

CANADIAN PACIFIC RAILWAY LTD/CN  
Form 6-K  
April 22, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 6-K**

**Report of Foreign Private Issuer**  
**Pursuant to Rule 13a-16 or 15d-16 under**  
**the Securities Exchange Act of 1934**  
**For the month of April, 2014**

**CANADIAN PACIFIC RAILWAY LIMITED**

**(Commission File No. 1-01342)**

**CANADIAN PACIFIC RAILWAY COMPANY**

**(Commission File No. 1-15272)**

**(translation of each Registrant's name into English)**

**7550 Ogden Dale Road S.E., Calgary, Alberta, Canada, T2C 4X9**

**(address of principal executive offices)**

Indicate by check mark whether the registrants file or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrants are submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrants are submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

This Report furnished on Form 6-K shall be incorporated by reference into the Registration Statements of Canadian Pacific Railway Limited on Form S-8 (File Nos. 333-127943, 333-13962, 333-140955, 333-183891, 333-183892, 333-183893, 333-188826 and 333-188827).

SIGNATURES

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

CANADIAN PACIFIC RAILWAY LIMITED  
(Registrant)

Date: April 22, 2014

Signed: /s/ Celeste Evancio  
By: Name: Celeste Evancio  
Title: Assistant Corporate Secretary

CANADIAN PACIFIC RAILWAY COMPANY  
(Registrant)

Date: April 22, 2014

Signed: /s/ Celeste Evancio  
By: Name: Celeste Evancio  
Title: Assistant Corporate Secretary

Immediate Release:

April 22, 2014

**Canadian Pacific reports Q1-2014 net income of C\$254M or C\$1.44 per diluted share**

***Delivers best first quarter financial results in company's history***

Calgary, AB Canadian Pacific Railway Limited (TSX: CP) (NYSE: CP) today announced record Q1 2014 financial results.

Reported net income in the first quarter was \$254 million, or \$1.44 per diluted share, versus \$217 million, or \$1.24 per share, in the first quarter of 2013. This represents a 16 per cent year-over-year improvement in earnings per share.

**FIRST-QUARTER 2014 RESULTS COMPARED WITH FIRST-QUARTER 2013:**

Total revenues were \$1,509 million, an increase of 1 per cent

Operating expenses were \$1,086 million, a decrease of 4 per cent

Operating income was \$423 million, an increase of 17 per cent

Operating ratio was 72.0 per cent, a 380 basis point improvement

CP delivered solid results in a period that was severely impacted by extraordinary cold and severe winter weather conditions, said E. Hunter Harrison, Chief Executive Officer. In the face of such difficult operating conditions, I am particularly proud of the women and men of CP who remained on the job 24/7, to keep the railway operating.

Despite a slow start to the year and the reduced capacity which limited our ability to meet strong customer demand, we still have the utmost confidence in our ability to achieve our financial targets for 2014.

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**Note on forward-looking information**

This news release contains certain forward-looking information within the meaning of applicable securities laws relating, but not limited, to our operations, priorities and plans, anticipated financial performance, purchases of common shares for cancellation under CP's share repurchase program, future sources of capital, business prospects, planned capital expenditures, programs and strategies. This forward-looking information also includes, but is not limited to, statements concerning expectations, beliefs, plans, goals, objectives, assumptions and statements about possible future events, conditions, and results of operations or performance. Forward-looking information may contain statements with words or headings such as financial expectations, key assumptions, anticipate, believe, expect, will, outlook, should or similar words suggesting future outcomes.

Undue reliance should not be placed on forward-looking information as actual results may differ materially from the forward-looking information. Forward-looking information is not a guarantee of future performance. By its nature, CP's forward-looking information involves numerous assumptions, inherent risks and uncertainties that could cause actual results to differ materially from the forward-looking information, including but not limited to the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks in agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and

pricing pressures; industry capacity; shifts in market demand; changes in commodity prices; uncertainty surrounding timing and volumes of commodities being shipped via CP; inflation; changes in laws and regulations, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions and discount rates on the financial position of pension plans and investments; and various events that could disrupt operations, including severe weather, droughts, floods, avalanches and earthquakes as well as security threats and governmental response to them, and technological changes. The foregoing list of factors is not exhaustive.

These and other factors are detailed from time to time in reports filed by CP with securities regulators in Canada and the United States. Reference should be made to Management's Discussion and Analysis in CP's annual and interim reports, Annual Information Form and Form 40-F. Readers are cautioned not to place undue reliance on forward-looking information. Forward-looking information is based on current expectations, estimates and projections and it is possible that predictions, forecasts, projections, and other forms of forward-looking information will not be achieved by CP. Except as required by law, CP undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

### **About Canadian Pacific**

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

### **Contacts**

#### **Media**

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#### **Investment Community**

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**CANADIAN PACIFIC RAILWAY LIMITED*****INTERIM CONSOLIDATED STATEMENTS OF INCOME***

(in millions of Canadian dollars, except per share data)

(unaudited)

|   | <b>For the three<br/>months<br/>ended March 31</b> |                  |
|---|--|------------------|
|   | <b>2014</b>  | <b>2013</b>      |
| <b>Revenues</b>   |  |                  |
| Freight   | \$ 1,474   | \$ 1,459         |
| Other   | 35   | 36               |
| <b>Total revenues</b>   | 1,509  | 1,495            |
| <b>Operating expenses</b>   |  |                  |
| Compensation and benefits <i>(Note 2)</i>                           | 355  | 402              |
| Fuel  | 271  | 270              |
| Materials   | 89   | 72               |
| Equipment rents   | 41   | 46               |
| Depreciation and amortization                                       | 141  | 141              |
| Purchased services and other  | 189  | 202              |
| <b>Total operating expenses</b>                                     | 1,086  | 1,133            |
| <b>Operating income</b>   | <b>423</b>   | <b>362</b>       |
| Less:   |  |                  |
| Other income and charges  |  | 3                |
| Net interest expense  | 70   | 70               |
| <b>Income before income tax expense</b>                             | 353  | 289              |
| Income tax expense <i>(Note 3)</i>                                  | 99   | 72               |
| <b>Net income</b>   | <b>\$ 254</b>                                      | <b>\$ 217</b>    |
| <b>Earnings per share <i>(Note 4)</i></b>                           |  |                  |
| Basic earnings per share  | <b>\$ 1.45</b>                                     | <b>\$ 1.25</b>   |
| Diluted earnings per share  | <b>\$ 1.44</b>                                     | <b>\$ 1.24</b>   |
| <b>Weighted-average number of shares (millions) <i>(Note 4)</i></b> |  |                  |
| Basic   | 175.5  | 174.3            |
| Diluted   | 177.0  | 175.8            |
| <b>Dividends declared per share</b>                                 | <b>\$ 0.3500</b>                                   | <b>\$ 0.3500</b> |

See Notes to Interim Consolidated Financial Statements.





**CANADIAN PACIFIC RAILWAY LIMITED*****INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME***

(in millions of Canadian dollars)

(unaudited)

|   | <b>For the three months<br/>ended March 31</b> |               |
|---|--|---------------|
|   | <b>2014</b>                                    | <b>2013</b>   |
| Net income  | \$ 254   | \$ 217        |
| Net loss on foreign currency translation adjustments, net of hedging activities |  | (2)           |
| Change in derivatives designated as cash flow hedges                            | (1)  | 1             |
| Change in pension and post-retirement defined benefit plans                     | 31   | 188           |
| Other comprehensive income before income tax expense                            | 30   | 187           |
| Income tax recovery (expense)   | 8  | (40)          |
| Other comprehensive income ( <i>Note 2</i> )                                    | 38   | 147           |
| <b>Comprehensive income</b>   | <b>\$ 292</b>                                  | <b>\$ 364</b> |

See Notes to Interim Consolidated Financial Statements.

**CANADIAN PACIFIC RAILWAY LIMITED****INTERIM CONSOLIDATED BALANCE SHEETS AS AT MARCH 31, 2014**

(in millions of Canadian dollars)

(unaudited)

|   | <b>March 31</b>  | <b>December 31</b> |
|---|------------------|--------------------|
|   | <b>2014</b>      | <b>2013</b>        |
| <b>Assets</b>   |                  |                    |
| <b>Current assets</b>                                     |                  |                    |
| Cash and cash equivalents                                 | \$ 279           | \$ 476             |
| Restricted cash and cash equivalents                      | 409              | 411                |
| Accounts receivable, net                                  | 723              | 580                |
| Materials and supplies                                    | 190              | 165                |
| Deferred income taxes ( <i>Note 3</i> )                   | 345              | 344                |
| Other current assets                                      | 64               | 53                 |
|   | 2,010            | 2,029              |
| Investments   | 98               | 92                 |
| Properties  | 13,518           | 13,327             |
| Assets held for sale                                      | 230              | 222                |
| Goodwill and intangible assets                            | 168              | 162                |
| Pension asset ( <i>Note 8</i> )                           | 1,092            | 1,028              |
| Other assets  | 199              | 200                |
| <b>Total assets</b>                                       | <b>\$ 17,315</b> | <b>\$ 17,060</b>   |
| <b>Liabilities and shareholders equity</b>                |                  |                    |
| <b>Current liabilities</b>                                |                  |                    |
| Accounts payable and accrued liabilities                  | \$ 1,144         | \$ 1,189           |
| Long-term debt maturing within one year ( <i>Note 6</i> ) | 95               | 189                |
|   | 1,239            | 1,378              |
| Pension and other benefit liabilities ( <i>Note 8</i> )   | 663              | 657                |
| Other long-term liabilities                               | 348              | 338                |
| Long-term debt ( <i>Note 6</i> )                          | 4,774            | 4,687              |
| Deferred income taxes                                     | 3,028            | 2,903              |
| <b>Total liabilities</b>                                  | <b>10,052</b>    | <b>9,963</b>       |
| <b>Shareholders equity</b>                                |                  |                    |
| Share capital ( <i>Note 5</i> )                           | 2,253            | 2,240              |
| Additional paid-in capital                                | 36               | 34                 |
| Accumulated other comprehensive loss ( <i>Note 2</i> )    | (1,465)          | (1,503)            |
| Retained earnings   | 6,439            | 6,326              |
|   | 7,263            | 7,097              |

|   |           |           |
|---|-----------|-----------|
| <b><i>Total liabilities and shareholders equity</i></b> | \$ 17,315 | \$ 17,060 |
|---|-----------|-----------|

Contingencies (*Note 9*)

See Notes to Interim Consolidated Financial Statements.

**CANADIAN PACIFIC RAILWAY LIMITED****INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions of Canadian dollars)

(unaudited)

|   | <b>For the three months<br/>ended March 31</b> |               |
|---|--|---------------|
|   | <b>2014</b>                                    | <b>2013</b>   |
| <b>Operating activities</b>   |  |               |
| Net income  | \$ 254   | \$ 217        |
| Reconciliation of net income to cash provided by operating activities:                              |  |               |
| Depreciation and amortization   | 141  | 141           |
| Deferred income taxes ( <i>Note 3</i> )   | 89   | 63            |
| Pension funding in excess of expense ( <i>Note 8</i> )  | (32)   | (9)           |
| Other operating activities, net   | 17   | 2             |
| Change in non-cash working capital balances related to operations                                   | (182)  | (147)         |
| <b>Cash provided by operating activities</b>  | <b>287</b>                                     | <b>267</b>    |
| <b>Investing activities</b>   |  |               |
| Additions to properties   | (224)  | (203)         |
| Proceeds from sale of properties and other assets   | 5  | 16            |
| Change in restricted cash and cash equivalents used to collateralize letters of credit              | 2  |               |
| Other   |  | (25)          |
| <b>Cash used in investing activities</b>  | <b>(217)</b>                                   | <b>(212)</b>  |
| <b>Financing activities</b>   |  |               |
| Dividends paid  | (61)   | (61)          |
| Issuance of CP common shares  | 14   | 40            |
| Purchase of CP common shares ( <i>Note 5</i> )  | (85)   |               |
| Repayment of long-term debt   | (143)  | (19)          |
| <b>Cash used in financing activities</b>  | <b>(275)</b>                                   | <b>(40)</b>   |
| <b>Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents</b> | <b>8</b>                                       | <b>(1)</b>    |
| <b>Cash position</b>  |  |               |
| (Decrease) increase in cash and cash equivalents  | (197)  | 14            |
| Cash and cash equivalents at beginning of period  | 476  | 333           |
| <b>Cash and cash equivalents at end of period</b>   | <b>\$ 279</b>                                  | <b>\$ 347</b> |
| <b>Supplemental disclosures of cash flow information:</b>   |  |               |

|                   |    |    |    |    |
|-------------------|----|----|----|----|
| Income taxes paid | \$ | 9  | \$ | 4  |
| Interest paid     | \$ | 72 | \$ | 66 |

See Notes to Interim Consolidated Financial Statements.

## CANADIAN PACIFIC RAILWAY LIMITED

## INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(in millions of Canadian dollars, except common share amounts)

(unaudited)

|   | Common<br>shares<br>(in millions) | Share<br>capital | Additional<br>paid-in<br>capital | Accumulated<br>other<br>comprehensive<br>loss | Retained<br>earnings | Total<br>shareholders<br>equity |
|---|-----------------------------------|------------------|----------------------------------|---|----------------------|---------------------------------|
| <b>Balance at January 1, 2014</b>             | 175.4                             | \$ 2,240         | \$ 34                            | \$ (1,503)                                    | \$ 6,326             | \$ 7,097                        |
| Net income                                    |                                   |                  |                                  |   | 254                  | 254                             |
| Other comprehensive income (Note 2)           |                                   |                  |                                  | 38  |                      | 38                              |
| Dividends declared                            |                                   |                  |                                  |   | (61)                 | (61)                            |
| Effect of stock-based compensation<br>expense |                                   |                  | 6                                |   |                      | 6                               |
| CP common shares repurchased (Note<br>5)      | (0.6)                             | (7)              |                                  |   | (80)                 | (87)                            |
| Shares issued under stock option plans        | 0.3                               | 20               | (4)                              |   |                      | 16                              |
| <b>Balance at March 31, 2014</b>              | 175.1                             | \$ 2,253         | \$ 36                            | \$ (1,465)                                    | \$ 6,439             | \$ 7,263                        |

|   | Common<br>shares<br>(in millions) | Share<br>capital | Additional<br>paid-in<br>capital | Accumulated<br>other<br>comprehensive<br>loss | Retained<br>earnings | Total<br>shareholders<br>equity |
|---|-----------------------------------|------------------|----------------------------------|---|----------------------|---------------------------------|
| <b>Balance at January 1, 2013</b>             | 173.9                             | \$ 2,127         | \$ 41                            | \$ (2,768)                                    | \$ 5,697             | \$ 5,097                        |
| Net income                                    |                                   |                  |                                  |   | 217                  | 217                             |
| Other comprehensive income (Note 2)           |                                   |                  |                                  | 147   |                      | 147                             |
| Dividends declared                            |                                   |                  |                                  |   | (62)                 | (62)                            |
| Effect of stock-based compensation<br>expense |                                   |                  | 6                                |   |                      | 6                               |
| Shares issued under stock option plans        | 0.8                               | 56               | (12)                             |   |                      | 44                              |
| <b>Balance at March 31, 2013</b>              | 174.7                             | \$ 2,183         | \$ 35                            | \$ (2,621)                                    | \$ 5,852             | \$ 5,449                        |

See Notes to Interim Consolidated Financial Statements.

## CANADIAN PACIFIC RAILWAY LIMITED

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

*(unaudited)***1 Basis of presentation**

These unaudited interim consolidated financial statements of Canadian Pacific Railway Limited ( CP , or the Company ), expressed in Canadian dollars, reflect management 's estimates and assumptions that are necessary for their fair presentation in conformity with generally accepted accounting principles in the United States of America ( GAAP ). They do not include all disclosures required under GAAP for annual financial statements and should be read in conjunction with the 2013 annual consolidated financial statements. The accounting policies used are consistent with the accounting policies used in preparing the 2013 annual consolidated financial statements.

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

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

**2 Changes in accumulated other comprehensive loss ( AOCL ) by component**

| (in millions of Canadian dollars)                              | For the three months ended March 31                                |   |   |                      |
|--|--|---|---|----------------------|
|  | Foreign<br>currency net of<br>hedging<br>activities <sup>(1)</sup> | Derivatives and<br>other <sup>(1)</sup> | Pension and<br>post-<br>retirement<br>defined<br>benefit<br>plans <sup>(1)(2)</sup> | Total <sup>(1)</sup> |
| <b>January 1, 2014</b>   | \$ 105   | \$ (15)                                 | \$ (1,593)  | \$ (1,503)           |
| Other comprehensive income before reclassifications            | 17   | 10                                      |   | 27                   |
| Amounts reclassified from accumulated other comprehensive loss |  | (11)                                    | 22  | 11                   |
| Net current-period other comprehensive income (loss)           | 17   | (1)                                     | 22  | 38                   |
| <b>March 31, 2014</b>  | <b>\$ 122</b>  | <b>(16)</b>                             | <b>(1,571)</b>  | <b>(1,465)</b>       |
| <b>January 1, 2013</b>   | \$ 74  | \$ (14)                                 | \$ (2,828)  | \$ (2,768)           |
| Other comprehensive income (loss) before reclassifications     | 8  | (7)                                     | 94  | 95                   |
| Amounts reclassified from accumulated other comprehensive loss |  | 6                                       | 46  | 52                   |

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|  |       |         |            |            |
|--|-------|---------|------------|------------|
| Net current-period other comprehensive income (loss) | 8     | (1)     | 140        | 147        |
| <b>March 31, 2013</b>                                | \$ 82 | \$ (15) | \$ (2,688) | \$ (2,621) |

- (1) Amounts are presented net of tax.
- (2) Amounts reclassified from accumulated other comprehensive loss.



**CANADIAN PACIFIC RAILWAY LIMITED****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2014***(unaudited)***2 Changes in accumulated other comprehensive loss ( AOCL ) by component (continued)**

|  | <b>For the three months<br/>ended March 31</b> |              |
|--|--|--------------|
|  | <b>2014</b>                                    | <b>2013</b>  |
| Amortization of prior service costs <sup>(a)</sup> | \$ (17)  | \$ (6)       |
| Recognition of net actuarial loss <sup>(a)</sup>   | 48   | 67           |
| <b>Total before income tax</b>                     | <b>31</b>                                      | <b>61</b>    |
| Income tax recovery                                | (9)  | (15)         |
| <b>Net of income tax</b>                           | <b>\$ 22</b>                                   | <b>\$ 46</b> |

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

**3 Income taxes**

| (in millions of Canadian dollars) | <b>For the three months<br/>ended March 31</b> |              |
|-----------------------------------|--|--------------|
|                                   | <b>2014</b>                                    | <b>2013</b>  |
| Current income tax expense        | \$ 10  | \$ 9         |
| Deferred income tax expense       | 89   | 63           |
| <b>Income tax expense</b>         | <b>\$ 99</b>                                   | <b>\$ 72</b> |

The effective income tax rate for the three months ended March 31, 2014 was 28.0% (three months ended March 31, 2013 24.8%). The lower rate in 2013 was the result of a benefit recognized for a U.S. federal track maintenance credit of \$6 million for 2012 enacted and reported in the first quarter of 2013.

**4 Earnings per share**

At March 31, 2014, the number of shares outstanding was 175.1 million (March 31, 2013 174.7 million).

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

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

| (in millions)                                      | <b>For the three months<br/>ended March 31</b> |              |
|--|--|--------------|
|  | <b>2014</b>                                    | <b>2013</b>  |
| Weighted-average basic shares outstanding          | 175.5  | 174.3        |
| Dilutive effect of stock options                   | 1.5  | 1.5          |
| <b>Weighted-average diluted shares outstanding</b> | <b>177.0</b>                                   | <b>175.8</b> |

For the three months ended March 31, 2014, 122,017 options were excluded from the computation of diluted earnings per share because their effects were not dilutive (three months ended March 31, 2013 – no options).

**CANADIAN PACIFIC RAILWAY LIMITED****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2014***(unaudited)***5 Shareholders Equity**

On February 20, 2014, the Board of Directors of the Company approved a share repurchase program, and in March 2014, the Company filed a new normal course issuer bid to purchase, for cancellation, up to 5.3 million of its outstanding common shares. Under the filing, share purchases may be made during the 12-month period that began March 17, 2014, and ends March 16, 2015. The purchases are made at the market price on the day of purchase, with consideration allocated to share capital up to the average carrying amount of the shares, and any excess allocated to retained earnings.

The following table provides the activity under the share repurchase program:

|   | <b>For the three months<br/>ended March 31<br/>2014</b> |
|---|---|
| Number of common shares repurchased               | 567,750   |
| Weighted-average price per share <sup>(1)</sup>   | \$ 154.07   |
| Amount of repurchase (in millions) <sup>(1)</sup> | \$ 87   |

<sup>(1)</sup> Includes brokerage fees.

**6 Financial instruments****A. Fair values of financial instruments**

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

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

its own credit default swap spread as well as those of its counterparties in its determination of fair value.

The carrying values of financial instruments equal or approximate their fair values with the exception of long-term debt which has a fair value of approximately \$5,715 million at March 31, 2014 (December 31, 2013 \$5,572 million) and a carrying value of \$4,869 million at March 31, 2014 (December 31, 2013 \$4,876 million). The estimated fair value of current and long-term borrowings has been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Company at period end. All derivatives and long-term debt are classified as Level 2.

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**CANADIAN PACIFIC RAILWAY LIMITED**

***NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS***

***March 31, 2014***

***(unaudited)***

**6 *Financial instruments (continued)***

**B. Financial risk management**

**Derivative financial instruments**

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

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

**Foreign exchange management**

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

Occasionally the Company may enter into short-term FX forward contracts as part of its cash management strategy.

**Net investment hedge**

The FX gains and losses on long-term debt are mainly unrealized and can only be realized when U.S. dollar denominated long-term debt matures or is settled. The Company also has long-term FX exposure on its investment in U.S. affiliates. The majority of the Company's U.S. dollar denominated long-term debt has been designated as a hedge of the net investment in foreign subsidiaries. This designation has the effect of mitigating volatility on net income by offsetting long-term FX gains and losses on U.S. dollar denominated long-term debt and gains and losses on its net investment. The effective portion recognized in Other comprehensive income for the three months ended March 31, 2014 was an unrealized foreign exchange loss of \$131 million (three months ended March 31, 2013 \$67 million). There was no ineffectiveness during the three months ended March 31, 2014 and March 31, 2013.

**Foreign exchange forward contracts**

The Company may enter into FX forward contracts to lock-in the amount of Canadian dollars it has to pay on its U.S. denominated debt maturities.

At March 31, 2014, the Company had FX forward contracts to fix the exchange rate on US\$175 million of its 6.50% Notes due in May 2018, and US\$100 million of its 7.25% Notes due in May 2019. At December 31, 2013, the Company had FX forward contracts to fix the exchange rate on US\$100 million of principal outstanding on a capital lease due in January 2014, US\$175 million of its 6.50% Notes due in May 2018, and US\$100 million of its 7.25% Notes due in May 2019. These derivatives, which are accounted for as cash flow hedges, guarantee the amount of Canadian dollars that the Company will repay when these obligations mature.

During the three months ended March 31, 2014, the Company settled the FX forward contract related to the repayment of a capital lease due in January 2014 for proceeds of \$8 million.

During the three months ended March 31, 2014, the combined realized and unrealized foreign exchange gain of \$11 million (three months ended March 31, 2013 unrealized gain of \$5 million) was recorded in Other income and charges in relation to these derivatives. These gains recorded in Other income and charges

**CANADIAN PACIFIC RAILWAY LIMITED****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2014***(unaudited)***6 Financial instruments (continued)**

were largely offset by the realized and unrealized losses on the underlying debt which the derivatives were designated to hedge.

At March 31, 2014, the unrealized gain derived from these FX forwards was \$27 million which was recorded in Other assets with the offset reflected as an unrealized gain of \$4 million in Accumulated other comprehensive loss and as an unrealized gain of \$23 million in Retained earnings. At December 31, 2013, the unrealized gain derived from these FX forwards was \$25 million of which \$6 million was included in Other current assets and \$19 million in Other assets with the offset reflected as an unrealized gain of \$5 million in Accumulated other comprehensive loss and as an unrealized gain of \$20 million in Retained earnings.

At March 31, 2014, the Company expected that, during the next twelve months, unrealized pre-tax losses of \$1 million would be reclassified to Other income and charges.

**7 Stock-based compensation**

At March 31, 2014, the Company had several stock-based compensation plans, including stock option plans, various cash settled liability plans and an employee stock savings plan. These plans resulted in an expense for the three months ended March 31, 2014 of \$22 million (three months ended March 31, 2013 \$33 million).

**Regular options**

In the first three months of 2014, under CP's stock option plans, the Company issued 366,050 regular options at the weighted average price of \$168.88 per share, based on the closing price on the grant date.

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

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

|  | <b>For the three months<br/>ended March, 31 2014</b> |        |
|--|--|--------|
| Grant price                                    | \$   | 168.88 |
| Expected option life (years) <sup>(1)</sup>    |  | 5.82   |
| Risk-free interest rate <sup>(2)</sup>         |  | 1.64%  |
| Expected stock price volatility <sup>(3)</sup> |  | 28.63% |

|  |    |      |
|--|----|------|
| Expected annual dividends per share <sup>(4)</sup> | \$ | 1.40 |
| Expected forfeiture rate <sup>(5)</sup>            |    | 1.4% |

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

**Performance share unit ( PSU ) plan**

In the three months ended March 31, 2014, the Company issued 163,760 PSUs with a grant date fair value of approximately \$25 million. These units attract dividend equivalents in the form of additional units based on the dividends paid on the Company's Common Shares. PSUs vest and are settled in cash, or in CP



**CANADIAN PACIFIC RAILWAY LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2014***(unaudited)***7 Stock-based compensation (continued)**

common shares approximately three years after the grant date, contingent upon CP's performance (performance factor). The fair value of PSUs is measured, both on the grant date and each subsequent quarter until settlement, using a Monte Carlo simulation model. The model utilizes multiple input variables that determine the probability of satisfying the performance and market conditions stipulated in the grant.

**Deferred share unit ( DSU ) plan**

In the three months ended March 31, 2014, the Company granted 46,034 DSUs with a grant date fair value of approximately \$7.5 million. DSUs vest over various periods of up to 48 months and are only redeemable for a specified period after employment is terminated. An expense to income for DSUs is recognized over the vesting period for both the initial subscription price and the change in value between reporting periods.

**8 Pensions and other benefits**

In the three months ended March 31, 2014, the Company made contributions of \$19 million (in the three months ended March 31, 2013 \$30 million) to its defined benefit pension plans. The elements of net periodic benefit cost for defined benefit pension plans and other benefits recognized in the quarter included the following components:

| (in millions of Canadian dollars)                                 | <b>For the three months<br/>ended March 31</b> |             |                           |             |
|---|--|-------------|---------------------------|-------------|
|   | <b>Pensions</b>                                |             | <b>Other<br/>benefits</b> |             |
|   | <b>2014</b>                                    | <b>2013</b> | <b>2014</b>               | <b>2013</b> |
| Current service cost (benefits earned by employees in the period) | \$ 27  | \$ 35       | \$ 3                      | \$ 4        |
| Interest cost on benefit obligation                               | 119  | 112         | 6                         | 5           |
| Expected return on fund assets                                    | (189)  | (186)       |                           |             |
| Recognized net actuarial loss                                     | 47   | 66          | 1                         | 1           |
| Amortization of prior service costs                               | (17)   | (6)         |                           |             |
| Net periodic benefit cost (recovery)                              | \$ (13)  | \$ 21       | \$ 10                     | \$ 10       |

**9 Contingencies**

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions it considers to be adequate for such

actions. While the final outcome with respect to actions outstanding or pending at March 31, 2014 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations individually and in aggregate.

On July 6, 2013, a train carrying crude oil operated by Montreal Maine and Atlantic Railway ( MM&A ) derailed and exploded in Lac-Megantic, Quebec on a section of railway line owned by MM&A. The day before CP had interchanged the train to MM&A, but after the interchange MM&A exercised exclusive control over the train.

Following this incident, the Minister of Sustainable Development, Environment, Wildlife and Parks of Quebec issued an order directing named parties to recover the contaminants and to clean up and decontaminate the derailment site. CP was later added as a named party in the administrative action on August 14, 2013.

A class action lawsuit has also been filed in the Superior Court of Quebec on behalf of a class of persons and entities residing in, owning or leasing property in, operating a business in or physically present in Lac-Megantic. The lawsuit seeks damages caused by the derailment including for wrongful deaths, personal injuries, and property damages. CP was added as a defendant on August 16, 2013. In the wake of the derailment and ensuing litigation, MM&A filed for bankruptcy in Canada and the United States.

**CANADIAN PACIFIC RAILWAY LIMITED**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***

***March 31, 2014***

***(unaudited)***

**9 Contingencies (continued)**

At this early stage in the legal proceedings, any potential liability and the quantum of potential loss cannot be determined. Nevertheless, CP denies liability for MM&A's derailment and will vigorously defend itself in both proceedings or any proceeding that may be commenced in the future.

Environmental remediation accruals cover site-specific remediation programs. Environmental remediation accruals are measured on an undiscounted basis and are recorded when the costs to remediate are probable and reasonably estimable.

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

The expense included in Purchased services and other for the three months ended March 31, 2014 was \$1 million (three months ended March 31, 2013 \$1 million). Provisions for environmental remediation costs are recorded in

Other long-term liabilities, except for the current portion which is recorded in Accounts payable and accrued liabilities. The total amount provided at March 31, 2014 was \$93 million (December 31, 2013 \$90 million). Payments are expected to be made over 10 years to 2024.

**Summary of Rail Data**

| <b>Financial (millions, except per share data)</b>               | <b>2014</b> | <b>2013</b> | <b>First Quarter<br/>Fav/(Unfav)</b> | <b>%</b> |
|--|-------------|-------------|--------------------------------------|----------|
| <b>Revenues</b>  |             |             |                                      |          |
| Freight revenue  | \$ 1,474    | \$ 1,459    | \$ 15                                | 1        |
| Other revenue  | 35          | 36          | (1)                                  | (3)      |
| Total revenues   | 1,509       | 1,495       | 14                                   | 1        |
| <b>Operating expenses</b>  |             |             |                                      |          |
| Compensation and benefits  | 355         | 402         | 47                                   | 12       |
| Fuel   | 271         | 270         | (1)                                  |          |
| Materials  | 89          | 72          | (17)                                 | (24)     |
| Equipment rents  | 41          | 46          | 5                                    | 11       |
| Depreciation and amortization                                    | 141         | 141         |                                      |          |
| Purchased services and other                                     | 189         | 202         | 13                                   | 6        |
| Total operating expenses   | 1,086       | 1,133       | 47                                   | 4        |
| Operating income   | 423         | 362         | 61                                   | 17       |
| Less:  |             |             |                                      |          |
| Other income and charges   |             | 3           | 3                                    | 100      |
| Net interest expense   | 70          | 70          |                                      |          |
| Income before income tax expense                                 | 353         | 289         | 64                                   | 22       |
| Income tax expense   | 99          | 72          | (27)                                 | (38)     |
| Net income   | \$ 254      | \$ 217      | \$ 37                                | 17       |
| Operating ratio (%)  | 72.0        | 75.8        | 3.8                                  | 380 bps  |
| Basic earnings per share   | \$ 1.45     | \$ 1.25     | \$ 0.20                              | 16       |
| Diluted earnings per share                                       | \$ 1.44     | \$ 1.24     | \$ 0.20                              | 16       |
| <b>Shares Outstanding</b>  |             |             |                                      |          |
| Weighted average number of shares outstanding (millions)         | 175.5       | 174.3       | 1.2                                  | 1        |
| Weighted average number of diluted shares outstanding (millions) | 177.0       | 175.8       | 1.2                                  | 1        |
| <b>Foreign Exchange</b>  |             |             |                                      |          |
| Average foreign exchange rate (US\$/Canadian\$)                  | 0.92        | 0.99        | 0.07                                 | 7        |
| Average foreign exchange rate (Canadian\$/US\$)                  | 1.09        | 1.01        | 0.08                                 | 8        |

**Summary of Rail Data (Page 2)**

|  | 2014     | 2013     | First Quarter<br>Fav/(Unfav) | %    |
|--|----------|----------|------------------------------|------|
| <b>Commodity Data</b>                      |          |          |                              |      |
| <b>Freight Revenues (millions)</b>         |          |          |                              |      |
| - Grain                                    | \$ 327   | \$ 314   | \$ 13                        | 4    |
| - Coal                                     | 148      | 149      | (1)                          | (1)  |
| - Fertilizers and sulphur                  | 134      | 152      | (18)                         | (12) |
| - Industrial and consumer products         | 412      | 372      | 40                           | 11   |
| - Automotive                               | 88       | 97       | (9)                          | (9)  |
| - Forest products                          | 48       | 53       | (5)                          | (9)  |
| - Intermodal                               | 317      | 322      | (5)                          | (2)  |
| Total Freight Revenues                     | \$ 1,474 | \$ 1,459 | \$ 15                        | 1    |
| <b>Millions of Revenue Ton-Miles (RTM)</b> |          |          |                              |      |
| - Grain                                    | 8,385    | 8,430    | (45)                         | (1)  |
| - Coal                                     | 5,441    | 5,640    | (199)                        | (4)  |
| - Fertilizers and sulphur                  | 4,367    | 4,952    | (585)                        | (12) |
| - Industrial and consumer products         | 9,277    | 9,536    | (259)                        | (3)  |
| - Automotive                               | 514      | 604      | (90)                         | (15) |
| - Forest products                          | 920      | 1,223    | (303)                        | (25) |
| - Intermodal                               | 5,471    | 5,778    | (307)                        | (5)  |
| Total RTMs                                 | 34,375   | 36,163   | (1,788)                      | (5)  |
| <b>Freight Revenue per RTM (cents)</b>     |          |          |                              |      |
| - Grain                                    | 3.90     | 3.73     | 0.17                         | 5    |
| - Coal                                     | 2.72     | 2.64     | 0.08                         | 3    |
| - Fertilizers and sulphur                  | 3.07     | 3.06     | 0.01                         |      |
| - Industrial and consumer products         | 4.44     | 3.90     | 0.54                         | 14   |
| - Automotive                               | 17.23    | 16.09    | 1.14                         | 7    |
| - Forest products                          | 5.18     | 4.33     | 0.85                         | 20   |
| - Intermodal                               | 5.79     | 5.58     | 0.21                         | 4    |
| Total Freight Revenue per RTM              | 4.29     | 4.04     | 0.25                         | 6    |
| <b>Carloads (thousands)</b>                |          |          |                              |      |
| - Grain                                    | 101      | 108      | (7)                          | (6)  |
| - Coal                                     | 78       | 81       | (3)                          | (4)  |
| - Fertilizers and sulphur                  | 43       | 49       | (6)                          | (12) |
| - Industrial and consumer products         | 125      | 127      | (2)                          | (2)  |
| - Automotive                               | 30       | 35       | (5)                          | (14) |
| - Forest products                          | 14       | 18       | (4)                          | (22) |
| - Intermodal                               | 227      | 241      | (14)                         | (6)  |
| Total Carloads                             | 618      | 659      | (41)                         | (6)  |

**Freight Revenue per Carload**

|                                    |          |          |        |    |
|------------------------------------|----------|----------|--------|----|
| - Grain                            | \$ 3,238 | \$ 2,906 | \$ 332 | 11 |
| - Coal                             | 1,897    | 1,849    | 48     | 3  |
| - Fertilizers and sulphur          | 3,155    | 3,067    | 88     | 3  |
| - Industrial and consumer products | 3,290    | 2,921    | 369    | 13 |
| - Automotive                       | 2,913    | 2,742    | 171    | 6  |
| - Forest products                  | 3,400    | 3,028    | 372    | 12 |
| - Intermodal                       | 1,396    | 1,339    | 57     | 4  |
| Total Freight Revenue per Carload  | \$ 2,385 | \$ 2,214 | \$ 171 | 8  |

**Summary of Rail Data (Page 3)**

|  | 2014   | 2013 <sup>(1)</sup> | First Quarter<br>Fav/(Unfav) | %    |
|--|--------|---------------------|------------------------------|------|
| <b>Operations Performance</b>                                      |        |                     |                              |      |
| Freight gross ton-miles (millions)                                 | 62,349 | 67,679              | (5,330)                      | (8)  |
| Revenue ton-miles (millions)                                       | 34,375 | 36,163              | (1,788)                      | (5)  |
| Train miles (thousands)  | 8,727  | 9,993               | (1,266)                      | (13) |
| Average train weight - excluding local traffic (tons)              | 7,653  | 7,209               | 444                          | 6    |
| Average train length - excluding local traffic (feet)              | 6,371  | 6,298               | 73                           | 1    |
| Average terminal dwell (hours) <sup>(2)</sup>                      | 10.3   | 6.6                 | (3.7)                        | (56) |
| Average train speed (mph) <sup>(3)</sup>                           | 15.9   | 18.0                | (2.1)                        | (12) |
| Locomotive productivity (daily average GTMs/active HP)             | 204.3  | 205.5               | (1.2)                        | (1)  |
| Fuel efficiency <sup>(4)</sup>                                     | 1.11   | 1.13                | 0.02                         | 2    |
| U.S. gallons of locomotive fuel consumed (millions) <sup>(5)</sup> | 68.3   | 75.7                | 7.4                          | 10   |
| Average fuel price (U.S. dollars per U.S. gallon)                  | 3.63   | 3.55                | (0.08)                       | (2)  |
| Total employees (average) <sup>(6)</sup>                           | 14,246 | 14,920              | 674                          | 5    |
| Total employees (end of period) <sup>(6)</sup>                     | 14,446 | 15,112              | 666                          | 4    |
| Workforce (end of period) <sup>(7)</sup>                           | 14,774 | 16,108              | 1,334                        | 8    |
| <b>Safety</b>  |        |                     |                              |      |
| FRA personal injuries per 200,000 employee-hours                   | 1.50   | 1.74                | 0.24                         | 14   |
| FRA train accidents per million train-miles                        | 0.92   | 1.96                | 1.04                         | 53   |

- (1) Certain prior period figures have been revised to conform with current presentation or have been updated to reflect new information.
- (2) Incorporates a new reporting definition where average terminal dwell measures the average time a freight car resides within terminal boundaries.
- (3) Incorporates a new reporting definition where average train speed measures the line-haul movement from origin to destination including terminal dwell hours.
- (4) Fuel efficiency is defined as U.S. gallons of locomotive fuel consumed per 1,000 GTMs freight and yard.
- (5) Includes gallons of fuel consumed from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities.
- (6) An employee is defined as an individual, including trainees, who has worked more than 40 hours in a standard biweekly pay period. This excludes part time employees, contractors, and consultants.
- (7) Workforce is defined as total employees plus part time employees, contractors, and consultants.