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 Company's Interim Consolidated Financial Statements and the related notes for the three and nine months ended September 30, 2019 in Item 1. Financial Statements, other information in this report, and Item 8. Financial Statements and Supplementary Data of the Company's 2018 Annual Report on Form 10-K. 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 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”). Our website also contains charters for our Board of Directors and each of its committees, 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 Exhibits to this report.

Executive Summary

Third Quarter of 2019 Results

- *Financial performance* - In the third quarter of 2019, CP reported Diluted earnings per share ("EPS") of $4.46, an increase of 3% as compared to the same period of 2018, primarily due to growth in operating income and lower average outstanding shares due to the Company's share repurchase program, partially offset by foreign exchange ("FX") translation losses on debt and lease liabilities in 2019 compared to FX translation gains on debt in 2018. Adjusted diluted EPS, which excludes the FX translation losses and gains on debt and lease liabilities, was $4.61 in the third quarter of 2019, an increase of 12% compared to the same period of 2018. This increase was primarily due to higher operating income and lower average outstanding shares.

  CP reported Net income of $618 million in the third quarter of 2019, a decrease of 1% as compared to the same period of 2018, primarily due to the FX translation losses on debt and lease liabilities in 2019 compared to FX translation gains on debt in 2018, partially offset by growth in operating income. Adjusted income, which excludes the FX translation losses and gains on debt and lease liabilities, was $640 million in the third quarter of 2019, an increase of 9% compared to the same period of 2018. This increase was primarily due to higher operating income.

  CP reported an Operating ratio of 56.1% in the third quarter of 2019, a 220 basis point improvement as compared to the same period of 2018. This improvement was primarily due to higher freight revenue.

  Adjusted diluted EPS and Adjusted income 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.

- *Total revenues* - Total revenues increased by 4% in the third quarter of 2019 to $1,979 million from $1,898 million in the same period of 2018. This increase was primarily driven by higher freight rates, partially offset by lower volumes.

- *Operating performance* - CP's average train speed increased by 5% in the third quarter of 2019, to 22.7 miles per hour, due to completion of network infrastructure projects in 2018. Average train weight remained relatively unchanged at 9,173 tons and average train length increased by 1% to 7,446 feet due to improvements in operating plan efficiency, in each case compared to the same period in 2018. These metrics are discussed further in Performance Indicators of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Recent Developments

- At the end of September 2019, Mr. Robert Johnson retired from his position as Executive Vice-President, Operations. Effective September 1, 2019, CP's new Executive Vice-President, Operations, is Mr. Mark Redd.

Prior Developments

- On July 15, 2019, the Company announced the appointment of Ms. Andrea Robertson and Mr. Edward R. Hamberger to CP’s Board of Directors, effective July 15, 2019.

- On May 7, 2019, CP announced the election of all nine director nominees and, upon her re-election as a director, Ms. Isabelle Courville was confirmed as Chair of CP's Board of Directors.

- On May 6, 2019, CP announced an increase to the Company's quarterly dividend to $0.8300 per share from $0.6500 per share.

- During the first quarter of 2019, the Company experienced severe winter operating conditions and an increase in the frequency and severity of casualty incidents and derailments. As a result, the Company incurred significant costs for weather fighting, direct casualty costs, and higher operating costs. During this period and the subsequent network recovery the Company also experienced losses and deferrals of potential revenues.

- During the second quarter of 2018, the Company received multiple strike notices from the Teamsters Canada Rail Conference - Train & Engine ("TCRC"), representing approximately 3,000 conductors and locomotive engineers, and the International Brotherhood of Electrical Workers ("IBEW"), representing approximately 360 signal maintainers. CP reached a three-year agreement with IBEW, ratified by IBEW membership on June 29, 2018, and a four-year agreement with TCRC, ratified by TCRC membership on July 20, 2018. The wind-down of operations and return to full service levels following the strike notices caused disruption to the network, losses in potential revenue and costs related to labour disruptions.

2019 Outlook

As a result of a 2019 plan built on sustainable, profitable, growth along with further productivity improvement, CP expects low-single digit revenue ton-mile ("RTM") growth and double-digit adjusted diluted EPS growth. The update in volume expectations, from mid-single digit RTM growth, is due to the delays in the Canadian grain harvest and export potash volumes, as well as general macroeconomic softness. CP's expectations for double-digit Adjusted diluted EPS growth in 2019 are unchanged and are based on Adjusted diluted EPS of $14.51 in 2018. As CP continues to enhance the service, productivity and safety of the network, the company plans to invest approximately a total of $1.6 billion in capital programs. CP's outlook assumes a U.S.-to-Canadian dollar exchange rate of approximately $1.30, an annualized effective tax rate of approximately 25.5 percent, and no material land sales. CP estimates other components of net periodic benefit recovery to increase by approximately $9 million versus 2018. Adjusted diluted EPS is 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.

Although CP has provided a forward-looking Non-GAAP measure (Adjusted diluted EPS), it is not practicable to provide a reconciliation to a forward-looking reported diluted EPS, the most comparable GAAP measure, due to unknown variables and uncertainty related to future results. These unknown variables may include unpredictable transactions of significant value. In past years, CP has recognized significant asset impairment charges and management transition costs related to senior executives. These or other similar, large unforeseen transactions affect diluted EPS but may be excluded from CP's Adjusted diluted EPS. Additionally, the U.S.-to-Canadian dollar exchange rate is unpredictable and can have a significant impact on CP's reported results but may be excluded from CP's Adjusted diluted EPS. In particular, CP excludes the FX impact of translating the Company's debt and lease liabilities and the impact from changes in income tax rates from Adjusted diluted EPS. Please see Forward-Looking Statements in this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion.

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		
	2019	2018[1]	% Change	**2019**	2018[1]	% Change
Operations Performance						
Gross ton-miles ("GTMs") (millions)	**71,658**	70,469	2	**209,229**	202,575	3
Train miles (thousands)	**8,354**	8,174	2	**24,550**	23,809	3
Average train weight – excluding local traffic (tons)	**9,173**	9,195	—	**9,117**	9,082	—
Average train length – excluding local traffic (feet)	**7,446**	7,345	1	**7,382**	7,297	1
Average terminal dwell (hours)	**5.8**	6.9	(16)	**6.7**	7.1	(6)
Average train speed (miles per hour, or "mph")	**22.7**	21.6	5	**22.1**	21.2	4
Fuel efficiency (U.S. gallons of locomotive fuel consumed / 1,000 GTMs)	**0.927**	0.916	1	**0.956**	0.952	—
Total Employees and Workforce						
Total employees (average)	**13,203**	12,941	2	**13,107**	12,623	4
Total employees (end of period)	**13,104**	13,000	1	**13,104**	13,000	1
Workforce (end of period)	**13,134**	13,029	1	**13,134**	13,029	1
Safety Indicators						
FRA personal injuries per 200,000 employee-hours	**1.39**	1.47	(5)	**1.44**	1.48	(3)
FRA train accidents per million train-miles	**1.10**	1.57	(30)	**1.19**	1.26	(6)

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

Operations Performance

These key measures of operating performance reflect how effective CP's management is at controlling costs and executing the Company's operating plan and strategy. CP continues to drive further productivity improvements in its operations, allowing the Company to deliver superior service and grow its business at low incremental cost.

Three months ended September 30, 2019 compared to the three months ended September 30, 2018

- A **GTM** is defined as the movement of one ton of train weight over one mile. GTMs are calculated by multiplying total train weight by the distance the train moved. Total train weight comprises the weight of the freight cars, their contents, and any inactive locomotives. An increase in GTMs indicates additional workload. GTMs increased by 2% in the third quarter of 2019 compared to the same period of 2018. This increase was mainly attributable to higher volumes of international intermodal and crude. This increase was partially offset by lower volumes of Potash.

- **Train miles** are defined as the sum of the distance moved by all trains operated on the network. Train miles increased by 2% in the third quarter of 2019 compared to the same period of 2018. This increase reflected the impact of a 2% increase in workload (GTMs).

- **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 railroads' trains on CP's network. Average train weight remained relatively flat in the third quarter of 2019 compared to the same period of 2018.

- **Average train length** is defined as the average total length of CP trains, both loaded and empty. This includes all cars and locomotives on the train and is calculated as the sum of each car or locomotive's length multiplied by the distance travelled, divided by train miles. Local trains are excluded from this measure. Average train length increased by 1% in the third quarter of 2019 compared to the same period of 2018. This increase was a result of improvements in operating plan efficiency.

- **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 at the terminal, a customer releasing the car to the Company, or a car arriving at interchange from another railroad. The timing ends when the train leaves, a customer receives the car from CP, or the freight car is transferred to another railroad. Freight cars are excluded if they are being stored at the terminal or used in track repairs. Average terminal dwell improved by 16% in the third quarter of 2019 compared to the same period of 2018. This favourable decrease was due to improved network fluidity.

- **Average train speed** is defined as a measure of the line-haul movement from origin to destination including terminal dwell hours. It is calculated by dividing the total train miles travelled by the total train hours operated. This calculation does not include delay time related to customers or foreign railroads and excludes the time and distance travelled by: i) trains used in or around CP's yards; ii) passenger trains; and iii) trains used for repairing track. Average train speed increased by 5% in the third quarter of 2019 compared to the same period of 2018. This increase in speed was due to completion of network infrastructure projects in 2018.

- **Fuel efficiency** is defined as U.S. gallons of locomotive fuel consumed per 1,000 GTMs. Fuel consumed includes gallons from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities. Fuel efficiency decreased by 1% in the third quarter of 2019 compared to the same period of 2018. This decrease in efficiency was due to reduced train productivity and lower horsepower utilization.

Nine months ended September 30, 2019 compared to the nine months ended September 30, 2018

- **GTMs** increased by 3% for the first nine months of 2019 compared to the same period of 2018. This increase was primarily due to increased volumes of Intermodal, Energy, chemicals and plastics, Canadian grain, and Potash. This increase was partially offset by decreased volumes of frac sand and U.S. grain.

- **Train miles** increased by 3% for the first nine months of 2019 compared to the same period of 2018. This increase reflected the impact of a 3% increase in workload (GTMs).

- **Average train weight** increased by 35 tons for the first nine months of 2019 compared to the same period of 2018. This slight increase was a result of improvements in operating plan efficiency combined with higher volumes of heavier commodities, such as Potash and crude. This slight increase was partially offset by the implementation of CP's winter contingency plan in the first quarter of 2019 resulting in shorter and lighter trains within the operating plan.

- **Average train length** increased by 1% for the first nine months of 2019 from the same period of 2018. This increase was primarily due to improvements in operating plan efficiency and increased Potash and Intermodal volumes, which move in longer trains. This increase was partially offset by the implementation of CP's winter contingency plan in the first quarter of 2019 resulting in shorter and lighter trains within the operating plan.

- **Average terminal dwell** decreased by 6% in the first nine months of 2019 compared to the same period of 2018. This favourable decrease was due to improved network fluidity.

- **Average train speed** increased by 4% in the first nine months of 2019 compared to the same period of 2018. This increase was primarily due to the completion of network infrastructure projects in 2018, partially offset by the impact of harsh winter operating conditions and network disruptions in the first quarter of 2019.

- **Fuel efficiency** was unchanged in the first nine months of 2019 compared to the same period of 2018. Improvements in operating performance in the second quarter of 2019 were offset by decreased train productivity and lower horsepower utilization in the third quarter of 2019 and as a result of harsh winter conditions and network disruptions in the first quarter of 2019.

Total Employees and Workforce

An **employee** is defined as an individual currently engaged in full-time, part-time, or seasonal employment with CP. The average number of total employees increased by 2% and 4% for the three and nine months ended September 30, 2019, respectively, compared to the same periods of 2018. The total number of employees as at September 30, 2019 was 13,104, an increase of 104, or 1%, compared to 13,000 as at September 30, 2018.

Workforce is defined as total employees plus contractors and consultants. The total workforce as at September 30, 2019 was 13,134, an increase of 105, or 1%, compared to 13,029 as at September 30, 2018.

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 injuries per 200,000 employee-hours** frequency 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 injuries per 200,000 employee-hours frequency for CP was 1.39 in the third quarter of 2019, a decrease from 1.47 in the same period of 2018. For the first nine months of 2019, the FRA personal injury rate per 200,000 employee-hours for CP was 1.44, a decrease from 1.48 in the same period of 2018.

The **FRA train accidents per million train-miles** frequency is the number of train accidents, multiplied by 1,000,000 and divided by total train miles. Train accidents included in this metric meet or exceed the FRA reporting threshold of U.S. $10,700 in damage. The FRA train accidents per million train-miles was 1.10 in the third quarter of 2019, a decrease from 1.57 in the same period of 2018. For the first nine months of 2019, the FRA train accidents per million train-miles was 1.19, a decrease from 1.26 in the same period of 2018.

Financial Highlights

The following table presents selected financial data related to the Company's financial results as of, and for the three and nine months ended September 30, 2019 and the comparative figures in 2018. The financial highlights should be read in conjunction with Item 1. Financial Statements and this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

	For the three months ended September 30		For the nine months ended September 30	
(in millions, except per share data, percentages and ratios)	**2019**	2018	**2019**	**2018**
Financial Performance				
Total revenues	**$ 1,979**	$ 1,898	**$ 5,723**	$ 5,310
Operating income	**869**	790	**2,234**	1,957
Net income	**618**	622	**1,776**	1,406
Adjusted income(1)	**640**	589	**1,634**	1,432
Basic EPS	**4.47**	4.36	**12.75**	9.81
Diluted EPS	**4.46**	4.35	**12.70**	9.78
Adjusted diluted EPS(1)	**4.61**	4.12	**11.68**	9.97
Dividends declared per share	**0.8300**	0.6500	**2.3100**	1.8625
Cash provided by operating activities	**823**	673	**1,957**	1,781
Free cash(1)	**363**	245	**821**	740
	As at September 30, 2019		As at December 31, 2018	
Financial Position				
Total assets	**$ 22,539**		$ 21,254	
Total long-term debt, including current portion	**8,983**		8,696	
Total shareholders' equity	**7,215**		6,636	
	For the twelve months ended September 30			
	2019		2018	
Financial Ratios				
Return on invested capital ("ROIC")(1)	**16.9%**		19.4%	
Adjusted ROIC(1)	**16.6%**		15.7%	
	For the three months ended September 30		**For the nine months ended September 30**	
	2019	2018	**2019**	2018
Operating ratio(2)	**56.1%**	58.3%	**61.0%**	63.1%

(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.

Results of Operations

Three months ended September 30, 2019 compared to the three months ended September 30, 2018

Income

Operating income was $869 million in the third quarter of 2019, an increase of $79 million, or 10%, from $790 million in the same period of 2018. This increase was primarily due to:

- higher freight rates;
- lower stock-based and incentive compensation; and

- the favourable impact of $12 million from changes in fuel prices.

This increase was partially offset by:
- lower volumes as measured by RTMs;
- cost inflation; and
- higher depreciation and amortization.

Net income was $618 million in the third quarter of 2019, a decrease of $4 million, or 1%, from $622 million in the same period of 2018. This decrease was primarily due to FX translation losses on debt and lease liabilities in 2019 compared to FX translation gains on debt in 2018, higher taxes primarily due to higher taxable income, and lower equity income in 2019, partially offset by higher Operating income.

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 $640 million in the third quarter of 2019, an increase of $51 million, or 9%, from $589 million in the same period of 2018. This increase was primarily due to higher Operating income, partially offset by higher taxes primarily due to higher taxable income, and lower equity income in 2019.

Diluted Earnings per Share

Diluted EPS was $4.46 in the third quarter of 2019, an increase of $0.11, or 3%, from $4.35 in the same period of 2018. This increase was primarily due to a lower average number of outstanding shares due to share repurchases under the Company's share repurchase program, partially offset by lower Net income.

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 $4.61 in the third quarter of 2019, an increase of $0.49, or 12%, from $4.12 in the same period of 2018. This increase was primarily due to higher Adjusted income and lower average number of outstanding shares due to the Company's share repurchase program.

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 56.1% in the third quarter of 2019, a 220 basis point improvement from 58.3% in the same period of 2018. This improvement was primarily due to:
- higher freight rates;
- the impact of changes in fuel prices; and
- lower stock-based and incentive compensation.

This improvement was partially offset by:
- lower volumes as measured by RTMs;
- cost inflation; and
- higher depreciation and amortization.

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 16.9% for the twelve months ended September 30, 2019, a 250 basis point decrease compared to 19.4% for the twelve months ended September 30, 2018. This decrease was due to higher Income tax expenses primarily due to higher income tax recoveries from tax rate changes in the twelve months ended September 30, 2018, and higher average invested capital primarily from higher Net income. This decrease was partially offset by higher Operating income.

Adjusted ROIC was 16.6% for the twelve months ended September 30, 2019, a 90 basis point increase compared to 15.7% for the twelve months ended September 30, 2018. This increase was primarily due to higher Operating income, partially offset by the increase in adjusted average invested capital primarily due to higher Net income, and higher Income tax expense due to higher taxable earnings. 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, 2019 compared to the nine months ended September 30, 2018

Income

Operating income was $2,234 million in the first nine months of 2019, an increase of $277 million, or 14%, from $1,957 million in the same period of 2018. This increase was primarily due to:
- higher freight rates;
- the favourable impact of $49 million from changes in fuel prices;

- the favourable impact of change in FX of $38 million;
- higher volumes; and
- the efficiencies generated from improved operating performance and asset utilization.

This increase was partially offset by:
- increased operating expense associated with higher casualty costs in the first quarter of 2019;
- cost inflation; and
- increased weather related costs as a result of harsh winter operating conditions in the first quarter of 2019.

Net income was $1,776 million in the first nine months of 2019, an increase of $370 million, or 26%, from $1,406 million in the same period of 2018. This increase was primarily due to higher Operating income, FX translation gains on debt and lease liabilities in 2019 compared to FX translation losses on debt in the same period of 2018, and a higher income tax recovery associated with changes in tax rates, partially offset by higher income taxes due to higher taxable income.

Adjusted income was $1,634 million in the first nine months of 2019, an increase of $202 million, or 14%, from $1,432 million in the same period of 2018. This increase was due to the same factors discussed above for the increase in Net income, except that Adjusted income excludes FX translation gains and losses on debt and lease liabilities and income tax recoveries associated with changes in tax rates.

Diluted Earnings per Share

Diluted EPS was $12.70 in the first nine months of 2019, an increase of $2.92, or 30%, from $9.78 in the same period of 2018. Adjusted diluted EPS was $11.68 in the first nine months of 2019, an increase of $1.71, or 17%, from $9.97 in the same period of 2018. These increases were due to higher Net income and higher Adjusted income, respectively, and lower average outstanding shares due to the Company's share repurchase program.

Operating Ratio

The Company's Operating ratio was 61.0% in the first nine months of 2019, a 210 basis point improvement from 63.1% in the same period of 2018. This improvement was primarily due to:
- higher freight rates;
- the impact of changes in fuel prices; and
- the efficiencies generated from improved operating performance and asset utilization.

This improvement was partially offset by:
- increased operating expense associated with higher casualty costs in the first quarter of 2019;
- cost inflation; and
- increased weather related costs as a result of harsh winter operating conditions in the first quarter of 2019.

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. In the third quarter of 2019, the impact of a stronger U.S. dollar resulted in an increase in total revenues of $9 million, an increase in total operating expenses of $5 million, and an increase in interest expense of $1 million from the same period of 2018. In the first nine months of 2019, the impact of a stronger U.S. dollar resulted in an increase in total revenues of $86 million, an increase in total operating expenses of $48 million, and an increase in interest expense of $10 million from the same period of 2018.

On October 18, 2019, the noon buying rate certified for customs purposes by the U.S. Federal Reserve Bank of New York was U.S. $1.00 = $1.31 Canadian dollar.

The following tables set forth, for the periods indicated, the average exchange rate between the Canadian dollar and the U.S. dollar expressed in the Canadian dollar equivalent of one U.S. dollar, the high and low exchange rates and period end exchange rates for the periods indicated. Averages for year-end periods are calculated by using the exchange rates on the last day of each full month during the relevant period. These rates are based on the noon buying rate certified for customs purposes by the U.S. Federal Reserve Bank of New York set forth in the H.10 statistical release of the Federal Reserve Board.

Average exchange rates (Canadian/U.S. dollar)	**2019**	2018
For the three months ended - September 30	**$ 1.32**	$ 1.31
For the nine months ended - September 30	**$ 1.33**	$ 1.29

Ending exchange rates (Canadian/U.S. dollar)		2019		2018
Beginning of year - January 1	**$**	**1.36**	$	1.25
Beginning of quarter - July 1	**$**	**1.31**	$	1.32
End of quarter - September 30	**$**	**1.32**	$	1.29

	For the three months ended September 30				For the nine months ended September 30			
High/Low exchange rates (Canadian/U.S. dollar)		**2019**		2018		**2019**		2018
High	**$**	**1.33**	$	1.33	**$**	**1.36**	$	1.33
Low	**$**	**1.30**	$	1.29	**$**	**1.30**	$	1.23

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

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 an impact on earnings due to the timing of recoveries from CP's fuel cost adjustment program. The following table indicates the average fuel price for the three and nine months ended September 30, 2019 and the comparative periods of 2018.

Average Fuel Price (U.S. dollars per U.S. gallon)		**2019**		2018
For the three months ended - September 30	**$**	**2.41**	$	2.69
For the nine months ended - September 30	**$**	**2.48**	$	2.72

The impact of fuel prices on earnings includes the impacts of carbon taxes, levies, and obligations under cap-and-trade programs recovered and paid, on revenues and expenses, respectively.

In the third quarter of 2019, the favourable impact of fuel prices on Operating income was $12 million. Lower fuel prices resulted in a decrease in total operating expenses of $30 million. Lower fuel prices, partially offset by the timing of recoveries from CP's fuel cost adjustment program, and increased carbon tax recoveries, resulted in a decrease in total revenues of $18 million from the same period of 2018.

In the first nine months of 2019, the favourable impact of fuel prices on Operating income was $49 million. Lower fuel prices resulted in a decrease in total operating expenses of $58 million. Lower fuel prices, partially offset by the timing of recoveries from CP's fuel cost adjustment program, and increased carbon tax recoveries, resulted in a decrease in total revenues of $9 million from the same period of 2018.

Impact of Share Price on Earnings

Fluctuations in the Common Share price affect the Company's operating expenses because share-based liabilities are measured at fair value. The following tables indicate the opening and closing CP Common Share price on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE") for the three and nine months ended September 30, 2019 and the comparative periods in 2018.

TSX (in Canadian dollars)		**2019**		2018
Opening Common Share price, as at January 1	**$**	**242.24**	$	229.66
Ending Common Share price, as at June 30	**$**	**308.43**	$	240.92
Ending Common Share price, as at September 30	**$**	**294.42**	$	273.23
Change in Common Share price for the three months ended September 30	**$**	**(14.01)**	$	32.31
Change in Common Share price for the nine months ended September 30	**$**	**52.18**	$	43.57

NYSE (in U.S. dollars)		2019		2018
Opening Common Share price, as at January 1	$	**177.62**	$	182.76
Ending Common Share price, as at June 30	$	**235.24**	$	183.02
Ending Common Share price, as at September 30	$	**222.46**	$	211.94
Change in Common Share price for the three months ended September 30	$	**(12.78)**	$	28.92
Change in Common Share price for the nine months ended September 30	$	**44.84**	$	29.18

In the third quarter of 2019, the impact of the change in Common Share prices resulted in a decrease in stock-based compensation expense of $9 million compared to an increase of $15 million in the same period of 2018.

In the first nine months of 2019, the impact of the change in Common Share prices resulted in an increase in stock-based compensation expense of $20 million compared to an increase of $17 million in the same period of 2018.

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

Operating Revenues

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

For the three months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[2]
Freight revenues (in millions)[1]	$	**1,932**	$	1,854	$	78	4	4
Non-freight revenues (in millions)		**47**		44		3	7	4
Total revenues (in millions)	$	**1,979**	$	1,898	$	81	4	4
Carloads (in thousands)		**711.9**		702.0		9.9	1	N/A
Revenue ton-miles (in millions)		**39,172**		39,664		(492)	(1)	N/A
Freight revenue per carload (in dollars)	$	**2,714**	$	2,640	$	74	3	2
Freight revenue per revenue ton-mile (in cents)		**4.93**		4.67		0.26	6	5

(1) Freight revenues include fuel surcharge revenues of $119 million in 2019 and $137 million in 2018. 2019 and 2018 fuel surcharge revenues include carbon taxes, levies, and obligations recovered under cap-and-trade programs.

(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 % Change 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 $1,932 million in the third quarter of 2019, an increase of $78 million, or 4%, from $1,854 million in the same period of 2018. This increase was primarily due to higher freight revenue per revenue ton-mile, and the favourable impact of the change in FX of $8 million. This increase was partially offset by lower volumes as measured by RTMs, and the unfavourable impact of fuel surcharge revenue as a result of lower fuel prices of $18 million. Freight revenue per revenue ton-mile increased as a result of higher freight rates and moving proportionately lower volumes of export potash.

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 2019 were 39,172 million, a decrease of 1% compared with 39,664 million in the same period of 2018. This decrease was mainly attributable to lower volumes of Potash, and Canadian grain. This decrease was partially offset by higher volumes of international intermodal, and crude.

Non-freight revenues were $47 million in the third quarter of 2019, an increase of $3 million, or 7%, from $44 million in the same period of 2018. This increase was primarily due to higher switching fees and logistical services revenue.

For the nine months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[(2)]
Freight revenues (in millions)[(1)]	**$**	**5,589**	$	5,188	$	401	8	6
Non-freight revenues (in millions)		**134**		122		12	10	9
Total revenues (in millions)	**$**	**5,723**	$	5,310	$	413	8	6
Carloads (in thousands)		**2,064.3**		2,029.9		34.4	2	N/A
Revenue ton-miles (in millions)		**114,994**		113,584		1,410	1	N/A
Freight revenue per carload (in dollars)	**$**	**2,707**	$	2,556	$	151	6	4
Freight revenue per revenue ton-mile (in cents)		**4.86**		4.57		0.29	6	5

(1) Freight revenues include fuel surcharge revenues of $352 million in 2019 and $351 million in 2018. 2019 and 2018 fuel surcharge revenues include carbon taxes, levies, and obligations recovered under cap-and-trade programs.

(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 % Change 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 $5,589 million in the first nine months of 2019, an increase of $401 million, or 8%, from $5,188 million in the same period of 2018. This increase was primarily due to higher freight revenue per revenue ton-mile due to higher freight rates, higher volumes as measured in RTMs, and the favourable impact of the change in FX of $85 million.

RTMs for the first nine months of 2019 were 114,994 million, an increase of 1% compared with 113,584 million in the same period of 2018. This increase was mainly attributable to higher volumes of Intermodal, Energy, chemicals and plastics, Canadian grain, and Potash. This increase was partially offset by lower volumes of frac sand and U.S. grain.

Non-freight revenues were $134 million in the first nine months of 2019, an increase of $12 million, or 10%, from $122 million in the same period of 2018. This increase was primarily due to higher switching fees and logistical services revenue.

Fuel Cost Adjustment Program

Freight revenues include fuel surcharge revenues associated with CP's fuel cost adjustment program, which is designed to respond to fluctuations in fuel prices and help reduce exposure to changing fuel prices. The surcharge is applied to shippers through tariffs and by contract, within agreed-upon guidelines. This program includes recoveries of carbon taxes, levies, and obligations under cap-and-trade programs. Freight revenues include fuel surcharge revenues of $119 million in the third quarter of 2019, a decrease of $18 million, or 13%, from $137 million in the same period of 2018. This decrease was primarily due to lower fuel prices, partially offset by the timing of recoveries from CP's fuel cost adjustment program, decreased volumes, and increased carbon tax recoveries. In the first nine months of 2019, fuel surcharge revenues were $352 million, an increase of $1 million, from $351 million in the same period of 2018. This increase was primarily due to the timing of recoveries from CP's fuel cost adjustment program, increased volumes, increased carbon tax recoveries, and the favourable change in FX. This increase was partially offset by lower fuel prices.

Lines of Business

Grain

For the three months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[(1)]
Freight revenues (in millions)	**$**	**409**	$	384	$	25	7	6
Carloads (in thousands)		**106.6**		107.4		(0.8)	(1)	N/A
Revenue ton-miles (in millions)		**8,953**		9,009		(56)	(1)	N/A
Freight revenue per carload (in dollars)	**$**	**3,837**	$	3,565	$	272	8	7
Freight revenue per revenue ton-mile (in cents)		**4.57**		4.25		0.32	8	7

(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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Grain revenue was $409 million in the third quarter of 2019, an increase of $25 million, or 7%, from $384 million in the same period of 2018. This increase was primarily due to increased freight revenue per revenue ton-mile, higher volumes of U.S. soybeans to the Pacific Northwest, and higher volumes of U.S. grain to the U.S. Midwest. This increase was partially offset by lower volumes of U.S. corn to the Pacific Northwest and lower volumes of Canadian grain due to a delayed harvest. Freight revenue per revenue ton-mile increased due to moving proportionately lower volumes of U.S.corn to the Pacific Northwest and higher freight rates, primarily for regulated Canadian grain.

For the nine months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[(1)]
Freight revenues (in millions)	$	**1,211**	$	1,113	$	98	9	7
Carloads (in thousands)		**312.5**		314.5		(2.0)	(1)	N/A
Revenue ton-miles (in millions)		**26,757**		26,698		59	—	N/A
Freight revenue per carload (in dollars)	$	**3,875**	$	3,536	$	339	10	8
Freight revenue per revenue ton-mile (in cents)		**4.53**		4.17		0.36	9	7

(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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Grain revenue was $1,211 million in the first nine months of 2019, an increase of $98 million, or 9%, from $1,113 million in the same period of 2018. This increase was primarily due to increased freight revenue per revenue ton-mile, higher volumes of regulated Canadian grain to Vancouver, and the favourable impact of the change in FX. This increase was partially offset by lower volumes of U.S. grain, primarily corn, to the Pacific Northwest. Freight revenue per revenue ton-mile increased due to higher freight rates, primarily for regulated Canadian grain.

Coal

For the three months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[(1)]
Freight revenues (in millions)	$	**183**	$	171	$	12	7	7
Carloads (in thousands)		**81.2**		76.8		4.4	6	N/A
Revenue ton-miles (in millions)		**5,761**		5,764		(3)	—	N/A
Freight revenue per carload (in dollars)	$	**2,254**	$	2,234	$	20	1	1
Freight revenue per revenue ton-mile (in cents)		**3.18**		2.98		0.20	7	7

(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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Coal revenue was $183 million in the third quarter of 2019, an increase of $12 million, or 7%, from $171 million in the same period of 2018. This increase was primarily due to increased freight revenue per revenue ton-mile, and higher volumes of U.S. coal. Freight revenue per revenue ton-mile increased due to higher freight rates. Carloads increased while RTMs remained relatively flat due to moving proportionately more U.S. coal, which has a shorter length of haul.

For the nine months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[(1)]
Freight revenues (in millions)	$	**514**	$	486	$	28	6	5
Carloads (in thousands)		**229.3**		226.7		2.6	1	N/A
Revenue ton-miles (in millions)		**16,485**		16,657		(172)	(1)	N/A
Freight revenue per carload (in dollars)	$	**2,242**	$	2,145	$	97	5	4
Freight revenue per revenue ton-mile (in cents)		**3.12**		2.92		0.20	7	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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Coal revenue was $514 million in the first nine months of 2019, an increase of $28 million, or 6%, from $486 million in the same period of 2018. This increase was primarily due to higher freight revenue per revenue ton-mile, higher volumes of U.S. coal, and the favourable impact of the change in FX. This increase was partially offset by lower volumes of Canadian coal, driven by supply chain challenges at both the mines and ports. Freight revenue per revenue ton-mile increased due to higher freight rates. Carloads increased while RTMs decreased due to moving proportionately more U.S. coal, which has a shorter length of haul.

Potash

For the three months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[1]
Freight revenues (in millions)	$	**117**	$	130	$	(13)	(10)	(10)
Carloads (in thousands)		**36.3**		42.3		(6.0)	(14)	N/A
Revenue ton-miles (in millions)		**4,188**		4,944		(756)	(15)	N/A
Freight revenue per carload (in dollars)	$	**3,223**	$	3,089	$	134	4	5
Freight revenue per revenue ton-mile (in cents)		**2.79**		2.64		0.15	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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Potash revenue was $117 million in the third quarter of 2019, a decrease of $13 million, or 10%, from $130 million in the same period of 2018. This decrease was primarily due to lower volumes of export potash driven by unresolved international contract negotiations. This decrease was partially offset by increased freight revenue per revenue ton-mile due to of higher freight rates. RTMs decreased more than carloads due to moving proportionately less export volumes through the Port of Vancouver, which has a longer length of haul.

For the nine months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[1]
Freight revenues (in millions)	$	**367**	$	358	$	9	3	1
Carloads (in thousands)		**118.6**		117.4		1.2	1	N/A
Revenue ton-miles (in millions)		**14,003**		13,750		253	2	N/A
Freight revenue per carload (in dollars)	$	**3,094**	$	3,052	$	42	1	—
Freight revenue per revenue ton-mile (in cents)		**2.62**		2.61		0.01	—	(1)

(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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Potash revenue was $367 million in the first nine months of 2019, an increase of $9 million, or 3%, from $358 million in the same period of 2018. This increase was primarily due to higher volumes of export potash and the favourable impact of the change in FX.

Fertilizers and Sulphur

For the three months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[1]
Freight revenues (in millions)	$	**66**	$	55	$	11	20	18
Carloads (in thousands)		**14.8**		13.8		1.0	7	N/A
Revenue ton-miles (in millions)		**1,030**		935		95	10	N/A
Freight revenue per carload (in dollars)	$	**4,459**	$	3,957	$	502	13	10
Freight revenue per revenue ton-mile (in cents)		**6.41**		5.87		0.54	9	7

(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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Fertilizers and sulphur revenue was $66 million in the third quarter of 2019, an increase of $11 million, or 20%, from $55 million in the same period of 2018. This increase was primarily due to increased freight revenue per revenue ton-mile, and higher volumes of dry fertilizers and wet fertilizers. These increases were partially offset by lower volumes of sulphur. Freight revenue per revenue ton-mile increased due to moving proportionately more wet fertilizers, and due to higher freight rates. RTMs increased more than carloads due to moving proportionately more dry fertilizers from the U.S. Midwest to Western Canada, which has a longer length of haul.

For the nine months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[(1)]
Freight revenues (in millions)	**$**	**186**	$	171	$	15	9	6
Carloads (in thousands)		**42.6**		41.9		0.7	2	N/A
Revenue ton-miles (in millions)		**2,872**		2,902		(30)	(1)	N/A
Freight revenue per carload (in dollars)	**$**	**4,366**	$	4,084	$	282	7	5
Freight revenue per revenue ton-mile (in cents)		**6.48**		5.90		0.58	10	7

(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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Fertilizers and sulphur revenue was $186 million in the first nine months of 2019, an increase of $15 million, or 9%, from $171 million in the same period of 2018. This increase was primarily due to increased freight revenue per revenue ton-mile, the favourable impact of the change in FX, and higher volumes of dry fertilizers and wet fertilizers. This increase was partially offset by lower volumes of sulphur. Freight revenue per revenue ton-mile increased due to higher freight rates. RTMs decreased while carloads increased due to moving proportionately less wet fertilizer to the U.S. Midwest, which has a longer length of haul.

Forest Products

For the three months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[(1)]
Freight revenues (in millions)	**$**	**78**	$	76	$	2	3	3
Carloads (in thousands)		**18.5**		17.9		0.6	3	N/A
Revenue ton-miles (in millions)		**1,278**		1,263		15	1	N/A
Freight revenue per carload (in dollars)	**$**	**4,216**	$	4,240	$	(24)	(1)	(1)
Freight revenue per revenue ton-mile (in cents)		**6.10**		6.01		0.09	1	1

(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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forest products revenue was $78 million in the third quarter of 2019, an increase of $2 million, or 3%, from $76 million in the same period of 2018. This increase was primarily due to increased freight revenue per revenue ton-mile, and higher volumes of woodpulp. Freight revenue per revenue ton-mile increased due to higher freight rates. Carloads increased more than RTMs due to moving higher volumes of short haul lumber from Eastern Canada to the Eastern U.S.

For the nine months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[(1)]
Freight revenues (in millions)	**$**	**229**	$	211	$	18	9	6
Carloads (in thousands)		**54.1**		51.5		2.6	5	N/A
Revenue ton-miles (in millions)		**3,746**		3,596		150	4	N/A
Freight revenue per carload (in dollars)	**$**	**4,233**	$	4,107	$	126	3	1
Freight revenue per revenue ton-mile (in cents)		**6.11**		5.88		0.23	4	2

(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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forest products revenue was $229 million in the first nine months of 2019, an increase of $18 million, or 9%, from $211 million in the same period of 2018. This increase was primarily due to higher volumes of woodpulp, newsprint, and lumber, the favourable impact of the change in FX, and increased freight revenue per revenue ton-mile. Freight revenue per revenue ton-mile increased due to higher freight rates.

Energy, Chemicals and Plastics

For the three months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[(1)]
Freight revenues (in millions)	**$**	**382**	$	339	$	43	13	12
Carloads (in thousands)		**90.8**		89.1		1.7	2	N/A
Revenue ton-miles (in millions)		**7,571**		7,485		86	1	N/A
Freight revenue per carload (in dollars)	**$**	**4,207**	$	3,806	$	401	11	10
Freight revenue per revenue ton-mile (in cents)		**5.05**		4.53		0.52	11	11

(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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Energy, chemicals and plastics revenue was $382 million in the third quarter of 2019, an increase of $43 million, or 13%, from $339 million in the same period of 2018. This increase was primarily due to increased freight revenue per revenue ton-mile, and higher volumes of crude and biofuels. This increase was partially offset by lower volumes of chemicals and diluents. Freight revenue per revenue ton-mile increased due to revenues resulting from customer volume commitments and higher freight rates.

For the nine months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[(1)]
Freight revenues (in millions)	**$**	**1,043**	$	874	$	169	19	17
Carloads (in thousands)		**257.0**		242.4		14.6	6	N/A
Revenue ton-miles (in millions)		**20,901**		20,047		854	4	N/A
Freight revenue per carload (in dollars)	**$**	**4,058**	$	3,606	$	452	13	10
Freight revenue per revenue ton-mile (in cents)		**4.99**		4.36		0.63	14	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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Energy, chemicals and plastics revenue was $1,043 million in the first nine months of 2019, an increase of $169 million, or 19%, from $874 million in the same period of 2018. This increase was primarily due to increased freight revenue per revenue ton-mile, higher volumes of refined products, liquefied petroleum gas and crude, and the favourable impact of the change in FX. Freight revenue per revenue ton-mile increased due to higher freight rates, primarily for crude. Carloads increased more than RTMs due to moving proportionately less long haul crude to Kansas City, Missouri, and proportionately more short haul crude to Chicago, Illinois and Noyes, Minnesota.

Metals, Minerals and Consumer Products

For the three months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[(1)]
Freight revenues (in millions)	**$**	**201**	$	208	$	(7)	(3)	(4)
Carloads (in thousands)		**62.9**		65.0		(2.1)	(3)	N/A
Revenue ton-miles (in millions)		**2,910**		2,979		(69)	(2)	N/A
Freight revenue per carload (in dollars)	**$**	**3,196**	$	3,206	$	(10)	—	(1)
Freight revenue per revenue ton-mile (in cents)		**6.91**		7.00		(0.09)	(1)	(2)

(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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Metals, minerals and consumer products revenue was $201 million in the third quarter of 2019, a decrease of $7 million, or 3%, from $208 million in the same period of 2018. This decrease was primarily due to lower volumes of steel and frac sand, and decreased freight revenue per revenue ton-mile. This decrease was partially offset by higher volumes of cement. Freight revenue per revenue ton-mile decreased due to moving proportionately lower volumes of steel and proportionately higher volumes of cement.

For the nine months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[1]
Freight revenues (in millions)	$	579	$	595	$	(16)	(3)	(5)
Carloads (in thousands)		180.1		189.6		(9.5)	(5)	N/A
Revenue ton-miles (in millions)		8,225		9,067		(842)	(9)	N/A
Freight revenue per carload (in dollars)	$	3,215	$	3,140	$	75	2	—
Freight revenue per revenue ton-mile (in cents)		7.04		6.57		0.47	7	4

(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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Metals, minerals and consumer products revenue was $579 million in the first nine months of 2019, a decrease of $16 million, or 3%, from $595 million in the same period of 2018. This decrease was primarily due to moving lower volumes of frac sand and steel, partially offset by increased freight revenue per revenue ton-mile, and the favourable impact of the change in FX. Freight revenue per revenue ton-mile increased due to higher freight rates. Carloads decreased less than RTMs due to increased volumes of short haul metallic ore.

Automotive

For the three months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[1]
Freight revenues (in millions)	$	87	$	85	$	2	2	1
Carloads (in thousands)		29.2		27.4		1.8	7	N/A
Revenue ton-miles (in millions)		351		343		8	2	N/A
Freight revenue per carload (in dollars)	$	2,979	$	3,102	$	(123)	(4)	(5)
Freight revenue per revenue ton-mile (in cents)		24.79		24.76		0.03	—	(1)

(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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Automotive revenue was $87 million in the third quarter of 2019, an increase of $2 million, or 2%, from $85 million in the same period of 2018. This increase was primarily due to higher volumes of machinery and increased volumes primarily from the U.S. to CP's new Vancouver Automotive Compound. Carloads increased more than RTMs due to increased short haul volumes within Southern Ontario.

For the nine months ended September 30		2019		2018		Total Change	% Change	FX Adjusted % Change[1]
Freight revenues (in millions)	$	267	$	247	$	20	8	6
Carloads (in thousands)		85.8		83.0		2.8	3	N/A
Revenue ton-miles (in millions)		1,125		1,047		78	7	N/A
Freight revenue per carload (in dollars)	$	3,112	$	2,970	$	142	5	2
Freight revenue per revenue ton-mile (in cents)		23.73		23.56		0.17	1	(2)

(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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Automotive revenue was $267 million in the first nine months of 2019, an increase of $20 million, or 8%, from $247 million in the same period of 2018. This increase was primarily due to higher volumes from Vancouver to Eastern Canada, higher volumes primarily from the U.S. to CP's new Vancouver Automotive Compound, and the favourable impact of the change in FX. RTMs increased more than carloads due to growth in long haul volumes to and from Vancouver.

Intermodal

For the three months ended September 30		**2019**	2018	Total Change	% Change	FX Adjusted % Change[(1)]
Freight revenues (in millions)	**$**	**409**	$ 406	$ 3	1	—
Carloads (in thousands)		**271.6**	262.3	9.3	4	N/A
Revenue ton-miles (in millions)		**7,130**	6,942	188	3	N/A
Freight revenue per carload (in dollars)	**$**	**1,506**	$ 1,545	$ (39)	(3)	(3)
Freight revenue per revenue ton-mile (in cents)		**5.74**	5.84	(0.10)	(2)	(2)

(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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Intermodal revenue was $409 million in the third quarter of 2019, an increase of $3 million, or 1%, from $406 million in the same period of 2018. This increase was primarily due to higher international volumes through the Port of Vancouver, and the onboarding of a new domestic retail customer. This increase was partially offset by decreased freight revenue per revenue ton-mile, and lower domestic wholesale volumes. Freight revenue per revenue ton-mile decreased due to lower fuel surcharge revenue as a result of lower fuel prices.

For the nine months ended September 30		**2019**	2018	Total Change	% Change	FX Adjusted % Change[(1)]
Freight revenues (in millions)	**$**	**1,193**	$ 1,133	$ 60	5	4
Carloads (in thousands)		**784.3**	762.9	21.4	3	N/A
Revenue ton-miles (in millions)		**20,880**	19,820	1,060	5	N/A
Freight revenue per carload (in dollars)	**$**	**1,521**	$ 1,485	$ 36	2	2
Freight revenue per revenue ton-mile (in cents)		**5.71**	5.72	(0.01)	—	(1)

(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 % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Intermodal revenue was $1,193 million in the first nine months of 2019, an increase of $60 million, or 5%, from $1,133 million in the same period of 2018. This increase was primarily due to higher international volumes through the Port of Vancouver, the onboarding of a new domestic retail customer, and the favourable impact of the change in FX. RTMs increased more than carloads due to discontinuing expressway service in the second quarter of 2018, which had a shorter length of haul.

Operating Expenses

For the three months ended September 30 (in millions)		**2019**	2018	Total Change	% Change	FX Adjusted % Change[(1)]
Compensation and benefits	**$**	**355**	$ 365	$ (10)	(3)	(3)
Fuel		**210**	226	(16)	(7)	(8)
Materials		**50**	47	3	6	6
Equipment rents		**33**	33	—	—	—
Depreciation and amortization		**185**	174	11	6	6
Purchased services and other		**277**	263	14	5	5
Total operating expenses	**$**	**1,110**	$ 1,108	$ 2	—	—

(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 % Change 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 $1,110 million in the third quarter of 2019, an increase of $2 million, from $1,108 million in the same period of 2018. This increase was primarily due to:

- cost inflation;
- higher depreciation and amortization;
- higher volume variable expenses as measured by GTMs;
- the unfavourable impact of the change in FX of $5 million;
- lower gains on land sales of $4 million; and
- higher legal fees.

This increase was partially offset by the favourable impact of $30 million from lower fuel prices and lower stock-based compensation.

For the nine months ended September 30 (in millions)		**2019**		2018		Total Change	% Change	FX Adjusted % Change[1]
Compensation and benefits	**$**	**1,144**	$	1,090	$	54	5	4
Fuel		**655**		671		(16)	(2)	(5)
Materials		**161**		155		6	4	3
Equipment rents		**102**		99		3	3	—
Depreciation and amortization		**528**		516		12	2	2
Purchased services and other		**899**		822		77	9	8
Total operating expenses	**$**	**3,489**	$	3,353	$	136	4	3

(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 % Change 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 $3,489 million in the first nine months of 2019, an increase of $136 million, or 4%, from $3,353 million in the same period of 2018. This increase was primarily due to:

- increased operating expense associated with higher casualty costs incurred in the first quarter of 2019;
- the unfavourable impact of the change in FX of $48 million;
- cost inflation;
- higher volume variable expenses;
- increased weather related costs as a result of harsh winter operating conditions in the first quarter of 2019; and
- higher stock-based compensation.

This increase was partially offset by:

- the favourable impact of $58 million from lower fuel prices;
- the efficiencies generated from improved operating performance and asset utilization;
- lower incentive compensation; and
- higher gains on land sales of $11 million.

Compensation and Benefits

Compensation and benefits expense includes employee wages, salaries, fringe benefits, and stock-based compensation. Compensation and benefits expense was $355 million in the third quarter of 2019, a decrease of $10 million, or 3%, from $365 million in the same period of 2018. This decrease was primarily due to lower stock-based compensation driven primarily by a decrease in the stock price, and lower incentive compensation.

This decrease was partially offset by the impact of wage and benefit inflation.

Compensation and benefits expense was $1,144 million in the first nine months of 2019, an increase of $54 million, or 5%, from $1,090 million in the same period of 2018. This increase was primarily due to:

- higher stock-based compensation;
- the impact of wage and benefit inflation;
- the impact of harsher winter operating conditions;
- higher volume variable expense as a result of increased workload as measured by GTMs; and
- the unfavourable impact of the change in FX of $11 million.

This increase was partially offset by lower incentive compensation and lower pension current service cost.

Fuel

Fuel expense consists mainly of fuel used by locomotives and includes provincial, state, and federal fuel taxes. Fuel expense was $210 million in the third quarter of 2019, a decrease of $16 million, or 7%, from $226 million in the same period of 2018. This decrease was primarily due to the favourable impact of $30 million from lower fuel prices.

This decrease was partially offset by:

- an increase in workload, as measured by GTMs;
- a decrease in fuel efficiency of approximately 1% due to reduced train productivity and lower horsepower utilization; and
- the unfavourable impact of the change in FX of $3 million.

Fuel expense was $655 million in the first nine months of 2019, a decrease of $16 million, or 2%, from $671 million in the same period of 2018. This decrease was primarily due to the favourable impact of $58 million from lower fuel prices.

This decrease was partially offset by an increase in workload, as measured by GTMs and the unfavourable impact of the change in FX of $18 million.

Materials

Materials expense includes the cost of materials used for track, locomotive, freight car, building maintenance and software sustainment. Materials expense was $50 million in the third quarter of 2019, an increase of $3 million, or 6%, from $47 million in the same period of 2018. This increase was due to higher unscheduled locomotive maintenance and repairs, and locomotive servicing; partially offset by higher freight car maintenance recoveries on foreign cars.

Materials expense was $161 million in the first nine months of 2019, an increase of $6 million, or 4%, from $155 million in the same period of 2018. This increase was due to unscheduled locomotive maintenance and repairs, the cost of inflation, transportation on purchased materials and locomotive servicing; partially offset by higher freight car maintenance recoveries on foreign cars.

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 railroads for the use of CP’s equipment. Equipment rents expense was $33 million in the third quarter of 2019, unchanged compared to the same period of 2018.

Equipment rents expense was $102 million in the first nine months of 2019, an increase of $3 million, or 3%, from $99 million in the same period of 2018. This increase was primarily due to the unfavourable impact of the change in FX of $3 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 $185 million in the third quarter of 2019, an increase of $11 million, or 6%, from $174 million in the same period of 2018. This increase was primarily due to a higher depreciable asset base.

Depreciation and amortization expense was $528 million in the first nine months of 2019, an increase of $12 million, or 2%, from $516 million in the same period of 2018. This increase was primarily due to a higher depreciable asset base and the unfavourable impact of the change in FX of $4 million, partially offset by the impact of depreciation studies and other adjustments.

Purchased Services and Other

For the three months ended September 30 (in millions)	**2019**	2018	Total Change	% Change
Support and facilities	**$ 70**	$ 62	$ 8	13
Track and operations	**66**	60	6	10
Intermodal	**54**	56	(2)	(4)
Equipment	**31**	36	(5)	(14)
Casualty	**24**	23	1	4
Property taxes	**31**	28	3	11
Other	**1**	2	(1)	(50)
Land sales	**—**	(4)	4	(100)
Total Purchased services and other	**$ 277**	$ 263	$ 14	5

Purchased services and other expense encompasses a wide range of third-party costs, including expenses for joint facilities, personal injuries and damage claims, environmental remediation, property taxes, contractor and consulting fees, insurance, and gains on land sales. Purchased services and other expense was $277 million in the third quarter of 2019, an increase of $14 million, or 5%, from $263 million in the same period of 2018. This increase was primarily due to:

- an increase in legal fees, reported in Support and facilities;
- gains related to Land sales in the third quarter of 2018, reported in Land sales;
- an increase in right-of-way maintenance, crew accommodation and transportation, reported in Track & operations;
- higher property taxes due to higher tax rates; and
- the unfavourable impact of the change in FX of $1 million.

This increase was partially offset by:

- a decrease in costs for locomotive warranty service agreements due to insourcing, reported in Equipment; and
- lower intermodal expenses related to pickup and delivery services, reported in Intermodal.

For the nine months ended September 30 (in millions)		2019		2018	Total Change		% Change
Support and facilities	$	**207**	$	193	$	14	7
Track and operations		**215**		206		9	4
Intermodal		**165**		163		2	1
Equipment		**98**		110		(12)	(11)
Casualty		**109**		57		52	91
Property taxes		**103**		95		8	8
Other		**19**		4		15	375
Land sales		**(17)**		(6)		(11)	183
Total Purchased services and other	$	**899**	$	822	$	77	9

Purchased services and other expense was $899 million in the first nine months of 2019, an increase of $77 million, or 9%, from $822 million in the same period of 2018. This increase was primarily due to:

- higher expenses primarily due to the increased number and severity of casualty incidents, which were the result of difficult operating conditions due to weather, reported in Casualty;
- the unfavourable impact of the change in FX of $11 million;
- higher snow removal and other weather related costs reported in Track and operations and Intermodal;
- a $10 million charge associated with a dispute settlement, reported in Other;
- higher property taxes due to higher tax rates; and
- an increase in legal fees, reported in Support and facilities.

This increase was partially offset by:

- higher gains on land sales of $11 million, reported in Land sales;
- a decrease in costs for locomotive warranty service agreements due to insourcing, reported in Equipment; and
- costs related to labour disruptions in the second quarter of 2018, reported in Track and operations.

Other Income Statement Items

Other Expense (Income)

Other expense (income) consists of gains and losses from the change in FX on debt and lease liabilities and working capital, costs related to financing, shareholder costs, equity income, and other non-operating expenditures. Other expense was $29 million in the third quarter of 2019, compared to an income of $47 million in the same period of 2018, a change of $76 million, or 162%. This change was primarily due to an FX translation loss on debt and lease liabilities of $25 million, compared to an FX translation gain on debt of $38 million in the same period of 2018, as well as lower equity income of $10 million.

Other income was $58 million in the first nine months of 2019, compared to an expense of $56 million in the same period of 2018, a change of $114 million, or 204%. This change was primarily due to an FX translation gain on debt and lease liabilities of $57 million, compared to an FX translation loss on debt of $55 million in the same period of 2018.

FX translation gains and losses on debt and lease liabilities are discussed further in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Other Components of Net Periodic Benefit Recovery

Other components of net periodic recovery was $99 million in the third quarter of 2019, compared to $96 million in the same period of 2018, an increase of $3 million or 3%. Other components of net periodic recovery was $294 million in the first nine months of 2019, compared to $287 million in the same period of 2018, an increase of $7 million or 2%. These increases were primarily due to a decrease in the recognized net actuarial loss.

Net Interest Expense

Net interest expense includes interest on long-term debt and capital leases. Net interest expense was $110 million in the third quarter of 2019, a decrease of $2 million, or 2%, from $112 million in the same period of 2018. This decrease was primarily due to a net reduction in interest charges of $5 million as the result of a lower effective interest rate from debt refinancing in 2018 and 2019, partially offset by an increase in interest charges on commercial paper of $3 million.

Net interest expense was $336 million in the first nine months of 2019, a decrease of $3 million, or 1%, from $339 million in the same period of 2018. This decrease was primarily due to a net reduction in interest charges of $16 million as the result of a lower effective interest rate from debt refinancing in 2018 and 2019, partially offset by the unfavourable impact from the change in FX of $10 million and a decrease in capitalized interest of $3 million.

Income Tax Expense

During the nine months ended September 30, 2019, an Alberta provincial corporate tax rate decrease was enacted and resulted in an $88 million deferred tax recovery on the revaluation of deferred income tax balances as at January 1, 2019.

During the nine months ended September 30, 2018, the Iowa and Missouri state corporate income tax rate decreases were enacted and resulted in a $21 million deferred tax recovery on the revaluation of deferred income tax balances as at January 1, 2018.

Income tax expense was $211 million in the third quarter of 2019, an increase of $12 million, or 6%, from $199 million in the same period of 2018. This increase was due to higher taxable earnings and a higher effective tax rate, compared to the same period of 2018.

Income tax expense was $474 million in the first nine months of 2019, an increase of $31 million, or 7%, from $443 million in the same period of 2018. This increase was due to higher taxable earnings, partially offset by the higher deferred tax recovery, described above, compared to the same period of 2018.

The effective tax rate in the third quarter of 2019, including discrete items, was 25.43% compared to 24.23% in the same period of 2018. The effective tax rate in the first nine months of 2019, including discrete items, was 21.06% compared to 23.95% in the same period of 2018. The effective tax rates in the third quarter and first nine months of 2019, excluding discrete items, were 25.11% and 25.50% respectively, compared to 24.75% in the same periods of 2018. These increases in the effective tax rate excluding discrete items were primarily due to a higher proportion of the Company's increased taxable income earned in higher tax rate jurisdictions.

The Company expects an annualized effective tax rate in 2019 of approximately 25.5%. The Company’s 2019 outlook for its annualized effective 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 new events and developments. This is discussed further in Item 1A. Risk Factors of CP's 2018 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 commercial paper program, bilateral letter of credit facilities, and its revolving credit facility.

As at September 30, 2019, the Company had $145 million of Cash and cash equivalents, U.S. $1.3 billion available under its revolving credit facility, and up to $239 million available under its letter of credit facilities (December 31, 2018 - $61 million of Cash and cash equivalents, U.S. $1.0 billion available under its revolving credit facility, and up to $540 million available under its letter of credit facilities).

Effective September 27, 2019, the Company amended and restated its revolving credit facility agreement, increasing the total amount available to U.S $1.3 billion. As at September 30, 2019, the Company's revolving credit facility was undrawn (December 31, 2018 - undrawn) and the Company did not draw from its revolving credit facility during the three and nine months ended September 30, 2019. 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, 2019, the Company was in compliance with the threshold stipulated in this financial covenant.

The Company has a commercial paper program that enables it to issue commercial paper up to a maximum aggregate principal amount of U.S. $1.0 billion in the form of unsecured promissory notes. This commercial paper program is backed by the revolving credit facility. As at September 30, 2019, total commercial paper borrowings were U.S. $455 million (December 31, 2018 - $nil).

Effective September 27, 2019, the Company also reduced its bilateral letter of credit facilities to $300 million. As at September 30, 2019, under its bilateral letter of credit facilities, the Company had letters of credit drawn of $61 million from a total available amount of $300 million. This compares to letters of credit drawn of $60 million from a total available amount of $600 million as at December 31, 2018. Under the bilateral letter of credit facilities, 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. As at September 30, 2019, the Company did not have any collateral posted on its bilateral letter of credit facilities (December 31, 2018 - $nil).

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

Operating Activities

Cash provided by operating activities was $823 million in the third quarter of 2019, an increase of $150 million compared to $673 million in the same period of 2018. This increase was primarily due to an increase in cash generating income and favourable changes in working capital during the third quarter of 2019, compared to the same period of 2018.

Cash provided by operating activities was $1,957 million in the first nine months of 2019, an increase of $176 million compared to $1,781 million in the same period of 2018. This increase was primarily due to increases in cash generating income and deferred revenue, partially offset by an unfavourable change in working capital in the nine months ended September 30, 2019, compared to the same period of 2018.

Investing Activities

Cash used in investing activities was $461 million in the third quarter of 2019, an increase of $38 million compared to $423 million in the same period of 2018. Cash used in investing activities was $1,135 million in the first nine months of 2019, an increase of $66 million compared to $1,069 million in the same period of 2018. These increases were primarily due to higher capital additions during 2019 compared to the same periods of 2018.

Free Cash

CP generated positive Free cash of $363 million in the third quarter of 2019, an increase of $118 million from $245 million in the same period of 2018. For the first nine months of 2019, CP generated positive Free cash of $821 million, an increase of $81 million from $740 million in the same period of 2018. These increases were primarily due to an increase in cash provided by operating activities, partially offset by an increase in cash used in investing activities as a result of higher additions to properties.

Free cash is affected by seasonal fluctuations and by other factors including the size of the Company's additions to properties. 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.

Financing Activities

Cash used in financing activities was $263 million in the third quarter of 2019, an increase of $117 million compared to $146 million in the same period of 2018. This increase was primarily due to payments to buy back shares under the Company's share repurchase program during the three months ended September 30, 2019, partially offset by higher net issuance of commercial paper during the third quarter of 2019.

Cash used in financing activities was $737 million in the first nine months of 2019, a decrease of $167 million compared to $904 million in the same period of 2018. This decrease was primarily due to the net issuance of commercial paper and a lower principal repayment of U.S. $350 million notes during the nine months ended September 30, 2019, compared to the principal repayments of U.S. $275 million and $375 million notes in the same period of 2018. This was partially offset by an increase in payments to buy back shares under the Company's share repurchase program, the issuance of $400 million 10-year notes compared to the issuance of U.S. $500 million 10-year notes in the same period of 2018, and higher dividends paid during the nine months ended September 30, 2019.

Credit Measures

Credit ratings provide information relating to the Company's financing costs, liquidity, and operations and affect 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, 2019, CP's credit ratings from Standard & Poor's Rating Services ("Standard & Poor's") and Moody's Investor Service ("Moody's") remain unchanged from December 31, 2018.

Credit ratings as at September 30, 2019[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**	stable
Commercial paper program			
Standard & Poor's		**A-2**	N/A
Moody's		**P-2**	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 Adjusted net debt to Adjusted earnings before interest, tax, depreciation and amortization ("EBITDA") ratio for the twelve months ended September 30, 2019 and September 30, 2018 was 2.4 and 2.5, respectively. This decrease was primarily due to an increase in Adjusted EBITDA, partially offset by an increase in adjusted net debt as at September 30, 2019. 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. Over the long term, CP targets an Adjusted net debt to Adjusted EBITDA ratio of 2.0 to 2.5.

Share Capital

At October 22, 2019, the latest practicable date, there were 137,195,014 Common Shares and no preferred shares issued and outstanding, which consists of 14,035 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 Common Shares. Each option granted can be exercised for one Common Share. At October 22, 2019, 1,583,699 options were outstanding under the Company's MSOIP and stand-alone option agreements entered into with Mr. Keith Creel. There are 1,098,707 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 Common Shares. There are no outstanding options under the DSOP, which has 340,000 options available to be issued in the future.

Non-GAAP Measures

The Company presents Non-GAAP measures including Free cash 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.

Non-GAAP Performance Measures

The Company uses adjusted earnings results including Adjusted income and Adjusted diluted earnings per share 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, the FX impact of translating the Company's debt and lease liabilities, 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 the first nine months of 2019, there were two significant items included in Net income as follows:

- in the second quarter, a deferred tax recovery of $88 million due to the change in the Alberta provincial corporate income tax rate that favourably impacted Diluted EPS by 63 cents; and
- during the year to date, a net non-cash gain of $57 million ($54 million after deferred tax) due to FX translation of debt and lease liabilities as follows:
  - in the third quarter, a $25 million loss ($22 million after deferred tax) that unfavourably impacted Diluted EPS by 15 cents;
  - in the second quarter, a $37 million gain ($34 million after deferred tax) that favourably impacted Diluted EPS by 24 cents; and
  - in the first quarter, a $45 million gain ($42 million after deferred tax) that favourably impacted Diluted EPS by 30 cents.

In 2018, there were two significant items included in Net income as follows:

- in the second quarter, a deferred tax recovery of $21 million due to reductions in the Missouri and Iowa state tax rates that favourably impacted Diluted EPS by 15 cents; and
- during the course of the year, a net non-cash loss of $168 million ($150 million after deferred tax) due to FX translation of debt as follows:
  - in the fourth quarter, a $113 million loss ($103 million after deferred tax) that unfavourably impacted Diluted EPS by 72 cents;
  - in the third quarter, a $38 million gain ($33 million after deferred tax) that favourably impacted Diluted EPS by 23 cents;
  - in the second quarter, a $44 million loss ($38 million after deferred tax) that unfavourably impacted Diluted EPS by 27 cents; and
  - in the first quarter, a $49 million loss ($42 million after deferred tax) that unfavourably impacted Diluted EPS by 29 cents.

In the three months ended December 31, 2017, there were two significant items included in Net income as follows:

- a deferred tax recovery of $527 million, primarily due to the U.S. tax reform, that favourably impacted Diluted EPS by $3.63; and
- a non-cash loss of $14 million ($12 million after deferred tax) due to FX translation of debt that unfavourably impacted Diluted EPS by 8 cents.

Reconciliation of GAAP Performance Measures to Non-GAAP Performance Measures

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

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

	For the three months ended September 30		For the nine months ended September 30		For the twelve months ended December 31
(in millions)	**2019**	2018	**2019**	2018	2018
Net income as reported	**$ 618**	$ 622	**$ 1,776**	$ 1,406	$ 1,951
Less significant items (pre-tax):					
Impact of FX translation (loss) gain on debt and lease liabilities	**(25)**	38	**57**	(55)	(168)
Add:					
Tax effect of adjustments[1]	**(3)**	5	**3**	(8)	(18)
Income tax rate changes	**—**	—	**(88)**	(21)	(21)
Adjusted income	**$ 640**	$ 589	**$ 1,634**	$ 1,432	$ 2,080

[1] The tax effect of adjustments was calculated as the pre-tax effect of the adjustments multiplied by the applicable tax rate for the above items of 14.23% and 5.05% for the three and nine months ended September 30, 2019, 13.43% for the three and nine months ended September 30, 2018, and 10.64% for the twelve months ended December 31, 2018, respectively. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the significant items.

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

	For the three months ended September 30		For the nine months ended September 30		For the twelve months ended December 31
	2019	2018	**2019**	2018	2018
Diluted earnings per share as reported	**$ 4.46**	$ 4.35	**$ 12.70**	$ 9.78	$ 13.61
Less significant items (pre-tax):					
Impact of FX translation (loss) gain on debt and lease liabilities	**(0.18)**	0.27	**0.41**	(0.38)	(1.17)
Add:					
Tax effect of adjustments(1)	**(0.03)**	0.04	**0.02**	(0.04)	(0.12)
Income tax rate changes	**—**	—	**(0.63)**	(0.15)	(0.15)
Adjusted diluted earnings per share	**$ 4.61**	$ 4.12	**$ 11.68**	$ 9.97	$ 14.51

(1) The tax effect of adjustments was calculated as the pre-tax effect of the adjustments multiplied by the applicable tax rate for the above items of 14.23% and 5.05% for the three and nine months ended September 30, 2019, 13.43% for the three and nine months ended September 30, 2018, and 10.64% for the twelve months ended December 31, 2018, respectively. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the significant items.

ROIC and Adjusted ROIC

ROIC is calculated as Operating income less Other expense (income) and Other components of net periodic benefit recovery, tax effected at the Company's annualized effective tax rate, divided by Average invested capital. Average invested capital is defined as 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, Other expense (income), and Other components of net periodic benefit recovery in the Company's Consolidated Financial Statements, as these significant items are not considered indicative of future financial trends either by nature or amount. Adjusted average invested capital is similarly adjusted for the impact of these significant items, net of tax, on closing balances as part of this average. ROIC and Adjusted ROIC are 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

	For the twelve months ended September 30	
(in millions, except for percentages)	**2019**	2018
Operating income as reported	**$ 3,108**	$ 2,639
Less:		
Other expense	**60**	72
Other components of net periodic benefit recovery	**(391)**	(358)
Tax(1)	**771**	95
	$ 2,668	$ 2,830
Average invested capital	**$ 15,806**	$ 14,556
ROIC	**16.9%**	19.4%

(1) Tax was calculated at the annualized effective tax rate of 22.41% and 3.24% for each of the above items for the twelve months ended September 30, 2019 and 2018, respectively.

(in millions, except for percentages)	For the twelve months ended September 30 2019	2018
Operating income as reported	**$ 3,108**	$ 2,639
Less:		
Other expense	**60**	72
Other components of net periodic benefit recovery	**(391)**	(358)
Significant items (pre-tax):		
Impact of FX translation loss on debt and lease liabilities	**(56)**	(69)
Tax[(1)]	**878**	752
	$ 2,617	$ 2,242
Average invested capital	**$ 15,806**	$ 14,556
Less impact of periodic significant items net of tax on the above average:		
Income tax recovery from income tax rate changes	**44**	274
Adjusted average invested capital	**$ 15,762**	$ 14,282
Adjusted ROIC	**16.6%**	15.7%

(1) Tax was calculated at the adjusted annualized effective tax rate of 25.12% and 25.12% for each of the above items for the twelve months ended September 30, 2019 and 2018, respectively.

Free Cash

Free cash is calculated as Cash provided by operating activities, less Cash used in investing activities, adjusted for changes in cash and cash equivalents balances resulting from FX fluctuations, and the cash settlement of hedges settled upon issuance of debt. Free cash is a measure that management considers to be an indicator of liquidity. Free cash is useful to investors and other external users of the Company's Consolidated Financial Statements as it assists with the evaluation of the Company's ability to generate cash from its operations without incurring additional external financing. The cash settlement of forward starting swaps that occurred in the second quarter of 2018 in conjunction with the issuance of long-term debt is not an indicator of CP's ongoing cash generating ability and therefore has been excluded from free cash. Positive Free cash indicates the amount of cash available for reinvestment in the business, or cash that can be returned to investors through dividends, stock repurchase programs, debt retirements or a combination of these. Conversely, negative Free cash indicates the amount of cash that must be raised from investors through new debt or equity issues, reduction in available cash balances or a combination of these. Free cash should be considered in addition to, rather than as a substitute for, Cash provided by operating activities. 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)	**2019**	2018	**2019**	2018
Cash provided by operating activities	**$ 823**	$ 673	**$ 1,957**	$ 1,781
Cash used in investing activities	**(461)**	(423)	**(1,135)**	(1,069)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	**1**	(5)	**(1)**	4
Settlement of forward starting swaps on debt issuance	**—**	—	**—**	24
Free cash	**$ 363**	$ 245	**$ 821**	$ 740

Foreign Exchange Adjusted % Change

FX adjusted % change allows certain financial results to be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons in the analysis of trends in business performance. Financial result variances at constant currency are obtained by translating the comparable period of the prior year results denominated in U.S. dollars at the foreign exchange rates of the current period.

FX adjusted % changes in revenues are further used in calculating FX adjusted % change in freight revenue per carload and RTM. These items are presented in Operating Revenues of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

	For the three months ended September 30				
(in millions)	**Reported 2019**	Reported 2018	Variance due to FX	FX Adjusted 2018	FX Adjusted % Change
Freight revenues by line of business					
Grain	**$ 409**	$ 384	$ 1	$ 385	6
Coal	**183**	171	—	171	7
Potash	**117**	130	—	130	(10)
Fertilizers and sulphur	**66**	55	1	56	18
Forest products	**78**	76	—	76	3
Energy, chemicals and plastics	**382**	339	2	341	12
Metals, minerals and consumer products	**201**	208	2	210	(4)
Automotive	**87**	85	1	86	1
Intermodal	**409**	406	1	407	—
Freight revenues	**1,932**	1,854	8	1,862	4
Non-freight revenues	**47**	44	1	45	4
Total revenues	**$ 1,979**	$ 1,898	$ 9	$ 1,907	4

	For the nine months ended September 30				
(in millions)	**Reported 2019**	Reported 2018	Variance due to FX	FX Adjusted 2018	FX Adjusted % Change
Freight revenues by line of business					
Grain	**$ 1,211**	$ 1,113	$ 19	$ 1,132	7
Coal	**514**	486	2	488	5
Potash	**367**	358	6	364	1
Fertilizers and sulphur	**186**	171	4	175	6
Forest products	**229**	211	5	216	6
Energy, chemicals and plastics	**1,043**	874	17	891	17
Metals, minerals and consumer products	**579**	595	16	611	(5)
Automotive	**267**	247	6	253	6
Intermodal	**1,193**	1,133	10	1,143	4
Freight revenues	**5,589**	5,188	85	5,273	6
Non-freight revenues	**134**	122	1	123	9
Total revenues	**$ 5,723**	$ 5,310	$ 86	$ 5,396	6

FX adjusted % changes in operating expenses are presented in 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 2019	Reported 2018	Variance due to FX	FX Adjusted 2018	FX Adjusted % Change
Compensation and benefits	**$ 355**	$ 365	$ 1	$ 366	(3)
Fuel	**210**	226	3	229	(8)
Materials	**50**	47	—	47	6
Equipment rents	**33**	33	—	33	—
Depreciation and amortization	**185**	174	—	174	6
Purchased services and other	**277**	263	1	264	5
Total operating expenses	**$ 1,110**	$ 1,108	$ 5	$ 1,113	—

(in millions)	For the nine months ended September 30 Reported 2019	Reported 2018	Variance due to FX	FX Adjusted 2018	FX Adjusted % Change
Compensation and benefits	**$ 1,144**	$ 1,090	$ 11	$ 1,101	4
Fuel	**655**	671	18	689	(5)
Materials	**161**	155	1	156	3
Equipment rents	**102**	99	3	102	—
Depreciation and amortization	**528**	516	4	520	2
Purchased services and other	**899**	822	11	833	8
Total operating expenses	**$ 3,489**	$ 3,353	$ 48	$ 3,401	3

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

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

(in millions)	For the twelve months ended September 30 2019	2018
Net income as reported	**$ 2,321**	$ 2,390
Add:		
Net interest expense	**450**	455
Income tax expense	**668**	80
EBIT	**3,439**	2,925
Less significant items (pre-tax):		
Impact of FX translation loss on debt and lease liabilities	**(56)**	(69)
Adjusted EBIT	**3,495**	2,994
Less:		
Other components of net periodic benefit recovery	**391**	358
Operating lease expense	**(99)**	(87)
Depreciation and amortization	**(708)**	(684)
Adjusted EBITDA	**$ 3,911**	$ 3,407

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, operating lease liabilities recognized on the Company's Consolidated Balance Sheets, 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 a key credit measure used to assess the Company's financial capacity. The ratio provides information on the Company's ability to service its debt and other long-term obligations. 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.

Reconciliation of Long-term Debt to Adjusted Net Debt

(in millions)		**2019**		2018
Long-term debt including long-term debt maturing within one year as at September 30	**$**	**8,983**	$	8,286
Less:				
Pension plans deficit[1]		**(260)**		(276)
Operating lease liabilities[2]		**(370)**		(261)
Cash and cash equivalents		**145**		150
Adjusted net debt as at September 30	**$**	**9,468**	$	8,673

[1] Pension plans deficit is the total funded status of the Pension plans in deficit only.
[2] Current period amount is as reported in compliance with GAAP following the adoption of Accounting Standards Update ("ASU") 2016-02 under the cumulative-effect adjustment transition approach, discussed further in Item 1. Financial Statements, Note 2 Accounting changes. The comparative period amount was calculated as the net present value of operating leases discounted by the Company's effective interest rate for the period presented.

Calculation of Adjusted Net Debt to Adjusted EBITDA Ratio

(in millions, except for ratios)		**2019**		2018
Adjusted net debt as at September 30	**$**	**9,468**	$	8,673
Adjusted EBITDA for the year ended September 30		**3,911**		3,407
Adjusted net debt to Adjusted EBITDA ratio		**2.4**		2.5

Off-Balance Sheet Arrangements

Guarantees

At September 30, 2019, the Company had residual value guarantees on operating lease commitments of $2 million (December 31, 2018 - $2 million). 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 of these guarantees. All or a portion of amounts paid under certain guarantees could be recoverable from other parties or through insurance. As at September 30, 2019, the fair value of these guarantees recognized as a liability was $10 million (December 31, 2018 - $10 million).

Contractual Commitments

The accompanying table indicates the Company's obligations and commitments to make future payments for contracts, such as debt, leases, and commercial arrangements, as at September 30, 2019.

Payments due by period (in millions)		**Total**		2019		2020 & 2021		2022 & 2023		2024 & beyond
Contractual commitments										
Interest on long-term debt and finance leases	**$**	**11,410**	$	65	$	871	$	743	$	9,731
Long-term debt		**8,914**		610		437		977		6,890
Finance leases		**155**		2		14		114		25
Operating lease[1]		**421**		28		123		92		178
Supplier purchase		**1,063**		193		214		193		463
Other long-term liabilities[2]		**462**		15		105		101		241
Total contractual commitments	**$**	**22,425**	$	913	$	1,764	$	2,220	$	17,528

[1] Residual value guarantees on certain leased equipment with a maximum exposure of $2 million are not included in the minimum payments shown above.
[2] Includes expected cash payments for environmental remediation, 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 2019 to 2028. 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 Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company's 2018 Annual Report on Form 10-K.

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 discussed below.

Letters of Credit

Letters of credit are obtained mainly to provide security to third parties under the terms of various agreements. 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 letter of credit facilities.

Capital Commitments

The Company remains committed to maintaining the current high level of quality of our capital assets in pursuing sustainable growth. 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 2019 through 2032. These expenditures are expected to be financed by cash generated from operations or by issuing new debt.

The accompanying table indicates the Company's commitments to make future payments for letters of credit and capital expenditures as at September 30, 2019.

Payments due by period (in millions)	**Total**	2019	2020 & 2021	2022 & 2023	2024 & beyond
Certain other financial commitments					
Letters of credit	**$ 61**	$ 61	$ —	$ —	$ —
Capital commitments	**853**	231	443	65	114
Total certain other financial commitments	**$ 914**	$ 292	$ 443	$ 65	$ 114

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, and personal injury and other claims liabilities. Additional information concerning critical accounting estimates is supplemented in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company's 2018 Annual Report on Form 10-K. There have not been any material changes to the Company's critical accounting estimates in the first nine months of 2019.

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

Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations 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. Forward-looking statements typically include words 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. The purpose of 2019 revenue ton-mile growth, adjusted diluted EPS growth, capital program investments, U.S. dollar/Canadian dollar exchange rate, annualized effective tax rate, land sales and other components of net periodic benefit recovery is to assist readers in understanding our expected and targeted financial results, and this information may not be appropriate for other purpose.

The forward-looking statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and Quarterly Report on Form 10-Q are based on current expectations, estimates, projections and assumptions, having regard to the Company's experience and its perception of historical trends, and includes, but is not limited to, expectations, estimates, projections and assumptions relating to: North American and global economic growth; commodity demand growth; sustainable industrial and agricultural production; commodity prices and interest rates; foreign exchange rates (as specified herein); effective tax rates (as specified herein); performance of our assets and equipment; sufficiency of our budgeted capital expenditures in carrying out our business plan; applicable laws, regulations and government policies; the availability and cost of labour, services and infrastructure; and the satisfaction by third parties of their obligations to the Company. Although the Company believes the expectations, estimates, projections and assumptions reflected in the forward-looking statements presented herein are reasonable as of the date hereof, there can be no assurance that they will prove to be correct. Current economic conditions render assumptions, although reasonable when made, subject to greater uncertainty.

Undue reliance should not be placed on forward-looking statements as actual results may differ materially from those expressed or implied by forward-looking statements. By their nature, forward-looking statements involve numerous inherent risks and uncertainties that could cause actual results to differ materially from the forward-looking statements, including but not limited to the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks associated with agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demand; changes in commodity prices; uncertainty surrounding timing and volumes of commodities being shipped via CP; inflation; changes in laws, regulations and government policies, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; changes in fuel prices; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions and discount rates on the financial position of pension plans and investments; trade restrictions or other changes to international trade arrangements; climate change; and various events that could disrupt operations, including severe weather, such as droughts, floods, avalanches and earthquakes, and cybersecurity attacks, as well as security threats and governmental response to them, and technological changes. The foregoing list of factors is not exhaustive.

There are more specific factors that could cause actual results to differ materially from those described in the forward-looking statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and Quarterly Report on Form 10-Q. These more specific factors are identified and discussed in Item 1A. Risk Factors of CP's 2018 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.

The forward-looking statements contained in this Management’s Discussion and Analysis of Financial Condition and Results of Operations and Quarterly Report on Form 10-Q are made as of the date hereof. Except as required by law, CP undertakes no obligation to update publicly or otherwise revise any forward-looking statements, or the foregoing assumptions and risks affecting such forward-looking statements, whether as a result of new information, future events or otherwise.

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, 2019 from the information provided in Item 7A. Quantitative and Qualitative Disclosure about Market Risk of CP's 2018 Annual Report on Form 10-K. Refer to information on 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 relative to the U.S. dollar positively (or negatively) impacts Total revenues by approximately $28 million, negatively (or positively) impacts Operating expenses by approximately $15 million, and negatively (or positively) impacts Net interest expense by approximately $3 million.

CP uses U.S. dollar-denominated debt to hedge its net investment in U.S. operations. As at September 30, 2019, the net investment in U.S. operations is less than the total U.S. denominated debt. Consequently, FX translation on the Company's undesignated debt and lease liabilities causes additional impacts on earnings in Other expense (income). For further information on the net investment hedge, please refer to Item 1. Financial Statements, Note 11 Financial instruments.

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.

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 $0.6 million based on information available at September 30, 2019. This excludes the impact of changes in share price relative to the S&P/TSX 60 Index, the S&P/TSX Capped Industrial Index, the S&P 1500 Road and Rail Index, and to Class I railways, which may trigger different performance share unit payouts. Stock-based compensation may also be impacted by non-market performance conditions.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of September 30, 2019, 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, 2019, 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 2019, 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.