NEWS

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

Release: July 19, 2017

CP reports record second-quarter 2017 financial results; revenues grow 13 percent

Calgary, AB - Canadian Pacific Railway Limited (TSX: CP) (NYSE: CP) today announced record second-quarter earnings driven by strong top-line growth and continued margin improvements produced by its industry-leading operating model and its 12,000 talented railroaders.

Revenues climbed 13 percent to $1.64 billion, while net income rose 46 percent to $480 million, or $3.27 per diluted share, the highest ever for the period. Adjusted earnings per share rose 35 percent to $2.77 per diluted share.

“This quarter’s impressive results demonstrate the power of precision railroading,” said Keith Creel, CP’s President and Chief Executive Officer. “Strong volumes across many of our key business segments, combined with disciplined cost control, produced record operating income and earnings for the quarter.”

SECOND-QUARTER HIGHLIGHTS

- Total revenues grew 13 percent to $1.64 billion
- Operating ratio improved 330 basis points to a second-quarter record of 58.7 percent
- Operating income increased 23 percent to $679 million, a second-quarter record
- Adjusted income climbed 30 percent to $407 million, with adjusted diluted earnings per share increasing 35 percent to $2.77
- Cash from operations for the first six months rose to $922 million from $730 million a year earlier, supporting a gain in free cash flow to $361 million from $173 million in the same period

“We are off to a strong start in 2017 and remain confident that our team of committed railroaders will continue to safely and efficiently deliver results for our customers and shareholders in the second half of the year and beyond,” Creel said.

The company will discuss its results with the financial community in a conference call beginning at: 4:30 p.m. eastern time (2:30 p.m. mountain time) on July 19.

Conference Call Access

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

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

Callers should dial in 10 minutes prior to the call.

Webcast

We encourage you to access the webcast and presentation material at investor.cpr.ca

A replay of the second-quarter conference call will be available by phone through to August 19, 2017 at 416-849-0833 or toll free 1-855-859-2056, password 98435596.

Access to the webcast and audio file of the presentation will be made available at investor.cpr.ca

Non-GAAP Measures

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

Note on forward-looking information

This news release contains certain forward-looking information within the meaning of applicable securities laws relating, but not limited, to our operations, priorities and plans, anticipated financial performance, including our 2017 full-year guidance, business prospects, planned capital expenditures, programs and strategies. This forward-looking information also includes, but is not limited to, statements concerning expectations, beliefs, plans, goals, objectives, assumptions and statements about possible future events, conditions, and results of operations or performance. Forward-looking information may contain statements with words or headings such as "financial expectations", "key assumptions", "anticipate", "believe", "expect", "plan", "will", "outlook", "should" or similar words suggesting future outcomes. To the extent that CP has provided guidance using non-GAAP financial measures, the Company may not be able to provide a reconciliation to a GAAP measure, due to unknown variables and uncertainty related to future results.

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

About Canadian Pacific

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

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ITEM 1. FINANCIAL STATEMENTS

INTERIM CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

(in millions of Canadian dollars, except share and per share data)	For the three months ended June 30 2017	For the three months ended June 30 2016	For the six months ended June 30 2017	For the six months ended June 30 2016
Revenues				
Freight	**$ 1,598**	$ 1,406	**$ 3,161**	$ 2,954
Non-freight	**45**	44	**85**	87
Total revenues	**1,643**	1,450	**3,246**	3,041
Operating expenses				
Compensation and benefits (Note 11)	**277**	284	**510**	613
Fuel	**160**	131	**330**	256
Materials	**48**	38	**97**	94
Equipment rents	**37**	44	**73**	89
Depreciation and amortization	**165**	161	**331**	323
Purchased services and other (Note 4)	**277**	241	**555**	462
Total operating expenses	**964**	899	**1,896**	1,837
Operating income	**679**	551	**1,350**	1,204
Less:				
Other income and charges (Note 5)	**(61)**	(9)	**(89)**	(190)
Net interest expense	**122**	115	**242**	239
Income before income tax expense	**618**	445	**1,197**	1,155
Income tax expense (Note 6)	**138**	117	**286**	287
Net income	**$ 480**	$ 328	**$ 911**	$ 868
Earnings per share (Note 7)				
Basic earnings per share	**$ 3.28**	$ 2.16	**$ 6.22**	$ 5.70
Diluted earnings per share	**$ 3.27**	$ 2.15	**$ 6.20**	$ 5.67
Weighted-average number of shares (millions) (Note 7)				
Basic	**146.5**	151.7	**146.5**	152.3
Diluted	**146.9**	152.6	**147.0**	153.2
Dividends declared per share	**$ 0.5625**	$ 0.5000	**$ 1.0625**	$ 0.8500

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

(in millions of Canadian dollars)	For the three months ended June 30 2017	2016	For the six months ended June 30 2017	2016
Net income	**$ 480**	$ 328	**$ 911**	$ 868
Net gain in foreign currency translation adjustments, net of hedging activities	**14**	3	**19**	40
Change in derivatives designated as cash flow hedges	**4**	(29)	**9**	(76)
Change in pension and post-retirement defined benefit plans	**37**	43	**75**	90
Other comprehensive income before income taxes	**55**	17	**103**	54
Income tax expense on above items	**(26)**	(7)	**(44)**	(48)
Other comprehensive income (Note 3)	**29**	10	**59**	6
Comprehensive income	**$ 509**	$ 338	**$ 970**	$ 874

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED BALANCE SHEETS AS AT
(unaudited)

(in millions of Canadian dollars)	**June 30 2017**	December 31 2016
Assets		
Current assets		
Cash and cash equivalents	**$ 238**	$ 164
Accounts receivable, net	**604**	591
Materials and supplies	**192**	184
Other current assets	**85**	70
	1,119	1,009
Investments	**186**	194
Properties	**16,703**	16,689
Goodwill and intangible assets	**195**	202
Pension asset	**1,261**	1,070
Other assets	**73**	57
Total assets	**$ 19,537**	$ 19,221
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 1,183**	$ 1,322
Long-term debt maturing within one year (Note 8)	**762**	25
	1,945	1,347
Pension and other benefit liabilities	**729**	734
Other long-term liabilities	**222**	284
Long-term debt	**7,660**	8,659
Deferred income taxes	**3,648**	3,571
Total liabilities	**14,204**	14,595
Shareholders' equity		
Share capital	**2,038**	2,002
Additional paid-in capital	**42**	52
Accumulated other comprehensive loss (Note 3)	**(1,740)**	(1,799)
Retained earnings	**4,993**	4,371
	5,333	4,626
Total liabilities and shareholders' equity	**$ 19,537**	$ 19,221

Contingencies (Note 13)

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in millions of Canadian dollars)	For the three months ended June 30 2017	For the three months ended June 30 2016	For the six months ended June 30 2017	For the six months ended June 30 2016
Operating activities				
Net income	**$ 480**	$ 328	**$ 911**	$ 868
Reconciliation of net income to cash provided by operating activities:				
Depreciation and amortization	**165**	161	**331**	323
Deferred income taxes (Note 6)	**24**	90	**91**	183
Pension funding in excess of expense (Note 12)	**(59)**	(37)	**(119)**	(79)
Foreign exchange loss (gain) on long-term debt (Note 5)	**(67)**	(18)	**(95)**	(199)
Other operating activities, net	**(2)**	(47)	**(87)**	(113)
Change in non-cash working capital balances related to operations	**70**	35	**(110)**	(253)
Cash provided by operating activities	**611**	512	**922**	730
Investing activities				
Additions to properties	**(346)**	(330)	**(576)**	(608)
Proceeds from sale of properties and other assets (Note 4)	**13**	11	**16**	71
Other	**—**	(2)	**5**	(2)
Cash used in investing activities	**(333)**	(321)	**(555)**	(539)
Financing activities				
Dividends paid	**(73)**	(53)	**(146)**	(107)
Issuance of CP Common Shares	**9**	4	**37**	9
Purchase of CP Common Shares (Note 9)	**(142)**	(788)	**(142)**	(788)
Repayment of long-term debt, excluding commercial paper	**(9)**	(7)	**(14)**	(18)
Net issuance of commercial paper (Note 8)	**—**	176	**—**	176
Settlement of forward starting swaps (Note 10)	**(22)**	—	**(22)**	—
Other	**—**	(1)	**—**	(3)
Cash used in financing activities	**(237)**	(669)	**(287)**	(731)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	**(4)**	(1)	**(6)**	(18)
Cash position				
Increase (decrease) in cash and cash equivalents	**37**	(479)	**74**	(558)
Cash and cash equivalents at beginning of period	**201**	571	**164**	650
Cash and cash equivalents at end of period	**$ 238**	$ 92	**$ 238**	$ 92
Supplemental disclosures of cash flow information:				
Income taxes paid	**$ 116**	$ 65	**$ 286**	$ 257
Interest paid	**$ 95**	$ 92	**$ 245**	$ 247

See Notes to Interim Consolidated Financial Statements.

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

(in millions of Canadian dollars, except common share amounts)	Common shares (in millions)	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at January 1, 2017	146.3	$ 2,002	$ 52	$ (1,799)	$ 4,371	$ 4,626
Net income	—	—	—	—	911	911
Other comprehensive income (Note 3)	—	—	—	59	—	59
Dividends declared	—	—	—	—	(156)	(156)
CP Common Shares repurchased (Note 9)	(0.7)	(10)	—	—	(133)	(143)
Shares issued under stock option plan	0.5	46	(10)	—	—	36
Balance at June 30, 2017	**146.1**	**$ 2,038**	**$ 42**	**$ (1,740)**	**$ 4,993**	**$ 5,333**
Balance at January 1, 2016	153.0	$ 2,058	$ 43	$ (1,477)	$ 4,172	$ 4,796
Net income	—	—	—	—	868	868
Other comprehensive income (Note 3)	—	—	—	6	—	6
Dividends declared	—	—	—	—	(130)	(130)
Effect of stock-based compensation expense	—	—	8	—	—	8
CP Common Shares repurchased (Note 9)	(4.7)	(70)	—	—	(797)	(867)
Shares issued under stock option plan	0.1	12	(2)	—	—	10
Balance at June 30, 2016	**148.4**	**$ 2,000**	**$ 49**	**$ (1,471)**	**$ 4,113**	**$ 4,691**

See Notes to Interim Consolidated Financial Statements.

1 Basis of presentation

These unaudited interim consolidated financial statements of Canadian Pacific Railway Limited ("CP", or "the Company"), expressed in Canadian dollars, reflect management's estimates and assumptions that are necessary for their fair presentation in conformity with generally accepted accounting principles in the United States of America ("GAAP"). They do not include all disclosures required under GAAP for annual financial statements and should be read in conjunction with the 2016 annual consolidated financial statements and notes included in CP's 2016 Annual Report on Form 10-K. The accounting policies used are consistent with the accounting policies used in preparing the 2016 annual consolidated financial statements, except for the newly adopted accounting policies discussed in Note 2.

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

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

2 Accounting changes

Implemented in 2017

Compensation - Stock Compensation

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, Improvements to Employee Share-based Payment Accounting, under FASB Accounting Standards Codification ("ASC") Topic 718. The amendments clarify the guidance relating to treatment of excess tax benefits and deficiencies, acceptable forfeiture rate policies, and treatment of cash paid by an employer when directly withholding shares for tax-withholding purposes and the requirement to treat such cash flows as a financing activity. As a result of this ASU, excess tax benefits are no longer recorded in additional paid-in capital and instead are applied against taxes payable or recognized in the interim consolidated statement of income. This ASU was effective for CP beginning on January 1, 2017. The Company has determined that there were no significant changes to disclosure or financial statement presentation and changes in accounting for excess tax benefits and deficiencies were not material as a result of adoption.

Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory under FASB ASC Topic 330. The amendments require that reporting entities measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments apply to inventory that is measured using the first-in, first-out or average cost basis. This ASU was effective for CP beginning on January 1, 2017 and was applied prospectively. The Company determined there were no changes to disclosure, financial statement presentation, or valuation of inventory as a result of adoption.

Future changes

Leases

In February 2016, the FASB issued ASU 2016-02, Leases under FASB ASC Topic 842 which will supersede the lease recognition and measurement requirements in Topic 840 Leases. This new standard requires recognition of right-of-use assets and lease liabilities by lessees for those leases classified as finance and operating leases with a maximum term exceeding 12 months. For CP this new standard will be effective for interim and annual periods commencing January 1, 2019. Entities are required to use a modified retrospective approach to adopt this new standard meaning there will be no impact to the consolidated statements of income, however, the comparative consolidated balance sheet will be adjusted to reflect the provisions of this standard. The Company has a detailed plan to implement the new standard and is assessing contractual arrangements, through a cross functional team, that may qualify as leases under the new standard. CP is also working with a vendor to implement a lease management system which will assist in delivering the required accounting changes. During the second quarter, CP's cross functional team aggregated requirements, necessary to account for the different leases CP is involved in, that will permit the vendor to design a lease system solution for CP. The impact of the new standard will be a material increase to right of use assets and lease liabilities on the consolidated balance sheet, primarily, as a result of operating leases currently not recognized on the balance sheet. The Company does not anticipate a material impact to the consolidated statement of income and is currently evaluating the impact adoption of this new standard will have on disclosure.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers under FASB ASC Topic 606. In March 2016, the FASB issued amendment ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations as an update under FASB ASC Topic 606. The amendments clarify the principal versus agent guidance in determining whether to recognize revenue on a gross or net basis. The guidance in Topic 606, as amended, will be effective for CP for interim and annual periods commencing January 1, 2018, and CP has the option of adopting the new standard by using either a full retrospective or a modified retrospective approach. At this point in time, CP is inclined to adopt this new standard using a modified retrospective approach, however, a final decision has yet to be made. CP has analyzed contracts for a significant proportion of the Company's annual rail freight revenue, which represents greater than 95% of CP's annual revenues, and has concluded that recognizing these revenues over time as rail freight services are performed continues to be appropriate. Further detailed reviews are being performed of a variety of specific contractual terms. These include assessing potential additional performance obligations, certain arrangements in the context of the new guidance on principal versus agent, contract origination and fulfillment costs, variable compensation and an assessment of required new disclosures. At this time CP does not expect a material change to revenue recognition from adopting this standard.

Intangibles - Goodwill and Other

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment under FASB ASC Topic 350. This is intended to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The amendments are effective for CP beginning on January 1, 2020. Entities are required to apply the amendments in this update prospectively from the date of adoption. The Company does not anticipate that the adoption of this ASU will impact CP's financial statements as there is a sufficient excess between the fair value and carrying value of CP's goodwill. Furthermore CP expects to continue to apply the Step 0 qualitative assessment when testing for goodwill impairment.

Compensation - Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost under FASB ASC Topic 715. The amendments clarify presentation requirements for net periodic pension cost and net periodic post-retirement benefit cost and require that an employer report the current service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit cost are required to be presented in the consolidated statement of income separately from the current service cost component and outside a subtotal of income from operations if one is presented. The amendments also restrict capitalization to the current service cost component when applicable. The amendments are effective for CP beginning on January 1, 2018. The amendments related to presentation are required to be applied retrospectively and the restrictions on capitalization of the current service cost component are applicable prospectively on the date of adoption. The impacts of the reclassification are detailed as follows:

	For the three months ended June 30		**For the six months ended June 30**		**Year ended December 31**[(1)]	
(in millions of Canadian dollars)	**2017**	2016	**2017**	2016	**2017**	2016
Decrease in operating income	**68**	43	**135**	86	**272**	167

(1) December 31, 2017 figure is an estimate.

There will be no change to net income or earnings per share as a result of adoption of this new standard. The new guidance restricting capitalization of pensions to the current service cost component of net periodic benefit cost will have no impact to operating income or amounts capitalized because the Company currently only capitalizes an appropriate portion of current service cost for self-constructed properties. CP is currently assessing the disclosure requirements of this ASU.

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

	For the three months ended June 30			
(in millions of Canadian dollars, net of tax)	Foreign currency net of hedging activities	Derivatives and other	Pension and post-retirement defined benefit plans	Total
Opening balance, April 1, 2017	**$ 125**	**$ (100)**	**$ (1,794)**	**$ (1,769)**
Other comprehensive (loss) income before reclassifications	**(1)**	**(9)**	**—**	**(10)**
Amounts reclassified from accumulated other comprehensive loss	**—**	**12**	**27**	**39**
Net current-period other comprehensive (loss) income	**(1)**	**3**	**27**	**29**
Closing balance, June 30, 2017	**$ 124**	**$ (97)**	**$ (1,767)**	**$ (1,740)**
Opening balance, April 1, 2016	$ 125	$ (136)	$ (1,470)	$ (1,481)
Other comprehensive loss before reclassifications	(1)	(23)	(2)	(26)
Amounts reclassified from accumulated other comprehensive loss	—	2	34	36
Net current-period other comprehensive (loss) income	(1)	(21)	32	10
Closing balance, June 30, 2016	$ 124	$ (157)	$ (1,438)	$ (1,471)

	For the six months ended June 30			
(in millions of Canadian dollars, net of tax)	Foreign currency net of hedging activities	Derivatives and other	Pension and post-retirement defined benefit plans	Total
Opening balance, January 1, 2017	**$ 127**	**$ (104)**	**$ (1,822)**	**$ (1,799)**
Other comprehensive (loss) income before reclassifications	**(3)**	**(7)**	**—**	**(10)**
Amounts reclassified from accumulated other comprehensive loss	**—**	**14**	**55**	**69**
Net current-period other comprehensive (loss) income	**(3)**	**7**	**55**	**59**
Closing balance, June 30, 2017	**$ 124**	**$ (97)**	**$ (1,767)**	**$ (1,740)**
Opening balance, January 1, 2016	$ 129	$ (102)	$ (1,504)	$ (1,477)
Other comprehensive loss before reclassifications	(5)	(59)	(2)	(66)
Amounts reclassified from accumulated other comprehensive loss	—	4	68	72
Net current-period other comprehensive (loss) income	(5)	(55)	66	6
Closing balance, June 30, 2016	$ 124	$ (157)	$ (1,438)	$ (1,471)

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

	For the three months ended June 30		For the six months ended June 30	
(in millions of Canadian dollars)	**2017**	2016	**2017**	2016
Amortization of prior service costs(1)	**$ (1)**	$ (1)	**$ (2)**	$ (3)
Recognition of net actuarial loss(1)	**38**	48	**77**	97
Total before income tax	**37**	47	**75**	94
Income tax recovery	**(10)**	(13)	**(20)**	(26)
Net of income tax	**$ 27**	$ 34	**$ 55**	$ 68

(1) Impacts "Compensation and benefits" on the Interim Consolidated Statements of Income.

4 Disposition of properties

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

5 Other income and charges

	For the three months ended June 30		For the six months ended June 30	
(in millions of Canadian dollars)	**2017**	2016	**2017**	2016
Foreign exchange gain on long-term debt	**$ (67)**	$ (18)	**$ (95)**	$ (199)
Other foreign exchange gains	**—**	—	**(1)**	(7)
Insurance recovery of legal settlement	**(10)**	—	**(10)**	—
Charge on hedge roll and de-designation (Note 10)	**13**	—	**13**	—
Other	**3**	9	**4**	16
Total other income and charges	**$ (61)**	$ (9)	**$ (89)**	$ (190)

6 Income taxes

	For the three months ended June 30		For the six months ended June 30	
(in millions of Canadian dollars)	**2017**	2016	**2017**	2016
Current income tax expense	**$ 114**	$ 27	**$ 195**	$ 104
Deferred income tax expense	**24**	90	**91**	183
Income tax expense	**$ 138**	$ 117	**$ 286**	$ 287

During the three months ended June 30, 2017, legislation was enacted to decrease the Saskatchewan provincial corporate income tax rate. As a result of this change, the Company recorded an income tax recovery of $17 million in the quarter related to the revaluation of its deferred income tax balances as at January 1, 2017.

The effective tax rates for the three and six months ended June 30, 2017, were 22.31% and 23.90%, respectively, compared to 26.40% and 24.86%, respectively, for the same periods in 2016.

The estimated 2017 annual effective tax rate for the three months ended June 30, 2017, excluding the foreign exchange gain of $67 million on the Company's U.S. dollar-denominated debt, an insurance recovery of $10 million on legal settlement, the $13 million charge associated with the hedge roll and de-designation, and the $17 million tax recovery described above, is 26.50%.

The estimated 2016 annual effective tax rate for the three months ended June 30, 2016, excluding the foreign exchange gain of $18 million on the Company's U.S. dollar-denominated debt, was 26.93%.

The estimated 2017 annual effective tax rate for the six months ended June 30, 2017, excluding the discrete items of the management transition recovery of $51 million related to the retirement of the Company's Chief Executive Officer, the foreign exchange gain of $95 million on the Company's U.S. dollar-denominated debt, an insurance recovery of $10 million on legal settlement, the $13 million charge associated with the hedge roll and de-designation, and the $17 million tax recovery described above, is 26.50%.

The estimated 2016 annual effective tax rate for the for the six months ended June 30, 2016, excluding the foreign exchange gain of $199 million on the Company's U.S. dollar-denominated debt, was 27.25%.

7 Earnings per share

At June 30, 2017, the number of shares outstanding was 146.1 million (June 30, 2016 - 148.4 million).

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

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

(in millions)	For the three months ended June 30 2017	2016	For the six months ended June 30 2017	2016
Weighted-average basic shares outstanding	**146.5**	151.7	**146.5**	152.3
Dilutive effect of stock options	**0.4**	0.9	**0.5**	0.9
Weighted-average diluted shares outstanding	**146.9**	152.6	**147.0**	153.2

For the three and six months ended June 30, 2017, there were 269,855 options and 385,928 options, respectively, excluded from the computation of diluted earnings per share because their effects were not dilutive (three and six months ended June 30, 2016 - 440,009 and 443,000, respectively).

8 Debt

Revolving credit facility

Effective June 23, 2017, the Company extended the maturity date by one year on its existing revolving U.S. $2.0 billion credit facility, which includes a U.S. $1.0 billion five-year portion and U.S. $1.0 billion one-year plus one-year term-out portion. The maturity date on the U.S. $1.0 billion one-year plus one-year term-out portion has been extended to June 27, 2019; the maturity date on the U.S. $1.0 billion five-year portion was extended to June 28, 2022.

Commercial paper program

The Company has a commercial paper program which enables it to issue commercial paper up to a maximum aggregate principal amount of U.S. $1.0 billion in the form of unsecured promissory notes. The commercial paper is backed by the U.S. $1.0 billion one-year plus one-year term-out portion of the revolving credit facility. As at June 30, 2017 and December 31, 2016, the Company had no commercial paper borrowings.

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

9 Shareholders' equity

On May 10, 2017, the Company announced a new normal course issuer bid ("bid"), commencing May 15, 2017, to purchase up to 4.38 million Common Shares for cancellation before May 14, 2018.

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

	For the three months ended June 30 2017	2016	For the six months ended June 30 2017	2016
Number of Common Shares repurchased[1]	**682,900**	5,127,800	**682,900**	5,127,800
Weighted-average price per share[2]	**$ 208.75**	$ 169.13	**$ 208.75**	$ 169.13
Amount of repurchase (in millions)[2]	**$ 143**	$ 867	**$ 143**	$ 867

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

10 Financial instruments

A. Fair values of financial instruments

The Company categorizes its financial assets and liabilities measured at fair value into a three-level hierarchy established by GAAP that prioritizes those inputs to valuation techniques used to measure fair value based on the degree to which they are observable. The three levels of the fair value hierarchy are as follows: Level 1 inputs are quoted prices in active markets for identical assets and liabilities; Level 2 inputs, other than quoted prices included within Level 1, are observable for the asset or liability either directly or indirectly; and Level 3 inputs are not observable in the market.

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

The carrying values of financial instruments equal or approximate their fair values with the exception of long-term debt which has a fair value of approximately $9,925 million (December 31, 2016 - $9,981 million) and a carrying value of $8,422 million (December 31, 2016 - $8,684 million) at June 30, 2017. The estimated fair value of current and long-term borrowings has been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Company at period end. All derivatives and long-term debt are classified as Level 2.

B. Financial risk management

Derivative financial instruments

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

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

FX management

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

Net investment hedge

The FX gains and losses on long-term debt are mainly unrealized and can only be realized when U.S. dollar-denominated long-term debt matures or is settled. The Company also has long-term FX exposure on its investment in U.S. affiliates. The majority of the Company's U.S. dollar-denominated long-term debt has been designated as a hedge of the net investment in foreign subsidiaries. This designation has the effect of mitigating volatility on net income by offsetting long-term FX gains and losses on U.S. dollar-denominated long-term debt and gains and losses on its net investment. The effective portion recognized in "Other comprehensive income" for the three and six months ended June 30, 2017 was an unrealized FX gain of $116 million and $162 million, respectively (three and six months ended June 30, 2016 - an unrealized FX gain of $24 million and $332 million, respectively). There was no ineffectiveness during the three and six months ended June 30, 2017 and June 30, 2016.

Interest rate management

The Company is exposed to interest rate risk, which is the risk that the fair value or future cash flows of a financial instrument will vary as a result of changes in market interest rates. In order to manage funding needs or capital structure goals, the Company enters into debt or capital lease agreements that are subject to either fixed market interest rates set at the time of issue or floating rates determined by on-going market conditions. Debt subject to variable interest rates exposes the Company to variability in interest expense, while debt subject to fixed interest rates exposes the Company to variability in the fair value of debt.

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

Forward starting swaps

As at June 30, 2017, the Company had forward starting floating-to-fixed interest rate swap agreements ("forward starting swaps") totaling a notional U.S. $500 million to fix the benchmark rate on cash flows associated with highly probable forecasted issuances of long-term notes. The effective portion of changes in fair value on the forward starting swaps is recorded in "Accumulated other comprehensive loss”, net of tax, as cash flow hedges until the highly probable forecasted notes are issued. Subsequent to the notes issuance, amounts in “Accumulated other comprehensive loss” are reclassified to “Net interest expense”.

During the second quarter of 2017, the Company de-designated the hedging relationship for U.S. $700 million of forward starting swaps. The Company settled a notional U.S. $200 million of forward starting swaps for a cash payment of U.S. $16 million ($22 million). The Company rolled the remaining notional U.S. $500 million of forward starting swaps and did not cash settle these swaps. The impact of the U.S. $200 million settlement and U.S. $500 million roll of the forward starting swaps was a charge of $13 million to "Other income and charges" on the Company's Interim Consolidated Statements of Income. Concurrently, the Company re-designated the forward starting swaps totaling U.S. $500 million to fix the benchmark rate on cash flows associated with highly probable forecasted issuances of long-term notes.

As at June 30, 2017, the total fair value loss of $59 million (December 31, 2016 - fair value loss of $69 million) derived from the forward starting swaps was included in “Accounts payable and accrued liabilities”. Changes in fair value from the forward starting swaps for the three and six months ended June 30, 2017 was a loss of $14 million and $12 million, respectively (three and six months ended June 30, 2016 - a loss of $32 million and $84 million, respectively). The effective portion for the three and six months ended June 30, 2017 was a loss of $13 million and $11 million, respectively, (three and six months ended June 30, 2016 - a loss of $32 million and $82 million, respectively) and is recorded in “Other comprehensive income”. In addition to the charge on hedge roll and de-designation, for the three and six months ended June 30, 2017, an ineffectiveness loss of $1 million (three and six months ended June 30, 2016 - $nil and a loss of $2 million, respectively) is recorded to “Net interest expense”.

For the three and six months ended June 30, 2017, a loss of $2 million and $5 million, respectively, related to previous forward starting swap hedges have been amortized to “Net interest expense” (three and six months ended June 30, 2016 - a loss of $3 million and $5 million, respectively). The Company expects that during the next 12 months $11 million of losses will be amortized to “Net interest expense”.

11 Stock-based compensation

At June 30, 2017, the Company had several stock-based compensation plans, including stock option plans, various cash settled liability plans and an employee stock savings plan. These plans resulted in an expense for the three and six months ended June 30, 2017 of $17 million and $5 million, respectively (three and six months ended June 30, 2016 - expense of $1 million and $15 million, respectively).

Effective January 31, 2017, Mr. E. Hunter Harrison resigned from all positions held by him at the Company, including as the Company’s Chief Executive Officer and a member of the Board of Directors of the Company. In connection with Mr. Harrison’s resignation, the Company entered into a separation agreement with Mr. Harrison. Under the terms of the separation agreement, the Company has agreed to a limited waiver of Mr. Harrison’s non-competition and non-solicitation obligations.

Effective January 31, 2017, pursuant to the separation agreement, Mr. Harrison forfeited certain pension and post-retirement benefits and agreed to the surrender for cancellation of 22,514 performance share units ("PSU"), 68,612 deferred share units ("DSU"), and 752,145 stock options.

As a result of this agreement, the Company has recognized a recovery of $51 million in "Compensation and benefits" in the first quarter of 2017. Of this amount, $27 million relates to a recovery from cancellation of certain pension benefits.

Stock option plan

In the six months ended June 30, 2017, under CP’s stock option plans, the Company issued 369,980 regular options at the weighted average price of $199.08 per share, based on the closing price on the grant date.

Pursuant to the employee plan, these regular options may be exercised upon vesting, which is between 12 months and 60 months after the grant date, and will expire after 7 years. Certain stock options granted in 2017 vest upon the achievement of specific performance criteria.

Under the fair value method, the fair value of the stock options at the grant date was approximately $17 million. The weighted average fair value assumptions were approximately:

	For the six months ended June 30, 2017
Grant price	$199.08
Expected option life (years)[1]	5.48
Risk-free interest rate[2]	1.85%
Expected stock price volatility[3]	26.94%
Expected annual dividends per share[4]	$2.0010
Expected forfeiture rate[5]	3.0%
Weighted-average grant date fair value per option granted during the period	$45.78

(1) Represents the period of time that awards are expected to be outstanding. Historical data on exercise behaviour, or when available, specific expectations regarding future exercise behaviour, were used to estimate the expected life of the option.
(2) Based on the implied yield available on zero-coupon government issues with an equivalent remaining term at the time of the grant.
(3) Based on the historical stock price volatility of the Company's stock over a period commensurate with the expected term of the option.
(4) Determined by the current annual dividend at the time of grant. The Company does not employ different dividend yields throughout the contractual term of the option. On May 10, 2017, the Company announced an increase in its quarterly dividend to $0.5625 per share, representing $2.2500 on an annual basis.
(5) The Company estimated forfeitures based on past experience. This rate is monitored on a periodic basis.

Performance share unit plan

In the six months ended June 30, 2017, the Company issued 134,991 PSUs with a grant date fair value of approximately $27 million. These units attract dividend equivalents in the form of additional units based on the dividends paid on the Company's Common Shares. PSUs vest and are settled in cash, or in CP Common Shares, approximately three years after the grant date, contingent upon CP's performance ("performance factor"). Grant recipients who are eligible to retire and have provided six months of service during the performance period are entitled to the full award. The fair value of PSUs is measured periodically until settlement, using a lattice-based valuation model.

The performance period for PSUs issued in the six months ended June 30, 2017 is January 1, 2017 to December 31, 2019. The performance factors for these PSUs are Return on Invested Capital, Total Shareholder Return ("TSR") compared to the S&P/ TSX Capped Industrial Index, and TSR compared to S&P 1500 Road and Rail Index.

The performance period for the PSUs issued in 2014 was January 1, 2014 to December 31, 2016. The performance factors for these PSUs were Operating Ratio, Free cash flow, TSR compared to the S&P/TSX 60 index and TSR compared to Class I railways. The resulting payout was 118% of the Company's average share price that was calculated using the last 30 trading days preceding December 31, 2016. In the first quarter of 2017, payouts occurred on the total outstanding awards, including dividends reinvested, totaling $31 million on 133,728 outstanding awards.

Deferred share unit plan

In the six months ended June 30, 2017, the Company granted 17,110 DSUs with a grant date fair value of approximately $3 million. DSUs vest over various periods of up to 48 months and are only redeemable for a specified period after employment is terminated. An expense to income for DSUs is recognized over the vesting period for both the initial subscription price and the change in value between reporting periods.

12 Pension and other benefits

In the three and six months ended June 30, 2017, the Company made contributions of $12 million and $24 million, respectively (three and six months ended June 30, 2016 - $14 million and $34 million, respectively), to its defined benefit pension plans. The elements of net periodic benefit cost for defined benefit pension plans and other benefits recognized in the three and six months ended June 30, 2017 included the following components:

	For the three months ended June 30			
	Pensions		Other benefits	
(in millions of Canadian dollars)	**2017**	2016	**2017**	2016
Current service cost (benefits earned by employees in the period)	**$ 26**	$ 26	**$ 3**	$ 3
Interest cost on benefit obligation	**113**	116	**5**	5
Expected return on fund assets	**(223)**	(211)	**—**	—
Recognized net actuarial loss	**38**	47	**—**	1
Amortization of prior service costs	**(1)**	(1)	**—**	—
Net periodic benefit (recovery) cost	**$ (47)**	$ (23)	**$ 8**	$ 9

	For the six months ended June 30			
	Pensions		Other benefits	
(in millions of Canadian dollars)	**2017**	2016	**2017**	2016
Current service cost (benefits earned by employees in the period)	**$ 51**	$ 53	**$ 6**	$ 6
Interest cost on benefit obligation	**226**	233	**10**	10
Expected return on fund assets	**(446)**	(423)	**—**	—
Recognized net actuarial loss	**76**	95	**1**	2
Amortization of prior service costs	**(2)**	(3)	**—**	—
Net periodic benefit (recovery) cost	**$ (95)**	$ (45)	**$ 17**	$ 18

13 Contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions it considers to be adequate for such actions. While the final outcome with respect to actions outstanding or pending at June 30, 2017 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

Legal proceedings related to Lac-Mégantic rail accident

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

Following the derailment, Québec's Minister of Sustainable Development, Environment, Wildlife and Parks (the "Minister") ordered the named parties to recover the contaminants and to clean up the derailment site. On August 14, 2013, the Minister added CP as a party (the "Amended Cleanup Order"). CP appealed the Amended Cleanup Order to the Administrative Tribunal of Québec. On July 5, 2016, the Minister served a Notice of Claim for nearly $95 million of compensation spent on cleanup, alleging that CP refused or neglected to undertake the work. On September 6, 2016, CP filed a contestation of the Notice of Claim with the Administrative Tribunal of Québec. In October 2016, CP and the Minister agreed to stay the tribunal proceedings pending the outcome of the Province of Québec's action, set out below. The Court's decision to stay the tribunal proceedings is pending, but de facto, the file has been suspended. Directly related to that matter, on July 6, 2015, the Province of Québec sued CP in Québec Superior Court claiming $409 million in derailment damages, including cleanup costs. The Province alleges that CP exercised custody or control over the crude oil lading and that CP was otherwise negligent. Therefore, CP is said to be solidarily (joint and severally) liable with third parties responsible for the accident. The Province filed a motion for leave to amend its complaint in September 2016, which motion was heard on July 14, 2017. The decision is under reserve. To date, no timetable governing the conduct of this lawsuit has been ordered by the Quebec Superior Court. This proceeding appears to be duplicative of the administrative proceedings

A class action lawsuit has also been filed in the Québec Superior Court on behalf of persons and entities residing in, owning or leasing property in, operating a business in or physically present in Lac-Mégantic at the time of the derailment (the "Class Action").

That lawsuit seeks derailment damages, including for wrongful death, personal injury, and property harm. On August 16, 2013, CP was added as a defendant. On May 8, 2015, the Québec Superior Court authorized (certified) the Class Action against CP, the shipper - Western Petroleum, and the shipper's parent - World Fuel Services (collectively, the "World Fuel Entities"). The World Fuel Entities have since settled. The plaintiffs filed a motion for leave to amend their complaint, but subsequently withdrew it.

On October 24, 2016, the Quebec Superior Court authorized class action proceedings against two additional defendants in the same matter discussed above, i.e. against MMAC and Mr. Thomas Harding. On December 9, 2016, the Quebec Superior Court granted CP's motion seeking to confirm the validity of the opt-outs from this class action by the estates of the deceased parties following the train derailment who had opted out to allow them to sue in the United States instead (i.e. the wrongful death cases, filed in the United States, which are further discussed hereinafter). Accordingly, at present, all known wrongful death claimants in the class action have opted out and cannot re-join the Class Action. Draft Case Protocols setting out proposed timetables for the conduct of this lawsuit were submitted to the Superior Court in mid-March 2017 by the plaintiffs and defendants, respectively. On March 27, 2017 the Superior Court adopted several of the steps included in the Case Protocol submitted by CP. In accordance with the Case Protocol, CP's statement of defence was filed by June 2, 2017. A case management conference was held before the Quebec Superior Court on July 14, 2017 to review the status of the matter and schedule the next steps in the Case Protocol. Production of documents, examinations for discovery and the exchange of expert reports by the parties are expected to occur between mid-2017 and the end of 2018. A trial date has yet to be fixed.

On July 4, 2016, eight subrogated insurers served CP with claims of approximately $16 million. On July 11, 2016, two additional subrogated insurers served CP with claims of approximately $3 million. The lawsuits do not identify the parties to which the insurers are subrogated, and therefore the extent of claim overlap and the extent that claims will be satisfied after proof of claim review and distribution from the Plans, referred to below, is difficult to determine. These lawsuits have been stayed until October 24, 2017.

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

An Adversary Proceeding filed by the MMA U.S. bankruptcy trustee (now, estate representative) against CP, Irving Oil, and the World Fuel Entities accuses CP of failing to ensure that World Fuel Entities or Irving Oil properly classified the oil lading and of not refusing to ship the misclassified oil as packaged. By that action the estate representative seeks to recover MMA's going concern value supposedly destroyed by the derailment. The estate representative has since settled with the World Fuel Entities and Irving Oil and now bases CP misfeasance on the railroad's failure to abide in North Dakota by a Canadian regulation. That regulation supposedly would have caused the railroads to not move the crude oil train because an inaccurate classification was supposedly suspected. In a recently amended complaint, the estate representative named a CP affiliate, Soo Line Railroad Company ("Soo Line"), and asserts that CP and Soo Line breached terms or warranties allegedly contained in the bill of lading. CP's motion to dismiss this amended complaint was heard on December 20, 2016. On July 7, 2017, the Maine bankruptcy court granted CP's motion in part (by dismissing the contract claim), and denied CP's motion in part (by allowing the negligence claim to proceed). CP intends to seek leave to appeal the decision (relating to the negligence claim) by July 21, 2017.

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

Lac-Mégantic residents and wrongful death representatives commenced a class action and a mass action in Texas and wrongful death and personal injury actions in Illinois and Maine. CP removed all of these lawsuits to federal court, and a federal court thereafter consolidated those cases in Maine. These actions generally charge CP with misclassification and mis-packaging (that is, using inappropriate DOT-111 tank cars) negligence. On CP's motion, the Maine court dismissed all wrongful death and personal injury actions on several grounds on September 28, 2016. The plaintiffs' subsequent motion for reconsideration was denied on January 9, 2017. The plaintiffs filed a notice of appeal on January 19, 2017. CP filed a motion to dismiss the appeal as untimely on April 20, 2017. Plaintiffs filed their response to the motion to dismiss on May 1, 2017. The decision on this motion is pending, and as a result, appellate briefing on the underlying judgment has not yet commenced. If the ruling is upheld on appeal these cases will be litigated, if anywhere, in Canada. As previously mentioned, these plaintiffs had previously opted-out of the Quebec Class Action in order to bring their claims in the United States. CP brought a motion on December 1, 2016 to seek a declaration from the Quebec Superior Court that the plaintiffs who had opted were precluded from opting back into the Quebec Class Action. CP's motion was successful. Accordingly, if these plaintiffs seek to sue CP, they would have to do so in Quebec in individual actions (they could also join their individual claims in the same individual action).

CP received two damage to cargo notices of claims from the shipper of the oil, Western Petroleum. Western Petroleum submitted U.S. and Canadian notices of claims for the same damages and under the Carmack Amendment (49 U.S.C. Section 11706) Western Petroleum seeks to recover for all injuries associated with, and indemnification for, the derailment. Both jurisdictions permit a shipper to recover the value of damaged lading against any carrier in the delivery chain, subject to limitations in the carrier's tariffs. CP's tariffs significantly restrict shipper damage claim rights. Western Petroleum is part of the World Fuel Services Entities, and those companies settled with the trustee. In settlements with the estate representative the World Fuel Services Entities and the consignee (Irving Oil) assigned all claims against CP, if any, including Carmack Amendment claims. The estate representative has since designated a trust formed for the benefit of the wrongful death plaintiff to pursue those claims.

On April 12, 2016, the Trustee (the "WD Trustee") for a wrongful death trust (the "WD Trust"), as defined and established under the confirmed Plans, sued CP in North Dakota federal court, asserting Carmack Amendment claims. The WD Trustee maintains that the estate representative assigned Carmack Amendment claims to the WD Trustee. The Plan supposedly gave the estate representative Carmack Amendment assignment rights. The WD Trustee seeks to recover amounts for damaged rail cars (approximately $6 million) and, the settlement amounts the consignor (i.e, the shipper, the World Fuel Entities) and the consignee (Irving Oil) paid to the bankruptcy estates, alleged to be $110 million and $60 million, respectively. The WD Trustee maintains that Carmack Amendment liability extends beyond lading losses to cover all derailment related damages suffered by the World Fuel Entities or Irving Oil. CP disputes this interpretation of Carmack Amendment exposure and maintains that CP's tariffs preclude anything except a minimal recovery. CP brought a motion to dismiss the Carmack Amendment claims. On March 24, 2017 the federal court in North Dakota dismissed, with prejudice, these claims. The court determined the claims asserted by the WD Trustee were brought too late. On March 28, 2017, the WD Trustee filed a notice of appeal to the United States Court of Appeals for the Eighth Circuit. On May 19, 2017, the WD Trustee filed his appeal brief. On June 19, 2017, CP filed its responding brief. The appeal is pending and no hearing date has yet been set.

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

Environmental liabilities

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

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

The expense included in "Purchased services and other" for the three and six months ended June 30, 2017 was $1 million and $2 million, respectively (three and six months ended June 30, 2016 - $1 million and $2 million, respectively). Provisions for environmental remediation costs are recorded in "Other long-term liabilities", except for the current portion which is recorded in "Accounts payable and accrued liabilities". The total amount provided at June 30, 2017 was $83 million (December 31, 2016 - $85 million). Payments are expected to be made over 10 years through 2026.

14 Condensed consolidating financial information

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

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

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

Interim Condensed Consolidating Statements of Income
For the three months ended June 30, 2017

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Revenues					
Freight	$ —	$ 1,129	$ 469	$ —	$ 1,598
Non-freight	—	34	95	(84)	45
Total revenues	—	1,163	564	(84)	1,643
Operating expenses					
Compensation and benefits	—	165	111	1	277
Fuel	—	122	38	—	160
Materials	—	34	8	6	48
Equipment rents	—	39	(2)	—	37
Depreciation and amortization	—	108	57	—	165
Purchased services and other	—	210	158	(91)	277
Total operating expenses	—	678	370	(84)	964
Operating income	—	485	194	—	679
Less:					
Other income and charges	(5)	(59)	3	—	(61)
Net interest (income) expense	(9)	139	(8)	—	122
Income before income tax expense and equity in net earnings of subsidiaries	14	405	199	—	618
Less: Income tax expense	1	62	75	—	138
Add: Equity in net earnings of subsidiaries	467	124	—	(591)	—
Net income	$ 480	$ 467	$ 124	$ (591)	$ 480

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

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Revenues					
Freight	$ —	$ 1,007	$ 399	$ —	$ 1,406
Non-freight	—	33	98	(87)	44
Total revenues	—	1,040	497	(87)	1,450
Operating expenses					
Compensation and benefits	—	181	102	1	284
Fuel	—	103	28	—	131
Materials	—	27	8	3	38
Equipment rents	—	53	(9)	—	44
Depreciation and amortization	—	107	54	—	161
Purchased services and other	—	193	139	(91)	241
Total operating expenses	—	664	322	(87)	899
Operating income	—	376	175	—	551
Less:					
Other income and charges	(4)	(12)	7	—	(9)
Net interest expense (income)	10	111	(6)	—	115
(Loss) income before income tax expense and equity in net earnings of subsidiaries	(6)	277	174	—	445
Less: Income tax (recovery) expense	(6)	70	53	—	117
Add: Equity in net earnings of subsidiaries	328	121	—	(449)	—
Net income	$ 328	$ 328	$ 121	$ (449)	$ 328

Interim Condensed Consolidating Statements of Income
For the six months ended June 30, 2017

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Revenues					
Freight	$ —	$ 2,218	$ 943	$ —	$ 3,161
Non-freight	—	66	188	(169)	85
Total revenues	—	2,284	1,131	(169)	3,246
Operating expenses					
Compensation and benefits	—	289	219	2	510
Fuel	—	254	76	—	330
Materials	—	68	17	12	97
Equipment rents	—	75	(2)	—	73
Depreciation and amortization	—	217	114	—	331
Purchased services and other	—	418	320	(183)	555
Total operating expenses	—	1,321	744	(169)	1,896
Operating income	—	963	387	—	1,350
Less:					
Other income and charges	(25)	(66)	2	—	(89)
Net interest (income) expense	(7)	264	(15)	—	242
Income before income tax expense and equity in net earnings of subsidiaries	32	765	400	—	1,197
Less: Income tax expense	2	160	124	—	286
Add: Equity in net earnings of subsidiaries	881	276	—	(1,157)	—
Net income	$ 911	$ 881	$ 276	$ (1,157)	$ 911

Interim Condensed Consolidating Statements of Income
For the six months ended June 30, 2016

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Revenues					
Freight	$ —	$ 2,104	$ 850	$ —	$ 2,954
Non-freight	—	66	194	(173)	87
Total revenues	—	2,170	1,044	(173)	3,041
Operating expenses					
Compensation and benefits	—	382	228	3	613
Fuel	—	206	50	—	256
Materials	—	65	18	11	94
Equipment rents	—	107	(18)	—	89
Depreciation and amortization	—	214	109	—	323
Purchased services and other	—	329	320	(187)	462
Total operating expenses	—	1,303	707	(173)	1,837
Operating income	—	867	337	—	1,204
Less:					
Other income and charges	(73)	(150)	33	—	(190)
Net interest expense (income)	9	242	(12)	—	239
Income before income tax expense and equity in net earnings of subsidiaries	64	775	316	—	1,155
Less: Income tax expense	3	181	103	—	287
Add: Equity in net earnings of subsidiaries	807	213	—	(1,020)	—
Net income	$ 868	$ 807	$ 213	$ (1,020)	$ 868

Interim Condensed Consolidating Statements of Comprehensive Income
For the three months ended June 30, 2017

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Net income	$ 480	$ 467	$ 124	$ (591)	$ 480
Net gain (loss) in foreign currency translation adjustments, net of hedging activities	—	117	(103)	—	14
Change in derivatives designated as cash flow hedges	—	4	—	—	4
Change in pension and post-retirement defined benefit plans	—	36	1	—	37
Other comprehensive income (loss) before income taxes	—	157	(102)	—	55
Income tax expense on above items	—	(26)	—	—	(26)
Equity accounted investments	29	(102)	—	73	—
Other comprehensive income (loss)	29	29	(102)	73	29
Comprehensive income	$ 509	$ 496	$ 22	$ (518)	$ 509

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

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Net income	$ 328	$ 328	$ 121	$ (449)	$ 328
Net gain (loss) in foreign currency translation adjustments, net of hedging activities	—	20	(17)	—	3
Change in derivatives designated as cash flow hedges	—	(29)	—	—	(29)
Change in pension and post-retirement defined benefit plans	—	41	2	—	43
Other comprehensive income (loss) before income taxes	—	32	(15)	—	17
Income tax expense on above items	—	(5)	(2)	—	(7)
Equity accounted investments	10	(17)	—	7	—
Other comprehensive income (loss)	10	10	(17)	7	10
Comprehensive income	$ 338	$ 338	$ 104	$ (442)	$ 338

Interim Condensed Consolidating Statements of Comprehensive Income
For the six months ended June 30, 2017

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Net income	$ 911	$ 881	$ 276	$ (1,157)	$ 911
Net gain (loss) in foreign currency translation adjustments, net of hedging activities	—	162	(143)	—	19
Change in derivatives designated as cash flow hedges	—	9	—	—	9
Change in pension and post-retirement defined benefit plans	—	72	3	—	75
Other comprehensive income (loss) before income taxes	—	243	(140)	—	103
Income tax expense on above items	—	(43)	(1)	—	(44)
Equity accounted investments	59	(141)	—	82	—
Other comprehensive income (loss)	59	59	(141)	82	59
Comprehensive income	$ 970	$ 940	$ 135	$ (1,075)	$ 970

Interim Condensed Consolidating Statements of Comprehensive Income
For the six months ended June 30, 2016

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Net income	$ 868	$ 807	$ 213	$ (1,020)	$ 868
Net gain (loss) in foreign currency translation adjustments, net of hedging activities	—	330	(290)	—	40
Change in derivatives designated as cash flow hedges	—	(76)	—	—	(76)
Change in pension and post-retirement defined benefit plans	—	86	4	—	90
Other comprehensive income (loss) before income taxes	—	340	(286)	—	54
Income tax expense on above items	—	(46)	(2)	—	(48)
Equity accounted investments	6	(288)	—	282	—
Other comprehensive income (loss)	6	6	(288)	282	6
Comprehensive income (loss)	$ 874	$ 813	$ (75)	$ (738)	$ 874

Interim Condensed Consolidating Balance Sheets
As at June 30, 2017

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ —	$ 178	$ 60	$ —	$ 238
Accounts receivable, net	—	440	164	—	604
Accounts receivable, inter-company	95	144	192	(431)	—
Short-term advances to affiliates	499	559	4,817	(5,875)	—
Materials and supplies	—	158	34	—	192
Other current assets	—	55	30	—	85
	594	1,534	5,297	(6,306)	1,119
Long-term advances to affiliates	591	—	413	(1,004)	—
Investments	—	43	143	—	186
Investments in subsidiaries	9,296	11,252	—	(20,548)	—
Properties	—	8,850	7,853	—	16,703
Goodwill and intangible assets	—	—	195	—	195
Pension asset	—	1,261	—	—	1,261
Other assets	—	68	5	—	73
Deferred income taxes	11	—	—	(11)	—
Total assets	$ 10,492	$ 23,008	$ 13,906	$ (27,869)	$ 19,537
Liabilities and shareholders' equity					
Current liabilities					
Accounts payable and accrued liabilities	$ 84	$ 797	$ 302	$ —	$ 1,183
Accounts payable, inter-company	16	283	132	(431)	—
Short-term advances from affiliates	5,059	807	9	(5,875)	—
Long-term debt maturing within one year	—	762	—	—	762
	5,159	2,649	443	(6,306)	1,945
Pension and other benefit liabilities	—	657	72	—	729
Long-term advances from affiliates	—	1,004	—	(1,004)	—
Other long-term liabilities	—	102	120	—	222
Long-term debt	—	7,606	54	—	7,660
Deferred income taxes	—	1,694	1,965	(11)	3,648
Total liabilities	5,159	13,712	2,654	(7,321)	14,204
Shareholders' equity					
Share capital	2,038	1,038	6,835	(7,873)	2,038
Additional paid-in capital	42	1,639	300	(1,939)	42
Accumulated other comprehensive (loss) income	(1,740)	(1,740)	571	1,169	(1,740)
Retained earnings	4,993	8,359	3,546	(11,905)	4,993
	5,333	9,296	11,252	(20,548)	5,333
Total liabilities and shareholders' equity	$ 10,492	$ 23,008	$ 13,906	$ (27,869)	$ 19,537

Condensed Consolidating Balance Sheets
As at December 31, 2016

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ —	$ 100	$ 64	$ —	$ 164
Accounts receivable, net	—	435	156	—	591
Accounts receivable, inter-company	90	113	206	(409)	—
Short-term advances to affiliates	500	692	4,035	(5,227)	—
Materials and supplies	—	150	34	—	184
Other current assets	—	38	32	—	70
	590	1,528	4,527	(5,636)	1,009
Long-term advances to affiliates	1	—	91	(92)	—
Investments	—	47	147	—	194
Investments in subsidiaries	8,513	10,249	—	(18,762)	—
Properties	—	8,756	7,933	—	16,689
Goodwill and intangible assets	—	—	202	—	202
Pension asset	—	1,070	—	—	1,070
Other assets	1	48	8	—	57
Deferred income taxes	11	—	—	(11)	—
Total assets	$ 9,116	$ 21,698	$ 12,908	$ (24,501)	$ 19,221
Liabilities and shareholders' equity					
Current liabilities					
Accounts payable and accrued liabilities	$ 73	$ 945	$ 304	$ —	$ 1,322
Accounts payable, inter-company	14	292	103	(409)	—
Short-term advances from affiliates	4,403	816	8	(5,227)	—
Long-term debt maturing within one year	—	25	—	—	25
	4,490	2,078	415	(5,636)	1,347
Pension and other benefit liabilities	—	658	76	—	734
Long-term advances from affiliates	—	92	—	(92)	—
Other long-term liabilities	—	152	132	—	284
Long-term debt	—	8,605	54	—	8,659
Deferred income taxes	—	1,600	1,982	(11)	3,571
Total liabilities	4,490	13,185	2,659	(5,739)	14,595
Shareholders' equity					
Share capital	2,002	1,037	5,823	(6,860)	2,002
Additional paid-in capital	52	1,638	298	(1,936)	52
Accumulated other comprehensive (loss) income	(1,799)	(1,799)	712	1,087	(1,799)
Retained earnings	4,371	7,637	3,416	(11,053)	4,371
	4,626	8,513	10,249	(18,762)	4,626
Total liabilities and shareholders' equity	$ 9,116	$ 21,698	$ 12,908	$ (24,501)	$ 19,221

Interim Condensed Consolidating Statements of Cash Flows
For the three months ended June 30, 2017

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Cash provided by operating activities	$ 95	$ 468	$ 239	$ (191)	$ 611
Investing activities					
Additions to properties	—	(192)	(154)	—	(346)
Proceeds from sale of properties and other assets	—	5	8	—	13
Advances to affiliates	(1,086)	(553)	(973)	2,612	—
Repayment of advances to affiliates	—	2	—	(2)	—
Capital contributions to affiliates	—	(945)	—	945	—
Other	—	1	(1)	—	—
Cash used in investing activities	(1,086)	(1,682)	(1,120)	3,555	(333)
Financing activities					
Dividends paid	(73)	(73)	(118)	191	(73)
Issuance of share capital	—	—	945	(945)	—
Issuance of CP Common Shares	9	—	—	—	9
Purchase of CP Common Shares	(142)	—	—	—	(142)
Repayment of long-term debt, excluding commercial paper	—	(9)	—	—	(9)
Advances from affiliates	1,197	1,415	—	(2,612)	—
Repayment of advances from affiliates	—	—	(2)	2	—
Settlement of forward starting swaps	—	(22)	—	—	(22)
Cash provided by (used in) financing activities	991	1,311	825	(3,364)	(237)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	—	(2)	(2)	—	(4)
Cash position					
Increase (decrease) in cash and cash equivalents	—	95	(58)	—	37
Cash and cash equivalents at beginning of period	—	83	118	—	201
Cash and cash equivalents at end of period	$ —	$ 178	$ 60	$ —	$ 238

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

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Cash provided by operating activities	$ 75	$ 374	$ 219	$ (156)	$ 512
Investing activities					
Additions to properties	—	(206)	(124)	—	(330)
Proceeds from sale of properties and other assets	—	11	—	—	11
Advances to affiliates	—	(482)	(285)	767	—
Repayment of advances to affiliates	—	208	—	(208)	—
Capital contributions to affiliates	—	(348)	—	348	—
Other	—	—	(2)	—	(2)
Cash used in investing activities	—	(817)	(411)	907	(321)
Financing activities					
Dividends paid	(53)	(53)	(103)	156	(53)
Issuance of share capital	—	—	348	(348)	—
Issuance of CP Common Shares	4	—	—	—	4
Purchase of CP Common Shares	(788)	—	—	—	(788)
Repayment of long-term debt, excluding commercial paper	—	(7)	—	—	(7)
Net issuance of commercial paper	—	176	—	—	176
Advances from affiliates	762	—	5	(767)	—
Repayment of advances from affiliates	—	—	(208)	208	—
Other	—	(1)	—	—	(1)
Cash (used in) provided by financing activities	(75)	115	42	(751)	(669)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	—	(1)	—	—	(1)
Cash position					
Decrease in cash and cash equivalents	—	(329)	(150)	—	(479)
Cash and cash equivalents at beginning of period	—	376	195	—	571
Cash and cash equivalents at end of period	$ —	$ 47	$ 45	$ —	$ 92

Interim Condensed Consolidating Statements of Cash Flows
For the six months ended June 30, 2017

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Cash provided by operating activities	$ 158	$ 553	$ 503	$ (292)	$ 922
Investing activities					
Additions to properties	—	(301)	(275)	—	(576)
Proceeds from sale of properties and other assets	—	6	10	—	16
Advances to affiliates	(1,238)	(551)	(1,107)	2,896	—
Capital contributions to affiliates	—	(1,013)	—	1,013	—
Other	—	6	(1)	—	5
Cash used in investing activities	(1,238)	(1,853)	(1,373)	3,909	(555)
Financing activities					
Dividends paid	(146)	(146)	(146)	292	(146)
Issuance of share capital	—	—	1,013	(1,013)	—
Issuance of CP Common Shares	37	—	—	—	37
Purchase of CP Common Shares	(142)	—	—	—	(142)
Repayment of long-term debt, excluding commercial paper	—	(14)	—	—	(14)
Advances from affiliates	1,331	1,564	1	(2,896)	—
Settlement of forward starting swaps	—	(22)	—	—	(22)
Cash provided by (used in) financing activities	1,080	1,382	868	(3,617)	(287)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	—	(4)	(2)	—	(6)
Cash position					
Increase (decrease) in cash and cash equivalents	—	78	(4)	—	74
Cash and cash equivalents at beginning of period	—	100	64	—	164
Cash and cash equivalents at end of period	$ —	$ 178	$ 60	$ —	$ 238

Interim Condensed Consolidating Statements of Cash Flows
For the six months ended June 30, 2016

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Cash provided by operating activities	$ 98	$ 425	$ 417	$ (210)	$ 730
Investing activities					
Additions to properties	—	(338)	(270)	—	(608)
Proceeds from sale of properties and other assets	—	68	3	—	71
Advances to affiliates	—	(517)	(285)	802	—
Repayment of advances to affiliates	—	208	—	(208)	—
Capital contributions to affiliates	—	(357)	—	357	—
Repurchase of share capital from affiliates	—	6	—	(6)	—
Other	—	—	(2)	—	(2)
Cash (used in) provided by investing activities	—	(930)	(554)	945	(539)
Financing activities					
Dividends paid	(107)	(107)	(103)	210	(107)
Return of share capital to affiliates	—	—	(6)	6	—
Issuance of share capital	—	—	357	(357)	—
Issuance of CP Common Shares	9	—	—	—	9
Purchase of CP Common Shares	(788)	—	—	—	(788)
Repayment of long-term debt, excluding commercial paper	—	(11)	(7)	—	(18)
Net issuance of commercial paper	—	176	—	—	176
Advances from affiliates	788	—	14	(802)	—
Repayment of advances from affiliates	—	—	(208)	208	—
Other	—	(3)	—	—	(3)
Cash (used in) provided by financing activities	(98)	55	47	(735)	(731)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	—	(5)	(13)	—	(18)
Cash position					
Decrease in cash and cash equivalents	—	(455)	(103)	—	(558)
Cash and cash equivalents at beginning of period	—	502	148	—	650
Cash and cash equivalents at end of period	$ —	$ 47	$ 45	$ —	$ 92

Summary of Rail Data

Financial (millions, except per share data)	Second Quarter 2017	Second Quarter 2016	Second Quarter Total Change	Second Quarter % Change	Year-to-date 2017	Year-to-date 2016	Year-to-date Total Change	Year-to-date % Change
Revenues								
Freight	$ 1,598	$ 1,406	$ 192	**14**	$ 3,161	$ 2,954	$ 207	**7**
Non-freight	45	44	1	**2**	85	87	(2)	**(2)**
Total revenues	1,643	1,450	193	**13**	3,246	3,041	205	**7**
Operating expenses								
Compensation and benefits	277	284	(7)	**(2)**	510	613	(103)	**(17)**
Fuel	160	131	29	**22**	330	256	74	**29**
Materials	48	38	10	**26**	97	94	3	**3**
Equipment rents	37	44	(7)	**(16)**	73	89	(16)	**(18)**
Depreciation and amortization	165	161	4	**2**	331	323	8	**2**
Purchased services and other	277	241	36	**15**	555	462	93	**20**
Total operating expenses	964	899	65	**7**	1,896	1,837	59	**3**
Operating income	679	551	128	**23**	1,350	1,204	146	**12**
Less:								
Other income and charges	(61)	(9)	(52)	**578**	(89)	(190)	101	**(53)**
Net interest expense	122	115	7	**6**	242	239	3	**1**
Income before income tax expense	618	445	173	**39**	1,197	1,155	42	**4**
Income tax expense	138	117	21	**18**	286	287	(1)	**—**
Net income	**$ 480**	$ 328	$ 152	**46**	**$ 911**	$ 868	$ 43	**5**
Operating ratio (%)	58.7	62.0	(3.3)	**-330 bps**	58.4	60.4	(2.0)	**-200 bps**
Basic earnings per share	**$ 3.28**	**$ 2.16**	**$ 1.12**	**52**	**$ 6.22**	**$ 5.70**	**$ 0.52**	**9**
Diluted earnings per share	**$ 3.27**	**$ 2.15**	**$ 1.12**	**52**	**$ 6.20**	**$ 5.67**	**$ 0.53**	**9**
Shares Outstanding								
Weighted average number of shares outstanding (millions)	146.5	151.7	(5.2)	**(3)**	146.5	152.3	(5.8)	**(4)**
Weighted average number of diluted shares outstanding (millions)	146.9	152.6	(5.7)	**(4)**	147.0	153.2	(6.2)	**(4)**
Foreign Exchange								
Average foreign exchange rate (US$/Canadian$)	0.74	0.78	(0.04)	**(5)**	0.75	0.75	—	**—**
Average foreign exchange rate (Canadian$/US$)	1.35	1.29	0.06	**5**	1.33	1.34	(0.01)	**(1)**

Summary of Rail Data (Page 2)

	Second Quarter					Year-to-date				
Commodity Data[1]	**2017**	**2016**	**Total Change**	**% Change**	**FX Adjusted % Change[2]**	**2017**	**2016**	**Total Change**	**% Change**	**FX Adjusted % Change[2]**
Freight Revenues (millions)										
- Grain	$ 363	$ 302	$ 61	**20**	18	$ 756	$ 669	$ 87	**13**	13
- Coal	165	149	16	**11**	10	313	294	19	**6**	6
- Potash	109	79	30	**38**	35	207	161	46	**29**	29
- Fertilizers and sulphur	70	73	(3)	**(4)**	(7)	129	154	(25)	**(16)**	(16)
- Forest products	68	70	(2)	**(3)**	(7)	135	141	(6)	**(4)**	(5)
- Energy, chemicals and plastics	216	186	30	**16**	12	443	451	(8)	**(2)**	(1)
- Metals, minerals, and consumer products	190	140	50	**36**	31	360	273	87	**32**	32
- Automotive	79	93	(14)	**(15)**	(19)	155	184	(29)	**(16)**	(16)
- Intermodal	338	314	24	**8**	7	663	627	36	**6**	6
Total Freight Revenues	$1,598	$1,406	$ 192	**14**	11	$3,161	$2,954	$ 207	**7**	7
Freight Revenue per Revenue Ton-Miles (RTM) (cents)										
- Grain	3.92	3.79	0.13	**3**	1	4.06	3.89	0.17	**4**	4
- Coal	2.72	2.76	(0.04)	**(1)**	(2)	2.79	2.73	0.06	**2**	2
- Potash	2.61	2.27	0.34	**15**	13	2.64	2.42	0.22	**9**	9
- Fertilizers and sulphur	6.87	7.16	(0.29)	**(4)**	(7)	6.53	7.04	(0.51)	**(7)**	(7)
- Forest products	6.01	5.59	0.42	**8**	4	6.06	5.87	0.19	**3**	3
- Energy, chemicals and plastics	4.33	4.43	(0.10)	**(2)**	(6)	4.29	4.37	(0.08)	**(2)**	(2)
- Metals, minerals, and consumer products	6.52	6.68	(0.16)	**(2)**	(6)	6.57	7.00	(0.43)	**(6)**	(6)
- Automotive	21.82	18.79	3.03	**16**	12	22.05	20.15	1.90	**9**	9
- Intermodal	5.56	5.09	0.47	**9**	8	5.61	5.20	0.41	**8**	8
Total Freight Revenue per RTM	4.44	4.38	0.06	**1**	(1)	4.50	4.45	0.05	**1**	1
Freight Revenue per Carload										
- Grain	$3,273	$3,081	$ 192	**6**	2	$3,476	$3,373	$ 103	**3**	3
- Coal	2,030	2,001	29	**1**	1	2,061	2,001	60	**3**	3
- Potash	2,946	2,800	146	**5**	3	3,031	2,928	103	**4**	4
- Fertilizers and sulphur	4,527	4,981	(454)	**(9)**	(12)	4,378	4,987	(609)	**(12)**	(12)
- Forest products	4,182	4,055	127	**3**	(1)	4,155	4,135	20	**—**	—
- Energy, chemicals and plastics	3,431	3,264	167	**5**	1	3,421	3,535	(114)	**(3)**	(3)
- Metals, minerals, and consumer products	3,011	2,800	211	**8**	4	2,934	2,884	50	**2**	2
- Automotive	2,831	2,629	202	**8**	4	2,812	2,689	123	**5**	5
- Intermodal	1,362	1,316	46	**3**	2	1,376	1,327	49	**4**	4
Total Freight Revenue per Carload	$2,409	$2,291	$ 118	**5**	3	$2,453	$2,405	$ 48	**2**	2

(1) In the first quarter of 2017, CP revised the grouping of revenues, and aggregated certain lines of business where "Canadian Grain" and "U.S. Grain" were aggregated into the line of business "Grain"; "Chemicals and Plastics" and "Crude" were aggregated into the line of business "Energy, Chemicals and Plastics"; and "Domestic Intermodal" and "International Intermodal" were aggregated into the line of business "Intermodal". Prior period figures have been aggregated accordingly.

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

Summary of Rail Data (Page 3)

Commodity Data (Continued)[1]	Second Quarter 2017	Second Quarter 2016	Second Quarter Total Change	Second Quarter % Change	Year-to-date 2017	Year-to-date 2016	Year-to-date Total Change	Year-to-date % Change
Millions of RTM								
- Grain	9,264	7,969	1,295	**16**	18,647	17,224	1,423	**8**
- Coal	6,098	5,394	704	**13**	11,221	10,742	479	**4**
- Potash	4,159	3,497	662	**19**	7,836	6,682	1,154	**17**
- Fertilizers and sulphur	1,011	1,019	(8)	**(1)**	1,973	2,186	(213)	**(10)**
- Forest products	1,131	1,245	(114)	**(9)**	2,233	2,402	(169)	**(7)**
- Energy, chemicals and plastics	4,970	4,202	768	**18**	10,310	10,324	(14)	**—**
- Metals, minerals, and consumer products	2,922	2,089	833	**40**	5,482	3,896	1,586	**41**
- Automotive	360	495	(135)	**(27)**	700	912	(212)	**(23)**
- Intermodal	6,084	6,181	(97)	**(2)**	11,809	12,058	(249)	**(2)**
Total RTMs	35,999	32,091	3,908	**12**	70,211	66,426	3,785	**6**
Carloads (thousands)[3]								
- Grain	111.0	98.1	12.9	**13**	217.6	198.6	19.0	**10**
- Coal	81.6	74.5	7.1	**10**	152.0	146.7	5.3	**4**
- Potash	36.9	28.4	8.5	**30**	68.3	55.2	13.1	**24**
- Fertilizers and sulphur	15.3	14.7	0.6	**4**	29.4	30.9	(1.5)	**(5)**
- Forest products	16.3	17.2	(0.9)	**(5)**	32.6	34.1	(1.5)	**(4)**
- Energy, chemicals and plastics	62.7	57.0	5.7	**10**	129.3	127.7	1.6	**1**
- Metals, minerals, and consumer products	63.4	49.8	13.6	**27**	122.9	94.6	28.3	**30**
- Automotive	27.8	35.4	(7.6)	**(21)**	54.9	68.3	(13.4)	**(20)**
- Intermodal	248.6	238.9	9.7	**4**	481.8	472.4	9.4	**2**
Total Carloads	663.6	614.0	49.6	**8**	1,288.8	1,228.5	60.3	**5**

	Second Quarter 2017	Second Quarter 2016	Second Quarter Total Change	Second Quarter % Change	Second Quarter FX Adjusted % Change[2]	Year-to-date 2017	Year-to-date 2016	Year-to-date Total Change	Year-to-date % Change	Year-to-date FX Adjusted % Change[2]
Operating Expenses (millions)										
Compensation and benefits	$ 277	$ 284	$ (7)	**(2)**	(4)	$ 510	$ 613	$ (103)	**(17)**	(17)
Fuel	160	131	29	**22**	19	330	256	74	**29**	28
Materials	48	38	10	**26**	23	97	94	3	**3**	3
Equipment rents	37	44	(7)	**(16)**	(18)	73	89	(16)	**(18)**	(18)
Depreciation and amortization	165	161	4	**2**	1	331	323	8	**2**	2
Purchased services and other	277	241	36	**15**	13	555	462	93	**20**	20
Total Operating Expenses	$ 964	$ 899	$ 65	**7**	5	$1,896	$1,837	$ 59	**3**	3

(1) In the first quarter of 2017, CP revised the grouping of revenues, and aggregated certain lines of business where “Canadian Grain” and “U.S. Grain” were aggregated into the line of business "Grain"; “Chemicals and Plastics” and “Crude” were aggregated into the line of business "Energy, Chemicals and Plastics"; and “Domestic Intermodal" and “International Intermodal” were aggregated into the line of business "Intermodal". Prior period figures have been aggregated accordingly.

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

(3) Certain figures have been revised to conform with current presentation.

Summary of Rail Data (Page 4)

	Second Quarter				Year-to-date			
	2017	2016 (1)	Total Change	% Change	2017 (1)	2016 (1)	Total Change	% Change
Operations Performance								
Gross ton-miles ("GTMs") (millions)	63,757	57,945	5,812	**10**	124,586	120,164	4,422	**4**
Train miles (thousands)	7,830	7,391	439	**6**	15,341	15,321	20	**—**
Average train weight - excluding local traffic (tons)	8,695	8,513	182	**2**	8,671	8,496	175	**2**
Average train length - excluding local traffic (feet)	7,138	7,271	(133)	**(2)**	7,141	7,184	(43)	**(1)**
Average terminal dwell (hours)	5.8	6.5	(0.7)	**(11)**	6.4	6.7	(0.3)	**(4)**
Average train speed (mph)(2)	23.3	24.1	(0.8)	**(3)**	22.8	23.7	(0.9)	**(4)**
Fuel efficiency(3)	0.979	0.979	—	**—**	0.995	0.991	0.004	**—**
U.S. gallons of locomotive fuel consumed (millions)(4)	61.9	56.3	5.6	**10**	123.0	118.3	4.7	**4**
Average fuel price (U.S. dollars per U.S. gallon)	2.02	1.82	0.20	**11**	2.06	1.64	0.42	**26**
Total employees (average)(5)	12,173	12,341	(168)	**(1)**	11,911	12,387	(476)	**(4)**
Total employees (end of period)(5)	12,184	11,988	196	**2**	12,184	11,988	196	**2**
Workforce (end of period)(6)	12,239	12,033	206	**2**	12,239	12,033	206	**2**
Safety								
FRA personal injuries per 200,000 employee-hours	1.54	1.36	0.18	**13**	1.69	1.40	0.29	**21**
FRA train accidents per million train miles	1.18	0.74	0.44	**59**	1.02	0.84	0.18	**21**

(1) Certain figures have been revised to conform with current presentation or have been updated to reflect new information as certain operating statistics are estimated and can continue to be updated as actuals settle.
(2) Average train speed is defined as a measure of the line-haul movement from origin to destination including terminal dwell hours. It excludes delay time related to customer or foreign railways, and also 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.
(3) Fuel efficiency is defined as U.S. gallons of locomotive fuel consumed per 1,000 GTMs – freight and yard.
(4) Includes gallons of fuel consumed from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities.
(5) An employee is defined as an individual currently engaged in full-time or part-time employment with CP.
(6) Workforce is defined as total employees plus contractors and consultants.

Non-GAAP Measures

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

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

Adjusted Performance Measures

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

Significant items that impact reported earnings for the first six months of 2017 and 2016 include:

2017:

- in the second quarter, a deferred tax recovery of $17 million as a result of the change in the Saskatchewan provincial corporate income tax rate that favourably impacted Diluted EPS by 12 cents;
- in the second quarter, a charge on hedge roll and de-designation of $13 million ($10 million after deferred tax) that unfavourably impacted Diluted EPS by 7 cents;
- in the second quarter, an insurance recovery of a legal settlement of $10 million ($7 million after current tax) that favourably impacted Diluted EPS by 5 cents;
- in the first quarter, a management transition recovery of $51 million related to the retirement of Mr. E. Hunter Harrison as CEO of CP ($39 million after deferred tax) that favourably impacted Diluted EPS by 27 cents; and
- during the first six months, a net non-cash gain of $95 million ($83 million after deferred tax) due to FX translation of the Company's U.S. dollar-denominated debt as follows:
    - in the second quarter, a $67 million gain ($59 million after deferred tax) that favourably impacted Diluted EPS by 40 cents; and
    - in the first quarter, a $28 million gain ($24 million after deferred tax) that favourably impacted Diluted EPS by 16 cents.

2016:

- during the first six months, a net non-cash gain of $199 million ($172 million after deferred tax) due to FX translation of the Company's U.S. dollar-denominated debt as follows:
    - in the second quarter, an $18 million gain ($16 million after deferred tax) that favourably impacted Diluted EPS by 10 cents; and
    - in the first quarter, a $181 million gain ($156 million after deferred tax) that favourably impacted Diluted EPS by $1.01.

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 for the three and six months ended June 30, 2017 and 2016:

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

	For the three months ended June 30		For the six months ended June 30	
(in millions)	**2017**	2016	**2017**	2016
Net income as reported	**$ 480**	$ 328	**$ 911**	$ 868
Less significant items (pretax):				
Management transition recovery	**—**	—	**51**	—
Impact of FX translation on U.S. dollar-denominated debt	**67**	18	**95**	199
Charge on hedge roll and de-designation	**(13)**	—	**(13)**	—
Insurance recovery of legal settlement	**10**	—	**10**	—
Income tax rate change	**17**	—	**17**	—
Tax effect of adjustments[1]	**8**	2	**24**	27
Adjusted income	**$ 407**	$ 312	**$ 775**	$ 696

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

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

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Diluted earnings per share as reported	**$ 3.27**	$ 2.15	**$ 6.20**	$ 5.67
Less significant items:				
Management transition recovery	**—**	—	**0.35**	—
Impact of FX translation on U.S. dollar-denominated debt	**0.46**	0.11	**0.65**	1.30
Charge on hedge roll and de-designation	**(0.09)**	—	**(0.09)**	—
Insurance recovery of legal settlement	**0.06**	—	**0.06**	—
Income tax rate change	**0.12**	—	**0.12**	—
Tax effect of adjustments[1]	**0.05**	0.01	**0.16**	0.18
Adjusted diluted earnings per share	**$ 2.77**	$ 2.05	**$ 5.27**	$ 4.55

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

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

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	**2017**	2016
Operating income as reported	**$ 679**	$ 551	**$ 1,350**	$ 1,204
Less significant item:				
Management transition recovery	**—**	—	**51**	—
Adjusted operating income	**$ 679**	$ 551	**$ 1,299**	$ 1,204

Adjusted operating ratio excludes those significant items that are reported within Operating income.

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	**2017**	2016
Operating ratio as reported	**58.7 %**	62.0%	**58.4 %**	60.4%
Less significant item:				
Management transition recovery	**— %**	—%	**(1.6)%**	—%
Adjusted operating ratio	**58.7 %**	62.0%	**60.0 %**	60.4%

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. Free cash is a measure that management considers to be an indicator of liquidity. Free cash is useful to investors and other external users of the consolidated financial statements as it assists with the evaluation of the Company's ability to generate cash from its operations without incurring additional external financing. Positive Free cash indicates the amount of cash available for reinvestment in the business, or cash that can be returned to investors through 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 June 30		For the six months ended June 30	
(in millions)	**2017**	2016	**2017**	2016
Cash provided by operating activities	**$ 611**	$ 512	**$ 922**	$ 730
Cash used in investing activities	**(333)**	(321)	**(555)**	(539)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	**(4)**	(1)	**(6)**	(18)
Free cash[(1)]	**$ 274**	$ 190	**$ 361**	$ 173

[(1)] The definition of Free cash has been revised to exclude the deduction of dividends paid. As a result of this change, Free cash was increased by $53 million and $107 million for the three and six months ended June 30, 2016, respectively.

FX Adjusted Variance

FX adjusted variance allows certain financial results to be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons in the analysis of trends in business performance. Financial 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 variances are discussed in Operating Revenues and Operating Expenses of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(in millions)	**Reported 2017**	Reported 2016	Variance due to FX	FX Adjusted 2016	FX Adjusted % Change
	For the three months ended June 30				
Freight revenues	**$ 1,598**	$ 1,406	$ 33	$ 1,439	11
Non-freight revenues	**45**	44	—	44	2
Total revenues	**1,643**	1,450	33	1,483	11
Compensation and benefits	**277**	284	5	289	(4)
Fuel	**160**	131	4	135	19
Materials	**48**	38	1	39	23
Equipment rents	**37**	44	1	45	(18)
Depreciation and amortization	**165**	161	2	163	1
Purchased services and other	**277**	241	5	246	13
Total operating expenses	**964**	899	18	917	5
Operating income	**$ 679**	$ 551	$ 15	$ 566	20

(in millions)	**Reported 2017**	Reported 2016	Variance due to FX	FX Adjusted 2016	FX Adjusted % Change
	For the six months ended June 30				
Freight revenues	**$ 3,161**	$ 2,954	$ —	$ 2,954	7
Non-freight revenues	**85**	87	—	87	(2)
Total revenues	**3,246**	3,041	—	3,041	7
Compensation and benefits	**510**	613	1	614	(17)
Fuel	**330**	256	1	257	28
Materials	**97**	94	—	94	3
Equipment rents	**73**	89	—	89	(18)
Depreciation and amortization	**331**	323	—	323	2
Purchased services and other	**555**	462	—	462	20
Total operating expenses	**1,896**	1,837	2	1,839	3
Operating income	**$ 1,350**	$ 1,204	$ (2)	$ 1,202	12