of disagreements between management and the external auditors regarding financial reporting;

Rotation of External Auditors' Audit Partners

i) review and evaluate the lead audit partner of the external auditors and assure the regular rotation of the lead audit partner and the audit partner responsible for reviewing the audit and other audit partners, as required by applicable law; and consider whether there should be a regular rotation of the external audit firm itself;

External Auditors' Internal Quality Control

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

External Auditors' Independence

k) review and discuss at least annually with the external auditors all relationships that the external auditors and their affiliates have with the Company and its affiliates in order to assess the external auditors' independence, including, without limitation:

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

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

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

Policies Regarding Hiring of External Auditors' Employees and Former Employees

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

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

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

Oversight of Internal Audit

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

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

Internal Controls and Financial Reporting Processes

p) review with management, the internal auditors and the external auditors, the Company's financial reporting processes and its internal controls;

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

Complaints Processes

r) establish procedures for:

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

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

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

Separate Meetings with External Auditors, Internal Audit, Management

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

Finance

t) review all major financings, including financial statement information contained in related prospectuses, information circulars, etc., of the Company and its subsidiaries and annually review the Company's financing plans and strategies;

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

Risk Management

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

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

Terms of Reference and Performance Evaluation of Committee

x) review and reassess the adequacy of these terms of reference at least annually and otherwise, as it deems appropriate, and recommend changes to the Board, and undertake an annual evaluation of the Committee's performance;

Other

y) perform such other activities, consistent with these terms of reference, the Company's articles and by-laws, and governing law, as the Committee or the Board deems appropriate; and

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

Audit and Non-Audit Fees and Services

Fees payable to PricewaterhouseCoopers LLP for the years ended December 31, 2005, and December 31, 2004, totalled $2,142,140 and $1,898,000, respectively, as detailed in the following table:

	Year ended December 31, 2005	Year ended December 31, 2004
Audit Fees	$1,086,000	$1,005,000
Audit-Related Fees	$ 812,540	$ 574,900
Tax Fees	$ 243,600	$ 318,100
All Other Fees	$ 0	$ 0
TOTAL	$2,142,140	$1,898,000

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

Audit Fees

Audit fees were for professional services rendered for the audit of our annual financial statements and for services provided in connection with statutory and regulatory filings or engagements.

Audit-Related Fees

Audit-related fees were for assurance and associated services reasonably related to the performance of the audit or review of the annual statements and not reported under "Audit Fees" above. These services consisted of: special attest services as required by various government entities; accounting consultations; audit of financial statements of certain subsidiaries and of our various pension and benefits plans; assistance with prospectus filings; access fees for technical accounting database resources; and assistance with preparations for compliance with Section 404 of the U.S. *Sarbanes Oxley Act of 2002*.

Tax Fees

Tax fees were for services consisting of: tax compliance, including the review of tax returns; assistance with questions regarding tax audits, the preparation of employee tax returns under our expatriate tax services program and assistance in completing routine tax schedules and calculations; tax planning and advisory services relating to common forms of domestic and international taxation (i.e. income tax, capital tax, goods and services tax, and valued added tax); assistance with the reorganization of group financing; obtaining tax rulings from tax authorities; tax preparation services; and access fees for taxation database resources.

All Other Fees

Fees disclosed under this category were for products and services other than those described under "Audit Fees", "Audit-Related Fees" and "Tax Fees", above. There were no services in this category in 2005 and 2004.

ADDITIONAL INFORMATION

Additional Company Information

Additional information about CPR is available on our website at www.cpr.ca and on SEDAR (System for Electronic Document Analysis and Retrieval) at www.sedar.com in Canada, and on the U.S. Securities and Exchange Commission's website (EDGAR) at www.sec.gov/edgar. The aforementioned documents are issued and made available in accordance with legal requirements and are not incorporated by reference into this AIF.

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

Additional financial information is provided in our Consolidated Financial Statements and Management's Discussion and Analysis for the most recently completed financial year.

CANADIAN
PACIFIC
RAILWAY

Suite 500 Gulf Canada Square
401 - 9th Avenue SW
Calgary Alberta T2P 4Z4

www.cpr.ca TSX/NYSE: CP

Printed in Canada