THIRD QUARTER REPORT | 2016



NEWS

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

Release: October 19, 2016

CP reports Q3 2016 diluted earnings per share of $2.34; adjusted diluted EPS of $2.73

Calgary, AB - Canadian Pacific Railway Limited (TSX: CP) (NYSE: CP) today announced third-quarter reported diluted earnings per share (EPS) of $2.34, adjusted diluted EPS of $2.73 and an operating ratio of 57.7 percent, the lowest-ever when compared to adjusted operating ratios in previous quarters.[1]

“Despite decreased revenues, tied to a delayed grain harvest and stiff economic headwinds, our business model continues to perform on the cost side,” said E. Hunter Harrison, CP's Chief Executive Officer. "Our commitment to efficiency, asset optimization, and operational excellence has produced yet another record-low operating ratio.”

While third-quarter revenues decreased 9 percent to $1.55 billion from $1.71 billion, diluted earnings per share rose 15 percent to $2.34 from $2.04 and adjusted diluted earnings per share advanced 1 percent to $2.73 from $2.69.

“Given the delayed grain harvest, lower crude volumes and persistent economic challenges compounded by a strengthening Canadian dollar, we are now expecting mid-single-digit EPS growth this year,” Harrison said. “While disappointed that we will not meet our previous forecast, I am incredibly proud that despite these challenges, CP will deliver its lowest-ever annual operating ratio. Our industry-leading operating plan and continued focus on improving service to our customers means we are well-positioned to capitalize on increasing volumes leading into 2017.”

The company will discuss its results with the financial community in a conference call beginning at: 11 a.m. eastern time (9 a.m. mountain time) on October 19.

Conference Call Access

Toronto participants dial in number: 1-647-427-7450

Operator assisted toll-free dial in number: 1-888-231-8191

Callers should dial in 10 minutes prior to the call.

Webcast

We encourage you to access the webcast and presentation material in the “Investors” section of CP’s website at http://www.cpr.ca/en/investors/earnings-releases

A replay of the third-quarter conference call will be available by phone through to November 16, 2016 at 416-849-0833 or toll free 1-855-859-2056, password 38019789.

Access to the webcast and audio file of the presentation will be made available at: http://www.cpr.ca/en/investors/earnings-releases

[1] In Q3 2015, CP had a reported operating ratio of 55.9 percent as a result of the sale of the D&H South, an item excluded from CP's Q3 2015 adjusted operating ratio of 59.9 percent.

Non-GAAP Measures

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

Note on forward-looking information

This news release contains certain forward-looking information within the meaning of applicable securities laws relating, but not limited, to our operations, priorities and plans, anticipated financial performance, including our 2016 full-year guidance, business prospects, planned capital expenditures, programs and strategies. This forward-looking information also includes, but is not limited to, statements concerning expectations, beliefs, plans, goals, objectives, assumptions and statements about possible future events, conditions, and results of operations or performance. Forward-looking information may contain statements with words or headings such as “financial expectations”, “key assumptions”, “anticipate”, “believe”, “expect”, “plan”, “will”, “outlook”, “should” or similar words suggesting future outcomes. To the extent that CP has provided guidance using non-GAAP financial measures, the Company may not be able to provide a reconciliation to a GAAP measure, due to unknown variables and uncertainty related to future results.

Undue reliance should not be placed on forward-looking information as actual results may differ materially from the forward-looking information. Forward-looking information is not a guarantee of future performance. By its nature, CP's forward-looking information involves numerous assumptions, inherent risks and uncertainties that could cause actual results to differ materially from the forward looking information, including but not limited to the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks in agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demand; changes in commodity prices; uncertainty surrounding timing and volumes of commodities being shipped via CP; inflation; changes in laws and regulations, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions and discount rates on the financial position of pension plans and investments; and various events that could disrupt operations, including severe weather, droughts, floods, avalanches and earthquakes as well as security threats and governmental response to them, and technological changes. The foregoing list of factors is not exhaustive. These and other factors are detailed from time to time in reports filed by CP with securities regulators in Canada and the United States. Reference should be made to "Item 1A - Risk Factors" and "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Information" in CP's annual and interim reports on Form 10-K and 10- Q. Readers are cautioned not to place undue reliance on forward-looking information. Forward looking information is based on current expectations, estimates and projections and it is possible that predictions, forecasts, projections, and other forms of forward-looking information will not be achieved by CP. Except as required by law, CP undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

About Canadian Pacific

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP) is a transcontinental railway in Canada and the United States with direct links to eight major ports, including Vancouver and Montreal, providing North American customers a competitive rail service with access to key markets in every corner of the globe. CP is growing with its customers, offering a suite of freight transportation services, logistics solutions and supply chain expertise. Visit www.cpr.ca to see the rail advantages of CP.

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Summary of Rail Data

Financial (millions, except per share data)	Third Quarter 2016	2015	Change	%	Year-to-date 2016	2015	Change	%
Revenues								
Freight	$ 1,510	$ 1,667	$ (157)	**(9)**	$ 4,464	$ 4,907	$ (443)	**(9)**
Non-freight	44	42	2	**5**	131	118	13	**11**
Total revenues	1,554	1,709	(155)	**(9)**	4,595	5,025	(430)	**(9)**
Operating expenses								
Compensation and benefits	294	352	(58)	**(16)**	907	1,038	(131)	**(13)**
Fuel	138	162	(24)	**(15)**	394	542	(148)	**(27)**
Materials	39	47	(8)	**(17)**	133	144	(11)	**(8)**
Equipment rents	43	42	1	**2**	132	130	2	**2**
Depreciation and amortization	155	149	6	**4**	478	440	38	**9**
Purchased services and other	228	272	(44)	**(16)**	690	788	(98)	**(12)**
Gain on sale of Delaware & Hudson South	—	(68)	68	**(100)**	—	(68)	68	**(100)**
Total operating expenses	897	956	(59)	**(6)**	2,734	3,014	(280)	**(9)**
Operating income	657	753	(96)	**(13)**	1,861	2,011	(150)	**(7)**
Less:								
Other income and charges	71	168	(97)	**(58)**	(119)	236	(355)	**(150)**
Net interest expense	116	103	13	**13**	355	272	83	**31**
Income before income tax expense	470	482	(12)	**(2)**	1,625	1,503	122	**8**
Income tax expense	123	159	(36)	**(23)**	410	470	(60)	**(13)**
Net income	**$ 347**	$ 323	$ 24	**7**	**$ 1,215**	$ 1,033	$ 182	**18**
Operating ratio (%)	57.7	55.9	1.8	**180 bps**	59.5	60.0	(0.5)	**(50) bps**
Basic earnings per share	**$ 2.35**	**$ 2.05**	**$ 0.30**	**15**	**$ 8.06**	**$ 6.37**	**$ 1.69**	**27**
Diluted earnings per share	**$ 2.34**	**$ 2.04**	**$ 0.30**	**15**	**$ 8.02**	**$ 6.32**	**$ 1.70**	**27**
Shares Outstanding								
Weighted average number of shares outstanding (millions)	147.3	157.6	(10.3)	**(7)**	150.7	162.0	(11.3)	**(7)**
Weighted average number of diluted shares outstanding (millions)	148.3	158.7	(10.4)	**(7)**	151.6	163.3	(11.7)	**(7)**
Foreign Exchange								
Average foreign exchange rate (US$/Canadian$)	0.77	0.76	0.01	**1**	0.76	0.79	(0.03)	**(4)**
Average foreign exchange rate (Canadian$/US$)	1.30	1.31	(0.01)	**(1)**	1.32	1.26	0.06	**5**

Summary of Rail Data (Page 2)

	Third Quarter					Year-to-date				
	2016	2015	Change	%	FX Adjusted %[1]	2016	2015	Change	%	FX Adjusted %[1]
Commodity Data										
Freight Revenues (millions)										
- Canadian Grain	$ 222	$ 261	$ (39)	**(15)**	(15)	$ 677	$ 772	$ (95)	**(12)**	(14)
- U.S. Grain	150	148	2	**1**	1	364	391	(27)	**(7)**	(12)
- Coal	160	163	(3)	**(2)**	(2)	454	490	(36)	**(7)**	(8)
- Potash	81	82	(1)	**(1)**	(1)	242	281	(39)	**(14)**	(16)
- Fertilizers and sulphur	64	62	2	**3**	5	218	200	18	**9**	5
- Forest products	71	66	5	**8**	8	212	184	28	**15**	11
- Chemicals and plastics	174	173	1	**1**	1	530	522	8	**2**	(3)
- Crude	13	109	(96)	**(88)**	(88)	108	288	(180)	**(63)**	(64)
- Metals, minerals, and consumer products	142	173	(31)	**(18)**	(18)	415	492	(77)	**(16)**	(19)
- Automotive	86	87	(1)	**(1)**	(1)	270	260	10	**4**	—
- Domestic intermodal	186	189	(3)	**(2)**	(2)	534	575	(41)	**(7)**	(8)
- International intermodal	161	154	7	**5**	5	440	452	(12)	**(3)**	(5)
Total Freight Revenues	$ 1,510	$ 1,667	$ (157)	**(9)**	(9)	$ 4,464	$ 4,907	$ (443)	**(9)**	(12)
Freight Revenue per Revenue Ton-Miles (RTM) (cents)										
- Canadian Grain	3.71	3.93	(0.22)	**(6)**		3.63	3.93	(0.30)	**(8)**	
- U.S. Grain	4.74	5.43	(0.69)	**(13)**		4.72	4.98	(0.26)	**(5)**	
- Coal	2.77	3.07	(0.30)	**(10)**		2.75	2.89	(0.14)	**(5)**	
- Potash	2.21	2.29	(0.08)	**(3)**		2.35	2.39	(0.04)	**(2)**	
- Fertilizers and sulphur	6.68	6.38	0.30	**5**		6.93	6.62	0.31	**5**	
- Forest products	5.86	6.07	(0.21)	**(3)**		5.87	5.82	0.05	**1**	
- Chemicals and plastics	4.92	5.37	(0.45)	**(8)**		5.03	5.11	(0.08)	**(2)**	
- Crude	3.01	2.92	0.09	**3**		2.88	3.02	(0.14)	**(5)**	
- Metals, minerals and consumer products	6.53	7.08	(0.55)	**(8)**		6.83	7.13	(0.30)	**(4)**	
- Automotive	21.91	20.64	1.27	**6**		20.68	19.44	1.24	**6**	
- Domestic intermodal	6.03	6.24	(0.21)	**(3)**		5.98	6.31	(0.33)	**(5)**	
- International intermodal	4.61	5.14	(0.53)	**(10)**		4.54	5.02	(0.48)	**(10)**	
Total Freight Revenue per RTM	4.45	4.61	(0.16)	**(3)**		4.45	4.52	(0.07)	**(2)**	
Freight Revenue per Carload										
- Canadian Grain	$ 3,435	$ 3,613	$ (178)	**(5)**		$ 3,487	$ 3,767	$ (280)	**(7)**	
- U.S. Grain	3,077	3,413	(336)	**(10)**		3,096	3,347	(251)	**(7)**	
- Coal	2,007	2,057	(50)	**(2)**		2,003	1,997	6	**—**	
- Potash	2,782	2,816	(34)	**(1)**		2,878	2,898	(20)	**(1)**	
- Fertilizers and sulphur	4,476	4,265	211	**5**		4,825	4,344	481	**11**	
- Forest products	4,211	4,113	98	**2**		4,160	3,960	200	**5**	
- Chemicals and plastics	3,306	3,479	(173)	**(5)**		3,396	3,444	(48)	**(1)**	
- Crude	2,732	4,281	(1,549)	**(36)**		3,719	4,357	(638)	**(15)**	
- Metals, minerals and consumer products	2,821	3,026	(205)	**(7)**		2,862	2,951	(89)	**(3)**	
- Automotive	2,985	2,719	266	**10**		2,777	2,646	131	**5**	
- Domestic intermodal	1,659	1,795	(136)	**(8)**		1,686	1,833	(147)	**(8)**	
- International intermodal	1,106	1,067	39	**4**		1,065	1,061	4	**—**	
Total Freight Revenue per Carload	$ 2,328	$ 2,493	$ (165)	**(7)**		$ 2,379	$ 2,480	$ (101)	**(4)**	

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

Summary of Rail Data (Page 3)

	Third Quarter				Year-to-date			
	2016	2015	Change	%	2016	2015	Change	%
Millions of RTM								
- Canadian Grain	6,017	6,639	(622)	**(9)**	18,685	19,666	(981)	**(5)**
- U.S. Grain	3,163	2,727	436	**16**	7,719	7,855	(136)	**(2)**
- Coal	5,798	5,316	482	**9**	16,540	16,914	(374)	**(2)**
- Potash	3,651	3,569	82	**2**	10,333	11,758	(1,425)	**(12)**
- Fertilizers and sulphur	958	973	(15)	**(2)**	3,144	3,023	121	**4**
- Forest products	1,217	1,083	134	**12**	3,619	3,163	456	**14**
- Chemicals and plastics	3,547	3,227	320	**10**	10,557	10,220	337	**3**
- Crude	424	3,703	(3,279)	**(89)**	3,738	9,531	(5,793)	**(61)**
- Metals, minerals and consumer products	2,171	2,451	(280)	**(11)**	6,067	6,906	(839)	**(12)**
- Automotive	393	424	(31)	**(7)**	1,305	1,339	(34)	**(3)**
- Domestic intermodal	3,089	3,027	62	**2**	8,932	9,114	(182)	**(2)**
- International intermodal	3,487	2,999	488	**16**	9,702	8,993	709	**8**
Total RTMs	33,915	36,138	(2,223)	**(6)**	100,341	108,482	(8,141)	**(8)**
Carloads (thousands)								
- Canadian Grain	65	72	(7)	**(10)**	195	205	(10)	**(5)**
- U.S. Grain	49	44	5	**11**	118	117	1	**1**
- Coal	80	79	1	**1**	227	245	(18)	**(7)**
- Potash	29	29	—	**—**	84	97	(13)	**(13)**
- Fertilizers and sulphur	14	14	—	**—**	45	46	(1)	**(2)**
- Forest products	17	16	1	**6**	51	46	5	**11**
- Chemicals and plastics	53	50	3	**6**	156	152	4	**3**
- Crude	5	25	(20)	**(80)**	29	66	(37)	**(56)**
- Metals, minerals and consumer products	50	58	(8)	**(14)**	145	167	(22)	**(13)**
- Automotive	29	32	(3)	**(9)**	97	98	(1)	**(1)**
- Domestic intermodal	113	105	8	**8**	317	314	3	**1**
- International intermodal	145	145	—	**—**	413	426	(13)	**(3)**
Total Carloads	649	669	(20)	**(3)**	1,877	1,979	(102)	**(5)**

	Third Quarter					Year-to-date				
	2016	2015	Change	%	FX Adjusted %[1]	2016	2015	Change	%	FX Adjusted %[1]
Operating Expenses (millions)										
Compensation and benefits	$ 294	$ 352	$ (58)	**(16)**	(16)	$ 907	$ 1,038	$ (131)	**(13)**	(14)
Fuel	138	162	(24)	**(15)**	(15)	394	542	(148)	**(27)**	(31)
Materials	39	47	(8)	**(17)**	(17)	133	144	(11)	**(8)**	(10)
Equipment rents	43	42	1	**2**	2	132	130	2	**2**	(2)
Depreciation and amortization	155	149	6	**4**	4	478	440	38	**9**	7
Purchased services and other	228	272	(44)	**(16)**	(16)	690	788	(98)	**(12)**	(15)
Gain on sale of Delaware & Hudson South	—	(68)	68	**(100)**	(100)	—	(68)	68	**(100)**	(100)
Total Operating Expenses	$ 897	$ 956	$ (59)	**(6)**	(6)	$ 2,734	$ 3,014	$ (280)	**(9)**	(12)

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

Summary of Rail Data (Page 4)

	Third Quarter				Year-to-date			
	2016	2015 [1]	Change	%	2016	2015 [1]	Change	%
Operations Performance								
Gross ton-miles ("GTMs") (millions)	59,899	65,273	(5,374)	**(8)**	179,272	197,226	(17,954)	**(9)**
Train miles (thousands)	7,214	8,426	(1,212)	**(14)**	22,359	25,670	(3,311)	**(13)**
Average train weight - excluding local traffic (tons)	8,915	8,322	593	**7**	8,646	8,252	394	**5**
Average train length - excluding local traffic (feet)	7,418	6,944	474	**7**	7,262	6,902	360	**5**
Average terminal dwell (hours)	6.9	6.6	0.3	**5**	6.8	7.3	(0.5)	**(7)**
Average train speed (mph)[2]	23.9	22.2	1.7	**8**	23.8	21.1	2.7	**13**
Fuel efficiency[3]	0.936	0.948	(0.012)	**(1)**	0.971	0.996	(0.025)	**(3)**
U.S. gallons of locomotive fuel consumed (millions)[4]	55.7	61.7	(6.0)	**(10)**	172.9	195.1	(22.2)	**(11)**
Average fuel price (U.S. dollars per U.S. gallon)	1.90	2.00	(0.10)	**(5)**	1.74	2.21	(0.47)	**(21)**
Total employees (average)[5]	11,750	13,709	(1,959)	**(14)**	12,175	14,089	(1,914)	**(14)**
Total employees (end of period)[5]	11,773	13,530	(1,757)	**(13)**	11,773	13,530	(1,757)	**(13)**
Workforce (end of period)[6]	11,827	13,601	(1,774)	**(13)**	11,827	13,601	(1,774)	**(13)**
Safety								
FRA personal injuries per 200,000 employee-hours	1.94	1.87	0.07	**4**	1.56	1.79	(0.23)	**(13)**
FRA train accidents per million train miles	1.00	1.08	(0.08)	**(7)**	0.85	1.30	(0.45)	**(35)**

(1) Certain figures have been revised to conform with current presentation or have been updated to reflect new information.
(2) Incorporates a new reporting definition where average train speed measures the line-haul movement from origin to destination including terminal dwell hours, and excluding foreign railroad and customer delays.
(3) Fuel efficiency is defined as U.S. gallons of locomotive fuel consumed per 1,000 GTMs – freight and yard.
(4) Includes gallons of fuel consumed from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities.
(5) An employee is defined as an individual currently engaged in full-time or part-time employment with CP.
(6) Workforce is defined as total employees plus contractors and consultants.

Non-GAAP Measures - Unaudited

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

These non-GAAP measures have no standardized meaning and are not defined by GAAP and, therefore, may not be comparable to similar measures presented by other companies. The presentation of these non-GAAP measures is not intended to be considered in isolation from, as a substitute for, or as superior to, the financial information presented in accordance with GAAP.

Adjusted Performance Measures

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

Significant items that impacted reported earnings for the first nine months of 2016 and 2015 include:

2016:

- in the third quarter, a $25 million expense ($18 million after current tax) related to a legal settlement; and
- during the first nine months, a net non-cash gain of $153 million ($132 million after deferred tax) due to foreign exchange ("FX") translation of the Company's U.S. dollar-denominated debt:
    - in the third quarter, a $46 million loss ($40 million after deferred tax);
    - in the second quarter, an $18 million gain ($16 million after deferred tax); and
    - in the first quarter, a $181 million gain ($156 million after deferred tax).

2015:

- in the third quarter, a $68 million gain ($42 million after current tax) related to the sale of Delaware and Hudson Railway south of Schenectady ("D&H South");
- in the third quarter, a $47 million charge ($35 million after deferred tax) related to the early redemption premium on notes;
- in the second quarter, a deferred income tax expense of $23 million as a result of the change in the Alberta provincial corporate income tax rate; and
- during the first nine months, a net non-cash loss of $182 million ($157 million after deferred tax) due to FX translation of the Company's U.S. dollar-denominated debt:
    - in the third quarter, a $128 million loss ($111 million after deferred tax);
    - in the second quarter, a $10 million gain ($9 million after deferred tax); and
    - in the first quarter, a $64 million loss ($55 million after deferred tax).

Reconciliation of Non-GAAP measures to GAAP measures

The following tables reconcile Adjusted income, Adjusted diluted earnings per share, Adjusted operating income and Adjusted operating ratio to Net income, Diluted earnings per share, Operating income and Operating ratio, respectively.

Net income (in millions of Canadian dollars)	**For the three months ended September 30**		**For the nine months ended September 30**	
	2016	2015	**2016**	2015
Adjusted income	**$ 405**	$ 427	**$ 1,101**	$ 1,206
Add significant items, pretax:				
Legal settlement charge	**(25)**	—	**(25)**	—
Gain on sale of D&H South	**—**	68	**—**	68
Impact of FX translation on U.S. dollar-denominated debt	**(46)**	(128)	**153**	(182)
Early redemption premium on notes	**—**	(47)	**—**	(47)
Income tax rate change	**—**	—	**—**	(23)
Tax effect of adjustments[(1)]	**13**	3	**(14)**	11
Net income as reported	**$ 347**	$ 323	**$ 1,215**	$ 1,033

(1) Tax effect of adjustments was calculated as the pretax effect of the adjustments multiplied by the effective tax rate for each of the above items for the periods presented.

Diluted earnings per share	**For the three months ended September 30**		**For the nine months ended September 30**	
	2016	2015	**2016**	2015
Adjusted diluted earnings per share	**$ 2.73**	$ 2.69	**$ 7.26**	$ 7.39
Add significant items, pretax:				
Legal settlement charge	**(0.17)**	—	**(0.16)**	—
Gain on sale of D&H South	**—**	0.42	**—**	0.42
Impact of FX translation on U.S. dollar-denominated debt	**(0.31)**	(0.81)	**1.01**	(1.12)
Early redemption premium on notes	**—**	(0.30)	**—**	(0.30)
Income tax rate change	**—**	—	**—**	(0.14)
Tax effect of adjustments[(1)]	**0.09**	0.04	**(0.09)**	0.07
Diluted earnings per share as reported	**$ 2.34**	$ 2.04	**$ 8.02**	$ 6.32

(1) Tax effect of adjustments was calculated as the pretax effect of the adjustments multiplied by the effective tax rate for each of the above items for the periods presented.

Operating income (in millions of Canadian dollars)	**For the three months ended September 30**		**For the nine months ended September 30**	
	2016	2015	**2016**	2015
Adjusted operating income	**$ 657**	$ 685	**$ 1,861**	$ 1,943
Add significant items:				
Gain on sale of D&H South	**—**	68	**—**	68
Operating income as reported	**$ 657**	$ 753	**$ 1,861**	$ 2,011

Operating ratio	**For the three months ended September 30**		**For the nine months ended September 30**	
	2016	2015	**2016**	2015
Adjusted operating ratio	**57.7%**	59.9 %	**59.5%**	61.3 %
Add significant items:				
Gain on sale of D&H South	**—%**	(4.0)%	**—%**	(1.3)%
Operating ratio as reported	**57.7%**	55.9 %	**59.5%**	60.0 %

Free Cash

Free cash is calculated as Cash provided by operating activities, less Cash used in investing activities and Dividends paid, adjusted for changes in cash and cash equivalents balances resulting from FX fluctuations. Free cash is a measure that management considers to be an indicator of liquidity. Free cash is useful to investors and other external users of the consolidated financial information as it assists with the evaluation of the Company's ability to generate cash from its operations without incurring additional external financing. Positive Free cash indicates the amount of cash available for reinvestment in the business, or cash that can be returned to investors through increased dividends, stock repurchase programs, debt retirements or a combination of these. Conversely, negative Free cash indicates the amount of cash that must be raised from investors through new debt or equity issues, reduction in available cash balances or a combination of these. Free cash should be considered in addition to, rather than as a substitute for, Cash provided by operating activities.

Reconciliation of cash provided by operating activities to free cash

	For the three months ended September 30		For the nine months ended September 30	
(in millions of Canadian dollars)	**2016**	2015	**2016**	2015
Cash provided by operating activities	**$ 591**	$ 696	**$ 1,321**	$ 1,836
Cash used in investing activities	**(278)**	(163)	**(817)**	(708)
Dividends paid	**(75)**	(57)	**(182)**	(172)
Effect of foreign currency fluctuations on U.S. dollar- denominated cash and cash equivalents	**2**	18	**(16)**	23
Free cash	**$ 240**	$ 494	**$ 306**	$ 979

Foreign Exchange Adjusted Variance

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

	For the three months ended September 30				
(in millions of Canadian dollars)	**Reported 2016**	Reported 2015	Variance due to FX	Adjusted 2015	FX Adj. %
Freight revenues	**$ 1,510**	$ 1,667	$ (2)	$ 1,665	(9)%
Non-freight revenues	**44**	42	—	42	5 %
Total revenues	**1,554**	1,709	(2)	1,707	(9)%
Compensation and benefits	**294**	352	—	352	(16)%
Fuel	**138**	162	—	162	(15)%
Materials	**39**	47	—	47	(17)%
Equipment rents	**43**	42	—	42	2 %
Depreciation and amortization	**155**	149	—	149	4 %
Purchased services and other	**228**	272	(1)	271	(16)%
Gain on sale of D&H South	**—**	(68)	—	(68)	(100)%
Total operating expenses	**897**	956	(1)	955	(6)%
Operating income	**$ 657**	$ 753	$ (1)	$ 752	(13)%

	For the nine months ended September 30				
(in millions of Canadian dollars)	**Reported 2016**	Reported 2015	Variance due to FX	Adjusted 2015	FX Adj. %
Freight revenues	**$ 4,464**	$ 4,907	$ 145	$ 5,052	(12)%
Non-freight revenues	**131**	118	1	119	10 %
Total revenues	**4,595**	5,025	146	5,171	(11)%
Compensation and benefits	**907**	1,038	18	1,056	(14)%
Fuel	**394**	542	25	567	(31)%
Materials	**133**	144	3	147	(10)%
Equipment rents	**132**	130	5	135	(2)%
Depreciation and amortization	**478**	440	5	445	7 %
Purchased services and other	**690**	788	20	808	(15)%
Gain on sale of D&H South	**—**	(68)	—	(68)	(100)%
Total operating expenses	**2,734**	3,014	76	3,090	(12)%
Operating income	**$ 1,861**	$ 2,011	$ 70	$ 2,081	(11)%

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2016

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 001-01342

Canadian Pacific Railway Limited

(Exact name of registrant as specified in its charter)

Canada	**98-0355078**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
7550 Ogden Dale Road S.E.	
Calgary, Alberta, Canada	**T2C 4X9**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (403) 319-7000

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of the close of business on October 17, 2016, there were 146,262,114 of the registrant's Common Shares issued and outstanding.

CANADIAN PACIFIC RAILWAY LIMITED
FORM 10-Q
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PART I

ITEM 1. FINANCIAL STATEMENTS

INTERIM CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

(in millions of Canadian dollars, except share and per share data)	For the three months ended September 30		For the nine months ended September 30	
	2016	2015	**2016**	2015
Revenues				
Freight	**$ 1,510**	$ 1,667	**$ 4,464**	$ 4,907
Non-freight	**44**	42	**131**	118
Total revenues	**1,554**	1,709	**4,595**	5,025
Operating expenses				
Compensation and benefits	**294**	352	**907**	1,038
Fuel	**138**	162	**394**	542
Materials	**39**	47	**133**	144
Equipment rents	**43**	42	**132**	130
Depreciation and amortization	**155**	149	**478**	440
Purchased services and other (Note 4)	**228**	272	**690**	788
Gain on sale of Delaware & Hudson South	**—**	(68)	**—**	(68)
Total operating expenses	**897**	956	**2,734**	3,014
Operating income	**657**	753	**1,861**	2,011
Less:				
Other income and charges (Note 5)	**71**	168	**(119)**	236
Net interest expense	**116**	103	**355**	272
Income before income tax expense	**470**	482	**1,625**	1,503
Income tax expense (Note 6)	**123**	159	**410**	470
Net income	**$ 347**	$ 323	**$ 1,215**	$ 1,033
Earnings per share (Note 7)				
Basic earnings per share	**$ 2.35**	$ 2.05	**$ 8.06**	$ 6.37
Diluted earnings per share	**$ 2.34**	$ 2.04	**$ 8.02**	$ 6.32
Weighted-average number of shares (millions) (Note 7)				
Basic	**147.3**	157.6	**150.7**	162.0
Diluted	**148.3**	158.7	**151.6**	163.3
Dividends declared per share	**$ 0.5000**	$ 0.3500	**$ 1.3500**	$ 1.0500

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

(in millions of Canadian dollars)	For the three months ended September 30		For the nine months ended September 30	
	2016	2015	**2016**	2015
Net income	**$ 347**	$ 323	**$ 1,215**	$ 1,033
Net (loss) gain in foreign currency translation adjustments, net of hedging activities	**(7)**	(33)	**33**	(63)
Change in derivatives designated as cash flow hedges	**1**	(45)	**(75)**	(78)
Change in pension and post-retirement defined benefit plans	**47**	65	**137**	203
Other comprehensive income (loss) before income taxes	**41**	(13)	**95**	62
Income tax (expense) recovery on above items	**(3)**	33	**(51)**	44
Other comprehensive income (Note 3)	**38**	20	**44**	106
Comprehensive income	**$ 385**	$ 343	**$ 1,259**	$ 1,139

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED BALANCE SHEETS AS AT
(unaudited)

(in millions of Canadian dollars)	**September 30 2016**	December 31 2015
Assets		
Current assets		
Cash and cash equivalents	**$ 103**	$ 650
Accounts receivable, net	**605**	645
Materials and supplies	**192**	188
Other current assets	**64**	54
	964	1,537
Investments	**169**	152
Properties	**16,382**	16,273
Goodwill and intangible assets	**198**	211
Pension asset	**1,638**	1,401
Other assets	**70**	63
Total assets	**$ 19,421**	$ 19,637
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 1,246**	$ 1,417
Long-term debt maturing within one year (Note 8)	**391**	30
	1,637	1,447
Pension and other benefit liabilities	**756**	758
Other long-term liabilities	**280**	318
Long-term debt	**8,488**	8,927
Deferred income taxes	**3,591**	3,391
Total liabilities	**14,752**	14,841
Shareholders' equity		
Share capital	**2,000**	2,058
Additional paid-in capital	**43**	43
Accumulated other comprehensive loss (Note 3)	**(1,433)**	(1,477)
Retained earnings	**4,059**	4,172
	4,669	4,796
Total liabilities and shareholders' equity	**$ 19,421**	$ 19,637

Contingencies (Note 13)

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in millions of Canadian dollars)	For the three months ended September 30 **2016**	2015	For the nine months ended September 30 **2016**	2015
Operating activities				
Net income	**$ 347**	$ 323	**$ 1,215**	$ 1,033
Reconciliation of net income to cash provided by operating activities:				
Depreciation and amortization	**155**	149	**478**	440
Deferred income taxes (Note 6)	**50**	—	**233**	106
Pension funding in excess of expense (Note 12)	**(26)**	(10)	**(105)**	(40)
Foreign exchange loss (gain) on long-term debt (Note 5)	**46**	128	**(153)**	182
Other operating activities, net	**(17)**	(53)	**(130)**	(122)
Change in non-cash working capital balances related to operations	**36**	159	**(217)**	237
Cash provided by operating activities	**591**	696	**1,321**	1,836
Investing activities				
Additions to properties	**(294)**	(449)	**(902)**	(1,067)
Proceeds from the sale of Delaware & Hudson South	**—**	281	**—**	281
Proceeds from sale of properties and other assets (Note 4)	**16**	13	**87**	73
Other	**—**	(8)	**(2)**	5
Cash used in investing activities	**(278)**	(163)	**(817)**	(708)
Financing activities				
Dividends paid	**(75)**	(57)	**(182)**	(172)
Issuance of CP Common Shares	**5**	5	**14**	32
Purchase of CP Common Shares (Note 9)	**(412)**	(1,523)	**(1,200)**	(2,595)
Issuance of long-term debt, excluding commercial paper	**—**	2,601	**—**	3,411
Repayment of long-term debt, excluding commercial paper	**(12)**	(432)	**(30)**	(499)
Net issuance (repayment) of commercial paper (Note 8)	**190**	(669)	**366**	(893)
Other	**—**	—	**(3)**	—
Cash used in financing activities	**(304)**	(75)	**(1,035)**	(716)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	**2**	18	**(16)**	23
Cash position				
Increase (decrease) in cash and cash equivalents	**11**	476	**(547)**	435
Cash and cash equivalents at beginning of period	**92**	185	**650**	226
Cash and cash equivalents at end of period	**$ 103**	$ 661	**$ 103**	$ 661
Supplemental disclosures of cash flow information:				
Income taxes paid	**$ 17**	$ 48	**$ 274**	$ 107
Interest paid	**$ 148**	$ 81	**$ 395**	$ 242

See Notes to Interim Consolidated Financial Statements.

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

(in millions of Canadian dollars, except common share amounts)	Common shares (in millions)	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at January 1, 2016	**153.0**	**$ 2,058**	**$ 43**	**$ (1,477)**	**$ 4,172**	**$ 4,796**
Net income	**—**	**—**	**—**	**—**	**1,215**	**1,215**
Other comprehensive income (Note 3)	**—**	**—**	**—**	**44**	**—**	**44**
Dividends declared	**—**	**—**	**—**	**—**	**(202)**	**(202)**
Effect of stock-based compensation expense	**—**	**—**	**11**	**—**	**—**	**11**
CP Common Shares repurchased (Note 9)	**(6.9)**	**(84)**	**—**	**—**	**(1,126)**	**(1,210)**
Shares issued under stock option plan	**0.2**	**26**	**(11)**	**—**	**—**	**15**
Balance at September 30, 2016	**146.3**	**$ 2,000**	**$ 43**	**$ (1,433)**	**$ 4,059**	**$ 4,669**
Balance at January 1, 2015	166.1	$ 2,185	$ 36	$ (2,219)	$ 5,608	$ 5,610
Net income	—	—	—	—	1,033	1,033
Other comprehensive income (Note 3)	—	—	—	106	—	106
Dividends declared	—	—	—	—	(170)	(170)
Effect of stock-based compensation expense	—	—	14	—	—	14
CP Common Shares repurchased (Note 9)	(12.7)	(173)	—	—	(2,462)	(2,635)
Shares issued under stock option plan	0.4	42	(8)	—	—	34
Balance at September 30, 2015	153.8	$ 2,054	$ 42	$ (2,113)	$ 4,009	$ 3,992

See Notes to Interim Consolidated Financial Statements.

1 Basis of presentation

These unaudited interim consolidated financial statements of Canadian Pacific Railway Limited (“CP”, or “the Company”), expressed in Canadian dollars, reflect management’s estimates and assumptions that are necessary for their fair presentation in conformity with generally accepted accounting principles in the United States of America (“GAAP”). They do not include all disclosures required under GAAP for annual financial statements and should be read in conjunction with the 2015 annual consolidated financial statements and notes included in CP's 2015 Annual Report on Form 10-K. The accounting policies used are consistent with the accounting policies used in preparing the 2015 annual consolidated financial statements, except for the newly adopted accounting policy discussed in Note 2.

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

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

2 Accounting changes

Implemented in 2016

Amendments to the Consolidation Analysis

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (“ASU”) 2015-02, Amendments to the Consolidation Analysis under FASB Accounting Standards Codification ("ASC") Topic 810 Consolidation. The amendments required reporting entities to evaluate whether they should consolidate certain legal entities under the revised consolidation model. Specifically, the amendments modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities, eliminated the presumption that a general partner should consolidate a limited partnership and affected the consolidation analysis of reporting entities involved with VIEs, particularly those that have fee arrangements and related party relationships. This ASU was effective for public entities for fiscal years, and interim periods within those years, beginning on or after December 15, 2015. Entities had the option of using either a full retrospective or a modified retrospective approach to adopt this ASU. The Company evaluated all arrangements that might give rise to a VIE and all existing VIEs; no changes to disclosure or financial statement presentation were required as a result of this evaluation.

Future changes

Leases

In February 2016, the FASB issued ASU 2016-02, Leases. The new FASB ASC Topic 842 Leases supersedes the lease recognition and measurement requirements in Topic 840 Leases. This new standard requires recognition of right-of-use assets and lease liabilities by lessees for those leases classified as finance and operating leases with a maximum term exceeding 12 months. This ASU will be effective for public entities for fiscal years, and interim periods within those years, beginning on or after December 15, 2018. Entities are required to use a modified retrospective approach to adopt this ASU. The Company is currently evaluating the impact adoption of this ASU will have on the consolidated financial statements.

Revenue from Contracts with Customers

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations under FASB ASC Topic 606. The amendments clarify the principal versus agent guidance in determining whether to recognize revenue on a gross or net basis. The amendments are effective for public entities for annual reporting periods beginning on or after December 15, 2017, including interim periods within that reporting period. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt this ASU. The Company is currently evaluating the impact adoption of this ASU will have on the consolidated financial statements.

Compensation - Stock Compensation

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation, under ASC Topic 718. The amendments clarify the guidance relating to treatment of excess tax benefits and deficiencies, acceptable forfeiture rate policies, and treatment of cash paid by an employer when directly withholding shares for tax-withholding purposes and the requirement to treat such cash flows as a financing activity. This ASU will be effective for public entities for fiscal years, and interim periods within those years,

beginning on or after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact adoption of this ASU will have on the consolidated financial statements.

3 Changes in accumulated other comprehensive loss ("AOCL") by component

(in millions of Canadian dollars, net of tax)	For the three months ended September 30			
	Foreign currency net of hedging activities	**Derivatives and other**	**Pension and post-retirement defined benefit plans**	**Total**
Opening balance, 2016	**$ 124**	**$ (157)**	**$ (1,438)**	**$ (1,471)**
Other comprehensive income (loss) before reclassifications	**2**	**(1)**	**1**	**2**
Amounts reclassified from accumulated other comprehensive loss	**—**	**2**	**34**	**36**
Net current-period other comprehensive income	**2**	**1**	**35**	**38**
Closing balance, 2016	**$ 126**	**$ (156)**	**$ (1,403)**	**$ (1,433)**
Opening balance, 2015	$ 125	$ (77)	$ (2,181)	$ (2,133)
Other comprehensive income (loss) before reclassifications	6	(34)	—	(28)
Amounts reclassified from accumulated other comprehensive loss	—	2	46	48
Net current-period other comprehensive income (loss)	6	(32)	46	20
Closing balance, 2015	$ 131	$ (109)	$ (2,135)	$ (2,113)

(in millions of Canadian dollars, net of tax)	For the nine months ended September 30			
	Foreign currency net of hedging activities	**Derivatives and other**	**Pension and post-retirement defined benefit plans**	**Total**
Opening balance, 2016	**$ 129**	**$ (102)**	**$ (1,504)**	**$ (1,477)**
Other comprehensive loss before reclassifications	**(3)**	**(60)**	**(1)**	**(64)**
Amounts reclassified from accumulated other comprehensive loss	**—**	**6**	**102**	**108**
Net current-period other comprehensive (loss) income	**(3)**	**(54)**	**101**	**44**
Closing balance, 2016	**$ 126**	**$ (156)**	**$ (1,403)**	**$ (1,433)**
Opening balance, 2015	$ 115	$ (52)	$ (2,282)	$ (2,219)
Other comprehensive income (loss) before reclassifications	16	(60)	5	(39)
Amounts reclassified from accumulated other comprehensive loss	—	3	142	145
Net current-period other comprehensive income (loss)	16	(57)	147	106
Closing balance, 2015	$ 131	$ (109)	$ (2,135)	$ (2,113)

Amounts in Pension and post-retirement defined benefit plans reclassified from AOCL

(in millions of Canadian dollars)	For the three months ended September 30 2016	2015	For the nine months ended September 30 2016	2015
Amortization of prior service costs[1]	**$ (2)**	$ (2)	**$ (5)**	$ (5)
Recognition of net actuarial loss[1]	**49**	67	**146**	201
Total before income tax	**47**	65	**141**	196
Income tax recovery	**(13)**	(19)	**(39)**	(54)
Net of income tax	**$ 34**	$ 46	**$ 102**	$ 142

[1] Impacts Compensation and benefits on the Interim Consolidated Statements of Income.

4 Gain on sale of properties

Gain on sale of Arbutus Corridor

In March 2016, the Company announced the sale of CP's Arbutus Corridor (the "Arbutus Corridor") to the City of Vancouver for gross proceeds of $55 million. The agreement allows the Company to share in future proceeds on the eventual development and/or sale of certain parcels of the Arbutus Corridor. The Company recorded a gain on sale of $50 million before tax ($43 million after tax) from the transaction during the first quarter of 2016.

Gain on settlement of legal proceedings related to the purchase and sale of a building

In 2013, CP provided an interest free loan pursuant to a court order to a corporation owned by a court appointed trustee ("the judicial trustee") to facilitate the acquisition of a building. The building was held in trust during the legal proceedings with regard to CP's entitlement to an exercised purchase option of the building. As at December 31, 2014, the loan of $20 million and the purchase option with a carrying value of $8 million, were recorded as "Other assets" in the Company's Consolidated Balance Sheets.

In the first quarter of 2015, CP reached a settlement with a third party that, following the sale of the building to an arm's length third party, resulted in resolution of legal proceedings. CP received $59 million for the sale of the building which included repayment of the aforementioned loan to the judicial trustee and recorded a gain of $31 million ($27 million after tax).

5 Other income and charges

(in millions of Canadian dollars)	For the three months ended September 30 2016	2015	For the nine months ended September 30 2016	2015
Foreign exchange loss (gain) on long-term debt	**$ 46**	$ 128	**$ (153)**	$ 182
Other foreign exchange losses (gains)	**2**	(10)	**(5)**	(4)
Early redemption premium on notes	**—**	47	**—**	47
Legal settlement	**25**	—	**25**	—
Other	**(2)**	3	**14**	11
Total other income and charges	**$ 71**	$ 168	**$ (119)**	$ 236

6 Income taxes

(in millions of Canadian dollars)	For the three months ended September 30 2016	2015	For the nine months ended September 30 2016	2015
Current income tax expense	**$ 73**	$ 159	**$ 177**	$ 364
Deferred income tax expense	**50**	—	**233**	106
Income tax expense	**$ 123**	$ 159	**$ 410**	$ 470

The estimated 2016 annual effective tax rate for the three and nine months ended September 30, 2016, excluding the discrete items related to the foreign exchange loss (gain) on the Company's U.S. dollar-denominated debt and the settlement charge in respect of a corporate legal claim, is 25.17% and 26.50%, respectively, compared to the estimate of 27.50% for the same periods in 2015.

The effective tax rate for the three and nine months ended September 30, 2016, including the discrete items, is 26.23% and 25.26%, respectively, compared to 32.92% and 31.28%, respectively, for the same period in 2015.

7 Earnings per share

At September 30, 2016, the number of shares outstanding was 146.3 million (September 30, 2015 - 153.8 million).

Basic earnings per share have been calculated using net income for the period divided by the weighted-average number of shares outstanding during the period.

The number of shares used in earnings per share calculations is reconciled as follows:

	For the three months ended September 30		For the nine months ended September 30	
(in millions)	**2016**	2015	**2016**	2015
Weighted-average basic shares outstanding	**147.3**	157.6	**150.7**	162.0
Dilutive effect of stock options	**1.0**	1.1	**0.9**	1.3
Weighted-average diluted shares outstanding	**148.3**	158.7	**151.6**	163.3

For the three and nine months ended September 30, 2016, there were 331,553 options and 405,851 options, respectively, excluded from the computation of diluted earnings per share because their effects were not dilutive (three and nine months ended September 30, 2015 - 364,014 and 179,988, respectively).

8 Debt

Revolving credit facility

Effective June 28, 2016, the Company extended the maturity date by one year on its existing revolving U.S. $2.0 billion revolving credit facility, which includes a U.S. $1.0 billion five-year portion and U.S. $1.0 billion one-year plus one-year term-out portion. The maturity date on the U.S. $1.0 billion one-year plus one-year term-out portion has been extended to June 28, 2018; the maturity date on the U.S. $1.0 billion five-year portion was extended to June 28, 2021.

Commercial paper program

The Company has a commercial paper program which enables it to issue commercial paper up to a maximum aggregate principal amount of U.S. $1.0 billion in the form of unsecured promissory notes. The commercial paper is backed by the U.S. $1.0 billion one-year plus one-year term-out portion of the revolving credit facility. As at September 30, 2016, the Company had total commercial paper borrowings of U.S. $280 million ($367 million), presented in “Long-term debt maturing within one year” on the Interim Consolidated Balance Sheets (December 31, 2015 - $nil). The weighted-average interest rate on these borrowings was 0.75%.

The Company presents issuances and repayments of commercial paper in the Interim Consolidated Statements of Cash Flows on a net basis, all of which have a maturity of less than 90 days.

9 Shareholders' equity

On April 20, 2016, the Company announced a new normal course issuer bid ("bid"), commencing May 2, 2016 to May 1, 2017, to purchase up to 6.91 million of its outstanding Common Shares for cancellation. The Company completed the bid on September 28, 2016.

All purchases are made in accordance with the bid at prevalent market prices plus brokerage fees, or such other prices that may be permitted by the Toronto Stock Exchange, with consideration allocated to share capital up to the average carrying amount of the shares, and any excess allocated to Retained earnings. The following table provides activities under the share repurchase program:

	For the three months ended September 30		For the nine months ended September 30	
	2016	2015	**2016**	2015
Number of Common Shares repurchased[1]	**1,782,200**	7,738,489	**6,910,000**	12,972,177
Weighted-average price per share[2]	**$ 192.10**	$ 200.84	**$ 175.08**	$ 203.08
Amount of repurchase (in millions)[2]	**$ 342**	$ 1,555	**$ 1,210**	$ 2,635

[1] Includes shares repurchased but not yet canceled at quarter end.
[2] Includes brokerage fees.

10 Financial instruments

A. Fair values of financial instruments

The Company categorizes its financial assets and liabilities measured at fair value in line with the fair value hierarchy established by GAAP that prioritizes, with respect to reliability, the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of quoted prices (unadjusted) in active markets for identical assets and liabilities and give the highest priority to these inputs. Level 2 and 3 inputs are based on significant other observable inputs and significant unobservable inputs, respectively, and give lower priority to these inputs.

When possible, the estimated fair value is based on quoted market prices and, if not available, estimates from third party brokers. For non-exchange traded derivatives classified in Level 2, the Company uses standard valuation techniques to calculate fair value. Primary inputs to these techniques include observable market prices (interest, foreign exchange ("FX") and commodity) and volatility, depending on the type of derivative and nature of the underlying risk. The Company uses inputs and data used by willing market participants when valuing derivatives and considers its own credit default swap spread as well as those of its counterparties in its determination of fair value.

The carrying values of financial instruments equal or approximate their fair values with the exception of long-term debt which has a fair value of approximately $10,553 million at September 30, 2016 (December 31, 2015 - $9,750 million) and a carrying value of $8,879 million at September 30, 2016 (December 31, 2015 - $8,957 million). The estimated fair value of current and long-term borrowings has been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Company at period end. All derivatives and long-term debt are classified as Level 2.

B. Financial risk management

Derivative financial instruments

Derivative financial instruments may be used to selectively reduce volatility associated with fluctuations in interest rates, FX rates, the price of fuel and stock-based compensation expense. Where derivatives are designated as hedging instruments, the relationship between the hedging instruments and their associated hedged items is documented, as well as the risk management objective and strategy for the use of the hedging instruments. This documentation includes linking the derivatives that are designated as fair value or cash flow hedges to specific assets or liabilities on the Interim Consolidated Balance Sheets, commitments or forecasted transactions. At the time a derivative contract is entered into, and at least quarterly thereafter, an assessment is made whether the derivative item is effective in offsetting the changes in fair value or cash flows of the hedged items. The derivative qualifies for hedge accounting treatment if it is effective in substantially mitigating the risk it was designed to address.

It is not the Company's intent to use financial derivatives or commodity instruments for trading or speculative purposes.

FX management

The Company conducts business transactions and owns assets in both Canada and the United States. As a result, the Company is exposed to fluctuations in value of financial commitments, assets, liabilities, income or cash flows due to changes in FX rates. The Company may enter into FX risk management transactions primarily to manage fluctuations in the exchange rate between Canadian and U.S. currencies. FX exposure is primarily mitigated through natural offsets created by revenues, expenditures and balance sheet positions incurred in the same currency. Where appropriate, the Company may negotiate with customers and suppliers to reduce the net exposure.

Net investment hedge

The FX gains and losses on long-term debt are mainly unrealized and can only be realized when U.S. dollar denominated long-term debt matures or is settled. The Company also has long-term FX exposure on its investment in U.S. affiliates. The majority of the Company's U.S. dollar denominated long-term debt has been designated as a hedge of the net investment in foreign subsidiaries. This designation has the effect of mitigating volatility on net income by offsetting long-term FX gains and losses on U.S. dollar denominated long-term debt and gains and losses on its net investment. The effective portion recognized in "Other comprehensive income" for the three and nine months ended September 30, 2016 was an unrealized FX loss of $72 million and an unrealized FX gain of $260 million, respectively (three and nine months ended September 30, 2015 - unrealized FX loss of $291 million and $589 million, respectively). There was no ineffectiveness during the three and nine months ended September 30, 2016 and September 30, 2015.

Interest rate management

The Company is exposed to interest rate risk, which is the risk that the fair value or future cash flows of a financial instrument will vary as a result of changes in market interest rates. In order to manage funding needs or capital structure goals, the Company

enters into debt or capital lease agreements that are subject to either fixed market interest rates set at the time of issue or floating rates determined by on-going market conditions. Debt subject to variable interest rates exposes the Company to variability in interest expense, while debt subject to fixed interest rates exposes the Company to variability in the fair value of debt.

To manage interest rate exposure, the Company accesses diverse sources of financing and manages borrowings in line with a targeted range of capital structure, debt ratings, liquidity needs, maturity schedule, and currency and interest rate profiles. In anticipation of future debt issuances, the Company may enter into forward rate agreements, that are designated as cash flow hedges, to substantially lock in all or a portion of the effective future interest expense. The Company may also enter into swap agreements, designated as fair value hedges, to manage the mix of fixed and floating rate debt.

Forward starting swaps

As at December 31, 2015, the Company had forward starting floating-to-fixed interest rate swap agreements ("forward starting swaps") totaling a notional U.S. $700 million to fix the benchmark rate on cash flows associated with highly probable forecasted issuances of long-term notes. The effective portion of changes in fair value on the forward starting swaps is recorded in "Accumulated other comprehensive loss", net of tax, as cash flow hedges until the highly probable forecasted notes are issued. Subsequent to the notes issuance, amounts in "Accumulated other comprehensive loss" are reclassified to "Net interest expense".

During the second quarter of 2016, the Company rolled the notional U.S. $700 million forward starting swaps. The Company de-designated the hedging relationship for U.S. $700 million of forward starting swaps. The Company did not cash settle these swaps. There was no ineffectiveness to record upon de-designation.

Concurrently the Company re-designated the forward starting swaps totaling U.S. $700 million to fix the benchmark rate on cash flows associated with a highly probable forecasted debt issuance of long-term notes.

As at September 30, 2016, the total fair value loss of $144 million (December 31, 2015 - fair value loss of $60 million) derived from the forward starting swaps was included in "Accounts payable and accrued liabilities". Changes in fair value from the forward starting swaps for the three and nine months ended September 30, 2016 was $nil and a loss of $84 million, respectively (three and nine months ended September 30, 2015 - a loss of $46 million and $85 million, respectively). The effective portion for the three and nine months ended September 30, 2016 was $nil and a loss of $82 million, respectively (three and nine months ended September 30, 2015 - a fair value loss of $45 million and $82 million, respectively) and is recorded in "Other comprehensive income". For the three and nine months ended September 30, 2016, the ineffective portion was $nil and a $2 million loss, respectively (three and nine months ended September 30, 2015 - $1 million and $3 million loss, respectively) and is recorded to "Net interest expense" on the Interim Consolidated Statements of Income.

For the three and nine months ended September 30, 2016, a loss of $3 million and $8 million, respectively, related to previous forward starting swap hedges have been amortized to "Net interest expense" (three and nine months ended September 30, 2015 - a loss of $1 million and $4 million, respectively). The Company expects that during the next 12 months $11 million of losses will be amortized to "Net interest expense".

11 Stock-based compensation

At September 30, 2016, the Company had several stock-based compensation plans, including stock option plans, various cash settled liability plans and an employee stock savings plan. These plans resulted in an expense for the three and nine months ended September 30, 2016 of $31 million and $46 million, respectively (three and nine months ended September 30, 2015 - expense of $21 million and $45 million, respectively).

Regular options

In the nine months ended September 30, 2016, under CP's stock option plans, the Company issued 402,331 regular options at the weighted average price of $165.55 per share, based on the closing price on the grant date.

Pursuant to the employee plan, these regular options may be exercised upon vesting, which is between 12 months and 48 months after the grant date, and will expire after 10 years.

Under the fair value method, the fair value of the regular options at the grant date was approximately $16 million. The weighted average fair value assumptions were approximately:

	For the nine months ended September 30, 2016
Grant price	$165.55
Expected option life (years)[1]	5.25
Risk-free interest rate[2]	1.21%
Expected stock price volatility[3]	26.58%
Expected annual dividends per share[4]	$1.40
Expected forfeiture rate[5]	2.0%
Weighted-average grant date fair value per regular options granted during the period	$38.98

[1] Represents the period of time that awards are expected to be outstanding. Historical data on exercise behaviour, or when available, specific expectations regarding future exercise behaviour, were used to estimate the expected life of the option.
[2] Based on the implied yield available on zero-coupon government issues with an equivalent remaining term at the time of the grant.
[3] Based on the historical stock price volatility of the Company's stock over a period commensurate with the expected term of the option.
[4] Determined by the current annual dividend at the time of grant. The Company does not employ different dividend yields throughout the contractual term of the option. On April 20, 2016, the Company announced an increase in its quarterly dividend to $0.50 per share, representing $2.00 on an annual basis.
[5] The Company estimated forfeitures based on past experience. This rate is monitored on a periodic basis.

Performance share unit ("PSU") plan

In the nine months ended September 30, 2016, the Company issued 147,157 PSUs with a grant date fair value of approximately $24 million. These units attract dividend equivalents in the form of additional units based on the dividends paid on the Company's Common Shares. PSUs vest and are settled in cash, or in CP Common Shares, approximately three years after the grant date, contingent upon CP's performance ("performance factor"). The fair value of PSUs is measured periodically until settlement, using a latticed-based valuation model.

The performance period for PSUs issued in the nine months ended September 30, 2016 is January 1, 2016 to December 31, 2018. The performance factors for these PSUs are Operating Ratio, Return on Invested Capital, Total Shareholder Return ("TSR") compared to the S&P/TSX 60 Index, and TSR compared to Class I railways.

The performance period for the PSUs issued in the fourth quarter of 2012 and in 2013 was January 1, 2013 to December 31, 2015. The performance factors for these PSUs were Operating Ratio, Free cash flow, TSR compared to the S&P/TSX 60 index, TSR compared to Class I railways. All performance factors met the 200% payout thresholds, in effect resulting in a target payout of 200% on 300,095 total outstanding awards as at December 31, 2015. A payout of $79 million on 217,179 outstanding awards occurred on December 31, 2015 and was calculated using the Company's average share price using the last 30 trading days preceding December 31, 2015. In the first quarter of 2016, final payouts occurred on the total outstanding awards, including dividends reinvested, totaling $31 million on 83,563 outstanding awards.

Deferred share unit ("DSU") plan

In the nine months ended September 30, 2016, the Company granted 27,400 DSUs with a grant date fair value of approximately $5 million. DSUs vest over various periods of up to 48 months and are only redeemable for a specified period after employment is terminated. An expense to income for DSUs is recognized over the vesting period for both the initial subscription price and the change in value between reporting periods.

12 Pension and other benefits

In the three and nine months ended September 30, 2016, the Company made contributions of $4 million and $38 million, respectively (three and nine months ended September 30, 2015 - $20 million and $61 million, respectively), to its defined benefit pension plans. The elements of net periodic benefit cost for defined benefit pension plans and other benefits recognized in the three and nine months ended September 30, 2016 included the following components:

	For the three months ended September 30			
	Pensions		Other benefits	
(in millions of Canadian dollars)	**2016**	2015	**2016**	2015
Current service cost (benefits earned by employees in the period)	**$ 26**	$ 31	**$ 2**	$ 3
Interest cost on benefit obligation	**117**	116	**6**	6
Expected return on fund assets	**(211)**	(201)	**—**	—
Recognized net actuarial loss	**48**	66	**1**	—
Amortization of prior service costs	**(2)**	(2)	**—**	—
Net periodic (recovery) benefit cost	**$ (22)**	$ 10	**$ 9**	$ 9

	For the nine months ended September 30			
	Pensions		Other benefits	
(in millions of Canadian dollars)	**2016**	2015	**2016**	2015
Current service cost (benefits earned by employees in the period)	**$ 79**	$ 95	**$ 8**	$ 9
Interest cost on benefit obligation	**350**	347	**16**	16
Expected return on fund assets	**(634)**	(614)	**—**	—
Recognized net actuarial loss	**143**	198	**3**	2
Amortization of prior service costs	**(5)**	(5)	**—**	—
Net periodic (recovery) benefit cost	**$ (67)**	$ 21	**$ 27**	$ 27

13 Contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions it considers to be adequate for such actions. While the final outcome with respect to actions outstanding or pending at September 30, 2016 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

Legal proceedings related to Lac-Mégantic rail accident

On July 6, 2013, a train carrying crude oil operated by Montreal Maine and Atlantic Railway ("MMA") or a subsidiary, Montreal Maine & Atlantic Canada Co. ("MMAC" and collectively the "MMA Group") derailed and exploded in Lac-Mégantic, Quebec. The accident occurred on a section of railway owned by the MMA Group. The previous day CP had interchanged the train to the MMA Group, and after the interchange, the MMA Group exclusively controlled the train.

Following this incident, Quebec's Minister of Sustainable Development, Environment, Wildlife and Parks (the "Minister") ordered the named parties to recover the contaminants and to clean up the derailment site. On August 14, 2013, the Minister added CP as a party (the "Amended Cleanup Order"). CP appealed the Amended Cleanup Order to the Administrative Tribunal of Quebec. Those proceedings are pending. Directly related to that matter, on July 6, 2015, the Province of Quebec sued CP in Quebec Superior Court claiming $409 million in derailment damages, including cleanup costs. The province alleges that CP exercised custody or control over the crude oil lading and that CP was otherwise negligent. Therefore, CP is said to be solidarily (joint and severally) liable with third parties responsible for the accident. The province's lawsuit was stayed until September 12, 2016, but has since been reactivated. The province has filed a motion for leave to amend its complaint, which motion will be heard by the court on November 8, 2016. Otherwise, no timetable governing the conduct of this lawsuit has been ordered by the Quebec Superior Court. On July 5, 2016, the Minister served a Notice of Claim for nearly $95 million of compensation spent on cleanup, alleging that CP refused or neglected to undertake the work. On September 6, 2016, CP filed a contestation of the Notice of Claim with the Administrative Tribunal of Quebec. These proceedings appear to be duplicative of the administrative proceedings.

A class action lawsuit has also been filed in the Quebec Superior Court on behalf of persons and entities residing in, owning or leasing property in, operating a business in or physically present in Lac-Mégantic at the time of the derailment (the "Class Action"). That lawsuit seeks derailment damages, including for wrongful death, personal injury, and property harm. On August 16, 2013, CP

was added as a defendant. On May 8, 2015, the Quebec Superior Court authorized (certified) the Class Action against CP, the shipper - Western Petroleum, and the shipper's parent - World Fuel Services (collectively, the "World Fuel Entities"). The World Fuel Entities have since settled. The plaintiffs filed a motion for leave to amend their complaint, which motion will be heard by the court on November 10, 2016. Otherwise, the court has set no timetable to govern the conduct of this lawsuit.

On July 4, 2016, eight subrogated insurers served CP with claims of approximately $16 million. On July 11, 2016, two additional subrogated insurers served CP with claims of approximately $3 million. The lawsuits do not identify the parties to which the insurers are subrogated, and therefore the extent of claim overlap and the extent that claims will be satisfied after proof of claim review and distribution from the Plans, referred to below, is difficult to determine.

In the wake of the derailment and ensuing litigation, MMAC filed for bankruptcy in Canada (the "Canadian Proceeding") and MMA filed for bankruptcy in the United States (the "U.S. Proceeding"). Plans of arrangement have been approved in both the Canadian Proceeding and the U.S. Proceeding (the "Plans"). These Plans provide for the distribution of a fund of approximately $440 million amongst those claiming derailment damages. The Plans also provide settling parties broadly worded third-party releases and injunctions preventing lawsuits against settlement contributors. CP has not settled and therefore will not benefit from those provisions. Both Plans do, however, contain judgment reduction provisions, affording CP a credit for the greater of (i) the settlement monies received by the plaintiff(s), or (ii) the amount, in contribution or indemnity, that CP would have been entitled to charge against third parties other than MMA and MMAC, but for the Plans' releases and injunctions. CP may also have judgment reduction rights, as part of the contribution/indemnification credit, for the fault of the MMA Group. Finally, the Plans provide for a potential re-allocation of the MMA Group's liability among plaintiffs and CP, the only non-settling party.

An Adversary Proceeding filed by the MMA U.S. bankruptcy trustee (now, estate representative) against CP, Irving Oil, and the World Fuel Entities accuses CP of failing to ensure that World Fuel Entities or Irving Oil properly classified the oil lading and of not refusing to ship the misclassified oil as packaged. The estate representative has since settled with the World Fuel Entities and Irving Oil and now bases CP misfeasance on the railroad's failure to abide in North Dakota by a Canadian regulation. That regulation supposedly would have caused the railroads to not move the crude oil train because an inaccurate classification was supposedly suspected. In a recently amended complaint, the estate representative named a CP affiliate, Soo Line Railroad Company ("Soo Line"), and asserts that CP and Soo Line breached terms or warranties allegedly contained in the bill of lading.

In response to one of CP's motions to withdraw the Adversary Proceedings bankruptcy reference, the estate representative maintained that Canadian law rather than U.S. law controlled. The Article III court that heard the motion found that if U.S. federal regulations governed, the case was not complex enough to warrant withdrawal. Before the bankruptcy court, CP moved to dismiss for want of personal jurisdiction, but the court denied the motion because CP had participated in the bankruptcy proceedings. CP and Soo Line will respond to the estate representative's recently amended complaint during the fourth quarter of 2016.

Lac-Mégantic residents and wrongful death representatives commenced a class action and a mass action in Texas and wrongful death and personal injury actions in Illinois and Maine. CP removed all of these lawsuits to federal court, and a federal court thereafter consolidated those cases in Maine. These actions generally charge CP with misclassification and mis-packaging (that is, using inappropriate DOT-111 tank cars) negligence. On CP's motion, made on September 28, 2016, the Maine court dismissed all wrongful death and personal injury actions on several grounds. If the ruling is upheld on any appeal that might be brought, these cases will be litigated, if anywhere, in Canada.

CP has received two damage to cargo notices of claims from the shipper of the oil, Western Petroleum. Western Petroleum submitted U.S. and Canadian notices of claims for the same damages and under the Carmack Amendment (49 U.S.C. Section 11706) Western Petroleum seeks to recover for all injuries associated with, and indemnification for, the derailment. Both jurisdictions permit a shipper to recover the value of damaged lading against any carrier in the delivery chain, subject to limitations in the carrier's tariffs. CP's tariffs significantly restrict shipper damage claim rights. Western Petroleum is part of the World Fuel Services Entities, and those companies settled with the trustee.

On April 12, 2016, Trustee (the "WD Trustee") for a wrongful death trust (the "WD Trust"), as defined and established under the confirmed Plans, sued CP in North Dakota federal court, asserting Carmack Amendment claims. The WD Trustee maintains that the estate representative assigned Carmack Amendment claims to the WD Trustee. The Plan supposedly gave the estate representative Carmack Amendment assignment rights. The WD Trustee seeks to recover losses associated with the lost lading (approximately $6 million), as well as the settlement amounts the consignor (i.e, the shipper, the World Fuel Entities) and the consignee (Irving Oil) paid to the bankruptcy estates, alleged to be $110 million and $60 million, respectively. The WD Trustee maintains that Carmack Amendment liability extends beyond lading losses to cover all derailment related damages suffered by the World Fuel Entities or Irving Oil. CP disputes this interpretation of Carmack Amendment exposure and maintains that CP's tariffs preclude anything except a minimal recovery. Canadian Pacific Railway Limited and Soo Line Corporation, both non-carriers, have moved to dismiss the Carmack Amendment claims, which only apply to common carriers.

At this early stage of the proceedings, any potential responsibility and the quantum of potential losses cannot be determined. Nevertheless, CP denies liability and intends to vigorously defend against all derailment-related proceedings.

Legal proceedings initiated by Canadian National Railway Company

On July 28, 2016, the Company announced that CP and Canadian National Railway Company ("CN") agreed to settle an outstanding lawsuit commenced by CN in August 2015 against CP, certain of its employees and an officer, alleging misuse of confidential information, without any admission of liability on the part of the Company. The terms of the settlement are confidential.

Environmental liabilities

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

The accruals for environmental remediation represent CP's best estimate of its probable future obligation and include both asserted and unasserted claims, without reduction for anticipated recoveries from third parties. Although the recorded accruals include CP's best estimate of all probable costs, CP's total environmental remediation costs cannot be predicted with certainty. Accruals for environmental remediation may change from time to time as new information about previously untested sites becomes known, and as environmental laws and regulations evolve and advances are made in environmental remediation technology. The accruals may also vary as the courts decide legal proceedings against outside parties responsible for contamination. These potential charges, which cannot be quantified at this time, are not expected to be material to CP's financial position, but may materially affect income in the particular period in which a charge is recognized. Costs related to existing, but as yet unknown, or future contamination will be accrued in the period in which they become probable and reasonably estimable.

The expense included in "Purchased services and other" for the three and nine months ended September 30, 2016 was $1 million and $3 million, respectively (three and nine months ended September 30, 2015 - $1 million and $7 million, respectively). Provisions for environmental remediation costs are recorded in "Other long-term liabilities", except for the current portion which is recorded in "Accounts payable and accrued liabilities". The total amount provided at September 30, 2016 was $85 million (December 31, 2015 - $93 million). Payments are expected to be made over 10 years through 2026.

14 Condensed consolidating financial information

Canadian Pacific Railway Company, a 100%-owned subsidiary of Canadian Pacific Railway Limited ("CPRL"), is the issuer of certain debt securities, which are fully and unconditionally guaranteed by CPRL. The following tables present condensed consolidating financial information ("CCFI") in accordance with Rule 3-10(c) of Regulation S-X.

Investments in subsidiaries are accounted for under the equity method when presenting the CCFI.

The tables include all adjustments necessary to reconcile the CCFI on a consolidated basis to CPRL's consolidated financial statements for the periods presented.

Interim Condensed Consolidating Statements of Income
For the three months ended September 30, 2016

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Revenues					
Freight	$ —	$ 1,078	$ 432	$ —	$ 1,510
Non-freight	—	35	95	(86)	44
Total revenues	—	1,113	527	(86)	1,554
Operating expenses					
Compensation and benefits	—	181	111	2	294
Fuel	—	111	27	—	138
Materials	—	30	6	3	39
Equipment rents	—	48	(5)	—	43
Depreciation and amortization	—	102	53	—	155
Purchased services and other	—	170	149	(91)	228
Total operating expenses	—	642	341	(86)	897
Operating income	—	471	186	—	657
Less:					
Other income and charges	12	61	(2)	—	71
Net interest (income) expense	(9)	131	(6)	—	116
(Loss) income before income tax expense and equity in net earnings of subsidiaries	(3)	279	194	—	470
Less: Income tax expense	9	73	41	—	123
Add: Equity in net earnings of subsidiaries	359	153	—	(512)	—
Net income	$ 347	$ 359	$ 153	$ (512)	$ 347

Interim Condensed Consolidating Statements of Income
For the three months ended September 30, 2015

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Revenues					
Freight	$ —	$ 1,127	$ 540	$ —	$ 1,667
Non-freight	—	33	91	(82)	42
Total revenues	—	1,160	631	(82)	1,709
Operating expenses					
Compensation and benefits	—	251	101	—	352
Fuel	—	122	40	—	162
Materials	—	38	9	—	47
Equipment rents	—	44	(2)	—	42
Depreciation and amortization	—	102	47	—	149
Purchased services and other	—	179	175	(82)	272
Gain on sale of Delaware & Hudson South	—	—	(68)	—	(68)
Total operating expenses	—	736	302	(82)	956
Operating income	—	424	329	—	753
Less:					
Other income and charges	29	162	(23)	—	168
Net interest (income) expense	(3)	119	(13)	—	103
(Loss) income before income tax expense and equity in net earnings of subsidiaries	(26)	143	365	—	482
Less: Income tax (recovery) expense	(4)	50	113	—	159
Add: Equity in net earnings of subsidiaries	345	252	—	(597)	—
Net income	$ 323	$ 345	$ 252	$ (597)	$ 323

Interim Condensed Consolidating Statements of Income
For the nine months ended September 30, 2016

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Revenues					
Freight	$ —	$ 3,182	$ 1,282	$ —	$ 4,464
Non-freight	—	101	289	(259)	131
Total revenues	—	3,283	1,571	(259)	4,595
Operating expenses					
Compensation and benefits	—	563	339	5	907
Fuel	—	317	77	—	394
Materials	—	95	24	14	133
Equipment rents	—	155	(23)	—	132
Depreciation and amortization	—	316	162	—	478
Purchased services and other	—	499	469	(278)	690
Total operating expenses	—	1,945	1,048	(259)	2,734
Operating income	—	1,338	523	—	1,861
Less:					
Other income and charges	(61)	(89)	31	—	(119)
Net interest expense (income)	—	373	(18)	—	355
Income before income tax expense and equity in net earnings of subsidiaries	61	1,054	510	—	1,625
Less: Income tax expense	12	254	144	—	410
Add: Equity in net earnings of subsidiaries	1,166	366	—	(1,532)	—
Net income	$ 1,215	$ 1,166	$ 366	$ (1,532)	$ 1,215

Interim Condensed Consolidating Statements of Income
For the nine months ended September 30, 2015

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Revenues					
Freight	$ —	$ 3,377	$ 1,530	$ —	$ 4,907
Non-freight	—	96	270	(248)	118
Total revenues	—	3,473	1,800	(248)	5,025
Operating expenses					
Compensation and benefits	—	711	327	—	1,038
Fuel	—	417	125	—	542
Materials	—	116	28	—	144
Equipment rents	—	132	(2)	—	130
Depreciation and amortization	—	306	134	—	440
Purchased services and other	—	513	523	(248)	788
Gain on sale of Delaware & Hudson South	—	—	(68)	—	(68)
Total operating expenses	—	2,195	1,067	(248)	3,014
Operating income	—	1,278	733	—	2,011
Less:					
Other income and charges	44	240	(48)	—	236
Net interest (income) expense	(3)	313	(38)	—	272
(Loss) income before income tax expense and equity in net earnings of subsidiaries	(41)	725	819	—	1,503
Less: Income tax (recovery) expense	(6)	210	266	—	470
Add: Equity in net earnings of subsidiaries	1,068	553	—	(1,621)	—
Net income	$ 1,033	$ 1,068	$ 553	$ (1,621)	$ 1,033

Interim Condensed Consolidating Statements of Comprehensive Income
For the three months ended September 30, 2016

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Net income	$ 347	$ 359	$ 153	$ (512)	$ 347
Net (loss) gain in foreign currency translation adjustments, net of hedging activities	—	(70)	63	—	(7)
Change in derivatives designated as cash flow hedges	—	1	—	—	1
Change in pension and post-retirement defined benefit plans	—	45	2	—	47
Other comprehensive (loss) income before income taxes	—	(24)	65	—	41
Income tax expense on above items	—	(3)	—	—	(3)
Equity accounted investments	38	65	—	(103)	—
Other comprehensive income	38	38	65	(103)	38
Comprehensive income	$ 385	$ 397	$ 218	$ (615)	$ 385

Interim Condensed Consolidating Statements of Comprehensive Income
For the three months ended September 30, 2015

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Net income	$ 323	$ 345	$ 252	$ (597)	$ 323
Net (loss) gain in foreign currency translation adjustments, net of hedging activities	—	(291)	258	—	(33)
Change in derivatives designated as cash flow hedges	—	(45)	—	—	(45)
Change in pension and post-retirement defined benefit plans	—	64	1	—	65
Other comprehensive (loss) income before income taxes	—	(272)	259	—	(13)
Income tax recovery on above items	—	33	—	—	33
Equity accounted investments	20	259	—	(279)	—
Other comprehensive income	20	20	259	(279)	20
Comprehensive income	$ 343	$ 365	$ 511	$ (876)	$ 343

Interim Condensed Consolidating Statements of Comprehensive Income
For the nine months ended September 30, 2016

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Net income	$ 1,215	$ 1,166	$ 366	$ (1,532)	$ 1,215
Net gain (loss) in foreign currency translation adjustments, net of hedging activities	—	260	(227)	—	33
Change in derivatives designated as cash flow hedges	—	(75)	—	—	(75)
Change in pension and post-retirement defined benefit plans	—	131	6	—	137
Other comprehensive income (loss) before income taxes	—	316	(221)	—	95
Income tax expense on above items	—	(49)	(2)	—	(51)
Equity accounted investments	44	(223)	—	179	—
Other comprehensive income (loss)	44	44	(223)	179	44
Comprehensive income	$ 1,259	$ 1,210	$ 143	$ (1,353)	$ 1,259

Interim Condensed Consolidating Statements of Comprehensive Income
For the nine months ended September 30, 2015

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Net income	$ 1,033	$ 1,068	$ 553	$ (1,621)	$ 1,033
Net (loss) gain in foreign currency translation adjustments, net of hedging activities	—	(589)	526	—	(63)
Change in derivatives designated as cash flow hedges	—	(78)	—	—	(78)
Change in pension and post-retirement defined benefit plans	—	198	5	—	203
Other comprehensive (loss) income before income taxes	—	(469)	531	—	62
Income tax recovery (expense) on above items	—	46	(2)	—	44
Equity accounted investments	106	529	—	(635)	—
Other comprehensive income	106	106	529	(635)	106
Comprehensive income	$ 1,139	$ 1,174	$ 1,082	$ (2,256)	$ 1,139

Interim Condensed Consolidating Balance Sheets
As at September 30, 2016

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ —	$ 24	$ 79	$ —	$ 103
Accounts receivable, net	—	435	170	—	605
Accounts receivable, inter-company	88	106	163	(357)	—
Short-term advances to affiliates	500	798	3,892	(5,190)	—
Materials and supplies	—	160	32	—	192
Other current assets	—	42	22	—	64
	588	1,565	4,358	(5,547)	964
Long-term advances to affiliates	—	—	91	(91)	—
Investments	—	28	141	—	169
Investments in subsidiaries	8,547	9,973	—	(18,520)	—
Properties	—	8,695	7,687	—	16,382
Goodwill and intangible assets	—	—	198	—	198
Pension asset	—	1,638	—	—	1,638
Other assets	1	51	18	—	70
Deferred income taxes	5	—	—	(5)	—
Total assets	$ 9,141	$ 21,950	$ 12,493	$ (24,163)	$ 19,421
Liabilities and shareholders' equity					
Current liabilities					
Accounts payable and accrued liabilities	$ 84	$ 880	$ 282	$ —	$ 1,246
Accounts payable, inter-company	14	247	96	(357)	—
Short-term advances from affiliates	4,373	808	9	(5,190)	—
Long-term debt maturing within one year	—	391	—	—	391
	4,471	2,326	387	(5,547)	1,637
Pension and other benefit liabilities	—	680	76	—	756
Long-term advances from affiliates	—	91	—	(91)	—
Other long-term liabilities	—	149	131	—	280
Long-term debt	—	8,434	54	—	8,488
Deferred income taxes	1	1,723	1,872	(5)	3,591
Total liabilities	4,472	13,403	2,520	(5,643)	14,752
Shareholders' equity					
Share capital	2,000	1,037	5,854	(6,891)	2,000
Additional paid-in capital	43	1,634	419	(2,053)	43
Accumulated other comprehensive (loss) income	(1,433)	(1,433)	612	821	(1,433)
Retained earnings	4,059	7,309	3,088	(10,397)	4,059
	4,669	8,547	9,973	(18,520)	4,669
Total liabilities and shareholders' equity	$ 9,141	$ 21,950	$ 12,493	$ (24,163)	$ 19,421

Condensed Consolidating Balance Sheets
As at December 31, 2015

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ —	$ 502	$ 148	$ —	$ 650
Accounts receivable, net	—	452	193	—	645
Accounts receivable, inter-company	59	105	265	(429)	—
Short-term advances to affiliates	—	75	3,483	(3,558)	—
Materials and supplies	—	154	34	—	188
Other current assets	—	37	17	—	54
	59	1,325	4,140	(3,987)	1,537
Long-term advances to affiliates	501	207	376	(1,084)	—
Investments	—	22	130	—	152
Investments in subsidiaries	7,518	9,832	—	(17,350)	—
Properties	—	8,481	7,792	—	16,273
Goodwill and intangible assets	—	3	208	—	211
Pension asset	—	1,401	—	—	1,401
Other assets	—	55	8	—	63
Deferred income taxes	25	—	—	(25)	—
Total assets	$ 8,103	$ 21,326	$ 12,654	$ (22,446)	$ 19,637
Liabilities and shareholders' equity					
Current liabilities					
Accounts payable and accrued liabilities	$ 54	$ 1,122	$ 241	$ —	$ 1,417
Accounts payable, inter-company	—	325	104	(429)	—
Short-term advances from affiliates	3,253	230	75	(3,558)	—
Long-term debt maturing within one year	—	24	6	—	30
	3,307	1,701	426	(3,987)	1,447
Pension and other benefit liabilities	—	676	82	—	758
Long-term advances from affiliates	—	877	207	(1,084)	—
Other long-term liabilities	—	186	132	—	318
Long-term debt	—	8,863	64	—	8,927
Deferred income taxes	—	1,505	1,911	(25)	3,391
Total liabilities	3,307	13,808	2,822	(5,096)	14,841
Shareholders' equity					
Share capital	2,058	1,037	5,465	(6,502)	2,058
Additional paid-in capital	43	1,568	613	(2,181)	43
Accumulated other comprehensive (loss) income	(1,477)	(1,477)	840	637	(1,477)
Retained earnings	4,172	6,390	2,914	(9,304)	4,172
	4,796	7,518	9,832	(17,350)	4,796
Total liabilities and shareholders' equity	$ 8,103	$ 21,326	$ 12,654	$ (22,446)	$ 19,637

Interim Condensed Consolidating Statements of Cash Flows
For the three months ended September 30, 2016

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Cash provided by operating activities	$ 84	$ 406	$ 229	$ (128)	$ 591
Investing activities					
Additions to properties	—	(238)	(56)	—	(294)
Proceeds from sale of properties and other assets	—	6	10	—	16
Advances to affiliates	—	(275)	(123)	398	—
Repayment of advances to affiliates	—	14	—	(14)	—
Capital contributions to affiliates	—	(46)	—	46	—
Cash used in investing activities	—	(539)	(169)	430	(278)
Financing activities					
Dividends paid	(75)	(75)	(53)	128	(75)
Issuance of share capital	—	—	46	(46)	—
Issuance of CP Common Shares	5	—	—	—	5
Purchase of CP Common Shares	(412)	—	—	—	(412)
Repayment of long-term debt, excluding commercial paper	—	(5)	(7)	—	(12)
Net issuance of commercial paper	—	190	—	—	190
Advances from affiliates	398	—	—	(398)	—
Repayment of advances from affiliates	—	—	(14)	14	—
Cash (used in) provided by financing activities	(84)	110	(28)	(302)	(304)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	—	—	2	—	2
Cash position					
(Decrease) increase in cash and cash equivalents	—	(23)	34	—	11
Cash and cash equivalents at beginning of period	—	47	45	—	92
Cash and cash equivalents at end of period	$ —	$ 24	$ 79	$ —	$ 103

Interim Condensed Consolidating Statements of Cash Flows
For the three months ended September 30, 2015

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Cash provided by operating activities	$ 60	$ 482	$ 257	$ (103)	$ 696
Investing activities					
Additions to properties	—	(268)	(181)	—	(449)
Proceeds from the sale of Delaware & Hudson South	—	—	281	—	281
Proceeds from sale of properties and other assets	—	12	1	—	13
Advances to affiliates	—	(1,174)	(646)	1,820	—
Repayment of advances to affiliates	—	33	—	(33)	—
Capital contributions to affiliates	—	(329)	—	329	—
Other	—	(7)	(1)	—	(8)
Cash used in investing activities	—	(1,733)	(546)	2,116	(163)
Financing activities					
Dividends paid	(57)	(57)	(46)	103	(57)
Issuance of share capital	—	—	329	(329)	—
Issuance of CP Common Shares	5	—	—	—	5
Purchase of CP Common Shares	(1,523)	—	—	—	(1,523)
Issuance of long-term debt, excluding commercial paper	—	2,601	—	—	2,601
Repayment of long-term debt, excluding commercial paper	—	(423)	(9)	—	(432)
Net repayment of commercial paper	—	(669)	—	—	(669)
Advances from affiliates	1,515	—	305	(1,820)	—
Repayment of advances from affiliates	—	—	(33)	33	—
Cash (used in) provided by financing activities	(60)	1,452	546	(2,013)	(75)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	—	14	4	—	18
Cash position					
Increase in cash and cash equivalents	—	215	261	—	476
Cash and cash equivalents at beginning of period	—	139	46	—	185
Cash and cash equivalents at end of period	$ —	$ 354	$ 307	$ —	$ 661

Interim Condensed Consolidating Statements of Cash Flows
For the nine months ended September 30, 2016

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Cash provided by operating activities	$ 182	$ 831	$ 646	$ (338)	$ 1,321
Investing activities					
Additions to properties	—	(576)	(326)	—	(902)
Proceeds from sale of properties and other assets	—	74	13	—	87
Advances to affiliates	—	(792)	(408)	1,200	—
Repayment of advances to affiliates	—	222	—	(222)	—
Capital contributions to affiliates	—	(403)	—	403	—
Repurchase of share capital from affiliates	—	6	—	(6)	—
Other	—	—	(2)	—	(2)
Cash used in investing activities	—	(1,469)	(723)	1,375	(817)
Financing activities					
Dividends paid	(182)	(182)	(156)	338	(182)
Return of share capital to affiliates	—	—	(6)	6	—
Issuance of share capital	—	—	403	(403)	—
Issuance of CP Common Shares	14	—	—	—	14
Purchase of CP Common Shares	(1,200)	—	—	—	(1,200)
Repayment of long-term debt, excluding commercial paper	—	(16)	(14)	—	(30)
Net issuance of commercial paper	—	366	—	—	366
Advances from affiliates	1,186	—	14	(1,200)	—
Repayment of advances from affiliates	—	—	(222)	222	—
Other financing activities	—	(3)	—	—	(3)
Cash (used in) provided by financing activities	(182)	165	19	(1,037)	(1,035)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	—	(5)	(11)	—	(16)
Cash position					
Decrease in cash and cash equivalents	—	(478)	(69)	—	(547)
Cash and cash equivalents at beginning of period	—	502	148	—	650
Cash and cash equivalents at end of period	$ —	$ 24	$ 79	$ —	$ 103

Interim Condensed Consolidating Statements of Cash Flows
For the nine months ended September 30, 2015

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Cash provided by operating activities	$ 175	$ 1,306	$ 673	$ (318)	$ 1,836
Investing activities					
Additions to properties	—	(571)	(496)	—	(1,067)
Proceeds from the sale of Delaware & Hudson South	—	—	281	—	281
Proceeds from sale of properties and other assets	—	71	2	—	73
Advances to affiliates	(500)	(2,110)	(1,375)	3,985	—
Repayment of advances to affiliates	—	33	—	(33)	—
Capital contributions to affiliates	—	(946)	—	946	—
Other	—	7	(2)	—	5
Cash used in investing activities	(500)	(3,516)	(1,590)	4,898	(708)
Financing activities					
Dividends paid	(172)	(172)	(146)	318	(172)
Issuance of share capital	—	—	946	(946)	—
Issuance of CP Common Shares	32	—	—	—	32
Purchase of CP Common Shares	(2,595)	—	—	—	(2,595)
Issuance of long-term debt, excluding commercial paper	—	3,411	—	—	3,411
Repayment of long-term debt, excluding commercial paper	—	(447)	(52)	—	(499)
Net repayment of commercial paper	—	(893)	—	—	(893)
Advances from affiliates	3,060	500	425	(3,985)	—
Repayment of advances from affiliates	—	—	(33)	33	—
Cash provided by (used in) financing activities	325	2,399	1,140	(4,580)	(716)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	—	13	10	—	23
Cash position					
Increase in cash and cash equivalents	—	202	233	—	435
Cash and cash equivalents at beginning of period	—	152	74	—	226
Cash and cash equivalents at end of period	$ —	$ 354	$ 307	$ —	$ 661

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Interim Consolidated Financial Statements and related notes for the three and nine months ended September 30, 2016 in Item 1. Financial Statements, and other information in this report. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars.

For purposes of this report, all references herein to “CP,” “the Company,” “we,” “our” and “us” refer to Canadian Pacific Railway Limited ("CPRL"), CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL's subsidiaries, as the context may require.

Available Information

CP makes available on or through its website www.cpr.ca free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such reports are filed with or furnished to the Securities and Exchange Commission (“SEC”). Also, filings made pursuant to Section 16 of the Securities Exchange Act of 1934 (“Exchange Act”) with the SEC by our executive officers, directors and other reporting persons with respect to the Company's Common Shares are made available free of charge, through our website. Our website also contains charters for each of the committees of our Board of Directors, our corporate governance guidelines and our Code of Business Ethics. SEC filings made by CP are also accessible through the SEC’s website at www.sec.gov. The information on our website is not part of this quarterly report on Form 10-Q.

The Company has included the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) certifications regarding the Company's public disclosure required by Section 302 of the Sarbanes-Oxley Act of 2002 as an Exhibit to this report.

Executive Summary

Third Quarter of 2016 Results

Financial Performance - In the third quarter of 2016, CP reported Diluted earnings per share ("EPS") of $2.34 and Adjusted diluted EPS of $2.73, an improvement of 15% and 1% respectively when compared to the same period of 2015. Third quarter reported operating ratio of 57.7% was 180 basis points higher than the same period last year, due to the effects of the gain on sale of Delaware and Hudson South ("D&H South") last year which lowered the operating ratio by 400 basis points. Excluding the effects of this gain, adjusted operating ratio of 57.7% was a 220 basis points improvement from 59.9% in the same period of 2015, as the Company continued to adapt its cost structure to the decrease in volumes. Adjusted diluted EPS and Adjusted operating ratio are defined and reconciled in Non-GAAP Measures and discussed further in Results of Operations of this Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Operating performance - CP’s continued focus on asset utilization and network investments resulted in improvements to a number of CP’s key operating metrics. The following metrics are discussed further in Performance Indicators of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

- Average train speed increased by 8% to 23.9 miles per hour;
- Average train weight increased by 7% to 8,915 tons; and
- Average train length increased by 7% to 7,418 feet.

Recent Developments

- On August 3, 2016, the Company and Pershing Square Capital Management L.P. ("Pershing Square") announced the commencement of a public offering of 9,840,890 of CP Common Shares by certain funds managed by Pershing Square. CP was not selling any common shares in the offering and did not receive any of the proceeds from the offering of common shares by the funds managed by Pershing Square. After the closing of the sale, funds managed by Pershing Square no longer own any common shares of Canadian Pacific.

- On September 6, 2016, the Company announced the appointment of Ms. Jill Denham and Mr. William R. Fatt to CP's Board of Directors. The Company also announced Mr. William Ackman's resignation from the Board of Directors.

- On September 8, 2016, the Company announced the resignation of Mr. Mark J. Erceg from his position as Chief Financial Officer effective September 9, 2016. The Company appointed Mr. Nadeem Velani as Vice-President and interim Chief Financial Officer. Mr. Velani joined CP in March 2013 and most recently served as Vice-President Investor Relations. On October 18, 2016, Mr. Velani was appointed Vice-President and Chief Financial Officer.

- On October 19, 2016, the Company communicated a revision of its full-year 2016 outlook, including expected mid-single-digit EPS growth from full-year 2015 Adjusted diluted EPS of $10.10. The change is primarily due to the delayed grain harvest, a dramatic decline in crude volumes and other persistent unfavourable economic factors such as the strengthening of the Canadian dollar since the beginning of the year. Capital expenditures are now expected to be approximately $1.2 billion, primarily due to higher costs associated with a key project. Operating ratio continues to be expected below 59%.

Previous Developments

- On April 20, 2016, CP announced a new normal course issuer bid ("NCIB") to repurchase, for cancellation, up to 6.91 million of its Common Shares, which received Toronto Stock Exchange ("TSX") approval on April 28, 2016. As at September 30, 2016, the Company had repurchased the maximum number of shares for total consideration of $1,210 million, including brokerage fees.

- Also on April 20, 2016, CP announced an increase to the Company's quarterly dividend to $0.50 per share from $0.35 per share.

- On April 20, 2016, the Company announced that Mr. Robert Johnson was appointed Executive Vice-President, Operations.

- On July 19, 2016, Dr. Anthony R. Melman resigned as a member of the Company's Board of Directors.

Performance Indicators

The following table lists the key measures of the Company's operating performance:

	For the three months ended September 30			For the nine months ended September 30		
	2016	2015[1]	% Change	**2016**	2015[1]	% Change
Operations Performance						
Gross ton-miles ("GTMs") (millions)	**59,899**	65,273	(8)	**179,272**	197,226	(9)
Train miles (thousands)	**7,214**	8,426	(14)	**22,359**	25,670	(13)
Average train weight – excluding local traffic (tons)	**8,915**	8,322	7	**8,646**	8,252	5
Average train length – excluding local traffic (feet)	**7,418**	6,944	7	**7,262**	6,902	5
Average terminal dwell (hours)	**6.9**	6.6	5	**6.8**	7.3	(7)
Average train speed (mph)	**23.9**	22.2	8	**23.8**	21.1	13
Fuel efficiency (U.S. gallons of locomotive fuel consumed / 1,000 GTMs)	**0.936**	0.948	(1)	**0.971**	0.996	(3)
Total employees (average)	**11,750**	13,709	(14)	**12,175**	14,089	(14)
Total employees (end of period)	**11,773**	13,530	(13)	**11,773**	13,530	(13)
Workforce (end of period)	**11,827**	13,601	(13)	**11,827**	13,601	(13)
Safety Indicators						
FRA personal injuries per 200,000 employee-hours	**1.94**	1.87	4	**1.56**	1.79	(13)
FRA train accidents per million train miles	**1.00**	1.08	(7)	**0.85**	1.30	(35)

[1] Certain figures have been revised to conform with current presentation or have been updated to reflect new information.

Operations Performance

Three months ended September 30, 2016 compared to the three months ended September 30, 2015

- **GTMs** are defined as the movement of total train weight over a distance of one mile. Total train weight comprises the weight of the freight cars, their contents, and any inactive locomotives. An increase in GTMs indicates additional workload. GTMs for the third quarter of 2016 were 59,899 million, a decrease of 8% compared with 65,273 million in the same period of 2015. This decrease was primarily due to lower volumes in the Crude and Canadian Grain lines of business.

- **Train miles** decreased by 14% for the third quarter of 2016 compared to the same period of 2015. This reflects the impact of lower volumes and continuous improvements in operating efficiency from longer, heavier trains.

- The **average train weight** is defined as the average gross weight of CP trains, both loaded and empty. This excludes trains in short-haul service, work trains used to move CP's track equipment and materials, and the haulage of other railways' trains on CP's network. Average train weight increased by 7% for the third quarter of 2016 compared to the same period of 2015. This increase was due to improvements made in operating plan efficiency.

- The **average train length** is defined as the sum of each car length multiplied by the distance traveled, divided by train miles. Local trains are excluded from this measure. Average train length increased by 7% for the third quarter of 2016 compared to the same period of 2015. Similar to benefits to the average train weight, this was also due to improvements made in operating plan efficiency.

- The **average terminal dwell** is defined as the average time a freight car resides within terminal boundaries expressed in hours. The timing starts with a train arriving in the terminal, a customer releasing the car to the Company, or a car arriving at interchange from another railway. The timing ends when the train leaves, a customer receives the car from CP, or the freight car is transferred to another railway. Freight cars are excluded if they are being stored at the terminal or used in track repairs. Average terminal dwell increased by 5% in the third quarter of 2016 compared to the same period of 2015. This increase was primarily due to time to assemble longer, heavier trains as a result of lower volumes.

- The **average train speed** is defined as a measure of the line-haul movement from origin to destination including terminal dwell hours. It is calculated by dividing the total train miles traveled by the total train hours operated. This calculation does not include delay time related to customer or foreign railways and excludes the time and distance traveled by: i) trains used in or around CP's yards; ii) passenger trains; and iii) trains used for repairing track. Average train speed increased by 8% in the third quarter of 2016 compared to the same period of 2015. This favourable increase was primarily due to improved train design and operating plan execution.

- **Fuel efficiency** improved by 1% in the third quarter of 2016 compared to the same period of 2015. Improvements in fuel efficiency were a result of increased locomotive productivity, operational fluidity and execution of the Company's fuel conservation strategies.

Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015

- **GTMs** for the first nine months of 2016 were 179,272 million, a decrease of 9% compared with 197,226 million in the same period of 2015. This decrease was primarily due to a drop in volumes in the Crude, Potash, and Canadian Grain lines of business.

- **Train miles** decreased by 13% for the first nine months of 2016 compared to the same period of 2015. This reflects the impact of lower volumes and continuous improvements in operating efficiency from longer, heavier trains.

- **Average train weight** increased by 5% for the first nine months of 2016 compared to the same period of 2015. This increase was due to improvements made in operating plan efficiency.

- **Average train length** increased by 5% for the first nine months of 2016 from the same period of 2015. This favourable increase was also due to improvements made in operating plan efficiency.

- **Average terminal dwell** decreased by 7% in the first nine months of 2016 compared to the same period of 2015. This favourable decrease was primarily due to continued improvements in yard operating performance.

- **Average train speed** increased by 13% in the first nine months of 2016 compared to the same period of 2015. This favourable increase was primarily due to improved train design and operating plan execution.

- **Fuel efficiency** improved by 3% in the first nine months of 2016 compared to the same period of 2015. Improvements in fuel efficiency were a result of increased locomotive productivity, operational fluidity and execution of the Company's fuel conservation strategies.

Total Employees and Workforce

An employee is defined by the Company as an individual currently engaged in full-time or part-time employment with CP. Employees could be engaged in a full-time, part-time or seasonal capacity. The average number of total employees decreased by 14% and 14% in the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015. This reduction was primarily due to lower volumes, improved operational efficiency and natural attrition.

The Company's workforce is defined as total employees, plus contractors and consultants. The Company's reduction of total workforce during 2016 has been consistent with the reduction in the number of total employees. As at September 30, 2016, the total workforce was 11,827, a decrease of 1,072 or 8%, when compared to 12,899 as at December 31, 2015. As at September 30, 2016, the total workforce decreased by 1,774 or 13% compared to 13,601 as at September 30, 2015.

Safety Indicators

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

The FRA personal injury rate per 200,000 employee-hours is the number of personal injuries multiplied by 200,000 and divided by total employee hours. Personal injuries are defined as injuries that require employees to lose time away from work, modify their normal duties or obtain medical treatment beyond minor first aid. FRA employee-hours are the total hours worked, excluding vacation and sick time, by all employees, excluding contractors. The FRA personal injury rate per 200,000 employee-hours for CP was 1.94 in the third quarter of 2016, up from 1.87 in the same period of 2015. For the first nine months of 2016, the FRA personal injury rate

per 200,000 employee-hours for CP was 1.56, down from 1.79 in the same period of 2015. The FRA train accidents per million train miles was 1.00 in the third quarter of 2016, a decrease from 1.08 in the same period of 2015. For the first nine months of 2016, FRA train accidents per million train miles was 0.85, a decrease from 1.30 in the same period of 2015.

Financial Highlights

	For the three months ended September 30		For the nine months ended September 30	
(in millions, except per share data, percentages and ratios)	**2016**	2015	**2016**	2015
Financial Performance				
Revenues	**$ 1,554**	$ 1,709	**$ 4,595**	$ 5,025
Operating income	**657**	753	**1,861**	2,011
Adjusted operating income[1]	**657**	685	**1,861**	1,943
Net income	**347**	323	**1,215**	1,033
Adjusted income[1]	**405**	427	**1,101**	1,206
Basic earnings per share	**2.35**	2.05	**8.06**	6.37
Diluted earnings per share	**2.34**	2.04	**8.02**	6.32
Adjusted diluted earnings per share[1]	**2.73**	2.69	**7.26**	7.39
Dividends declared per share	**0.50**	0.35	**1.35**	1.05
Cash provided by operating activities	**591**	696	**1,321**	1,836
Free cash[1]	**240**	494	**306**	979
Operating ratio[2]	**57.7%**	55.9%	**59.5%**	60.0%
Adjusted operating ratio[1]	**57.7%**	59.9%	**59.5%**	61.3%

	As at September 30, 2016	As at December 31, 2015
Financial Position		
Total assets	**$ 19,421**	$ 19,637
Total long-term obligations[3]	**8,563**	9,012
Shareholders' equity	**4,669**	4,796

	For the twelve months ended September 30	
	2016	2015
Financial Ratios		
Return on invested capital ("ROIC")[1]	**14.3%**	14.1%
Adjusted ROIC[1]	**14.2%**	15.6%

[1] These measures have no standardized meanings prescribed by accounting principles generally accepted in the United States of America ("GAAP") and, therefore, may not be comparable to similar measures presented by other companies. These measures are defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

[2] Operating ratio is defined as operating expenses divided by revenues, further discussed in Results of Operations of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

[3] Excludes deferred income taxes: $3,591 million and $3,391 million; and other non-financial deferred liabilities of $961 million and $991 million at September 30, 2016 and December 31, 2015, respectively.

Results of Operations

Three months ended September 30, 2016 compared to the three months ended September 30, 2015

Income

Operating income was $657 million in the third quarter of 2016, a decrease of $96 million, or 13%, from $753 million in the same period of 2015. This decrease was primarily due to a $68 million gain on disposition of D&H South in 2015, and lower volumes in 2016. This decrease in operating income was partially offset by efficiencies generated from improved operating performance and asset utilization, and higher defined benefit pension plan income of $32 million.

Adjusted operating income, defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, was $657 million in the third quarter of 2016, a decrease of $28 million, or 4%, from $685 million in the same period of 2015. This decrease was primarily due to the same factors discussed above for the decrease in Operating income, except that Adjusted operating income for 2015 excluded the gain on disposition of D&H South.

Net income was $347 million in the third quarter of 2016, an increase of $24 million, or 7%, from $323 million in the same period of 2015. This increase was primarily due to a smaller unfavourable impact of FX translation on U.S. dollar-denominated debt and a decrease in income tax expense due to lower taxable earnings along with a lower effective tax rate, compared to 2015. This increase was partially offset by lower Operating income and higher interest expense on new debt issued in 2015.

Adjusted income, defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, was $405 million in the third quarter of 2016, a decrease of $22 million, or 5%, from $427 million in the same period of 2015. This decrease was primarily due to lower Adjusted operating income.

Diluted Earnings per Share

Diluted earnings per share was $2.34 in the third quarter of 2016, an increase of $0.30, or 15% from $2.04 in the same period of 2015. This increase was primarily due to higher Net income and lower average outstanding shares due to the Company's share repurchase program.

Adjusted diluted EPS, defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, was $2.73 in the third quarter of 2016, an increase of $0.04, or 1%, from $2.69 in the same period of 2015. This increase was primarily due to lower average outstanding shares due to the Company's share repurchase program, partially offset by lower Adjusted income.

Operating Ratio

The Operating ratio provides the percentage of revenues used to operate the railway. A lower percentage normally indicates higher efficiency in the operation of the railway. The Company's Operating ratio was 57.7% in the third quarter of 2016, 180 basis points higher from 55.9% in the same period of 2015. This increase was primarily due to the gain on disposition of D&H South in 2015.

Adjusted operating ratio, defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, was 57.7% in the third quarter of 2016, a 220 basis point improvement from 59.9% in the same period of 2015. This improvement was primarily due to efficiencies generated from improved operating performance and asset utilization, and higher defined benefit pension plan income, partially offset by lower volumes. The Adjusted operating ratio excluded the gain on disposition of D&H South recorded in 2015.

Return on Invested Capital (ROIC)

ROIC is a measure of how productively the Company uses its long-term capital investments, representing critical indicators of good operating and investment decisions made by management, and is an important performance criteria in determining certain elements of the Company's long-term incentive plan. ROIC was 14.3% for the twelve months ended September 30, 2016, a 20 basis point increase compared to 14.1% for the twelve months ended September 30, 2015. This increase was largely due to higher income, partially offset by the issuance of commercial paper in 2016. Adjusted ROIC was 14.2% for the twelve months ended September 30, 2016, a 140 basis point decrease compared to 15.6% for the twelve months ended September 30, 2015. This decrease was largely due to lower Adjusted income and the issuance of commercial paper in 2016. ROIC and Adjusted ROIC are defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015

Income

Operating income was $1,861 million in the first nine months of 2016, a decrease of $150 million, or 7%, from $2,011 million in the same period of 2015. This decrease was primarily due to lower volumes and to a $68 million gain on disposition of D&H South in 2015. This decrease was partially offset by:

- efficiencies generated from improved operating performance and asset utilization;
- higher defined benefit pension plan income of $88 million; and
- the favourable impact of the change in FX of $70 million.

Adjusted operating income, defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, was $1,861 million in the first nine months of 2016, a decrease of $82 million, or 4%, from $1,943 million in the same period of 2015. This decrease was primarily due to the same factors discussed above for the decrease in Operating income, except that Adjusted operating income excluded the gain on disposition of D&H South recorded in the third quarter of 2015.

Net income was $1,215 million in the first nine months of 2016, an increase of $182 million, or 18%, from $1,033 million in the same period of 2015. This increase was primarily due to the favourable impact of FX translation on U.S. dollar-denominated debt and a

decrease in Income tax expense due to lower taxable earnings along with lower effective tax rate compared to 2015. This increase was partially offset by lower operating income and higher interest expense on new debt issued in 2015.

Adjusted income, defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, was $1,101 million in the first nine months of 2016, a decrease of $105 million, or 9%, from $1,206 million in the same period of 2015. This decrease was due to lower Adjusted operating income and higher interest expense on new debt issued in 2015.

Diluted Earnings per Share

Diluted earnings per share was $8.02 in the first nine months of 2016, an increase of $1.70, or 27% from $6.32 in the same period of 2015. This increase was primarily due to higher Net income and lower average outstanding shares due to the Company's share repurchase program.

Adjusted diluted EPS was $7.26 in the first nine months of 2016, a decrease of $0.13, or 2%, from $7.39 in the same period of 2015. This decrease was primarily due to lower Adjusted income, partially offset by lower average outstanding shares due to the Company's share repurchase program.

Operating Ratio

The Company's Operating ratio was 59.5% in the first nine months of 2016, a 50 basis point improvement compared to the same period of 2015. Adjusted operating ratio was 59.5% in the first nine months of 2016, a 180 basis point improvement from 61.3% in the same period of 2015. These improvements were primarily due to efficiencies generated from improved operating performance and asset utilization, and higher defined benefit pension plan income, partially offset by lower volumes. The Adjusted operating ratio excluded the gain on disposition of D&H South recorded in the third quarter of 2015.

Impact of FX on Earnings

Fluctuations in FX affect the Company's results because U.S. dollar-denominated revenues and expenses are translated into Canadian dollars. U.S. dollar-denominated revenues and expenses increase (decrease) when the Canadian dollar weakens (strengthens) in relation to the U.S. dollar. The following tables indicate the average and periodic exchange rates when converting U.S. dollars to Canadian dollars for the three and nine months ended September 30, 2016 and the comparative periods in 2015.

Canadian to U.S. dollar

Average exchange rates		**2016**		2015
For the three months ended – September 30	**$**	**1.30**	$	1.31
For the nine months ended – September 30	**$**	**1.32**	$	1.26

Canadian to U.S. dollar

Exchange rates		**2016**		2015
Beginning of year – January 1	**$**	**1.38**	$	1.16
Beginning of quarter – July 1	**$**	**1.29**	$	1.25
End of quarter – September 30	**$**	**1.31**	$	1.33

In the third quarter of 2016, the impact of a weaker U.S. dollar resulted in a decrease in total revenues of $2 million and a decrease in total operating expenses of $1 million from the same period in 2015. There was no impact on net interest expense.

In the first nine months of 2016, the impact of a stronger U.S. dollar resulted in an increase in total revenues of $146 million, an increase in total operating expenses of $76 million and an increase in interest expense of $10 million from the same period in 2015.

The impact of FX on total revenues and operating expenses is discussed further in Item 3. Quantitative and Qualitative Disclosures About Market Risk, Foreign Exchange Risk.

Impact of Fuel Price on Earnings

Fluctuations in fuel prices affect the Company's results because fuel expense constitutes a significant portion of CP's operating costs. As fuel prices fluctuate, there will be a timing impact on earnings. The following table indicates the average fuel price for the three and nine months ended September 30, 2016 and the comparative periods in 2015.

Average Fuel Price

(U.S. dollars per U.S. gallon)		**2016**		2015
For the three months ended – September 30	**$**	**1.90**	$	2.00
For the nine months ended – September 30	**$**	**1.74**	$	2.21

In the third quarter of 2016, the impact of lower fuel prices resulted in a decrease in total revenues of $30 million and a decrease in total operating expenses of $8 million from the same period in 2015.

Similarly, in the first nine months of 2016, the impact of lower fuel prices resulted in a decrease in total revenues of $165 million and a decrease in total operating expenses of $108 million from the same period in 2015. The wildfires in northern Alberta negatively impacted fuel input costs by an estimated $9 million without triggering a commensurate offsetting impact to benchmark fuel recovery prices during the second quarter of 2016.

Impact of Share Price on Earnings

Fluctuations in the Common Share price affect the Company's operating expenses because share-based liabilities are fair valued. The following tables indicate the opening and closing CP Common Share Price on the TSX and the New York Stock Exchange for the three and nine months ended September 30, 2016 and the comparative periods in 2015.

CP Common Share Price

Toronto Stock Exchange (in Canadian dollars)		**2016**		2015
Opening Common Share Price, as at January 1	**$**	**176.73**	$	223.75
Ending Common Share Price, as at June 30	**$**	**166.33**	$	200.02
Ending Common Share Price, as at September 30	**$**	**200.19**	$	191.54
Change in Common Share Price for the three months ended September 30	**$**	**33.86**	$	(8.48)
Change in Common Share Price for the nine months ended September 30	**$**	**23.46**	$	(32.21)

CP Common Share Price

New York Stock Exchange (in U.S. dollars)		**2016**		2015
Opening Common Share Price, as at January 1	**$**	**127.60**	$	192.69
Ending Common Share Price, as at June 30	**$**	**128.79**	$	160.23
Ending Common Share Price, as at September 30	**$**	**152.70**	$	143.57
Change in Common Share Price for the three months ended September 30	**$**	**23.91**	$	(16.66)
Change in Common Share Price for the nine months ended September 30	**$**	**25.10**	$	(49.12)

In the third quarter of 2016, the impact of the change in Common Share price resulted in an increase in stock-based compensation expense of $18 million compared to a decrease of $8 million in the same period in 2015.

In the first nine months of 2016, the impact of the change in Common Share price resulted in an increase in stock-based compensation expense of $14 million compared to a decrease of $26 million in the same period in 2015.

The impact of share price on stock-based compensation is discussed further in Item 3. Quantitative and Qualitative Disclosures About Market Risk, Share Price Impact on Stock-Based Compensation.

Operating Revenues

The Company's revenues are primarily derived from transporting freight. Non-freight revenue is generated from leasing of certain assets, contracts with passenger service operators, switching fees, transload activities and logistical management services. Changes in freight volumes generally contribute to corresponding changes in freight revenues and certain variable expenses, such as fuel, equipment rents and crew costs.

				2016 vs. 2015	
For the three months ended September 30	**2016**	2015	Total Change	% Change	FX Adjusted % Change[2]
Freight revenues (in millions)[1]	**$ 1,510**	$ 1,667	$ (157)	(9)	(9)
Non-freight revenues (in millions)	**44**	42	2	5	5
Total revenues (in millions)	**$ 1,554**	$ 1,709	$ (155)	(9)	(9)
Carloads (in thousands)	**649**	669	(20)	(3)	N/A
Revenue ton-miles (in millions)	**33,915**	36,138	(2,223)	(6)	N/A
Freight revenue per carload (dollars)	**$ 2,328**	$ 2,493	$ (165)	(7)	
Freight revenue per revenue ton-miles (cents)	**4.45**	4.61	(0.16)	(3)	

[1] Freight revenues include fuel surcharge revenues of $36 million in 2016, and $70 million in 2015.
[2] FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX adjusted variance is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

- **Freight revenues** were $1,510 million in the third quarter of 2016, a decrease of $157 million, or 9% from $1,667 million in the same period of 2015. This decrease was primarily due to a decline in volumes for certain lines of business and the impact of lower fuel prices on fuel surcharge revenue.

- **RTMs** are defined as the movement of one revenue-producing ton of freight over a distance of one mile. RTMs measure the relative weight and distance of rail freight moved by the Company. RTMs for the third quarter of 2016 were 33,915 million, a decrease of 6% compared with 36,138 million in the same period of 2015. This decrease was mainly attributable to Crude and Canadian Grain. These volume decreases were partially offset by increases in Coal, U.S. Grain, and International Intermodal.

- **Non-freight revenues** were $44 million in the third quarter of 2016, an increase of $2 million, or 5% from $42 million in the same period of 2015. This increase was primarily due to higher transload revenues following the acquisition of Steelcare Inc. near the end of the third quarter of 2015.

				2016 vs. 2015	
For the nine months ended September 30	**2016**	2015	Total Change	% Change	FX Adjusted % Change[2]
Freight revenues (in millions)[1]	**$ 4,464**	$ 4,907	$ (443)	(9)	(12)
Non-freight revenues (in millions)	**131**	118	13	11	10
Total revenues (in millions)	**$ 4,595**	$ 5,025	$ (430)	(9)	(11)
Carloads (in thousands)	**1,877**	1,979	(102)	(5)	N/A
Revenue ton-miles (in millions)	**100,341**	108,482	(8,141)	(8)	N/A
Freight revenue per carload (dollars)	**$ 2,379**	$ 2,480	$ (101)	(4)	
Freight revenue per revenue ton-miles (cents)	**4.45**	4.52	(0.07)	(2)	

[1] Freight revenues include fuel surcharge revenues of $77 million in 2016, and $246 million in 2015.
[2] FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX adjusted variance is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

- **Freight revenues** were $4,464 million in the first nine months of 2016, a decrease of $443 million, or 9% from $4,907 million in the same period of 2015. This decrease was primarily due to an overall decline in volumes and the impact of lower fuel prices on fuel surcharge revenue. The favourable impact of the change in FX partially offset this decrease.

- **RTMs** for the first nine months of 2016 were 100,341 million, a decrease of 8% compared with 108,482 million in the same period of 2015. This decrease was mainly attributable to decreased shipments of Crude, Potash, Canadian Grain, and Metals, Minerals and Consumer Products. These volume decreases were partially offset by increased shipments of International Intermodal, Forest Products and Chemicals and Plastics.

- **Non-freight revenues** were $131 million in the first nine months of 2016, an increase of $13 million, or 11% from $118 million in the same period of 2015. This increase was primarily due to higher transload revenue following the acquisition of Steelcare Inc. near the end of the third quarter of 2015, and from higher logistic services and leasing revenues.

Lines of Business

Canadian Grain

				2016 vs. 2015	
For the three months ended September 30	**2016**	2015	Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 222**	$ 261	$ (39)	(15)	(15)
Carloads (in thousands)	**65**	72	(7)	(10)	N/A
Revenue ton-miles (in millions)	**6,017**	6,639	(622)	(9)	N/A
Freight revenue per carload (dollars)	**$ 3,435**	$ 3,613	$ (178)	(5)	
Freight revenue per revenue ton-mile (cents)	**3.71**	3.93	(0.22)	(6)	

Canadian grain revenue was $222 million in the third quarter of 2016, a decrease of $39 million, or 15% from $261 million in the same period of 2015. This decrease was mainly attributable to a decline in volumes as a result of wet weather conditions that delayed the harvest of the 2016/2017 crop, as well as lower freight rates consistent with the Maximum Revenue Entitlement for Canadian regulated grain for the crop year 2015/2016.

				2016 vs. 2015	
For the nine months ended September 30	**2016**	2015	Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 677**	$ 772	$ (95)	(12)	(14)
Carloads (in thousands)	**195**	205	(10)	(5)	N/A
Revenue ton-miles (in millions)	**18,685**	19,666	(981)	(5)	N/A
Freight revenue per carload (dollars)	**$ 3,487**	$ 3,767	$ (280)	(7)	
Freight revenue per revenue ton-mile (cents)	**3.63**	3.93	(0.30)	(8)	

Canadian grain revenue was $677 million in the first nine months of 2016, a decrease of $95 million, or 12% from $772 million in the same period of 2015. This decrease was primarily due to lower freight rates that reflect the decrease in the Maximum Revenue Entitlement for Canadian regulated grain in the crop year 2015/2016, and a decline in volumes due to lower available supply. This decrease was partially offset by the favourable impact of the change in FX.

U.S. Grain

				2016 vs. 2015	
For the three months ended September 30	**2016**	2015	Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 150**	$ 148	$ 2	1	1
Carloads (in thousands)	**49**	44	5	11	N/A
Revenue ton-miles (in millions)	**3,163**	2,727	436	16	N/A
Freight revenue per carload (dollars)	**$ 3,077**	$ 3,413	$ (336)	(10)	
Freight revenue per revenue ton-mile (cents)	**4.74**	5.43	(0.69)	(13)	

U.S. grain revenue was $150 million in the third quarter of 2016, an increase of $2 million, or 1% from $148 million in the same period of 2015. This increase was the result of increased shipments of mostly corn and soybeans, partially offset by lower average freight revenue per revenue ton-mile. The decrease in average freight revenue per revenue per ton-mile is primarily due to the increased length of haul as export grain represented a greater proportion of U.S. grain shipments and the impact of lower fuel prices on fuel surcharge revenue.

For the nine months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 364**	$ 391	$ (27)	(7)	(12)
Carloads (in thousands)	**118**	117	1	1	N/A
Revenue ton-miles (in millions)	**7,719**	7,855	(136)	(2)	N/A
Freight revenue per carload (dollars)	**$ 3,096**	$ 3,347	$ (251)	(7)	
Freight revenue per revenue ton-mile (cents)	**4.72**	4.98	(0.26)	(5)	

U.S. grain revenue was $364 million in the first nine months of 2016, a decrease of $27 million, or 7% from $391 million in the same period of 2015. The decrease was primarily due to a decrease in average freight revenue per revenue ton-mile, as a result of a change in the mix of commodities being shipped, and the impact of lower fuel prices on fuel surcharge revenue. The favourable impact of the change in FX partially offset this decrease.

Coal

For the three months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 160**	$ 163	$ (3)	(2)	(2)
Carloads (in thousands)	**80**	79	1	1	N/A
Revenue ton-miles (in millions)	**5,798**	5,316	482	9	N/A
Freight revenue per carload (dollars)	**$ 2,007**	$ 2,057	$ (50)	(2)	
Freight revenue per revenue ton-mile (cents)	**2.77**	3.07	(0.30)	(10)	

Coal revenue was $160 million in the third quarter of 2016, a decrease of $3 million, or 2% from $163 million in the same period of 2015. This decrease was primarily due to lower fuel surcharge revenue as a result of lower fuel prices, and lower average freight revenue per revenue ton-mile, partially offset by increased shipments of export metallurgical coal.

For the nine months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 454**	$ 490	$ (36)	(7)	(8)
Carloads (in thousands)	**227**	245	(18)	(7)	N/A
Revenue ton-miles (in millions)	**16,540**	16,914	(374)	(2)	N/A
Freight revenue per carload (dollars)	**$ 2,003**	$ 1,997	$ 6	—	
Freight revenue per revenue ton-mile (cents)	**2.75**	2.89	(0.14)	(5)	

Coal revenue was $454 million in the first nine months of 2016, a decrease of $36 million, or 7% from $490 million in the same period of 2015. This decrease was primarily due to decline in volumes of U.S. thermal coal and the impact of lower fuel prices on fuel surcharge revenue. The favourable impact of the change in FX partially offset this decrease.

Potash

For the three months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 81**	$ 82	$ (1)	(1)	(1)
Carloads (in thousands)	**29**	29	—	—	N/A
Revenue ton-miles (in millions)	**3,651**	3,569	82	2	N/A
Freight revenue per carload (dollars)	**$ 2,782**	$ 2,816	$ (34)	(1)	
Freight revenue per revenue ton-mile (cents)	**2.21**	2.29	(0.08)	(3)	

Potash revenue was $81 million in the third quarter of 2016, a decrease of $1 million, or 1% from $82 million in the same period of 2015. This decrease was primarily due to the impact of lower fuel prices on fuel surcharge revenue.

For the nine months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 242**	$ 281	$ (39)	(14)	(16)
Carloads (in thousands)	**84**	97	(13)	(13)	N/A
Revenue ton-miles (in millions)	**10,333**	11,758	(1,425)	(12)	N/A
Freight revenue per carload (dollars)	**$ 2,878**	$ 2,898	$ (20)	(1)	
Freight revenue per revenue ton-mile (cents)	**2.35**	2.39	(0.04)	(2)	

Potash revenue was $242 million in the first nine months of 2016, a decrease of $39 million, or 14% from $281 million in the same period of 2015. This decrease was primarily due to a decline in export potash volumes and lower fuel surcharge revenue as a result of lower fuel prices, partially offset by the favourable impact of the change in FX.

Fertilizers and Sulphur

For the three months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 64**	$ 62	$ 2	3	5
Carloads (in thousands)	**14**	14	—	—	N/A
Revenue ton-miles (in millions)	**958**	973	(15)	(2)	N/A
Freight revenue per carload (dollars)	**$ 4,476**	$ 4,265	$ 211	5	
Freight revenue per revenue ton-mile (cents)	**6.68**	6.38	0.30	5	

Fertilizers and sulphur revenue was $64 million in the third quarter of 2016, an increase of $2 million from $62 million in the same period of 2015. This increase was primarily due to an increase in average freight rates, partially offset by lower fuel surcharge revenue as a result of lower fuel prices.

For the nine months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 218**	$ 200	$ 18	9	5
Carloads (in thousands)	**45**	46	(1)	(2)	N/A
Revenue ton-miles (in millions)	**3,144**	3,023	121	4	N/A
Freight revenue per carload (dollars)	**$ 4,825**	$ 4,344	$ 481	11	
Freight revenue per revenue ton-mile (cents)	**6.93**	6.62	0.31	5	

Fertilizers and sulphur revenue was $218 million in the first nine months of 2016, an increase of $18 million, or 9% from $200 million in the same period of 2015. This increase was due to higher fertilizer shipments and the favourable impact of the change in FX, partially offset by lower fuel surcharge revenue as a result of lower fuel prices.

Forest Products

For the three months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 71**	$ 66	$ 5	8	8
Carloads (in thousands)	**17**	16	1	6	N/A
Revenue ton-miles (in millions)	**1,217**	1,083	134	12	N/A
Freight revenue per carload (dollars)	**$ 4,211**	$ 4,113	$ 98	2	
Freight revenue per revenue ton-mile (cents)	**5.86**	6.07	(0.21)	(3)	

Forest products revenue was $71 million in the third quarter of 2016, an increase of $5 million, or 8% from $66 million in the same period of 2015. This increase was primarily due to higher volumes, particularly of lumber and panel products, partially offset by lower fuel surcharge revenue as a result of lower fuel prices.

For the nine months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 212**	$ 184	$ 28	15	11
Carloads (in thousands)	**51**	46	5	11	N/A
Revenue ton-miles (in millions)	**3,619**	3,163	456	14	N/A
Freight revenue per carload (dollars)	**$ 4,160**	$ 3,960	$ 200	5	
Freight revenue per revenue ton-mile (cents)	**5.87**	5.82	0.05	1	

Forest products revenue was $212 million in the first nine months of 2016, an increase of $28 million, or 15% from $184 million in the same period of 2015. This increase was due to higher volumes, particularly of lumber and panel products and the favourable impact of the change in FX. Lower fuel surcharge revenue as a result of lower fuel prices partially offset this increase.

Chemicals and Plastics

For the three months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 174**	$ 173	$ 1	1	1
Carloads (in thousands)	**53**	50	3	6	N/A
Revenue ton-miles (in millions)	**3,547**	3,227	320	10	N/A
Freight revenue per carload (dollars)	**$ 3,306**	$ 3,479	$ (173)	(5)	
Freight revenue per revenue ton-mile (cents)	**4.92**	5.37	(0.45)	(8)	

Chemicals and plastics revenue was $174 million in the third quarter of 2016, an increase of $1 million, or 1% from $173 million in the same period of 2015. This increase was primarily due to higher volumes. This increase was partially offset by the impact of lower fuel prices on fuel surcharge revenue, and lower average freight revenue per revenue ton-mile due to fewer liquefied petroleum gas product shipments.

For the nine months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 530**	$ 522	$ 8	2	(3)
Carloads (in thousands)	**156**	152	4	3	N/A
Revenue ton-miles (in millions)	**10,557**	10,220	337	3	N/A
Freight revenue per carload (dollars)	**$ 3,396**	$ 3,444	$ (48)	(1)	
Freight revenue per revenue ton-mile (cents)	**5.03**	5.11	(0.08)	(2)	

Chemicals and plastics revenue was $530 million in the first nine months of 2016, an increase of $8 million, or 2% from $522 million in the same period of 2015. This increase was primarily due to the favourable impact of the change in FX and higher volumes. This increase was partially offset by the impact of lower fuel prices on fuel surcharge revenue, and lower average freight revenue per revenue ton-mile due to fewer liquefied petroleum gas product shipments.

Crude

For the three months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 13**	$ 109	$ (96)	(88)	(88)
Carloads (in thousands)	**5**	25	(20)	(80)	N/A
Revenue ton-miles (in millions)	**424**	3,703	(3,279)	(89)	N/A
Freight revenue per carload (dollars)	**$ 2,732**	$ 4,281	$ (1,549)	(36)	
Freight revenue per revenue ton-mile (cents)	**3.01**	2.92	0.09	3	

Crude revenue was $13 million in the third quarter of 2016, a decrease of $96 million, or 88% from $109 million in the same period of 2015. This decrease was primarily due to a decline in volumes as a result of the fall in crude oil prices and an increase in available

pipeline capacity, as well as lower fuel surcharge revenue as a result of lower fuel prices. Freight revenue per carload also declined due to a reduction in length of haul following a significant reduction in traffic destined to the north-east U.S. and lower fuel surcharge revenue as a result of lower fuel prices. Freight revenue per revenue ton-mile increased primarily due to the reduction in average length of haul, offset in part by lower fuel surcharge revenues.

			2016 vs. 2015		
For the nine months ended September 30	**2016**	2015	Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 108**	$ 288	$ (180)	(63)	(64)
Carloads (in thousands)	**29**	66	(37)	(56)	N/A
Revenue ton-miles (in millions)	**3,738**	9,531	(5,793)	(61)	N/A
Freight revenue per carload (dollars)	**$ 3,719**	$ 4,357	$ (638)	(15)	
Freight revenue per revenue ton-mile (cents)	**2.88**	3.02	(0.14)	(5)	

Crude revenue was $108 million in the first nine months of 2016, a decrease of $180 million, or 63% from $288 million in the same period of 2015. This decrease was primarily due to a decline in volumes as a result of the fall in crude oil prices and an increase in available pipeline capacity, as well as lower fuel surcharge revenue as a result of lower fuel prices. The favourable impact of the change in FX partially offset this decrease.

Metals, Minerals and Consumer Products

			2016 vs. 2015		
For the three months ended September 30	**2016**	2015	Total Change	% Change	Total Change
Freight revenues (in millions)	**$ 142**	$ 173	$ (31)	(18)	(18)
Carloads (in thousands)	**50**	58	(8)	(14)	N/A
Revenue ton-miles (in millions)	**2,171**	2,451	(280)	(11)	N/A
Freight revenue per carload (dollars)	**$ 2,821**	$ 3,026	$ (205)	(7)	
Freight revenue per revenue ton-mile (cents)	**6.53**	7.08	(0.55)	(8)	

Metals, minerals and consumer products revenue was $142 million in the third quarter of 2016, a decrease of $31 million, or 18% from $173 million in the same period of 2015. This decrease was primarily due to a decline in shipments of steel products and waste products, and reduced fuel surcharge revenue as a result of lower fuel prices. The decrease in average freight revenue per revenue per ton-mile is primarily due to a change in mix of commodities.

			2016 vs. 2015		
For the nine months ended September 30	**2016**	2015	Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 415**	$ 492	$ (77)	(16)	(19)
Carloads (in thousands)	**145**	167	(22)	(13)	N/A
Revenue ton-miles (in millions)	**6,067**	6,906	(839)	(12)	N/A
Freight revenue per carload (dollars)	**$ 2,862**	$ 2,951	$ (89)	(3)	
Freight revenue per revenue ton-mile (cents)	**6.83**	7.13	(0.30)	(4)	

Metals, minerals and consumer products revenue was $415 million in the first nine months of 2016, a decrease of $77 million, or 16% from $492 million in the same period of 2015. This decrease was primarily due to a decline in shipments of steel, sand and aggregates products, and reduced fuel surcharge revenue as a result of lower fuel prices. The favourable impact of the change in FX partially offset this decrease. The decrease in average freight revenue per revenue per ton-mile is primarily due to a change in mix of commodities.

Automotive

For the three months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 86**	$ 87	$ (1)	(1)	(1)
Carloads (in thousands)	**29**	32	(3)	(9)	N/A
Revenue ton-miles (in millions)	**393**	424	(31)	(7)	N/A
Freight revenue per carload (dollars)	**$ 2,985**	$ 2,719	$ 266	10	
Freight revenue per revenue ton-mile (cents)	**21.91**	20.64	1.27	6	

Automotive revenue was $86 million in the third quarter of 2016, a decrease of $1 million, or 1% from $87 million in the same period of 2015. This decrease was primarily due to declines in volume, and reduced fuel surcharge revenue as a result of lower fuel prices. This decrease was partially offset by an increase in the average freight rate.

For the nine months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 270**	$ 260	$ 10	4	—
Carloads (in thousands)	**97**	98	(1)	(1)	N/A
Revenue ton-miles (in millions)	**1,305**	1,339	(34)	(3)	N/A
Freight revenue per carload (dollars)	**$ 2,777**	$ 2,646	$ 131	5	
Freight revenue per revenue ton-mile (cents)	**20.68**	19.44	1.24	6	

Automotive revenue was $270 million in the first nine months of 2016, an increase of $10 million, or 4% from $260 million in the same period of 2015. This increase was primarily due to increased average freight rate, and the favourable impact of the change in FX. This increase was partially offset by lower volumes and reduced fuel surcharge revenue as a result of lower fuel prices.

Domestic Intermodal

For the three months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 186**	$ 189	$ (3)	(2)	(2)
Carloads (in thousands)	**113**	105	8	8	N/A
Revenue ton-miles (in millions)	**3,089**	3,027	62	2	N/A
Freight revenue per carload (dollars)	**$ 1,659**	$ 1,795	$ (136)	(8)	
Freight revenue per revenue ton-mile (cents)	**6.03**	6.24	(0.21)	(3)	

Domestic intermodal revenue was $186 million in the third quarter of 2016, a decrease of $3 million, or 2% from $189 million in the same period of 2015. This decrease was primarily due to lower fuel surcharge revenues as a result of lower fuel prices and lower average freight revenue per revenue ton-mile due to fewer shipments using temperature controlled equipment. This decrease was partially offset by higher volumes.

For the nine months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 534**	$ 575	$ (41)	(7)	(8)
Carloads (in thousands)	**317**	314	3	1	N/A
Revenue ton-miles (in millions)	**8,932**	9,114	(182)	(2)	N/A
Freight revenue per carload (dollars)	**$ 1,686**	$ 1,833	$ (147)	(8)	
Freight revenue per revenue ton-mile (cents)	**5.98**	6.31	(0.33)	(5)	

Domestic intermodal revenue was $534 million in the first nine months of 2016, a decrease of $41 million, or 7% from $575 million in the same period of 2015. This decrease was primarily due to lower fuel surcharge revenue as a result of lower fuel prices and

lower average freight revenue per revenue ton-mile due to fewer shipments using temperature controlled equipment. This decrease was partially offset by the favourable impact of the change in FX.

International Intermodal

For the three months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 161**	$ 154	$ 7	5	5
Carloads (in thousands)	**145**	145	—	—	N/A
Revenue ton-miles (in millions)	**3,487**	2,999	488	16	N/A
Freight revenue per carload (dollars)	**$ 1,106**	$ 1,067	$ 39	4	
Freight revenue per revenue ton-mile (cents)	**4.61**	5.14	(0.53)	(10)	

International intermodal revenue was $161 million in the third quarter of 2016, an increase of $7 million, or 5% from $154 million in the same period of 2015. This increase was primarily due to increased revenue ton-miles due to longer haul shipments through the Port of Vancouver. This decrease was partially offset by lower fuel surcharge revenue as a result of lower fuel prices. The decrease in freight revenue per revenue ton-mile was primarily due to fewer revenue generating moves of empty customer containers.

For the nine months ended September 30	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$ 440**	$ 452	$ (12)	(3)	(5)
Carloads (in thousands)	**413**	426	(13)	(3)	N/A
Revenue ton-miles (in millions)	**9,702**	8,993	709	8	N/A
Freight revenue per carload (dollars)	**$ 1,065**	$ 1,061	$ 4	—	
Freight revenue per revenue ton-mile (cents)	**4.54**	5.02	(0.48)	(10)	

International intermodal revenue was $440 million in the first nine months of 2016, a decrease of $12 million, or 3% from $452 million in the same period of 2015. This decrease was primarily due to lower fuel surcharge revenue as a result of lower fuel prices. This decrease was partially offset by the favourable impact of the change in FX. The decrease in freight revenue per revenue ton-mile was primarily due to fewer revenue generating moves of empty customer containers. The increase in revenue ton-miles was due to longer haul shipments through the Port of Vancouver.

Operating Expenses

For the three months ended September 30 (in millions)	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change[1]
Compensation and benefits	**$ 294**	$ 352	$ (58)	(16)	(16)
Fuel	**138**	162	(24)	(15)	(15)
Materials	**39**	47	(8)	(17)	(17)
Equipment rents	**43**	42	1	2	2
Depreciation and amortization	**155**	149	6	4	4
Purchased services and other	**228**	272	(44)	(16)	(16)
Gain on sale of Delaware & Hudson South	**—**	(68)	68	(100)	(100)
Total operating expenses	**$ 897**	$ 956	$ (59)	(6)	(6)

[1] FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX adjusted variance is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Operating expenses were $897 million in the third quarter of 2016, a decrease of $59 million, or 6%, from $956 million in the same period of 2015. This decrease was primarily due to:

- efficiencies generated from improved operating performance and asset utilization;
- lower volume variable expenses; and
- higher defined benefit pension plan income of $32 million.

This decrease was partially offset by the impact of the gain on sale of D&H South in 2015 and by wage and benefit inflation of approximately 3%.

For the nine months ended September 30 (in millions)	2016	2015	2016 vs. 2015 Total Change	% Change	FX Adjusted % Change[1]
Compensation and benefits	**$ 907**	$ 1,038	$ (131)	(13)	(14)
Fuel	**394**	542	(148)	(27)	(31)
Materials	**133**	144	(11)	(8)	(10)
Equipment rents	**132**	130	2	2	(2)
Depreciation and amortization	**478**	440	38	9	7
Purchased services and other	**690**	788	(98)	(12)	(15)
Gain on sale of D&H South	**—**	(68)	$ 68	(100)	(100)
Total operating expenses	**$ 2,734**	$ 3,014	$ (280)	(9)	(12)

[1] FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX adjusted variance is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Operating expenses were $2,734 million in the first nine months of 2016, a decrease of $280 million, or 9%, from $3,014 million in the same period of 2015. This decrease was primarily due to:

- efficiencies generated from improved operating performance and asset utilization;
- the favourable impact of $108 million from lower fuel prices;
- lower volume variable expenses; and
- higher defined benefit pension plan income of $88 million.

This decrease was partially offset by the unfavourable impact of the change in FX of $76 million and by the gain on sale of D&H South in 2015.

Compensation and Benefits

Compensation and benefits expense includes employee wages, salaries, fringe benefits and stock-based compensation. Compensation and benefits expense was $294 million in the third quarter of 2016, a decrease of $58 million, or 16%, from $352 million in the same period of 2015. This decrease was primarily due to fewer employees and higher defined benefit pension plan income of $32 million. This decrease was partially offset by the impact of wage and benefit inflation of approximately 3%.

Compensation and benefits expense was $907 million in the first nine months of 2016, a decrease of $131 million, or 13%, from $1,038 million in the same period of 2015. This decrease was primarily due to fewer employees and higher defined benefit pension plan income of $88 million. This decrease was partially offset by the impact of wage and benefit inflation of approximately 3% and the unfavourable impact of the change in FX of $18 million.

Fuel

Fuel expense consists mainly of fuel used by locomotives and includes provincial, state and federal fuel taxes. Fuel expense was $138 million in the third quarter of 2016, a decrease of $24 million, or 15%, from $162 million in the same period of 2015. This decrease was primarily due to:

- a reduction in workload, as measured by GTMs;
- the favourable impact of $8 million from lower fuel prices; and
- improvements in fuel efficiency of approximately 1%.

Fuel expense was $394 million in the first nine months of 2016, a decrease of $148 million, or 27%, from $542 million in the same period of 2015. This decrease was primarily due to:

- the favourable impact of $108 million from lower fuel prices;
- a reduction in workload, as measured by GTMs; and
- improvements in fuel efficiency of approximately 3%.

This decrease was partially offset by the unfavourable impact of the change in FX of $25 million.

Materials

Materials expense includes the cost of material used for track, locomotive, freight car and building maintenance and software sustainment. Materials expense was $39 million in the third quarter of 2016, a decrease of $8 million, or 17%, from $47 million in the same period of 2015. This decrease was primarily due to lower volumes.

Materials expense was $133 million in the first nine months of 2016, a decrease of $11 million, or 8%, from $144 million in the same period of 2015. This decrease was primarily due to lower volumes, partially offset by the unfavourable impact of the change in FX of $3 million.

Equipment Rents

Equipment rents expense includes the cost associated with using other railways freight cars, intermodal equipment, and locomotives, net of rental income received from other railways for the use of CP's equipment. Equipment rents expense was $43 million in the third quarter of 2016, an increase of $1 million or 2% from $42 million in the same period of 2015. This increase was primarily due to lower rental income due to the return of subleased freight cars.

Equipment rents expense was $132 million in the first nine months of 2016, an increase of $2 million, or 2%, from $130 million in the same period of 2015. This increase was primarily due to the return of subleased locomotives and freight cars reducing rental income by $6 million and the unfavourable impact of the change in FX of $5 million. This increase was largely offset by the purchase or return of leased freight cars reducing rental expenses by $10 million.

Depreciation and Amortization

Depreciation and amortization expense represents the charge associated with the use of track and roadway, buildings, rolling stock, information systems and other depreciable assets. Depreciation and amortization expense was $155 million in the third quarter of 2016, an increase of $6 million, or 4%, from $149 million in the same period of 2015. This increase was primarily due to a higher depreciable asset base.

Depreciation and amortization expense was $478 million in the first nine months of 2016, an increase of $38 million, or 9%, from $440 million in the same period of 2015. This increase was primarily due to a higher depreciable asset base and the unfavourable impact of the change in FX of $5 million.

Purchased Services and Other

			2016 vs. 2015	
For the three months ended September 30 (in millions)	**2016**	2015	Total Change	% Change
Support and facilities	**$ 73**	$ 69	$ 4	6
Track and operations	**44**	70	(26)	(37)
Intermodal	**44**	46	(2)	(4)
Equipment	**38**	48	(10)	(21)
Casualty	**15**	10	5	50
Property taxes	**29**	26	3	12
Other	**(10)**	4	(14)	(350)
Land sales	**(5)**	(1)	(4)	400
Total Purchased services and other	**$ 228**	$ 272	$ (44)	(16)

Purchased services and other expense encompasses a wide range of third-party costs, including expenses for joint facilities, personal injuries and damage, environmental remediation, property and other taxes, contractor and consulting fees, insurance, and gains on land sales. Purchased services and other expense was $228 million in the third quarter of 2016, a decrease of $44 million, or 16%, from $272 million in the same period of 2015. This decrease was primarily due to:

- a reduction in discontinuance costs for certain branch lines, reported in Other;
- lower crew travel and accommodations costs, reported in Track and operations; and
- lower third-party locomotive overhauls and maintenance costs, reported in Equipment.

This decrease was partially offset by higher casualty expenses of $5 million due to higher personal injuries costs and more costly mishaps, partially offset by lower loss and damages, reported in Casualty and higher property taxes of $3 million.

For the nine months ended September 30 (in millions)	2016	2015	2016 vs. 2015 Total Change	2016 vs. 2015 % Change
Support and facilities	**$ 230**	$ 219	$ 11	5
Track and operations	**156**	195	(39)	(20)
Intermodal	**133**	139	(6)	(4)
Equipment	**121**	151	(30)	(20)
Casualty	**49**	54	(5)	(9)
Property taxes	**88**	79	9	11
Other	**(26)**	14	(40)	(286)
Land sales	**(61)**	(63)	2	(3)
Total Purchased services and other	**$ 690**	$ 788	$ (98)	(12)

Purchased services and other expense was $690 million in the first nine months of 2016, a decrease of $98 million, or 12%, from $788 million in the same period of 2015. This decrease was primarily due to:

- a $17 million gain on sale of surplus freight cars, and a reduction in discontinuance costs for certain branch lines, reported in Other;
- lower third-party services cost, reported in Track and operations and Support and facilities;
- lower crew travel and accommodations costs, reported in Track and operations;
- lower third-party freight car and locomotive maintenance costs, reported in Equipment;
- lower casualty expenses of $7 million (excluding an unfavourable FX impact of $2 million) as a result of lower personal injury costs and lower incident costs, reported in Casualty; and
- lower intermodal expenses, reported in Intermodal.

This decrease was partially offset by the unfavourable impact of the change in FX of $20 million and higher property taxes of $8 million (excluding an unfavourable FX impact of $1 million).

As part of optimizing its assets, the Company may identify and dispose of property used or formerly used in operating activities. In compliance with U.S. GAAP, the Company includes as part of operating expenses the gains and losses that arise on disposal of such long-lived assets. The following disposals have impacted Purchased services and other during the current and comparative periods:

- In the second quarter of 2016, the Company disposed of 1,000 surplus freight cars that had reached or were nearing the end of their useful life, in a non-monetary exchange for new freight cars. The Company recognized a gain on sale of $17 million from the transaction and the sale did not impact cash from investing activities.
- In the first quarter of 2016, the Company completed the sale of CP's Arbutus Corridor to the City of Vancouver for gross proceeds of $55 million and a gain on sale of $50 million. The agreement allows the Company to share in future proceeds on the eventual development and/or sale of certain parcels of the Arbutus Corridor.
- In the first quarter of 2015, the Company recorded a gain of $31 million following the sale of a building after resolution of legal proceedings, and the Company sold various sections of land in eastern Canada for transit purposes, recognizing gains totaling $60 million.

Other Income Statement Items

Other Income and Charges

Other income and charges consists of gains and losses from the change in FX on long-term debt and working capital, various costs related to financing activities, shareholder costs, equity income and other non-operating expenditures. Other income and charges was an expense of $71 million in the third quarter of 2016, compared to an expense of $168 million in the same period of 2015, a change of $97 million. This change was primarily due to a smaller unfavourable impact of FX translation of $46 million on U.S. dollar-denominated long-term debt during the third quarter of 2016 compared to $128 million in the same period of 2015 and a $47 million premium charged upon early redemption of notes in the third quarter of 2015, partially offset by a legal settlement charge of $25 million in the third quarter of 2016. These items are discussed further in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Other income and charges was a gain of $119 million in the first nine months of 2016, compared to an expense of $236 million in the same period of 2015, a change of $355 million. This change was primarily due to a favourable impact of FX translation of $153 million on U.S. dollar-denominated debt in the first nine months of 2016, compared to an unfavourable FX impact of $182 million in the same period of 2015.

Net Interest Expense

Net interest expense includes interest on long-term debt and capital leases. Net interest expense was $116 million in the third quarter of 2016, an increase of $13 million, or 13%, from $103 million in the same period of 2015. This increase was primarily due to an additional $22 million of interest on new debt issued during the third quarter in 2015. This increase was partially offset by interest savings due to principal payments and higher capitalized interest.

Net interest expense was $355 million in the first nine months of 2016, an increase of $83 million, or 31%, from $272 million in the same period of 2015. This increase was primarily due to an additional $92 million of interest on new debt issued during the third quarter in 2015 and the unfavourable impact of the change in FX of $10 million. This increase was also partially offset by interest savings due to principal payments and higher capitalized interest.

Income Tax Expense

Income tax expense was $123 million in the third quarter of 2016, a decrease of $36 million, or 23%, from $159 million in the same period of 2015. Income tax expense was $410 million in the first nine months of 2016, a decrease of $60 million, or 13%, from $470 million in the same period of 2015. These decreases were due to lower taxable earnings along with a lower effective tax rate in 2016.

The estimated annualized effective tax rate for the third quarter of 2016 excluding discrete items (FX translation on U.S. dollar-denominated debt) was 25.17%, compared to 27.50% during the same period of 2015. For the first nine months of 2016, the estimated annualized effective tax rate was 26.50%, compared to 27.50% during the same period of 2015.

The effective tax rate including discrete items in the third quarter of 2016 was 26.23%, compared with 32.92% in the same period of 2015. The effective tax rate including discrete items is higher than the effective tax rate of 25.17% in the current period due to a tax recovery related to FX translation losses on U.S. dollar-denominated debt assessed at a significantly lower rate. The effective tax rate including discrete items in the prior period is higher than the effective tax rate of 27.50% during the third quarter of 2015 due to a tax expense related to the gain on sale of D&H South assessed at a higher tax rate and a tax recovery related to FX translation losses on U.S. dollar-denominated debt assessed at a significantly lower rate.

The effective tax rate including discrete items in the first nine months of 2016 was 25.26%, compared with 31.28% in the same period of 2015. The effective tax rate including discrete items is lower than the effective tax rate of 26.50% in the first nine months of 2016 due to a tax expense related to FX translation gains on U.S. dollar-denominated debt assessed at a significantly lower rate. The effective tax rate including discrete items is higher than the effective tax rate of 27.50% in the first nine months of 2015 due to a tax expense related to the gain on sale of D&H South, in the third quarter of 2015 assessed at a higher rate, a tax recovery related to FX translation losses on U.S dollar-denominated debt assessed at a significantly lower rate, and legislation enacted to increase the Alberta provincial corporate income tax rate which resulted in the Company recording an income tax expense of $23 million, in the second quarter of 2015, related to the revaluation of its deferred income tax balances as at January 1, 2015.

The Company expects an annualized effective tax rate in 2016 of approximately 26.50%. The Company’s 2016 outlook for its normalized income tax rate is based on certain assumptions about events and developments that may or may not materialize or that may be offset entirely or partially by other events and developments, discussed further in Item 1A. Risk Factors of CP's 2015 Annual Report on Form 10-K.

Liquidity and Capital Resources

The Company believes adequate amounts of Cash and cash equivalents are available in the normal course of business to provide for ongoing operations, including the obligations identified in the tables in Contractual Commitments of this Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations. The Company is not aware of any trends or expected fluctuations in the Company's liquidity that would create any deficiencies. The Company's primary sources of liquidity include its Cash and cash equivalents, its bilateral letters of credit and its revolving credit facility.

As at September 30, 2016, the Company had $103 million of Cash and cash equivalents, U.S. $1.7 billion available under its revolving credit facility and up to $296 million available under its letters of credit facility (December 31, 2015 - $650 million of Cash and cash equivalents, U.S. $2.0 billion available under revolving credit facilities and up to $225 million under letters of credit facility).

As at September 30, 2016, the Company's U.S. $2.0 billion revolving credit facility, which includes a U.S. $1.0 billion five-year portion and U.S. $1.0 billion one-year plus one-year term-out portion, was undrawn. On June 28, 2016, the maturity date on the U.S. $1.0 billion one-year plus one-year term-out portion was extended to June 28, 2018, and the maturity date on the U.S. $1.0 billion five-year portion was extended to June 28, 2021. The Company did not draw from its revolving credit facility during the nine months ended September 30, 2016. This facility was also undrawn as at December 31, 2015. The revolving credit facility agreement requires the Company not to exceed a maximum debt to earnings before interest, tax, depreciation, and amortization ratio. As at September 30, 2016, the Company was in compliance with the threshold stipulated in this financial covenant.

The Company has a commercial paper program which enables it to issue commercial paper up to a maximum aggregate principal amount of U.S. $1.0 billion in the form of unsecured promissory notes. The commercial paper is backed by the U.S. $1.0 billion one-year plus one-year term-out portion of the revolving credit facility. At September 30, 2016, total commercial paper borrowings were U.S. $280 million (December 31, 2015 - $nil), decreasing the amount available under the revolving credit facility to U.S. $1.7 billion at September 30, 2016. As at September 30, 2016, the Company does not intend to refinance outstanding commercial paper borrowings on a long-term basis.

As at September 30, 2016, under its bilateral letters of credit facility, the Company had letters of credit drawn of $304 million from a total available amount of $600 million. This compares to letters of credit drawn of $375 million from a total available amount of $600 million as at December 31, 2015. Under the bilateral letters of credit facility, the Company has the option to post collateral in the form of Cash or cash equivalents, equal at least to the face value of the letters of credit issued. Collateral provided may include highly liquid investments purchased three months or less from maturity and is stated at cost, which approximates market value. As at September 30, 2016, the Company had posted $nil in collateral on the bilateral letters of credit facility (December 31, 2015 - $nil). The Company can largely withdraw this collateral during any month.

The following discussion of operating, investing and financing activities describes the Company's indicators of liquidity and capital resources and financial performance.

Operating Activities

Cash provided by operating activities was $591 million in the third quarter of 2016 compared to $696 million in the same period of 2015, a decrease of $105 million. The decrease in cash provided by operating activities is primarily due to lower cash generating income and increased interest payments in the third quarter of 2016 compared to the same period of 2015.

Cash provided by operating activities was $1,321 million in the first nine months of 2016 compared to $1,836 million in the same period of 2015, a decrease of $515 million. The decrease in cash provided by operating activities is primarily due to lower cash generating income, and an unfavourable change in working capital primarily as a result of higher income taxes paid in 2016 and an increase in interest payments resulting from debt issued in 2015.

Investing Activities

Cash used in investing activities was $278 million in the third quarter of 2016, an increase of $115 million from $163 million in the same period of 2015. For the first nine months of 2016, cash used in investing activities was $817 million, an increase of $109 million from $708 million in the same period of 2015. These increases in cash used in investing activities were primarily due to proceeds from the sale of D&H South in the third quarter of 2015, partially offset by lower additions to properties during the third quarter and first nine months of 2016.

Financing Activities

Cash used in financing activities was $304 million in the third quarter of 2016, an increase of $229 million from $75 million in the same period of 2015. For the first nine months of 2016, cash used in financing activities was $1,035 million, an increase of $319 million from $716 million in the same period of 2015. These increases in cash used in financing activities were primarily due to issuance of long term debt in 2015. This increase is partially offset by net issuance of commercial paper during the third quarter and first nine months of 2016 versus net repayment of commercial paper in the same periods of 2015, and lower purchases of CP Common Shares.

Interest Coverage Ratio

For the twelve months ended September 30, 2016, the Company's interest coverage ratio was 5.4, compared with 7.2 for the twelve months ended September 30, 2015. This decrease was primarily due to an increase in Net interest expense of $132 million based on the twelve months ended September 30, 2016, compared to the same period of 2015, partially offset by year over year increase in Earnings before interest and taxes ("EBIT").

Excluding significant items from EBIT, Adjusted interest coverage ratio was 5.3 for the twelve months ended September 30, 2016, compared with 7.7 for the twelve months ended September 30, 2015. This decrease was primarily due to an increase in Net interest expense, as well as a year over year decrease in Adjusted EBIT. Interest coverage ratio, Adjusted interest coverage ratio, EBIT, Adjusted EBIT, and significant items are defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Credit Measures

Credit ratings provide information relating to the Company's financing costs, liquidity and operations, which impacts the Company's ability to obtain short-term and long-term financing and/or the cost of such financing.

A mid-investment grade credit rating is an important measure in assessing the Company's ability to maintain access to public financing and to minimize the cost of capital. It also affects the ability of the Company to engage in certain collateralized business activities on a cost-effective basis.

Credit ratings and outlooks are based on the rating agencies' methodologies and can change from time to time to reflect their views of CP. Their views are affected by numerous factors including, but not limited to, the Company's financial position and liquidity along with external factors beyond the Company's control.

As at September 30, 2016, the Company's credit rating from Standard & Poor's Rating Services ("Standard & Poor's"), and Moody's Investor Service ("Moody's") have remained unchanged from December 31, 2015. During the second quarter of 2016, Moody's changed the outlook on CP's Senior unsecured debt to negative from stable, and Dominion Bond Rating Service Limited ("DBRS") changed the outlook on CP's Unsecured debentures and Medium-term notes to negative from stable. On August 2, 2016, DBRS downgraded the Company's credit rating from BBB (high) to BBB for unsecured debentures and medium-term notes and from R-2 (high) to R-2 (middle) for the $1 billion Commercial paper program. Standard & Poor's affirmed a stable rating on CP's Long-term corporate credit, Senior secured debt and Senior unsecured debt.

Credit ratings as at September 30, 2016[1]

Long-term debt			Outlook
Standard & Poor's			
	Long-term corporate credit	**BBB+**	stable
	Senior secured debt	**A**	stable
	Senior unsecured debt	**BBB+**	stable
Moody's			
	Senior unsecured debt	**Baa1**	negative
DBRS			
	Unsecured debentures	**BBB**	stable
	Medium-term notes	**BBB**	stable
$1 billion Commercial paper program			
Standard & Poor's		**A-2**	N/A
Moody's		**P-2**	N/A
DBRS		**R-2 (middle)**	N/A

[1] 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. Credit ratings are based on the rating agencies' methodologies and may be subject to revision or withdrawal at any time by the rating agencies.

The Company's goal is to maintain a degree of continuity and predictability for investors by meeting a minimum threshold. The Adjusted net debt to Adjusted earnings before interest, tax, depreciation and amortization ("EBITDA") ratio for the twelve months ended September 30, 2016 and September 30, 2015 was 3.0 and 2.7, respectively. This increase was primarily due to additional debt issued during the 2015 fiscal year and commercial paper issued during the 2016 fiscal year, as well as a decrease in Adjusted EBITDA for the twelve months ended September 30, 2016. Adjusted net debt to Adjusted EBITDA ratio is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Free Cash

CP generated positive Free cash of $240 million in the third quarter of 2016, a decrease of $254 million from positive Free cash of $494 million in the same period of 2015. For the first nine months of 2016, CP generated positive Free cash of $306 million, a decrease of $673 million from positive Free cash of $979 million in the same period of 2015. The decrease was primarily due to a decrease in cash provided by operating activities and proceeds from sale of D&H South in the third quarter of 2015. Free cash is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Free cash is affected by seasonal fluctuations and by other factors including the size of the Company's additions to properties. Capital additions were $294 million in the third quarter of 2016, $155 million lower than in the same period of 2015. In the first nine months of 2016, capital additions were $902 million, $165 million lower than in the same period of 2015.

Share Capital

At October 17, 2016, the latest practicable date, there were 146,262,114 Common Shares and no preferred shares issued and outstanding, which consists of 15,042 holders of record of the Company's Common Shares. In addition, CP has a Management Stock Option Incentive Plan ("MSOIP"), under which key officers and employees are granted options to purchase CP shares. Each option granted can be exercised for one Common Share. At October 17, 2016, 2.5 million options were outstanding under the Company's MSOIP and stand-alone option agreements entered into with Mr. E. Hunter Harrison and Mr. Keith E. Creel. There are 1.5 million options available to be issued by the Company's MSOIP in the future.

CP has a Director's Stock Option Plan ("DSOP"), under which directors are granted options to purchase CP shares. There are no outstanding options under the DSOP, which has 0.3 million options available to be issued in the future.

An aggregate of 178,618 Common Shares of the Company beneficially owned or controlled by Mr. E. Hunter Harrison have been pledged as security for his personal line of credit. 153,100 of those Common Shares were pledged on December 30, 2014 and 25,518 of those Common Shares were pledged on June 3, 2016. Effective July 18, 2016, the Board of Directors of the Company approved an anti-pledging policy, which prohibits transactions after the effective date of policy that result in the holding of Common Shares or securities exercisable or convertible into Common Shares, in a margin account, or otherwise pledging such securities as collateral for a loan, subject only to Board approved exceptions where the person wishing to pledge indicates his or her financial capacity to repay the loan without resort to the pledged securities.

Non-GAAP Measures

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

These non-GAAP measures have no standardized meaning and are not defined by GAAP and, therefore, may not be comparable to similar measures presented by other companies. The presentation of these non-GAAP measures is not intended to be considered in isolation from, as a substitute for, or as superior to, the financial information presented in accordance with GAAP.

Adjusted Performance Measures

The Company uses Adjusted operating income, Adjusted income, Adjusted diluted earnings per share and Adjusted operating ratio to evaluate the Company's operating performance and for planning and forecasting future business operations and future profitability. These non-GAAP measures are presented in Financial Highlights and discussed further in other sections of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. These non-GAAP measures provide meaningful supplemental information regarding operating results because they exclude certain significant items that are not considered indicative of future financial trends either by nature or amount. As a result, these items are excluded for management assessment of operational performance, allocation of resources and preparation of annual budgets. These significant items may include, but are not limited to, restructuring and asset impairment charges, individually significant gains and losses from sales of assets and certain items outside the control of management. These items may not be non-recurring. However, excluding these significant items from GAAP results allows for a consistent understanding of the Company's consolidated financial performance when performing a multi-period assessment including assessing the likelihood of future results. Accordingly, these non-GAAP financial measures may provide insight to investors and other external users of the Company's consolidated financial information.

In 2016, there were two significant items included in Net income:

- in the third quarter, a $25 million expense ($18 million after current tax) related to a legal settlement; and
- during the nine months ended September 30, 2016, a net non-cash gain of $153 million ($132 million after deferred tax) due to FX translation of the Company's U.S. dollar-denominated debt as follows:
    - in the third quarter, a $46 million loss ($40 million after deferred tax);
    - in the second quarter, an $18 million gain ($16 million after deferred tax); and
    - in the first quarter, a $181 million gain ($156 million after deferred tax).

In 2015, there were four significant items included in Net income:

- in the third quarter, a $68 million gain ($42 million after current tax) related to the sale of D&H South;
- in the third quarter, a $47 million charge ($35 million after deferred tax) related to the early redemption premium on notes;
- in the second quarter, a deferred income tax expense of $23 million as a result of the change in the Alberta provincial corporate income tax rate; and
- during the course of the year, a net non-cash loss of $297 million ($257 million after deferred tax) due to FX translation of the Company's U.S. dollar-denominated debt as follows:
  - in the fourth quarter, a $115 million loss ($100 million after deferred tax);
  - in the third quarter, a $128 million loss ($111 million after deferred tax);
  - in the second quarter, a $10 million gain ($9 million after deferred tax); and
  - in the first quarter, a $64 million loss ($55 million after deferred tax).

In 2014, there was one significant item included in Net income:

- in the fourth quarter, a $12 million net non-cash loss ($9 million after deferred tax) due to FX translation on the Company's U.S. dollar-denominated debt.

Reconciliation of Non-GAAP Measures to GAAP Measures

The following tables reconcile non-GAAP measures presented in Financial Highlights, and discussed further in other sections of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, to the most directly comparable measures presented in accordance with GAAP for the three and nine months ended September 30, 2016 and 2015:

Adjusted operating income is calculated as Operating income reported on a GAAP basis less significant items.

Operating income	**For the three months ended September 30**		**For the nine months ended September 30**	
(in millions)	**2016**	2015	**2016**	2015
Adjusted Operating income	**$ 657**	$ 685	**$ 1,861**	$ 1,943
Add significant items:				
Gain on sale of D&H South	**—**	68	**—**	68
Operating income as reported	**$ 657**	$ 753	**$ 1,861**	$ 2,011

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

Net income	**For the three months ended September 30**		**For the nine months ended September 30**	
(in millions)	**2016**	2015	**2016**	2015
Adjusted income	**$ 405**	$ 427	**$ 1,101**	$ 1,206
Add significant items (pretax):				
Legal settlement charge	**(25)**	—	**(25)**	—
Gain on sale of D&H South	**—**	68	**—**	68
Impact of FX translation on U.S. dollar-denominated debt	**(46)**	(128)	**153**	(182)
Early redemption premium on notes	**—**	(47)	**—**	(47)
Income tax rate change	**—**	—	**—**	(23)
Tax effect of adjustments[(1)]	**13**	3	**(14)**	11
Net income as reported	**$ 347**	$ 323	**$ 1,215**	$ 1,033

[(1)] Tax effect of adjustments was calculated as the pretax effect of the adjustments multiplied by the effective tax rate for each of the above items for the periods presented.

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

Diluted earnings per share	For the three months ended September 30		For the nine months ended September 30	
	2016	2015	**2016**	2015
Adjusted diluted earnings per share	**$ 2.73**	$ 2.69	**$ 7.26**	$ 7.39
Add significant items (pretax):				
Legal settlement charge	**(0.17)**	—	**(0.16)**	—
Gain on sale of D&H South	**—**	0.42	**—**	0.42
Impact of FX translation on U.S. dollar-denominated debt	**(0.31)**	(0.81)	**1.01**	(1.12)
Early redemption premium on notes	**—**	(0.30)	**—**	(0.30)
Income tax rate change	**—**	—	**—**	(0.14)
Tax effect of adjustment[(1)]	**0.09**	0.04	**(0.09)**	0.07
Diluted earnings per share as reported	**$ 2.34**	$ 2.04	**$ 8.02**	$ 6.32

[(1)] Tax effect of adjustments was calculated as the pretax effect of the adjustments multiplied by the effective tax rate for each of the above items for the periods presented.

Adjusted operating ratio is calculated as Adjusted operating income divided by revenues.

Operating ratio	For the three months ended September 30		For the nine months ended September 30	
	2016	2015	**2016**	2015
Adjusted operating ratio	**57.7 %**	59.9 %	**59.5%**	61.3 %
Add significant items:				
Gain on sale of D&H South	**— %**	(4.0)%	**—%**	(1.3)%
Operating ratio as reported	**57.7 %**	55.9 %	**59.5%**	60.0 %

ROIC and Adjusted ROIC

ROIC is calculated as Operating income less Other income and charges, tax affected at the Company's annualized effective tax rate, on a rolling twelve-month basis, divided by the sum of Total shareholders' equity, Long-term debt, Long-term debt maturing within one year and Short-term borrowing, as presented in the Company's Consolidated Financial Statements, averaged between the beginning and ending balance over a rolling twelve-month period. Adjusted ROIC excludes significant items reported in Operating income and Other income and charges in the Company's Consolidated Financial Statements, as these significant items are not considered indicative of future financial trends either by nature or amount. ROIC and Adjusted ROIC are all-encompassing performance measures that measure how productively the Company uses its long-term capital investments, representing critical indicators of good operating and investment decisions made by management and are important performance criteria in determining certain elements of the Company's long-term incentive plan. ROIC and Adjusted ROIC are presented in Financial Highlights and discussed further in Results of Operations of this Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Calculation of ROIC and Adjusted ROIC

(in millions, except for percentages)	**2016**	2015
Operating income for the twelve months ended September 30	**$ 2,538**	$ 2,719
Less:		
Other income and charges	**(20)**	251
Tax[(1)]	**679**	736
	$ 1,879	$ 1,732
Average for the twelve months of total shareholders' equity, long-term debt, long-term debt maturing within one year and short-term borrowing	**13,109**	12,305
ROIC	**14.3%**	14.1%

[(1)] Tax was calculated at the annualized effective tax rate of 26.56% for 2016 and 29.81% for 2015 for each of the above items for the periods presented.

(in millions, except for percentages)	2016	2015
Operating income for the twelve months ended September 30	**$ 2,538**	$ 2,719
Less significant items:		
Gain on sale of D&H South	**—**	68
Adjusted operating income for the twelve months ended September 30	**2,538**	2,651
Less:		
Other income and charges	**(20)**	251
Add significant items (pretax):		
Legal settlement charge	**25**	—
Impact of FX translation on U.S. dollar-denominated debt	**(38)**	194
Early redemption premium on notes	**—**	47
Less: tax[(1)]	**680**	727
	$ 1,865	$ 1,914
Average for the twelve months of total shareholders' equity, long-term debt, long-term debt maturing within one year and short-term borrowing	**13,109**	12,305
Adjusted ROIC	**14.2%**	15.6%

[(1)] Tax was calculated at the adjusted annualized effective tax rate of 26.71% for 2016 and 27.52% for 2015 for each of the above items for the periods presented.

Free Cash

Free cash is calculated as Cash provided by operating activities, less Cash used in investing activities and Dividends paid, adjusted for changes in cash and cash equivalents balances resulting from FX fluctuations. Free cash is a measure that management considers to be an indicator of liquidity. Free cash is useful to investors and other external users of the consolidated financial statements as it assists with the evaluation of the Company's ability to generate cash from its operations without incurring additional external financing. Positive Free cash indicates the amount of cash available for reinvestment in the business, or cash that can be returned to investors through increased dividends, stock repurchase programs, debt retirements or a combination of these. Conversely, negative Free cash indicates the amount of cash that must be raised from investors through new debt or equity issues, reduction in available cash balances or a combination of these. Free cash should be considered in addition to, rather than as a substitute for, Cash provided by operating activities. Free cash is presented in Financial Highlights and discussed further in Liquidity and Capital Resources of this Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Reconciliation of Cash Provided by Operating Activities to Free Cash

	For the three months ended September 30		For the nine months ended September 30	
(in millions)	**2016**	2015	**2016**	2015
Cash provided by operating activities	**$ 591**	$ 696	**$ 1,321**	$ 1,836
Cash used in investing activities	**(278)**	(163)	**(817)**	(708)
Dividends paid	**(75)**	(57)	**(182)**	(172)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	**2**	18	**(16)**	23
Free cash	**$ 240**	$ 494	**$ 306**	$ 979

FX Adjusted Variance

Financial result variances at constant currency are obtained by translating the comparable period of the prior year results denominated in U.S. dollars at the foreign exchange rates of the current period. FX adjusted variance ("FX adj. variance") allows certain financial result variances to be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons in the analysis of trends in business performance. FX adj. variances are presented in Operating Revenues and Operating Expenses of this Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

(in millions)	For the three months ended September 30				
	Reported 2016	Reported 2015	Variance due to FX	Adjusted 2015	FX Adj. %
Freight revenues	**$ 1,510**	$ 1,667	$ (2)	$ 1,665	(9)%
Non-freight revenues	**44**	42	—	42	5 %
Total revenues	**1,554**	1,709	(2)	1,707	(9)%
Compensation and benefits	**294**	352	—	352	(16)%
Fuel	**138**	162	—	162	(15)%
Materials	**39**	47	—	47	(17)%
Equipment rents	**43**	42	—	42	2 %
Depreciation and amortization	**155**	149	—	149	4 %
Purchased services and other	**228**	272	(1)	271	(16)%
Gain on sale of D&H South	**—**	(68)	—	(68)	(100)%
Total operating expenses	**897**	956	(1)	955	(6)%
Operating income	**$ 657**	$ 753	$ (1)	$ 752	(13)%

(in millions)	For the nine months ended September 30				
	Reported 2016	Reported 2015	Variance due to FX	Adjusted 2015	FX Adj. %
Freight revenues	**$ 4,464**	$ 4,907	$ 145	$ 5,052	(12)%
Non-freight revenues	**131**	118	1	119	10 %
Total revenues	**4,595**	5,025	146	5,171	(11)%
Compensation and benefits	**907**	1,038	18	1,056	(14)%
Fuel	**394**	542	25	567	(31)%
Materials	**133**	144	3	147	(10)%
Equipment rents	**132**	130	5	135	(2)%
Depreciation and amortization	**478**	440	5	445	7 %
Purchased services and other	**690**	788	20	808	(15)%
Gain on sale of D&H South	**—**	(68)	—	(68)	(100)%
Total operating expenses	**2,734**	3,014	76	3,090	(12)%
Operating income	**$ 1,861**	$ 2,011	$ 70	$ 2,081	(11)%

Interest Coverage Ratio

Interest coverage ratio is measured, on a rolling twelve-month basis, as EBIT divided by Net interest expense. This ratio provides investors, analysts, and lenders with useful information on how the Company's debt servicing capabilities have changed, period over period and in comparison to the Company’s peers. Interest coverage ratio is discussed further in Liquidity and Capital Resources of this Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Adjusted interest coverage ratio is calculated as Adjusted EBIT divided by Net interest expense. By excluding significant items which affect EBIT, Adjusted interest coverage ratio assists management in comparing the Company's performance over various reporting periods on a consistent basis. Adjusted interest coverage ratio is discussed further in Liquidity and Capital Resources of this Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Calculation of Interest Coverage Ratio and Adjusted Interest Coverage Ratio

(in millions, except for ratios)	For the twelve months ended September 30 **2016**	2015
EBIT	**$ 2,558**	$ 2,468
Adjusted EBIT	**2,545**	2,641
Net interest expense	**477**	345
Interest coverage ratio	**5.4**	7.2
Adjusted interest coverage ratio	**5.3**	7.7

Reconciliation of Adjusted earnings before interest, tax, depreciation and amortization and Earnings before interest and tax

Adjusted EBITDA is calculated as Adjusted EBIT plus Depreciation and amortization, adjusted for net periodic pension and other benefit cost and operating lease expense. EBIT is calculated as Operating income, less Other income and charges. Adjusted EBIT excludes significant items reported in Operating income and Other income and charges.

(in millions)	**2016**	2015
Adjusted EBITDA for the twelve months ended September 30	**$ 3,152**	$ 3,256
Add:		
Adjustment for net periodic pension and other benefit cost	**141**	93
Operating lease expense	**(115)**	(129)
Depreciation and amortization	**(633)**	(579)
Adjusted EBIT for the twelve months ended September 30	**2,545**	2,641
Add Significant items (pretax):		
Legal settlement charge	**(25)**	—
Gain on sale of D&H South	**—**	68
Impact of FX translation on U.S. dollar-denominated debt	**38**	(194)
Early redemption premium on notes	**—**	(47)
EBIT for the twelve months ended September 30	**2,558**	2,468
Less:		
Net interest expense	**477**	345
Income tax expense	**547**	639
Net income as reported	**$ 1,534**	$ 1,484

Adjusted Net Debt to Adjusted EBITDA Ratio

Adjusted net debt is defined as Long-term debt, Long-term debt maturing within one year and Short-term borrowing as reported on the Company's Consolidated Balance Sheets adjusted for pension plans deficit, the net present value of operating leases, which is discounted by the Company's effective interest rate for each of the periods presented, and Cash and cash equivalents. Adjusted net debt to adjusted EBITDA ratio is calculated as Adjusted net debt divided by Adjusted EBITDA.

The Adjusted net debt to adjusted EBITDA ratio is one of the key metrics used by credit rating agencies in assessing the Company's financial capacities and constraints and determining the credit rating of the Company. By excluding the impact of certain items that are not considered by management in developing a minimum threshold, Adjusted net debt to Adjusted EBITDA ratio provides a metric that management uses to evaluate the Company's financial discipline with respect to capital markets credit sensitivities from management's perspective and communicates it publicly with investors, analysts and credit rating agencies. Adjusted net debt to Adjusted EBITDA ratio is discussed further in Liquidity and Capital Resources of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Calculation of Adjusted Net Debt to Adjusted EBITDA Ratio

(in millions, except for ratios)	**2016**	2015
Adjusted net debt as at September 30	**$ 9,420**	$ 8,638
Adjusted EBITDA for the twelve months ended September 30	**3,152**	3,256
Adjusted net debt to Adjusted EBITDA ratio	**3.0**	2.7

Reconciliation of Adjusted Net Debt to Long-term Debt

(in millions)	2016	2015
Adjusted net debt as at September 30	**$ 9,420**	$ 8,638
Add:		
Pension plans deficit	**(292)**	(295)
Net present value of operating leases[1]	**(352)**	(327)
Cash and cash equivalents	**103**	661
Long-term debt including long term debt maturing within one year as at September 30	**$ 8,879**	$ 8,677

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

Off-Balance Sheet Arrangements

Guarantees

At September 30, 2016, the Company had residual value guarantees on operating lease commitments of $19 million, compared to $28 million at December 31, 2015. The maximum amount that could be payable under these and all of the Company's other guarantees cannot be reasonably estimated due to the nature of certain guarantees. All or a portion of amounts paid under certain guarantees could be recoverable from other parties or through insurance. As at September 30, 2016, the fair value of these guarantees recognized as a liability was $6 million, compared to $4 million at December 31, 2015.

Contractual Commitments

The accompanying table indicates the Company's obligations and commitments to make future payments for contracts, such as debt, capital lease and commercial arrangements.

Contractual Commitments

At September 30, 2016:

Payments due by period (in millions)	Total	2016	2017 & 2018	2019 & 2020	2021 & beyond
Contractual commitments					
Interest on long-term debt and capital lease	**$ 12,346**	$ 93	$ 937	$ 811	$ 10,505
Long-term debt	**8,813**	373	778	547	7,115
Capital leases	**163**	1	9	10	143
Operating lease[1]	**459**	23	156	93	187
Supplier purchase	**1,296**	91	351	169	685
Other long-term liabilities[2]	**501**	36	110	105	250
Total contractual commitments	**$ 23,578**	$ 617	$ 2,341	$ 1,735	$ 18,885

[1] Residual value guarantees on certain leased equipment with a maximum exposure of $19 million are not included in the minimum payments shown above, as management believes that CP will not be required to make payments under these residual value guarantees.

[2] Includes expected cash payments for restructuring, environmental remediation, asset retirement obligations, post-retirement benefits, workers' compensation benefits, long-term disability benefits, pension benefit payments for the Company's non-registered supplemental pension plan and certain other long-term liabilities. Projected payments for post-retirement benefits, workers' compensation benefits and long-term disability benefits include the anticipated payments for years 2016 to 2025. Pension contributions for the Company's registered pension plans are not included due to the volatility in calculating them. Pension payments are discussed further in Critical Accounting Estimates of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Certain Other Financial Commitments

In addition to the financial commitments mentioned previously in Off-Balance Sheet Arrangements and Contractual Commitments of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, the Company is party to certain other financial commitments set forth in the table and discussed below.

At September 30, 2016:

Amount of commitments per period (in millions)	**Total**	2016	2017 & 2018	2019 & 2020	2021 & beyond
Commitments					
Letters of credit	**$ 304**	$ 304	$ —	$ —	$ —
Capital commitments	**268**	153	77	24	14
Total commitments	**$ 572**	$ 457	$ 77	$ 24	$ 14

Letters of Credit

Letters of credit are obtained mainly to provide security to third parties under the terms of various agreements, including workers' compensation and supplemental pension plan. CP is liable for these contractual amounts in the case of non-performance under these agreements. Letters of credit are accommodated through a revolving credit facility and the Company's bilateral letters of credit facility.

Capital Commitments

The Company remains committed to maintaining the current high level of plant quality and renewing the franchise. As part of this commitment, CP has entered into contracts with suppliers to make various capital purchases related to track programs. Payments for these commitments are due in 2016 through 2032. These expenditures are expected to be financed by cash generated from operations or by issuing new debt.

Critical Accounting Estimates

To prepare consolidated financial statements that conform with GAAP, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Using the most current information available, the Company reviews estimates on an ongoing basis, including those related to environmental liabilities, pensions and other benefits, property, plant and equipment, deferred income taxes, legal and personal injury liabilities and goodwill.

The development, selection and disclosure of these estimates, and this MD&A, have been reviewed by the Board of Directors' Audit Committee, which is composed entirely of independent directors.

Pensions and Other Benefits

Pension Liabilities and Pension Assets

The Company included pension benefit liabilities of $282 million in Pension and other benefit liabilities and $10 million in Accounts payable and accrued liabilities on the Company's Interim Consolidated Balance Sheets at September 30, 2016. The Company also included post-retirement benefits accruals of $388 million in Pension and other benefit liabilities and $21 million in Accounts payable and accrued liabilities on the Company's Interim Consolidated Balance Sheets at September 30, 2016.

The Company included pension benefit assets of $1,638 million in Pension assets on the Company's Interim Consolidated Balance Sheets at September 30, 2016.

Pension Plan Contributions

The Company made contributions of $4 million to the defined benefit pension plans in the third quarter of 2016, compared with $20 million in the same period of 2015. In the first nine months of 2016, the Company made contributions of $38 million to the defined benefit pension plans, compared with $61 million in the same period of 2015. The Company's main Canadian defined benefit pension plan accounts for 95% of CP's pension obligation and can produce significant volatility in pension funding requirements, given the pension fund's size, the many factors that drive the pension plan's funded status, and Canadian statutory pension funding requirements. The Company made voluntary prepayments of $600 million in 2011, $650 million in 2010 and $500 million in 2009 to the Company's main Canadian defined benefit pension plan. CP has applied $1,276 million of these voluntary prepayments to reduce its pension funding requirements in 2012–2015, leaving $474 million of the voluntary prepayments still available at December 31, 2015 to reduce CP's pension funding requirements in 2016 and future years. CP continues to have significant flexibility with respect to the rate at which the remaining voluntary prepayments are applied to reduce future years' pension contribution

requirements, which allows CP to manage the volatility of future pension funding requirements. At this time, CP intends to apply $5 million of the remaining voluntary prepayments against its 2016 pension funding requirements.

CP estimates its aggregate pension contributions, including its defined benefit and defined contribution plans, to be in the range of $50 million to $60 million in 2016, and in the range of $50 million to $100 million per year from 2017 to 2019. These estimates reflect the Company's current intentions with respect to the rate at which CP will apply the remaining voluntary prepayments against contribution requirements in the next few years.

Future pension contributions will be highly dependent on the Company's actual experience with such variables as investment returns, interest rate fluctuations and demographic changes, on the rate at which previous years' voluntary prepayments are applied against pension contribution requirements, and on any changes in the regulatory environment. CP will continue to make contributions to the pension plans that, at a minimum, meet pension legislative requirements.

Deferred Income Taxes

A deferred income tax expense of $50 million was included in Income tax expense for the third quarter of 2016 compared to $nil for the same period of 2015. For the first nine months of 2016, deferred income tax expense of $233 million was included in Income tax expense compared to $106 million the same period of 2015.

The increase in deferred income tax expense in the third quarter of 2016 was primarily due to the effect of 2015 discrete items, which includes the reclassification of deferred tax expense to current tax expense related to the sale of D&H South and the deferred tax recovery related to unrealized FX translation losses on U.S. dollar-denominated debt, partially offset by lower pretax earnings compared to the same period of 2015. The increase in deferred income tax expense for the first nine months of 2016 was attributable to the increase in the third quarter, as well as unrealized FX translation gains on U.S. dollar-denominated debt, which does not give rise to current tax expense.

At September 30, 2016, deferred income tax liabilities of $3,591 million were recorded as a long-term liability and are composed largely of temporary differences related to accounting for properties.

Legal and Personal Injury Liabilities

Provisions for incidents, claims and litigation charged to income, of which $14 million were included in Purchase services and other expense and $25 million in Other charges, totaling $39 million in the third quarter of 2016 compared with $6 million for the same period of 2015. For the first nine months of 2016, these provisions amounted to $72 million compared with $60 million for the same period of 2015.

Forward-Looking Information

This MD&A and Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 and other relevant securities legislation. These forward-looking statements include, but are not limited to, our updated expectations for 2016 which includes: operating ratio below 59%, mid-single-digit EPS growth from full-year 2015 adjusted EPS of $10.10, and capital expenditures of approximately $1.2 billion, statements concerning the Company's operations, anticipated financial performance, business prospects and strategies, including statements concerning the anticipation that cash flow from operations and various sources of financing will be sufficient to meet debt repayments and obligations in the foreseeable future and concerning anticipated capital programs, statements regarding future payments including income taxes and pension contributions, and capital expenditures. Forward-looking information typically contains statements with words such as "financial expectations", "key assumptions", "anticipate", "believe", "expect", "plan", "will", "outlook", "should" or similar words suggesting future outcomes.

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

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

There are more specific factors that could cause actual results to differ materially from those described in the forward-looking statements contained in this MD&A. These more specific factors are identified and discussed in Item 1A. Risk Factors of CP's 2015 Annual Report on Form 10-K. Other risks are detailed from time to time in reports filed by CP with securities regulators in Canada and the United States.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to market risk during the three and nine months ended September 30, 2016 from the information provided in Item 7A. Quantitative and Qualitative Disclosure about Market Risk of CP's 2015 Annual Report on Form 10-K other than foreign exchange risk and share price impact on stock-based compensation discussed below:

Foreign Exchange Risk

Although CP conducts business primarily in Canada, a significant portion of its revenues, expenses, assets and liabilities including debt are denominated in U.S. dollars. The value of the Canadian dollar is affected by a number of domestic and international factors, including, without limitation, economic performance, and Canadian, U.S. and international monetary policies. Consequently, the Company's results are affected by fluctuations in the exchange rate between these currencies. On an annualized basis, a $0.01 weakening (or strengthening) of the Canadian dollar positively (or negatively) impacts Total revenues by approximately $25 million and negatively (or positively) impacts Operating expenses by approximately $13 million. To manage this exposure to fluctuations in exchange rates between Canadian and U.S. dollars, CP may sell or purchase U.S. dollar forwards at fixed rates in future periods. In addition, changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and may in turn positively or negatively affect revenues.

FX translation on the Company's U.S. dollar-denominated long-term debt is also impacted by this risk. A weakening (or strengthening) of the Canadian dollar negatively (or positively) impacts Other income and charges in the Company's Consolidated Statements of Income. For further information, please refer to Item 8. Financial Statements and Supplementary Data, Note 20 Financial Instruments, in CP's 2015 Annual Report on Form 10-K.

Share Price Impact on Stock-Based Compensation

For every $1.00 change in share price, stock-based compensation expense has a corresponding change of approximately $0.5 million to $0.7 million based on information available at September 30, 2016. This excludes the impact of changes in share price relative to the S&P/TSX 60 index and relative to Class I railways, which may trigger different performance share unit payouts.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of September 30, 2016, an evaluation was carried out under the supervision of and with the participation of CP's management, including its CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, the CEO and CFO concluded that these disclosure controls and procedures were effective as of September 30, 2016, to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified by the SEC rules and forms and (ii) accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the third quarter of 2016, the Company has not identified any changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

For further details refer to Item 1. Financial Statements, Note 13 Contingencies.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors from the information provided in Item 1A. Risk Factors of CP's 2015 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchase of Equity Securities

On April 20, 2016, CP announced a new normal course issuer bid ("NCIB") to repurchase, for cancellation, up to 6.91 million of its Common Shares, which received approval by the TSX on April 28, 2016. The NCIB commenced on May 2, 2016 and will expire on May 1, 2017. During the third quarter of 2016, CP repurchased 1.8 million Common Shares in total for $342 million at a weighted average price of $192.10. The Company completed the NCIB on September 28, 2016. The following table presents Common Shares repurchased during each month for the third quarter of 2016.

2016	Total Number of Shares Purchased[1]	Average Price Paid per Share[2]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1 to July 31	489,100	$ 184.75	489,100	1,293,100
August 1 to August 31	642,085	195.11	642,085	651,015
September 1 to September 30	651,015	194.64	651,015	—
Ending Balance	**1,782,200**	**192.10**	**1,782,200**	**N/A**

[1] Includes shares repurchased but not yet canceled at quarter end.
[2] Includes brokerage fees.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit	Description
10.1	Third Amending Agreement, dated as of June 28, 2016, amending the Credit Agreement, dated September 26, 2014, between Canadian Pacific Railway Company, as Borrower, Canadian Pacific Railway Limited, as Covenantor, Royal Bank of Canada, as Administrative Agent, and the various Lenders party thereto.
31.1**	CEO Rule 13a-14(a) Certifications
31.2**	CFO Rule 13a-14(a) Certifications
32.1**	CEO Section 1350 Certifications
32.2**	CFO Section 1350 Certifications
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
	The following financial information from Canadian Pacific Railway Limited's Quarterly Report on Form 10-Q for the third quarter ended September 30, 2016, formatted in Extensible Business Reporting Language (XBRL) includes: (i) the Interim Consolidated Statements of Income for the third quarters and first nine months ended September 30, 2016 and 2015; (ii) the Consolidated Statements of Comprehensive Income for the third quarters and first nine months ended September 30, 2016 and 2015; (iii) the Consolidated Balance Sheets at September 30, 2016, and December 31, 2015; (iv) the Consolidated Statements of Cash Flows for the third quarters and first nine months ended September 30, 2016 and 2015; (v) the Consolidated Statements of Changes in Shareholders' Equity for the first nine months ended September 30, 2016 and 2015; and (vi) the Notes to Consolidated Financial Statements.

**Filed with this Statement

Exhibit 31.1

Certification by the Chief Executive Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
Canadian Pacific Railway Limited

I, E. Hunter Harrison, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Canadian Pacific Railway Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **October 19, 2016**

/s/ E. Hunter Harrison
E. Hunter Harrison
Chief Executive Officer

Exhibit 31.2

Certification by the Chief Financial Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
Canadian Pacific Railway Limited

I, Nadeem Velani, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Canadian Pacific Railway Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **October 19, 2016**

/s/ Nadeem Velani
Nadeem Velani
Vice-President and Chief Financial Officer

Exhibit 32.1

Certifications Furnished Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

Canadian Pacific Railway Limited

In connection with the Quarterly Report of Canadian Pacific Railway Limited (the "Company") on Form 10-Q for the period ended September 30, 2016 (the "Report") to which this certificate is an exhibit, I, E. Hunter Harrison, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **October 19, 2016**

/s/ E. Hunter Harrison
E. Hunter Harrison
Chief Executive Officer

Exhibit 32.2

Certifications Furnished Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

Canadian Pacific Railway Limited

In connection with the Annual Report of Canadian Pacific Railway Limited (the "Company") on Form 10-Q for the period ended September 30, 2016 (the "Report") to which this certificate is an exhibit, I, Nadeem Velani, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **October 19, 2016**

/s/ Nadeem Velani
Nadeem Velani
Vice-President and Chief Financial Officer

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CANADIAN PACIFIC RAILWAY LIMITED

(Registrant)

By: /s/ Nadeem Velani

Nadeem Velani

Vice-President and Chief Financial Officer
(Principal Financial Officer)

Dated: **October 19, 2016**

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