

CANADIAN PACIFIC RAILWAY LTD/CN
Form 10-Q
October 19, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____ to _____

Commission File Number 001-01342

Canadian Pacific Railway Limited

(Exact name of registrant as specified in its charter)

Canada 98-0355078

(State or Other Jurisdiction (IRS Employer

of Incorporation or Organization) Identification No.)

7550 Ogden Dale Road S.E.

T2C 4X9

Calgary, Alberta, Canada

(Address of Principal Executive Offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

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

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

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

CANADIAN PACIFIC RAILWAY LIMITED
FORM 10-Q
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PART I

ITEM 1. FINANCIAL STATEMENTS

INTERIM CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

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

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

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

INTERIM CONSOLIDATED BALANCE SHEETS AS AT
(unaudited)

	September 30 2016	December 31 2015
(in millions of Canadian dollars)		
Assets		
Current assets		
Cash and cash equivalents	\$ 103	\$ 650
Accounts receivable, net	605	645
Materials and supplies	192	188
Other current assets	64	54
	964	1,537
Investments	169	152
Properties	16,382	16,273
Goodwill and intangible assets	198	211
Pension asset	1,638	1,401
Other assets	70	63
Total assets	\$ 19,421	\$ 19,637
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,246	\$ 1,417
Long-term debt maturing within one year (Note 8)	391	30
	1,637	1,447
Pension and other benefit liabilities	756	758
Other long-term liabilities	280	318
Long-term debt	8,488	8,927
Deferred income taxes	3,591	3,391
Total liabilities	14,752	14,841
Shareholders' equity		
Share capital	2,000	2,058
Additional paid-in capital	43	43
Accumulated other comprehensive loss (Note 3)	(1,433)	(1,477)
Retained earnings	4,059	4,172
	4,669	4,796
Total liabilities and shareholders' equity	\$ 19,421	\$ 19,637
Contingencies (Note 13)		
See Notes to Interim Consolidated Financial Statements.		

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

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

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

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

(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 2015 annual consolidated financial statements and notes included in CP’s 2015 Annual Report on Form 10-K. The accounting policies used are consistent with the accounting policies used in preparing the 2015 annual consolidated financial statements, except for the newly adopted accounting policy discussed in Note 2.

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

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

2 Accounting changes

Implemented in 2016

Amendments to the Consolidation Analysis

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

Future changes

Leases

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

retrospective approach to adopt this ASU. The Company is currently evaluating the impact adoption of this ASU will have on the consolidated financial statements.

Revenue from Contracts with Customers

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

Compensation - Stock Compensation

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

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

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

(in millions of Canadian dollars, net of tax)	For the three months ended September 30			
	Foreign currency net of hedging activities	Derivatives and other	Pension and post-retirement defined benefit plans	Total
Opening balance, 2016	\$124	\$ (157)	)\$ (1,438	)\$(1,471)
Other comprehensive income (loss) before reclassifications	2	(1)	)1	2
Amounts reclassified from accumulated other comprehensive loss	—	2	34	36
Net current-period other comprehensive income	2	1	35	38
Closing balance, 2016	\$126	\$ (156)	)\$ (1,403	)\$(1,433)
Opening balance, 2015	\$125	\$ (77)	)\$ (2,181	)\$(2,133)
Other comprehensive income (loss) before reclassifications	6	(34)	)—	(28)
Amounts reclassified from accumulated other comprehensive loss	—	2	46	48
Net current-period other comprehensive income (loss)	6	(32)	)46	20
Closing balance, 2015	\$131	\$ (109)	)\$ (2,135	)\$(2,113)
(in millions of Canadian dollars, net of tax)	For the nine months ended September 30			
	Foreign currency net of hedging activities	Derivatives and other	Pension and post-retirement defined benefit plans	Total
Opening balance, 2016	\$129	\$ (102)	)\$ (1,504	)\$(1,477)
Other comprehensive loss before reclassifications	(3)	)(60	)(1	)(64)
Amounts reclassified from accumulated other comprehensive loss	—	6	102	108
Net current-period other comprehensive (loss) income	(3)	)(54	)101	44
Closing balance, 2016	\$126	\$ (156)	)\$ (1,403	)\$(1,433)
Opening balance, 2015	\$115	\$ (52)	)\$ (2,282	)\$(2,219)
Other comprehensive income (loss) before reclassifications	16	(60)	)5	(39)
Amounts reclassified from accumulated other comprehensive loss	—	3	142	145
Net current-period other comprehensive income (loss)	16	(57)	)147	106
Closing balance, 2015	\$131	\$ (109)	)\$ (2,135	)\$(2,113)

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

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

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

4 Gain on sale of properties

Gain on sale of Arbutus Corridor

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

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

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

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

5 Other income and charges

	For the three months ended September 30	For the nine months ended September 30		
(in millions of Canadian dollars)	2016	2015	2016	2015
Foreign exchange loss (gain) on long-term debt	\$ 46	\$ 128	\$ (153)	\$ 182
Other foreign exchange losses (gains)	2	(10)	(5)	(4)
Early redemption premium on notes	—	47	—	47
Legal settlement	25	—	25	—

Other	(2)	3	14	11
Total other income and charges	\$71	\$168	\$(119)	\$236

6 Income taxes

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

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

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

7 Earnings per share

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

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

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

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

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

8 Debt

Revolving credit facility

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

Commercial paper program

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

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

9 Shareholders' equity

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

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

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

⁽¹⁾ Includes shares repurchased but not yet canceled at quarter end.

⁽²⁾ Includes brokerage fees.

10 Financial instruments

A. Fair values of financial instruments

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

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

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

B. Financial risk management

Derivative financial instruments

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

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

FX management

The Company conducts business transactions and owns assets in both Canada and the United States. As a result, the Company is exposed to fluctuations in value of financial commitments, assets, liabilities, income or cash flows due to changes in FX rates. The Company may enter into FX risk management transactions primarily to manage fluctuations

in the exchange rate between Canadian and U.S. currencies. FX exposure is primarily mitigated through natural offsets created by revenues, expenditures and balance sheet positions incurred in the same currency. Where appropriate, the Company may negotiate with customers and suppliers to reduce the net exposure.

Net investment hedge

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

Interest rate management

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

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

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

Forward starting swaps

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

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

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

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

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

11 Stock-based compensation

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

Regular options

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

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

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

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

⁽¹⁾ Represents the period of time that awards are expected to be outstanding. Historical data on exercise behaviour, or when available, specific expectations regarding future exercise behaviour, were used to estimate the expected life of the option.

⁽²⁾ Based on the implied yield available on zero-coupon government issues with an equivalent remaining term at the time of the grant.

⁽³⁾ Based on the historical stock price volatility of the Company's stock over a period commensurate with the expected term of the option.

⁽⁴⁾ Determined by the current annual dividend at the time of grant. The Company does not employ different dividend yields throughout the contractual term of the option. On April 20, 2016, the Company announced an increase in its quarterly dividend to \$0.50 per share, representing \$2.00 on an annual basis.

⁽⁵⁾ The Company estimated forfeitures based on past experience. This rate is monitored on a periodic basis.

Performance share unit ("PSU") plan

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

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

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

Deferred share unit ("DSU") plan

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

12 Pension and other benefits

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

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

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

13 Contingencies

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

Legal proceedings related to Lac-Mégantic rail accident

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

Following this incident, Quebec's Minister of Sustainable Development, Environment, Wildlife and Parks (the "Minister") ordered the named parties to recover the contaminants and to clean up the derailment site. On August 14,

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

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

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

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

In the wake of the derailment and ensuing litigation, MMAC filed for bankruptcy in Canada (the "Canadian Proceeding") and MMA filed for bankruptcy in the United States (the "U.S. Proceeding"). Plans of arrangement have been approved in both the Canadian Proceeding and the U.S. Proceeding (the "Plans"). These Plans provide for the distribution of a fund of approximately \$440 million amongst those claiming derailment damages. The Plans also provide settling parties broadly worded third-party releases and injunctions preventing lawsuits against settlement contributors. CP has not settled and therefore will not benefit from those provisions. Both Plans do, however, contain judgment reduction provisions, affording CP a credit for the greater of (i) the settlement monies received by the plaintiff(s), or (ii) the amount, in contribution or indemnity, that CP would have been entitled to charge against third parties other than MMA and MMAC, but for the Plans' releases and injunctions. CP may also have judgment reduction rights, as part of the contribution/indemnification credit, for the fault of the MMA Group. Finally, the Plans provide for a potential re-allocation of the MMA Group's liability among plaintiffs and CP, the only non-settling party. An Adversary Proceeding filed by the MMA U.S. bankruptcy trustee (now, estate representative) against CP, Irving Oil, and the World Fuel Entities accuses CP of failing to ensure that World Fuel Entities or Irving Oil properly classified the oil lading and of not refusing to ship the misclassified oil as packaged. The estate representative has since settled with the World Fuel Entities and Irving Oil and now bases CP misfeasance on the railroad's failure to abide in North Dakota by a Canadian regulation. That regulation supposedly would have caused the railroads to not move the crude oil train because an inaccurate classification was supposedly suspected. In a recently amended complaint, the estate representative named a CP affiliate, Soo Line Railroad Company ("Soo Line"), and asserts that CP and Soo Line breached terms or warranties allegedly contained in the bill of lading.

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

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

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

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

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

Legal proceedings initiated by Canadian National Railway Company

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

Environmental liabilities

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

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

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

14 Condensed consolidating financial information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Interim Condensed Consolidating Balance Sheets
As at September 30, 2016

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

Condensed Consolidating Balance Sheets
As at December 31, 2015

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

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

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

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

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

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

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

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

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

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

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

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

Available Information

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

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

Executive Summary

Third Quarter of 2016 Results

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

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

▲Average train speed increased by 8% to 23.9 miles per hour;

▲Average train weight increased by 7% to 8,915 tons; and

▲Average train length increased by 7% to 7,418 feet.

Recent Developments

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

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

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

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

Previous Developments

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

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

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

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

Performance Indicators

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

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

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

Operations Performance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Total Employees and Workforce

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

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

Safety Indicators

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

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

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

Financial Highlights

	For the three months ended September 30		For the nine months ended September 30	
(in millions, except per share data, percentages and ratios)	2016	2015	2016	2015
Financial Performance				
Revenues	\$1,554	\$1,709	\$4,595	\$5,025
Operating income	657	753	1,861	2,011
Adjusted operating income ⁽¹⁾	657	685	1,861	1,943
Net income	347	323	1,215	1,033
Adjusted income ⁽¹⁾	405	427	1,101	1,206
Basic earnings per share	2.35	2.05	8.06	6.37
Diluted earnings per share	2.34	2.04	8.02	6.32
Adjusted diluted earnings per share ⁽¹⁾	2.73	2.69	7.26	7.39
Dividends declared per share	0.50	0.35	1.35	1.05
Cash provided by operating activities	591	696	1,321	1,836
Free cash ⁽¹⁾	240	494	306	979
Operating ratio ⁽²⁾	57.7	%55.9	%59.5	%60.0
Adjusted operating ratio ⁽¹⁾	57.7	%59.9	%59.5	%61.3
	As at September 30, 2016		As at December 31, 2015	
Financial Position				
Total assets	\$19,421		\$19,637	
Total long-term obligations ⁽³⁾	8,563		9,012	
Shareholders' equity	4,669		4,796	
	For the twelve months ended September 30			
	2016		2015	
Financial Ratios				
Return on invested capital ("ROIC") ⁽¹⁾	14.3		%14.1	
Adjusted ROIC ⁽¹⁾	14.2		%15.6	

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

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

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

Results of Operations

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

Income

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

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

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

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

Diluted Earnings per Share

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

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

Operating Ratio

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

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

Return on Invested Capital (ROIC)

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

Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Income

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

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

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

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

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

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

Diluted Earnings per Share

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

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

Operating Ratio

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

Impact of FX on Earnings

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

Canadian to U.S. dollar

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

Canadian to U.S. dollar

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

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

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

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

Impact of Fuel Price on Earnings

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

Average Fuel Price

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

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

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

Impact of Share Price on Earnings

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

CP Common Share Price

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

CP Common Share Price

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

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

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

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

Operating Revenues

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

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

⁽¹⁾ Freight revenues include fuel surcharge revenues of \$36 million in 2016, and \$70 million in 2015.

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

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

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

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

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

Freight revenue per carload (dollars)	\$ 2,379	\$ 2,480	\$(101)(4)
Freight revenue per revenue ton-miles (cents)	4.45	4.52	(0.07)(2)

(1) Freight revenues include fuel surcharge revenues of \$77 million in 2016, and \$246 million in 2015.

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

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

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

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

Lines of Business

Canadian Grain

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

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

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

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

U.S. Grain

For the three months ended September 30	2016	2015	2016 vs. 2015		
			Total	%	FX
			Change	Change	Adjusted
					% Change
Freight revenues (in millions)	\$150	\$148	\$2	1	1
Carloads (in thousands)	49	44	5	11	N/A
Revenue ton-miles (in millions)	3,163	2,727	436	16	N/A

Freight revenue per carload (dollars)	\$3,077	\$3,413	\$(336)	(10)
Freight revenue per revenue ton-mile (cents)	4.74	5.43	(0.69)	(13)

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

2016 vs. 2015

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

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

Coal

2016 vs. 2015

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

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

2016 vs. 2015

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

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

Potash

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

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

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

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

Fertilizers and Sulphur

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

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

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

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

Forest Products

For the three months ended September 30	2016	2015	2016 vs. 2015		
			Total	%	FX
			Change	Change	Adjusted
					% Change
Freight revenues (in millions)	\$71	\$66	\$5	8	8

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Carloads (in thousands)	17	16	1	6	N/A
Revenue ton-miles (in millions)	1,217	1,083	134	12	N/A
Freight revenue per carload (dollars)	\$4,211	\$4,113	\$98	2	
Freight revenue per revenue ton-mile (cents)	5.86	6.07	(0.2)	(3))

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

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

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

Chemicals and Plastics

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

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

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

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

Crude

2016 vs. 2015

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

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

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

2016 vs. 2015

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

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

Metals, Minerals and Consumer Products

2016 vs. 2015

For the three months ended September 30	2016	2015	Total Change	% Change	Total Change	
Freight revenues (in millions)	\$142	\$173	\$(31)	(18)	(18)	
Carloads (in thousands)	50	58	(8)	(14)		