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

The following discussion and analysis should be read in conjunction with the Company's Interim Consolidated Financial Statements and the related notes for the three months ended March 31, 2017 in Item 1. Financial Statements, the Company's 2016 Annual Report on Form 10-K, and other information in this report. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars.

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

Available Information

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

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

Executive Summary

First Quarter 2017 Results

- *Financial performance* – In the first quarter of 2017, CP reported Diluted earnings per share ("EPS") of $2.93 down 17% compared to the Diluted EPS of $3.51 for the same period in 2016. The decrease in reported Diluted EPS was primarily due to a reduced foreign exchange ("FX") gain on U.S. dollar-denominated debt in 2017 as compared to 2016. Adjusted diluted EPS was $2.50 in the first quarter of 2017, unchanged from the first quarter of 2016, due to improved performance and lower shares outstanding offsetting a $51 million reduction in gain on land sales.

  CP's operating ratio improved by 80 basis points in the first quarter of 2017 to 58.1% from 58.9% in the same period in 2016. The operating ratio in the first quarter of 2017 includes a $51 million recovery associated with management transition. Adjusted operating ratio, which excludes this recovery, increased by 240 basis points in the first quarter of 2017 to 61.3%. No adjustment was made to operating ratio in 2016.

  Adjusted diluted EPS and Adjusted operating ratio are defined and reconciled in Non-GAAP Measures and discussed further in Results of Operations of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

- *Operating revenues* – Total operating revenues increased by 1% in the first quarter of 2017 to $1,603 million from $1,591 million in the same period in 2016.

- *Operating performance* – CP's continued focus on asset utilization and network investments resulted in incremental improvements to CP's key operating metrics. CP's average train weight increased by 2% and average train length increased by 1%. CP's workforce decreased by 5% to 11,829 people. Average terminal dwell increased by 3%, average train speed decreased by 5% and fuel efficiency deteriorated by 1% primarily due to harsher weather conditions. These metrics are discussed further in Performance Indicators of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

2017 Outlook

For the full year 2017, CP expects Adjusted diluted EPS growth to be in the high single-digit percentages from full-year 2016 Adjusted diluted EPS of $10.29, excluding the impacts of any future share repurchases and CEO transition cost recoveries in 2017 of $39 million after tax ($51 million before tax). CP assumes that, in 2017, the Canadian-to-U.S. dollar exchange rate will be in the range of $1.30 to $1.35 and the average price of the West Texas Intermediate ("WTI") crude oil will be approximately U.S. $45 to $55 per barrel. The Company expects a normalized income tax rate of approximately 26.50% for 2017. To further enhance safety and fluidity of the network, CP also plans to invest approximately $1.25 billion in capital programs in 2017, an increase of 6% over the $1.18 billion spent in 2016.

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

Performance Indicators

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

For the three months ended March 31	**2017**	2016[1]	% Change
Operations Performance			
Gross ton-miles ("GTMs") (millions)	**60,827**	62,219	(2)
Train miles (thousands)	**7,511**	7,930	(5)
Average train weight – excluding local traffic (tons)	**8,647**	8,480	2
Average train length – excluding local traffic (feet)	**7,143**	7,103	1
Average terminal dwell (hours)	**7.1**	6.9	3
Average train speed (miles per hour, or "mph")	**22.3**	23.4	(5)
Fuel efficiency (U.S. gallons of locomotive fuel consumed /1,000 GTMs)	**1.012**	1.002	1
Total employees (average)	**11,648**	12,434	(6)
Total employees (end of period)	**11,794**	12,443	(5)
Workforce (end of period)	**11,829**	12,508	(5)
Safety Indicators			
FRA personal injuries per 200,000 employee-hours	**1.89**	1.45	30
FRA train accidents per million train-miles	**0.85**	0.93	(9)

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

Operations Performance

A **GTM** is the movement of one ton of train weight over one mile. GTMs are calculated by multiplying total train weight by the distance the train moved. Total train weight comprises the weight of the freight cars, their contents, and any inactive locomotives. An increase in GTMs indicates additional workload. GTMs for the first quarter of 2017 were 60,827 million, a 2% decrease compared with 62,219 million in the same period of 2016. This decrease was primarily due to improvements in operating efficiency.

Train miles are defined as the sum of the distance moved by all trains operated on the network. Train miles for the first quarter of 2017 decreased by 419 thousand miles, or 5%, compared to the same period of 2016, reflecting continuous improvements in operating efficiency from longer, heavier trains.

Average train weight is defined as the average gross weight of CP trains, both loaded and empty. This excludes trains in short-haul service, work trains used to move CP's track equipment and materials, and the haulage of other railways' trains on CP's network. Average train weight increased in the first quarter of 2017 by 167 tons, or 2%, from the same period of 2016.

The **average train length** is the sum of each car multiplied by the distance travelled, divided by train miles. Local trains are excluded from this measure. Average train length increased in the first quarter of 2017 by 40 feet, or 1%, from the same period of 2016.

Both average train weight and length in the first quarter of 2017 benefited from improvements in operating plan efficiency.

The **average terminal dwell** is defined as the average time a freight car resides within terminal boundaries expressed in hours. The timing starts with a train arriving in the terminal, a customer releasing the car to the Company, or a car arriving at interchange from another railway. The timing ends when the train leaves, a customer receives the car from CP, or the freight car is transferred to another railway. Freight cars are excluded if they are being stored at the terminal or used in track repairs. Average terminal dwell increased by 3% to 7.1 hours in the first quarter of 2017 from 6.9 hours in the same period of 2016.

The **average train speed** is defined as a measure of the line-haul movement from origin to destination including terminal dwell hours. It is calculated by dividing the total train miles travelled by the total train hours operated. This calculation 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. Average train speed was 22.3 miles per hour in the first quarter of 2017, a decrease of 5%, from 23.4 miles per hour in the same period of 2016.

Average terminal dwell and average train speed changes in the first quarter of 2017 were primarily due to harsher weather conditions coupled with partner railroad outages that impacted fluidity in key corridors resulting in increased congestion and dwell.

Fuel efficiency is defined as U.S. gallons of locomotive fuel consumed per 1,000 GTMs - freight and yard. Fuel efficiency decreased by 1% in the first quarter of 2017 compared to the same period of 2016. This was primarily due to the operational challenges from harsher weather conditions.

Total Employees and Workforce

An employee is defined as an individual currently engaged in full-time, part-time or seasonal employment with CP. The average number of total employees for the first quarter of 2017 was 11,648, a decrease of 786, or 6%, compared with the same period of 2016. The total number of employees as at March 31, 2017 was 11,794, a decrease of 649, or 5% compared with 12,443 as at March 31, 2016.

The workforce is defined as total employees plus contractors and consultants. The Company's total workforce as at March 31, 2017 was 11,829, a decrease of 679, or 5%, compared with 12,508 as at March 31, 2016.

The reductions of total employees and workforce were primarily due to natural attrition and efficient resource management planning.

Safety Indicators

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

The FRA personal injuries per 200,000 employee-hours frequency is the number of personal injuries multiplied by 200,000 and divided by total employee hours. Personal injuries are defined as injuries that require employees to lose time away from work, modify their normal duties or obtain medical treatment beyond minor first aid. FRA employee-hours are the total hours worked, excluding vacation and sick time, by all employees, excluding contractors. The FRA personal injuries per 200,000 employee-hours frequency for CP was 1.89 in the first quarter of 2017, up from 1.45 in the same period of 2016.

The FRA train accidents per million train-miles frequency is the number of train accidents, multiplied by 1,000,000 and divided by total train miles. Train accidents included in this metric meet or exceed the FRA reporting threshold of U.S. $10,700 (U.S. $10,500 in 2016) in damage. The FRA train accidents per million train-miles frequency was 0.85 in the first quarter of 2017, down from 0.93 in the same period of 2016.

Financial Highlights

The following table presents selected financial data related to the Company's financial results as of, and for the first quarter ended March 31, 2017 and the comparative figures in 2016. The financial highlights should be read in conjunction with Item 1. Financial Statements and this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

For the three months ended March 31 (in millions, except per share data, percentages and ratios)	2017	2016
Financial Performance		
Revenues	**$ 1,603**	$ 1,591
Operating income	**671**	653
Adjusted operating income[1]	**620**	653
Net income	**431**	540
Adjusted income[1]	**368**	384
Basic EPS	**2.94**	3.53
Diluted EPS	**2.93**	3.51
Adjusted diluted EPS[1]	**2.50**	2.50
Dividends declared per share	**0.5000**	0.3500
Financial Position		
Total assets[2]	**$ 19,397**	$ 19,221
Total long-term obligations[2][3]	**8,661**	8,737
Shareholders' equity[2]	**5,038**	4,626
Cash provided by operating activities	**311**	218
Free cash[1]	**87**	(17)
Financial Ratios		
Operating ratio[4]	**58.1%**	58.9%
Adjusted operating ratio[1]	**61.3%**	58.9%
Return on invested capital ("ROIC")[1]	**13.4%**	14.8%
Adjusted ROIC[1]	**13.7%**	15.2%

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

(2) 2017 information is as at March 31, 2017 and 2016 information is as at December 31, 2016.

(3) Excludes deferred income taxes: $3,640 million and $3,571 million; and other non-financial deferred liabilities of $879 million and $940 million at March 31, 2017 and December 31, 2016 respectively.

(4) Operating ratio is defined as operating expenses divided by revenues.

Results of Operations

Income

Operating income was $671 million in the first quarter of 2017, an increase of $18 million, or 3%, from $653 million in the same period of 2016. This increase was primarily due to:

- management transition recovery of $51 million associated with Mr. E. Hunter Harrison's retirement as CEO of CP;
- higher defined benefit pension plan income of $26 million; and
- efficiencies generated from improved operating performance and asset utilization.

This increase was partially offset by:

- the effects of the gain on sale of CP's Arbutus Corridor in 2016 of $50 million;
- the unfavourable impact of the change in FX of $17 million; and
- the unfavourable impacts of changes in fuel prices of $15 million.

Adjusted operating income, defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, was $620 million in the first quarter of 2017, a decrease of $33 million, or 5%, from $653 million in the same period of 2016. This decrease reflects the same factors discussed above except that Adjusted operating income in 2017 excludes management transition recovery of $51 million.

Net income was $431 million in the first quarter of 2017, a decrease of $109 million, or 20%, from $540 million in the same period of 2016. This decrease was primarily due to a reduced favourable impact of FX translation on U.S. dollar-denominated debt compared to the same period in 2016. This decrease was partially offset by a decrease in income tax expense of $22 million, due to lower taxable earnings in addition to a lower effective income tax rate, and higher operating income.

Adjusted income, defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, was $368 million in the first quarter of 2017, a decrease of $16 million, or 4%, from $384 million in the same period of 2016. This decrease was due to lower Adjusted operating income, partially offset by a decrease in income tax expense.

Diluted Earnings per Share

Diluted earnings per share was $2.93 in the first quarter of 2017, a decrease of $0.58, or 17%, from $3.51 in the same period of 2016. This decrease was primarily due to lower Net income, partially offset by lower average outstanding shares due to the Company's share repurchase program.

Adjusted diluted EPS, defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, was $2.50 in the first quarter of 2017, unchanged from $2.50 in the same period of 2016. This was due to lower Adjusted income being offset by lower average outstanding shares due to the Company's share repurchase program.

Operating Ratio

The Operating ratio provides the percentage of revenues used to operate the railway. A lower percentage normally indicates higher efficiency in the operation of the railway. The Company's Operating ratio was 58.1% in the first quarter of 2017, an 80 basis point improvement from 58.9% in the same period of 2016. This improvement was primarily due to:

- management transition recovery;
- higher defined benefit pension plan income; and
- efficiencies generated from improved operating performance and asset utilization.

This improvement was partially offset by the gain on sale of CP's Arbutus Corridor in 2016 and the unfavourable impacts of changes in fuel prices.

Adjusted operating ratio, defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, was 61.3% in the first quarter of 2017, a 240 basis points higher than 58.9% in the same period of 2016. This increase was primarily due to the gain on sale of CP's Arbutus Corridor in 2016 and the unfavourable impacts of changes in fuel prices. This was partially offset by higher defined benefit pension plan income and efficiencies generated from improved operating performance and asset utilization.

Return on Invested Capital

ROIC is a measure of how productively the Company uses its long-term capital investments, representing a critical indicator of good operating and investment decisions made by management, and is an important performance criteria in determining certain elements of the Company's long-term incentive plan. ROIC was 13.4% for the twelve months ended March 31, 2017, a 140 basis point decrease compared to 14.8% for the twelve months ended March 31, 2016. Adjusted ROIC was 13.7% for the twelve months ended March 31, 2017, a 150 basis point decrease compared to the twelve months ended March 31, 2016. These decreases were due to lower income and new debt issued during the third quarter of 2015, partially offset by lower total shareholders' equity, primarily due to the Company's share repurchase program in 2016 and 2015. ROIC and Adjusted ROIC are defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Impact of FX on Earnings

Fluctuations in FX affect the Company's results because U.S. dollar-denominated revenues and expenses are translated into Canadian dollars. U.S. dollar-denominated revenues and expenses increase (decrease) when the Canadian dollar weakens (strengthens) in relation to the U.S. dollar. The following tables indicate the average and periodic exchange rates when converting U.S. dollars to Canadian dollars for the three months ended March 31, 2017 and the comparative period in 2016.

Average exchange rates (Canadian dollar/U.S. dollar)	**2017**	2016
For the three months ended – March 31	**$ 1.32**	$ 1.37

Exchange rates (Canadian dollar/U.S. dollar)		2017		2016
Beginning of quarter – January 1	$	**1.34**	$	1.38
End of quarter – March 31	$	**1.33**	$	1.30

In the first quarter of 2017, the impact of a stronger Canadian dollar resulted in a decrease in total revenues of $33 million, a decrease in total operating expenses of $16 million and a decrease in interest expense of $4 million from the same period in 2016.

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

Impact of Fuel Price on Earnings

Fluctuations in fuel prices affect the Company's results because fuel expense constitutes a significant portion of CP's operating costs. As fuel prices fluctuate, there will be a timing impact on earnings. The following table indicates the average fuel price for the three months ended March 31, 2017 and the comparative period in 2016.

Average Fuel Price (U.S. dollars per U.S. gallon)		2017		2016
For the three months ended – March 31	$	**2.11**	$	1.48

In the first quarter of 2017, the impact of higher fuel prices resulted in an increase in total revenues of $27 million and an increase in total operating expenses of $42 million from the same period in 2016. This includes the impacts of British Columbia (B.C.) and Alberta carbon taxes recovered and paid, on revenues and expenses, respectively.

Impact of Share Price on Earnings

Fluctuations in the Common Share price affect the Company's operating expenses because share-based liabilities are measured at fair value. The following tables indicate the opening and closing CP Common Share Price on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange for the three months ended March 31, 2017 and the comparative period in 2016.

Toronto Stock Exchange (in Canadian dollars)		2017		2016
Opening Common Share Price, as at January 1	$	**191.56**	$	176.73
Ending Common Share Price, as at March 31	$	**195.35**	$	172.55
Change in Common Share Price	$	**3.79**	$	(4.18)

New York Stock Exchange (in U.S. dollars)		2017		2016
Opening Common Share Price, as at January 1	$	**142.77**	$	127.60
Ending Common Share Price, as at March 31	$	**146.92**	$	132.69
Change in Common Share Price	$	**4.15**	$	5.09

In the first quarter of 2017, the impact of the change in Common Share price resulted in an increase in stock-based compensation expense of $2 million compared to a decrease of $2 million in the same period in 2016.

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

Operating Revenues

For the three months ended March 31		2017		2016		Total Change	% Change	FX Adjusted % Change[2]
Freight revenues (in millions)[1]	**$**	**1,563**	$	1,548	$	15	1	3
Non-freight revenues (in millions)		**40**		43		(3)	(7)	(7)
Total revenues (in millions)	**$**	**1,603**	$	1,591	$	12	1	3
Carloads (in thousands)		**625**		614		11	2	N/A
Revenue ton-miles (in millions)		**34,212**		34,335		(123)	—	N/A
Freight revenue per carload (dollars)	**$**	**2,499**	$	2,520	$	(21)	(1)	1
Freight revenue per revenue ton-miles (cents)		**4.57**		4.51		0.06	1	4

(1) Freight revenues include fuel surcharge revenues of $53 million in 2017, and $26 million in 2016. 2017 and 2016 fuel surcharge revenues include B.C. and Alberta carbon taxes recovered.

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

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

Freight Revenues

Freight revenues were $1,563 million in the first quarter of 2017, an increase of $15 million, or 1%, from $1,548 million in the same period of 2016. This increase was primarily due to the favourable impact of higher fuel surcharge revenue and higher volumes, as measured by revenue ton-miles ("RTM"), in the Metals, minerals, and consumer products; Potash; and Grain lines of business. This increase was partially offset by the change in FX of $33 million and lower volumes in the remaining lines of business.

RTMs

RTMs are defined as the movement of one revenue-producing ton of freight over a distance of one mile. RTMs measure the relative weight and distance of rail freight moved by the Company. RTMs for the first quarter of 2017 were 34,212 million, a decrease of 123 million, compared with 34,335 million in the same period of 2016. This decrease was primarily due to lower shipments of crude, Canadian grain, Canadian coal, international intermodal, fertilizers, and automotive. This decrease in RTMs was partially offset by increased shipments of frac sand, U.S. grain, potash, fuel oil, U.S. coal, domestic intermodal, and plastics.

Fuel Cost Adjustment Program

Freight revenues include fuel surcharge revenues associated with CP's fuel cost adjustment program, which is designed to respond to fluctuations in fuel prices and help reduce exposure to changing fuel prices. The surcharge is applied to shippers through price indices, tariffs and by contract, within agreed-upon guidelines. The Company is also subject to carbon taxation systems in some jurisdictions in which it operates, the costs of which are passed on to the shipper. Freight revenues include fuel surcharge revenues of $53 million for the first quarter of 2017 and $26 million for the same period in 2016. The impact of higher fuel prices resulted in an increase in total revenues of $27 million. These figures include carbon tax recoveries.

Non-freight Revenues

Non-freight revenues were $40 million in the first quarter of 2017, a decrease of $3 million, or 7%, from $43 million in the same period of 2016. This decrease was primarily due to lower leasing revenues following 2016 land sales.

Lines of Business

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.

Grain

For the three months ended March 31		2017		2016		Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	$	**393**	$	367	$	26	7	9
Carloads (in thousands)		**107**		100		7	7	N/A
Revenue ton-miles (in millions)		**9,383**		9,255		128	1	N/A
Freight revenue per carload (dollars)	$	**3,688**	$	3,658	$	30	1	3
Freight revenue per revenue ton-mile (cents)		**4.19**		3.97		0.22	6	8

Grain revenue was $393 million in the first quarter of 2017, an increase of $26 million, or 7%, from $367 million in the same period of 2016. This increase was primarily due to higher freight rates, increased U.S. grain volumes, and higher fuel surcharge revenue. This increase was offset by the unfavourable impact of the change in FX, and lower Canadian grain volumes. Carloads increased in greater proportion than RTMs due to an increase in U.S. grain, which has a shorter length of haul.

Coal

For the three months ended March 31		2017		2016		Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	$	**148**	$	145	$	3	2	3
Carloads (in thousands)		**70**		72		(2)	(3)	N/A
Revenue ton-miles (in millions)		**5,123**		5,348		(225)	(4)	N/A
Freight revenue per carload (dollars)	$	**2,096**	$	2,001	$	95	5	5
Freight revenue per revenue ton-mile (cents)		**2.88**		2.70		0.18	7	7

Coal revenue was $148 million in the first quarter of 2017, an increase of $3 million, or 2%, from $145 million in the same period of 2016. This increase was primarily due to higher U.S. thermal coal shipments and fuel surcharge revenue, partially offset by lower Canadian coal volumes as a result of weather related supply chain challenges, and the unfavourable impact of the change in FX.

Potash

For the three months ended March 31		2017		2016		Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	$	**98**	$	82	$	16	20	23
Carloads (in thousands)		**31**		27		4	15	N/A
Revenue ton-miles (in millions)		**3,677**		3,185		492	15	N/A
Freight revenue per carload (dollars)	$	**3,130**	$	3,064	$	66	2	4
Freight revenue per revenue ton-mile (cents)		**2.67**		2.58		0.09	3	6

Potash revenue was $98 million in the first quarter of 2017, an increase of $16 million, or 20%, from $82 million in the same period of 2016. This increase was primarily due to higher volumes, particularly export potash, which has a lower freight revenue per revenue ton-mile, higher freight rates, and higher fuel surcharge revenue. This increase was partially offset by the unfavourable impact of the change in FX.

Fertilizers and Sulphur

For the three months ended March 31		2017		2016		Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	$	**59**	$	81	$	(22)	(27)	(25)
Carloads (in thousands)		**14**		16		(2)	(13)	N/A
Revenue ton-miles (in millions)		**962**		1,167		(205)	(18)	N/A
Freight revenue per carload (dollars)	$	**4,217**	$	4,993	$	(776)	(16)	(13)
Freight revenue per revenue ton-mile (cents)		**6.17**		6.93		(0.76)	(11)	(9)

Fertilizers and sulphur revenue was $59 million in the first quarter of 2017, a decrease of $22 million, or 27%, from $81 million in the same period of 2016. This decrease was primarily due to lower volumes, particularly fertilizers, which have a higher freight revenue per revenue ton-mile, and the unfavourable impact of the change in FX. This decrease was partially offset by higher fuel surcharge revenue. The decrease in freight revenue per revenue ton-mile is primarily due to the lower fertilizer volumes.

Forest Products

For the three months ended March 31		**2017**		2016		Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$**	**67**	$	71	$	(4)	(6)	(3)
Carloads (in thousands)		**16**		17		(1)	(6)	N/A
Revenue ton-miles (in millions)		**1,102**		1,157		(55)	(5)	N/A
Freight revenue per carload (dollars)	**$**	**4,128**	$	4,216	$	(88)	(2)	1
Freight revenue per revenue ton-mile (cents)		**6.11**		6.17		(0.06)	(1)	2

Forest products revenue was $67 million in the first quarter of 2017, a decrease of $4 million, or 6%, from $71 million in the same period of 2016. This decrease was due to lower volumes, particularly of pulp and paper products, and the unfavourable impact of the change in FX. This decrease was partially offset by higher freight rates, and higher fuel surcharge revenue.

Energy, Chemicals and Plastics

For the three months ended March 31		**2017**		2016		Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$**	**227**	$	265	$	(38)	(14)	(11)
Carloads (in thousands)		**67**		71		(4)	(6)	N/A
Revenue ton-miles (in millions)		**5,340**		6,122		(782)	(13)	N/A
Freight revenue per carload (dollars)	**$**	**3,412**	$	3,753	$	(341)	(9)	(6)
Freight revenue per revenue ton-mile (cents)		**4.25**		4.33		(0.08)	(2)	1

Energy, chemicals and plastics revenue was $227 million in the first quarter of 2017, a decrease of $38 million, or 14%, from $265 million in the same period of 2016. This decrease was primarily due to a decline in crude volumes, and the unfavourable impact of the change in FX. This decrease was partially offset by increased fuel oil and plastics shipments, and higher fuel surcharge revenue. Freight revenue per revenue ton-mile declined in lower proportion than freight revenue per carload due to shorter average length of haul for crude, associated with reduced traffic from the Bakken to the northeast U.S.

Metals, Minerals and Consumer Products

For the three months ended March 31		**2017**		2016		Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$**	**170**	$	133	$	37	28	32
Carloads (in thousands)		**60**		45		15	33	N/A
Revenue ton-miles (in millions)		**2,560**		1,807		753	42	N/A
Freight revenue per carload (dollars)	**$**	**2,851**	$	2,977	$	(126)	(4)	(1)
Freight revenue per revenue ton-mile (cents)		**6.63**		7.38		(0.75)	(10)	(7)

Metals, minerals and consumer products revenue was $170 million in the first quarter of 2017, an increase of $37 million, or 28%, from $133 million in the same period of 2016. This increase was primarily due to higher volumes of frac sand and aggregates traffic, and higher fuel surcharge revenue, partially offset by the unfavourable impact of the change in FX. The decrease in freight revenue per revenue ton-mile is primarily due to higher volumes of frac sand, which have a lower freight revenue per revenue ton-mile.

Automotive

For the three months ended March 31		**2017**		2016		Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$**	**76**	$	91	$	(15)	(16)	(14)
Carloads (in thousands)		**27**		33		(6)	(18)	N/A
Revenue ton-miles (in millions)		**340**		417		(77)	(18)	N/A
Freight revenue per carload (dollars)	**$**	**2,792**	$	2,754	$	38	1	5
Freight revenue per revenue ton-mile (cents)		**22.29**		21.75		0.54	2	6

Automotive revenue was $76 million in the first quarter of 2017, a decrease of $15 million, or 16%, from $91 million in the same period of 2016. This decrease was primarily due to declines in volume and the unfavourable impact of the change in FX, partially offset by higher fuel surcharge revenue. The increase in freight revenue per revenue ton-mile was primarily due to decreased volumes in business with lower freight rates.

Intermodal

For the three months ended March 31		**2017**		2016		Total Change	% Change	FX Adjusted % Change
Freight revenues (in millions)	**$**	**325**	$	313	$	12	4	5
Carloads (in thousands)		**233**		233		—	—	N/A
Revenue ton-miles (in millions)		**5,725**		5,877		(152)	(3)	N/A
Freight revenue per carload (dollars)	**$**	**1,391**	$	1,338	$	53	4	5
Freight revenue per revenue ton-mile (cents)		**5.66**		5.32		0.34	6	8

Intermodal revenue was $325 million in the first quarter of 2017, an increase of $12 million, or 4%, from $313 million in the same period of 2016. This increase reflected higher freight revenue per revenue ton-mile due to increased domestic traffic, and higher fuel surcharge revenue. This increase was partially offset by lower international volumes associated with the loss of a contract and the unfavourable impact of the change in FX.

Operating Expenses

For the three months ended March 31 (in millions)		**2017**		2016		Total Change	% Change	FX Adjusted % Change[(1)]
Compensation and benefits	**$**	**233**	$	329	$	(96)	(29)	(28)
Fuel		**170**		125		45	36	39
Materials		**49**		56		(7)	(13)	(11)
Equipment rents		**36**		45		(9)	(20)	(18)
Depreciation and amortization		**166**		162		4	2	4
Purchased services and other		**278**		221		57	26	29
Total operating expenses	**$**	**932**	$	938	$	(6)	(1)	1

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

Operating expenses were $932 million in the first quarter of 2017, a decrease of $6 million, or 1%, from $938 million in the same period of 2016. This decrease was primarily due to:

- management transition recovery of $51 million associated with Mr. E. Hunter Harrison's retirement as CEO of CP;
- higher defined benefit pension plan income of $26 million;
- efficiencies generated from improved operating performance and asset utilization;
- the favourable impact of the change in FX of $16 million; and
- lower volume variable expenses as a result of a decrease in workload as measured by GTMs.

This decrease was partially offset by:

- the effects of the gain on sale of CP's Arbutus Corridor in 2016 of $50 million;
- the unfavourable impact of $42 million from higher fuel prices;
- the unfavourable impact of harsher weather conditions;
- the impact of wage and benefit inflation of approximately 3%; and
- higher depreciation and amortization of $6 million, primarily due to a higher asset base.

Compensation and Benefits

Compensation and benefits expense includes employee wages, salaries, fringe benefits and stock-based compensation. Compensation and benefits expense was $233 million in the first quarter of 2017, a decrease of $96 million, or 29%, from $329 million in the same period of 2016. This decrease was primarily due to:

- management transition recovery of $51 million associated with Mr. E. Hunter Harrison's retirement as CEO of CP;
- higher defined benefit pension plan income of $26 million;
- lower costs achieved through workforce reductions;
- the favourable impact of the change in FX of $4 million; and
- lower volume variable expenses as a result of a decrease in workload as measured by GTMs.

This decrease was partially offset by the impact of wage and benefit inflation of approximately 3%.

Fuel

Fuel expense consists mainly of fuel used by locomotives and includes provincial, state and federal fuel taxes, as well as carbon taxes. Fuel expense was $170 million in the first quarter of 2017, an increase of $45 million, or 36%, from $125 million in the same period of 2016. This increase was primarily due to the unfavourable impact of $42 million from higher fuel prices, and reduced fuel efficiency. This increase was partially offset by the favourable impact of the change in FX of $3 million and a reduction in workload, as measured by GTMs.

Materials

Materials expense includes the cost of material used for track, locomotive, freight car and building maintenance and software sustainment. Materials expense was $49 million in the first quarter of 2017, a decrease of $7 million, or 13%, from $56 million in the same period of 2016. This decrease was primarily due to lower car repair costs.

Equipment Rents

Equipment rents expense includes the cost associated with using other railways' freight cars, intermodal equipment, and locomotives, net of rental income received from other railways for the use of CP's equipment. Equipment rents expense was $36 million in the first quarter of 2017, a decrease of $9 million, or 20%, from $45 million in the same period of 2016. This decrease was primarily due to the net reduction of freight car rental expenses with other railroads, and the returns and renewals of other leased equipment at lower prices.

Depreciation and Amortization

Depreciation and amortization expense represents the charge associated with the use of track and roadway, buildings, rolling stock, information systems and other depreciable assets. Depreciation and amortization expense was $166 million in the first quarter of 2017, an increase of $4 million, or 2%, from $162 million in the same period of 2016. This increase was primarily due to a higher depreciable asset base, partially offset by the favourable impact of the change in FX of $2 million.

Purchased Services and Other

For the three months ended March 31 (in millions)		**2017**		2016[(1)]		Total change	% Change
Support and facilities	**$**	**67**	$	70	$	(3)	(4)
Track and operations		**66**		65		1	2
Intermodal		**47**		44		3	7
Equipment		**41**		44		(3)	(7)
Casualty		**20**		20		—	—
Property taxes		**32**		30		2	7
Other		**7**		1		6	600
Land sales		**(2)**		(53)		51	(96)
Total Purchased services and other	**$**	**278**	$	221	$	57	26

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

Purchased services and other expense encompasses a wide range of third-party costs, including contractor and consulting fees, locomotive and freight car repairs performed by third parties, property and other taxes, intermodal pickup and delivery services, casualty expense, expenses for joint facilities, and gains on land sales. Purchased services and other expense was $278 million in the first quarter of 2017, an increase of $57 million, or 26%, from $221 million in the same period of 2016. This increase was primarily due to:

- lower land sales of $51 million, as discussed further below;
- higher third-party snow removal services, reported in Track and Operations;
- a charge related to certain assets held for sale, reported in Other; and
- higher intermodal expenses related to pickup and delivery and equipment handling services, reported in Intermodal.

This increase was partially offset by the favourable impact of the change in FX of $5 million and lower crew travel and accommodations costs, reported in Track and operations.

As part of optimizing its assets, the Company may identify and dispose of property used or formerly used in operating activities. The Company includes as part of operating expenses the gains and losses that arise on disposal of such long-lived assets. In the first quarter of 2016, the Company completed the sale of CP's Arbutus Corridor to the City of Vancouver for gross proceeds of $55 million and a gain on sale of $50 million. The agreement allows the Company to share in future proceeds on the eventual development and/or sale of certain parcels of the Arbutus Corridor.

Other Income Statement Items

Other Income and Charges

Other income and charges consists of gains and losses from the change in FX on long-term debt and working capital, various costs related to financing activities, shareholder costs, equity income and other non-operating expenditures. Other income and charges was a gain of $28 million in the first quarter of 2017, compared to a gain of $181 million in the same period of 2016, a change of $153 million, or 85%. This decrease was primarily due to lower FX translation gains on U.S. dollar-denominated debt, compared to the same period of 2016, discussed further in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Net Interest Expense

Net interest expense includes interest on long-term debt and capital leases. Net interest expense was $120 million in the first quarter of 2017, a decrease of $4 million, or 3%, from $124 million in the same period of 2016. This decrease was primarily due to the favourable impact from the change in FX of $4 million.

Income Tax Expense

Income tax expense was $148 million in the first quarter of 2017, a decrease of $22 million, or 13%, from $170 million in the same period of 2016. This decrease was due to lower taxable earnings in addition to a lower effective income tax rate.

The effective tax rate in the first quarter of 2017, including discrete items, was 25.60% compared to 23.89% in 2016. The effective tax rate in the first quarter of 2017, excluding discrete items, was 26.50% compared to 27.50% in 2016.

The Company expects an annualized effective tax rate in 2017 of approximately 26.50%. The Company's 2017 outlook for its normalized income tax rate is based on certain assumptions about events and developments that may or may not materialize, or that may be offset entirely or partially by new events and developments. This is discussed further in Item 1A. Risk Factors of CP's 2016 Annual Report on Form 10-K.

Liquidity and Capital Resources

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

As at March 31, 2017, the Company had $201 million of Cash and cash equivalents, U.S. $2.0 billion available under its revolving credit facilities and up to $188 million available under its letters of credit (December 31, 2016 - $164 million of Cash and cash equivalents, U.S. $2.0 billion available under revolving credit facilities and up to $280 million available under its letters of credit).

As at March 31, 2017, the Company's U.S. $2.0 billion revolving credit facility, which includes a U.S. $1.0 billion five-year portion and U.S. $1.0 billion one-year plus one-year term-out portion, was undrawn (December 31, 2016 - undrawn). The Company did not draw from its revolving credit facility during the three months ended March 31, 2017. The revolving credit facility agreement requires the Company not to exceed a maximum debt to earnings before interest, tax, depreciation, and amortization ratio. As at March 31, 2017, the Company was in compliance with the threshold stipulated in this financial covenant.

The Company has a commercial paper program that enables it to issue commercial paper up to a maximum aggregate principal amount of U.S. $1.0 billion in the form of unsecured promissory notes. The commercial paper is backed by the U.S. $1.0 billion one-year plus one-year term-out portion of the revolving credit facility. At March 31, 2017, total commercial paper borrowings were $nil (December 31, 2016 - $nil).

As at March 31, 2017, under its bilateral letters of credit facility, the Company had letters of credit drawn of $312 million from a total available amount of $500 million. This compares to letters of credit drawn of $320 million from a total available amount of $600 million as at December 31, 2016. Under the bilateral letters of credit facility, the Company has the option to post collateral in the form of Cash or cash equivalents, equal at least to the face value of the letters of credit issued. Collateral provided may include highly liquid investments purchased three months or less from maturity and is stated at cost, which approximates market value. As at March 31, 2017, the Company had posted $nil in collateral on the bilateral letter of credit facilities (December 31, 2016 - $nil).

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

Operating Activities

Cash provided by operating activities was $311 million in the first quarter of 2017, an increase of $93 million compared to $218 million in the same period of 2016. This increase was primarily due to lower outflow in non-cash working capital, primarily as a result of the timing of payments to other railroads and payroll, partially offset by the timing of account receivable collection in the first quarter of 2017 compared to the first quarter of 2016.

Investing Activities

Cash used in investing activities was $222 million in the first quarter of 2017, an increase of $4 million from $218 million in the same period of 2016. This increase was primarily due to lower proceeds from the sale of properties in the first quarter of 2017, partially offset by lower property additions.

Financing Activities

Cash used in financing activities was $50 million in the first quarter of 2017, a decrease of $12 million from $62 million in the same period of 2016. This decrease was primarily due to the higher issuance of CP Common Shares and lower repayment of long-term debt in 2017, partially offset by increased dividends paid in the first quarter of 2017 compared to the same period of 2016.

Interest Coverage Ratio

For the twelve months ended March 31, 2017, the Company's interest coverage ratio was 5.3, compared with 6.1 for the twelve months ended March 31, 2016. This decrease was primarily due to a year over year decrease in Earnings before interest and tax ("EBIT") and an increase in interest expense compared to the same period of 2016.

Excluding significant items from EBIT, Adjusted interest coverage ratio was 5.4 for the twelve months ended March 31, 2017, compared with 6.2 for the twelve months ended March 31, 2016. This decrease was primarily due to a year over year decrease in Adjusted EBIT and an increase in interest expense compared to the same period of 2016. Interest coverage ratio, Adjusted interest coverage ratio, EBIT, Adjusted EBIT, and significant items are defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Credit Measures

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

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

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

As at March 31, 2017, CP's credit ratings from Standard & Poor's Rating Services ("Standard & Poor's"), Moody's Investor Service ("Moody's"), and Dominion Bond Rating Service Limited ("DBRS") remain unchanged from December 31, 2016.

Credit ratings as at March 31, 2017[1]

Long-term debt			Outlook
Standard & Poor's			
	Long-term corporate credit	**BBB+**	stable
	Senior secured debt	**A**	stable
	Senior unsecured debt	**BBB+**	stable
Moody's			
	Senior unsecured debt	**Baa1**	negative
DBRS			
	Unsecured debentures	**BBB**	stable
	Medium-term notes	**BBB**	stable

$1 billion Commercial paper program		
Standard & Poor's	**A-2**	N/A
Moody's	**P-2**	N/A
DBRS	**R-2 (middle)**	N/A

(1) Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor. Credit ratings are based on the rating agencies' methodologies and may be subject to revision or withdrawal at any time by the rating agencies.

The Adjusted net debt to Adjusted earnings before interest, tax, depreciation and amortization ("EBITDA") ratio for the twelve months ended March 31, 2017 and 2016 was 2.9 and 2.6, respectively. This increase was primarily due to higher Adjusted net debt partially due to a lower ending cash balance as at March 31, 2017 compared to March 31, 2016. Adjusted net debt to Adjusted EBITDA ratio and Adjusted income are defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Free Cash

CP generated positive Free cash of $87 million in the first quarter of 2017, an increase of $104 million from negative Free cash of $17 million in the same period of 2016. The increase in Free cash was primarily due to a lower outflow in working capital compared to the same period in 2016. Free cash is affected by seasonal fluctuations and by other factors including the size of the Company's capital programs. Capital additions were $230 million in the first quarter of 2017, a decrease of $48 million compared to the same period of 2016. Free cash is defined and reconciled in the Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Share Capital

At April 18, 2017, the latest practicable date, there were 146,694,793 Common Shares and no preferred shares issued and outstanding, which consists of 14,875 holders of record of the Company's Common Shares. In addition, CP has a Management Stock Option Incentive Plan ("MSOIP"), under which key officers and employees are granted options to purchase CP Common Shares. Each option granted can be exercised for one Common Share. At April 18, 2017, 1.6 million options were outstanding under the Company's MSOIP and stand-alone option agreements entered into with Mr. Keith Creel. There are 1.5 million options available to be issued by the Company's MSOIP in the future.

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

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

In the first quarter of 2017, there were two significant items included in Net income as follows:

- 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
- a net non-cash gain of $28 million ($24 million after deferred tax) due to FX translation of the Company's U.S. dollar-denominated debt that favourably impacted Diluted EPS by 16 cents.

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

- in the third quarter, a $25 million expense ($18 million after current tax) related to a legal settlement that unfavourably impacted Diluted EPS by 12 cents; and
- during the course of the year, a net non-cash gain of $79 million ($68 million after deferred tax) due to FX translation of the Company's U.S. dollar-denominated debt as follows:
    - in the fourth quarter, a $74 million loss ($64 million after deferred tax) that unfavourably impacted Diluted EPS by 43 cents;
    - in the third quarter, a $46 million loss ($40 million after deferred tax) that unfavourably impacted Diluted EPS by 27 cents;
    - in the second quarter, a $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.

In the nine months ended December 31, 2015, there were four significant items included in Net income as follows:

- in the third quarter, a $68 million gain ($42 million after current tax) related to the sale of Delaware & Hudson South ("D&H South") that favourably impacted Diluted EPS by 26 cents;
- in the third quarter, a $47 million charge ($35 million after deferred tax) related to the early redemption premium on notes that unfavourably impacted Diluted EPS by 22 cents;
- in the second quarter, a deferred income tax expense of $23 million as a result of the change in the Alberta provincial corporate income tax rate that unfavourably impacted Diluted EPS by 14 cents; and
- during the nine months ended December 31, 2015, a net non-cash loss of $233 million ($202 million after deferred tax) due to FX translation of the Company's U.S. dollar-denominated debt as follows:
    - in the fourth quarter, a $115 million loss ($100 million after deferred tax) that unfavourably impacted Diluted EPS by 64 cents;
    - in the third quarter, a $128 million loss ($111 million after deferred tax) that unfavourably impacted Diluted EPS by 69 cents; and
    - in the second quarter, a $10 million gain ($9 million after deferred tax) that favourably impacted Diluted EPS by 5 cents.

Reconciliation of GAAP Performance Measures to Non-GAAP Performance Measures

The following tables reconcile the most directly comparable measures presented in accordance with GAAP to the non-GAAP measures presented in Financial Highlights and discussed further in other sections of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for the three months ended March 31, 2017 and 2016:

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

(in millions)	For the three months ended March 31	
	2017	2016
Net income as reported	**$ 431**	$ 540
Less significant items (pretax):		
Management transition recovery	**51**	—
Impact of FX translation on U.S. dollar-denominated debt	**28**	181
Tax effect of adjustments[1]	**16**	25
Adjusted income	**$ 368**	$ 384

[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 March 31	
	2017	2016
Diluted earnings per share as reported	**$ 2.93**	$ 3.51
Less significant items:		
Management transition recovery	**0.35**	—
Impact of FX translation on U.S. dollar-denominated debt	**0.19**	1.17
Tax effect of adjustments[1]	**0.11**	0.16
Adjusted diluted earnings per share	**$ 2.50**	$ 2.50

[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.

(in millions)	For the three months ended March 31	
	2017	2016
Operating income as reported	**$ 671**	$ 653
Less significant item:		
Management transition recovery	**51**	—
Adjusted operating income	**$ 620**	$ 653

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

	For the three months ended March 31	
	2017	2016
Operating ratio as reported	**58.1 %**	58.9%
Less significant item:		
Management transition recovery	**(3.2)%**	—%
Adjusted operating ratio	**61.3 %**	58.9%

ROIC and Adjusted ROIC

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

Calculation of ROIC and Adjusted ROIC

	For the twelve months ended March 31	
(in millions, except for percentages)	**2017**	2016
Operating income	**$ 2,596**	$ 2,729
Less:		
Other income and charges	**108**	81
Tax[1]	**654**	760
	$ 1,834	$ 1,888
Average of total shareholders' equity, long-term debt, long-term debt maturing within one year and short-term borrowing	**$ 13,698**	$ 12,786
ROIC	**13.4%**	14.8%

[1] Tax was calculated at the annualized effective tax rate of 26.27% for 2017 and 28.69% for 2016 for each of the above items for the periods presented.

	For the twelve months ended March 31	
(in millions, except for percentages)	**2017**	2016
Operating income	**$ 2,596**	$ 2,729
Less significant items:		
Management transition recovery	**51**	—
Gain on sale of D&H South	**—**	68
Adjusted operating income	**2,545**	2,661
Less:		
Other income and charges	**108**	81
Add significant items (pretax):		
Legal settlement charge	**25**	—
Impact of FX translation on U.S. dollar-denominated debt	**74**	52
Early redemption premium on notes	**—**	47
Less:		
Tax[1]	**657**	735
	$ 1,879	$ 1,944
Average of total shareholders' equity, long-term debt, long-term debt maturing within one year and short-term borrowing	**$ 13,698**	$ 12,786
Adjusted ROIC	**13.7%**	15.2%

[1] Tax was calculated at the adjusted annualized effective tax rate of 25.91% for 2017 and 27.44% for 2016 for each of the above items for the periods presented.

Free Cash

Free cash is calculated as Cash provided by operating activities, less Cash used in investing activities, 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 March 31	
(in millions)	**2017**	2016
Cash provided by operating activities	**$ 311**	$ 218
Cash used in investing activities	**(222)**	(218)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	**(2)**	(17)
Free cash[(1)]	**$ 87**	$ (17)

(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 $54 million for the three months ended March 31, 2016.

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.

	For the three months ended March 31				
(in millions)	**Reported 2017**	Reported 2016	Variance due to FX	FX Adjusted 2016	FX Adjusted % Change
Freight revenues	**$ 1,563**	$ 1,548	$ (33)	$ 1,515	3
Non-freight revenues	**40**	43	—	43	(7)
Total revenues	**1,603**	1,591	(33)	1,558	3
Compensation and benefits	**233**	329	(4)	325	(28)
Fuel	**170**	125	(3)	122	39
Materials	**49**	56	(1)	55	(11)
Equipment rents	**36**	45	(1)	44	(18)
Depreciation and amortization	**166**	162	(2)	160	4
Purchased services and other	**278**	221	(5)	216	29
Total operating expenses	**932**	938	(16)	922	1
Operating income	**$ 671**	$ 653	$ (17)	$ 636	6

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

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

(in millions)	For the twelve months ended March 31 2017	2016
Net income as reported	**$ 1,490**	$ 1,572
Add:		
Net interest expense	**467**	433
Income tax expense	**531**	643
EBIT	**2,488**	2,648
Less significant items (pretax):		
Management transition recovery	**51**	—
Gain on sale of D&H South	**—**	68
Legal settlement charge	**(25)**	—
Impact of FX translation on U.S. dollar- denominated debt	**(74)**	(52)
Early redemption premium on notes	**—**	(47)
Adjusted EBIT	**2,536**	2,679
Less:		
Net periodic pension and other benefit cost other than current service costs	**191**	98
Operating lease expense	**(106)**	(118)
Depreciation and amortization	**(644)**	(611)
Adjusted EBITDA	**$ 3,095**	$ 3,310

Interest Coverage Ratio

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

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

Calculation of Interest Coverage Ratio and Adjusted Interest Coverage Ratio

(in millions, except for ratios)	For the twelve months ended March 31 2017	2016
EBIT	**$ 2,488**	$ 2,648
Adjusted EBIT	**$ 2,536**	$ 2,679
Net interest expense	**$ 467**	$ 433
Interest coverage ratio	**5.3**	6.1
Adjusted interest coverage ratio	**5.4**	6.2

Adjusted Net Debt to Adjusted EBITDA Ratio

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

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

Adjusted EBITDA ratio is discussed further in Liquidity and Capital Resources of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Reconciliation of Long-term Debt to Adjusted Net Debt

(in millions)		**2017**		2016
Long-term debt including long term debt maturing within one year as at March 31		**8,614**		8,453
Less:				
Pension plans in deficit		**(271)**		(290)
Net present value of operating leases[1]		**(330)**		(396)
Cash and cash equivalents		**201**		571
Adjusted net debt as at March 31	**$**	**9,014**	$	8,568

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

Calculation of Adjusted Net Debt to Adjusted EBITDA Ratio

(in millions, except for ratios)		**2017**		2016
Adjusted net debt as at March 31	**$**	**9,014**	$	8,568
Adjusted EBITDA for the twelve months ended March 31		**3,095**		3,310
Adjusted net debt to Adjusted EBITDA ratio		**2.9**		2.6

Off-Balance Sheet Arrangements

Guarantees

At March 31, 2017, the Company had residual value guarantees on operating lease commitments of $30 million, compared to $19 million at December 31, 2016. The maximum amount that could be payable under these and all of the Company's other guarantees cannot be reasonably estimated due to the nature of certain guarantees. All or a portion of amounts paid under certain guarantees could be recoverable from other parties or through insurance. As at March 31, 2017, the fair value of these guarantees recognized as a liability was $11 million, compared to $5 million at December 31, 2016.

Contractual Commitments

The accompanying table indicates the Company's obligations and commitments to make future payments for contracts, such as debt, capital lease and commercial arrangements, as at March 31, 2017.

Payments due by period (in millions)		**Total**		2017		2018 & 2019		2020 & 2021		2022 & beyond
Contractual commitments										
Interest on long-term debt and capital lease	**$**	**12,263**	$	337	$	882	$	796	$	10,248
Long-term debt		**8,538**		16		1,251		439		6,832
Capital leases		**170**		9		10		11		140
Operating lease[1]		**419**		68		119		83		149
Supplier purchase		**2,283**		429		1,069		183		602
Other long-term liabilities[2]		**507**		60		107		103		237
Total contractual commitments	**$**	**24,180**	$	919	$	3,438	$	1,615	$	18,208

[1] Residual value guarantees on certain leased equipment with a maximum exposure of $30 million are not included in the minimum payments shown above. Where management believes that CP will be required to make payments under these residual value guarantees, the fair value of these guarantees as at March 31, 2017 of $8 million has been recognized as a liability.

[2] Includes expected cash payments for restructuring, environmental remediation, post-retirement benefits, workers' compensation benefits, long-term disability benefits, pension benefit payments for the Company's non-registered supplemental pension plan and certain other long-term liabilities. Projected payments for post-retirement benefits, workers' compensation benefits and long-term disability benefits include the anticipated payments for years 2017 to 2026. Pension contributions for the Company's registered pension plans are not included due to the volatility in calculating them. Pension payments are discussed further in Critical Accounting Estimates of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Certain Other Financial Commitments

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

Letters of Credit

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

Capital Commitments

The Company remains committed to maintaining the current high level of plant quality and renewing the franchise. As part of this commitment, CP has entered into contracts with suppliers to make various capital purchases related to track programs. Payments for these commitments are due in 2017 through 2020. These expenditures are expected to be financed by cash generated from operations or by issuing new debt.

The accompanying table indicates the Company's commitments to make future payments for letters of credit and capital expenditures as at March 31, 2017.

Payments due by period (in millions)	**Total**	2017	2018 & 2019	2020 & 2021	2022 & beyond
Certain other financial commitments					
Letters of credit	**$ 312**	$ 312	$ —	$ —	$ —
Capital commitments	**376**	306	55	15	—
Total certain other financial commitments	**$ 688**	$ 618	$ 55	$ 15	$ —

Critical Accounting Estimates

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

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

Pensions and Other Benefits

Pension Liabilities and Pension Assets

The Company included pension benefit liabilities of $261 million ($263 million as at December 31, 2016) in "Pension and other benefit liabilities" and $10 million ($10 million as at December 31, 2016) in "Accounts payable and accrued liabilities" on the Company's Interim Consolidated Balance Sheets at March 31, 2017. The Company also included post-retirement benefits accruals of $382 million ($383 million as at December 31, 2016) in "Pension and other benefit liabilities" and $21 million ($21 million as at December 31, 2016) in "Accounts payable and accrued liabilities" on the Company's Interim Consolidated Balance Sheets at March 31, 2017.

The Company included pension benefit assets of $1,165 million in "Pension assets" on the Company's Interim Consolidated Balance Sheets at March 31, 2017, compared to $1,070 million as at December 31, 2016.

Pension Plan Contributions

The Company made contributions of $12 million to the defined benefit pension plans in the first quarter of 2017, compared with $20 million in the same period of 2016. The Company's main Canadian defined benefit pension plan accounts for 96% of CP's pension obligation and can produce significant volatility in pension funding requirements, given the pension fund's size, the many factors that drive the pension plan's funded status, and Canadian statutory pension funding requirements. The Company made voluntary prepayments of $600 million in 2011, $650 million in 2010 and $500 million in 2009 to the Company's main Canadian defined benefit pension plan. CP has applied $1,281 million of these voluntary prepayments to reduce its pension funding requirements in 2012–2016, leaving $469 million of the voluntary prepayments still available at March 31, 2017 to reduce CP's pension funding requirements in the remainder of 2017 and future years. CP continues to have significant flexibility with respect to the rate at which the remaining voluntary prepayments are applied to reduce future years' pension contribution requirements, which allows CP to manage the volatility of future pension funding requirements. At this time, CP estimates it will apply $50 million of the remaining voluntary prepayments against its 2017 pension funding requirements.

CP estimates its aggregate pension contributions, including its defined benefit and defined contribution plans, to be in the range of $50 million to $60 million in 2017, and in the range of $50 million to $100 million per year from 2018 to 2020. These estimates reflect the Company's current intentions with respect to the rate at which CP will apply the remaining voluntary prepayments against contribution requirements in the next few years.

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

Property, Plant and Equipment

The Company follows the group depreciation method under which a single depreciation rate is applied to the total cost in a particular class of property, despite differences in the service life or salvage value of individual properties within the same class. CP performs depreciation studies of each property asset class approximately every three years to update deprecation rates. The studies are conducted by third-party specialists and analyzed and reviewed by the Company's management. Depreciation studies for U.S. assets are reviewed and approved by the Surface Transportation Board ("STB"). Depreciation studies for Canadian assets are provided to the Canadian Transportation Agency (the "Agency"), but the Agency does not approve depreciation rates. In determining appropriate depreciation rates, management is required to make judgements and assumptions about a variety of key factors that are subject to future variability due to inherent uncertainties. These include the following:

Key Assumptions	Assessments
• Whole and remaining asset lives	• Statistical analysis of historical retirement patterns; • Evaluation of management strategy and its impact on operations and the future use of specific property assets; • Assessment of technological advances; • Engineering estimates of changes in current operations and analysis of historic, current and projected future usage; • Additional factors considered for track assets: density of traffic and whether rail is new or has been relaid in a subsequent position; • Assessment of policies and practices for the management of assets including maintenance; and • Comparison with industry data.
• Salvage values	• Analysis of historical, current and estimated future salvage values.

CP depreciates the cost of properties, net of salvage, on a straight-line basis over the estimated useful life of the class of property. When depreciable property is retired or otherwise disposed of in the normal course of business, the book value, less net salvage proceeds, is charged to accumulated depreciation and if different than the assumptions under the depreciation study could potentially result in adjusted depreciation expense over a period of years. For certain asset classes, the historical cost of the asset is separately recorded in the Company's property records. This amount is retired from the property records upon retirement of the asset. For assets for which the historical cost cannot be separately identified the amount of the gross book value to be retired is estimated using either an indexation methodology, whereby the current replacement cost of the asset is indexed to the estimated year of installation for the asset, or a first-in, first-out approach, or statistical analysis is used to determine the age of the retired asset. CP uses indices that closely correlate to the principal costs of the assets.

There are a number of estimates inherent in the depreciation and retirement processes and as it is not possible to precisely estimate each of these variables until a group of property is completely retired, CP regularly monitors the estimated service lives of assets and the associated accumulated depreciation for each asset class to ensure depreciation rates are appropriate. If the recorded amounts of accumulated depreciation are greater or less than the amounts indicated by the depreciation studies then the excess or deficit is amortized as a component of depreciation expense over the remaining service lives of the applicable asset classes.

For the sale or retirement of larger groups of depreciable assets that are unusual and were not considered in the Company's depreciation studies, CP records a gain or loss for the difference between net proceeds and net book value of the assets sold or retired. The accumulated depreciation to be retired includes assets specific accumulated depreciation, when known, and an appropriate portion of the accumulated depreciation recorded for the relevant asset class as a whole, calculated using a cost-based allocation.

Revisions to the estimated useful lives and net salvage projections constitute a change in accounting estimate and are addressed prospectively by amending depreciation rates. It is anticipated that there will be changes in the estimates of weighted average useful lives and net salvage for each property asset class as assets are acquired, used and retired. Substantial changes in either the useful lives of properties or the salvage assumptions could result in significant changes to depreciation expense. For example, if the estimated average life of track assets, including rail, ties, ballast and other track material, increased (or decreased) by one year, annual depreciation expense would decrease (or increase) by approximately $6 million.

Deferred Income Taxes

A deferred income tax expense of $67 million was included in "Income tax expense" for the first quarter of 2017 and $93 million was included in "Income tax expense" for the same period of 2016. The decrease in deferred income tax expense in 2017 was primarily due to lower pretax earnings and a lower effective tax rate.

At March 31, 2017, deferred income tax liabilities of $3,640 million were recorded as a long-term liability and are composed largely of temporary differences related to accounting for properties, compared to $3,571 million as at December 31, 2016.

Legal and Personal Injury Liabilities

Provisions for incidents, claims and litigation charged to income, which were included in "Purchased services and other" expense, amounted to $19 million in the first quarter of 2017 compared with $20 million for the same period of 2016.

Forward-Looking Information

This MD&A and Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 and other relevant securities legislation. These forward-looking statements include, but are not limited to, statements concerning the Company’s operations, anticipated financial performance, business prospects and strategies, including statements concerning the anticipation that cash flow from operations and various sources of financing will be sufficient to meet debt repayments and obligations in the foreseeable future and concerning anticipated capital programs, statements regarding future payments including income taxes and pension contributions, and capital expenditures. Forward-looking information typically contains statements with words such as “financial expectations”, “key assumptions”, “anticipate”, “believe”, “expect”, “plan”, “will”, “outlook”, “should” or similar words suggesting future outcomes. 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 as described above under the heading "2017 Outlook" of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

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

There are more specific factors that could cause actual results to differ materially from those described in the forward-looking statements contained in this MD&A. These more specific factors are identified and discussed in Item 1A. Risk Factors of CP's 2016 Annual Report on Form 10-K. Other risks are detailed from time to time in reports filed by CP with securities regulators in Canada and the United States.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to market risk during the three months ended March 31, 2017 from the information provided in Item 7A. Quantitative and Qualitative Disclosure about Market Risk of CP's 2016 Annual Report on Form 10-K other than foreign exchange risk and share price impact on stock-based compensation discussed below:

Foreign Exchange Risk

Although CP conducts business primarily in Canada, a significant portion of its revenues, expenses, assets and liabilities including debt are denominated in U.S. dollars. The value of the Canadian dollar is affected by a number of domestic and international factors, including, without limitation, economic performance, and Canadian, U.S. and international monetary policies. Consequently, the Company's results are affected by fluctuations in the exchange rate between these currencies. On an annualized basis, a $0.01 weakening (or strengthening) of the Canadian dollar positively (or negatively) impacts Total revenues by approximately $25 million and negatively (or positively) impacts Operating expenses by approximately $13 million.

CP uses U.S. dollar-denominated debt to hedge its net investment in U.S. operations. As at March 31, 2017, the net investment in U.S. operations is less than the total U.S. denominated debt. Consequently, FX translation on the Company's undesignated U.S. dollar-denominated long-term debt causes additional impacts on earnings in Other income and charges. For further information, please refer to Item 8. Financial Statements and Supplementary Data, Note 17 Financial Instruments, in CP's 2016 Annual Report on Form 10-K.

To manage this exposure to fluctuations in exchange rates between Canadian and U.S. dollars, CP may sell or purchase U.S. dollar forwards at fixed rates in future periods. In addition, changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and may in turn positively or negatively affect revenues.

Share Price Impact on Stock-Based Compensation

For every $1.00 change in share price, stock-based compensation expense has a corresponding change of approximately $0.3 million to $0.5 million based on information available at March 31, 2017. This excludes the impact of changes in share price relative to the S&P/TSX 60 Index, the S&P/TSX Capped Industrial Index, the S&P 1500 Road and Rail Index, and to Class I railways, which may trigger different performance share unit payouts. Share based compensation may also be impacted by non-market performance conditions.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of March 31, 2017, an evaluation was carried out under the supervision of and with the participation of CP's management, including its CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, the CEO and CFO concluded that these disclosure controls and procedures were effective as of March 31, 2017, to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified by the SEC rules and forms and (ii) accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the first quarter of 2017, the Company has not identified any changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.