

CANADIAN PACIFIC RAILWAY LTD/CN

Form 40-F

February 23, 2015

Table of Contents

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 40-F**

**.. REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**x ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2014**

**CANADIAN PACIFIC RAILWAY LIMITED**

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

**CANADIAN PACIFIC RAILWAY COMPANY**

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

**(Exact name of Registrant as specified in its charter)**

**98-0355078**

**(Canadian Pacific Railway  
Limited)**

**98-0001377**

**(Canadian Pacific Railway  
Company)  
(I.R.S. Employer)**

**CANADA  
(Province or other jurisdiction of  
incorporation or organization)**

**4011  
(Primary Standard Industrial  
Classification Code Number)  
7550 Ogden Dale Road S.E.,**

**Identification Number)**

**Calgary, Alberta,**

**Canada, T2C 4X9**

**(403) 319-7000**

**(Address and telephone number of Registrant's principal executive offices)**

**CT Corporation System,**

**111 Eighth Avenue,**

**New York,**

**New York 10011,**

**(212) 894-8940**

**(Name, address (including zip code) and telephone number (including area code)**

**of Agent for Service of Registrant in the United States)**

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

**Title of Each Class  
Common Shares, without par value, of**

**Name of Each Exchange on Which Registered  
New York Stock Exchange**

**Canadian Pacific Railway Limited**

**Common Share Purchase Rights of**

**New York Stock Exchange**

**Canadian Pacific Railway Limited**

**Perpetual 4% Consolidated Debenture Stock**

**New York Stock Exchange**

**of Canadian Pacific Railway Company**

**Securities registered or to be registered pursuant to Section 12(g) of the Act: None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**Debt Securities of Canadian Pacific Railway Company**

**Table of Contents**

**For annual reports, indicate by check mark the information filed with this form:**

**Annual information form**

**Audited annual financial statements**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

At December 31, 2014, 166,120,981 Common Shares of Canadian Pacific Railway Limited ( CPRL ) were issued and outstanding. At December 31, 2014, 347,170,009 Ordinary Shares of Canadian Pacific Railway Company ( CPRC ) were issued and outstanding. All of the ordinary shares of CPRC are held by CPRL.

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 (the Exchange Act ) 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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

YES  NO

**Table of Contents**

**PRIOR FILINGS MODIFIED AND SUPERSEDED**

The Registrants' Annual Report on Form 40-F for the year ended December 31, 2014, at the time of filing with the Securities and Exchange Commission (the "Commission"), modifies and supersedes all prior documents filed pursuant to Sections 13 and 15(d) of the Exchange Act for purposes of any offers or sales of any securities after the date of such filing pursuant to any Registration Statement under the Securities Act of 1933 of either Registrant which incorporates by reference such Annual Report, including without limitation the following: Form S-8 No. 333-13962 (Canadian Pacific Railway Limited); Form S-8 No. 333-127943 (Canadian Pacific Railway Limited); Form S-8 No. 333-140955 (Canadian Pacific Railway Limited); Form S-8 No. 333-183891 (Canadian Pacific Railway Limited); Form S-8 No. 333-183892 (Canadian Pacific Railway Limited); Form S-8 No. 333-183893 (Canadian Pacific Railway Limited); Form S-8 No. 333-188826 (Canadian Pacific Railway Limited); and Form S-8 No. 333-188827 (Canadian Pacific Railway Limited).

In addition, this Annual Report on Form 40-F is incorporated by reference into or as an exhibit to, as applicable, the Registration Statement on Form F-10 No. 333-189815 (Canadian Pacific Railway Company), and the Registration Statement on Form F-10 No. 333-190229 (Canadian Pacific Railway Limited).

**ANNUAL INFORMATION FORM, CONSOLIDATED AUDITED ANNUAL FINANCIAL STATEMENTS  
AND MANAGEMENT'S DISCUSSION AND ANALYSIS**

**A. Annual Information Form**

For the Annual Information Form of CPRL for the year ended December 31, 2014, see Table of Contents and pages 1 through 42 of CPRL's 2014 Annual Information Form incorporated by reference and included herein.

**B. Audited Annual Financial Statements**

For audited consolidated financial statements (U.S. GAAP), including the reports of the independent registered public accounting firm with respect thereto, see pages 67 through 109 of CPRL's 2014 Annual Report incorporated by reference and included herein.

**C. Management's Discussion and Analysis**

For management's discussion and analysis, see pages 20 through 66 of CPRL's 2014 Annual Report incorporated by reference and included herein.

For the purposes of this Annual Report on Form 40-F, only pages 20 through 109 of CPRL's 2014 Annual Report referred to above shall be deemed filed, and the balance of such 2014 Annual Report, except as it may be otherwise specifically incorporated by reference in CPRL's Annual Information Form, shall be deemed not filed with the Commission as part of this Annual Report on Form 40-F under the Exchange Act.

**DISCLOSURE CONTROLS AND PROCEDURES**

As of December 31, 2014, an evaluation was carried out under the supervision of and with the participation of the Registrants' management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Registrants' disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these

disclosure controls and procedures were effective as of December 31, 2014, to ensure that information required to be disclosed by the Registrants in reports that they file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Commission rules and forms and (ii) accumulated and communicated to the Registrants' management, including their Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

It should be noted that while the Registrants' Chief Executive Officer and Chief Financial Officer believe that the Registrants' disclosure controls and procedures and internal control over financial reporting provide

## **Table of Contents**

a reasonable level of assurance that they are effective, they do not expect that the Registrants' disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

### **MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

For management's report on internal control over financial reporting, see page 68 of the Registrant's 2014 Annual Report, incorporated by reference and included herein.

### **ATTESTATION REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The effectiveness of the Registrants' internal control over financial reporting as of December 31, 2014 has been audited by Deloitte LLP, Independent Registered Public Accounting Firm, as stated in their report on pages 69 through 70 of the Registrant's 2014 Annual Report.

### **CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

During the period covered by this Annual Report on Form 40-F, no changes occurred in the Registrants' internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

### **NOTICES PURSUANT TO REGULATION BTR**

None.

### **CODE OF ETHICS**

The Registrants' Code of Business Ethics specifically addresses, among other things, conflicts of interest, protection and proper use of corporate assets and opportunities, confidentiality of corporate information, fair dealing with third parties, compliance with laws, rules and regulations and reporting of illegal or unethical behavior. The Code applies to all directors, officers and employees, both unionized and non-unionized, of the Registrants and their subsidiaries in Canada, the U.S. and elsewhere, and forms part of the terms and conditions of employment of all such individuals. All members of the board of directors of the Registrants have signed acknowledgements that they have read, understood and agree to comply with the Code, and they annually confirm compliance. Annually, officers and non-union employees are required to acknowledge that they have read, understood and agree to comply with the Code. Contractors engaged on behalf of the Registrants or their subsidiaries must undertake, as a condition of their engagement, to adhere to principles and standards of business conduct consistent with those set forth in the Code. The Code is available on the Registrants' web site at [www.cpr.ca](http://www.cpr.ca) and in print to any shareholder who requests it. All amendments to the Code, and all waivers of the Code with respect to any director or executive officer of the Registrants, will be posted on the Registrants' web site and provided in print to any shareholder who requests them.

In addition, the Registrants have adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers. This code applies to the Registrants' Chief Executive Officer, Chief Financial Officer and Vice President and Controller. It is available on the Registrants' web site at [www.cpr.ca](http://www.cpr.ca) and in print to any shareholder who requests it. All amendments to the code, and all waivers of the code with respect to any of the officers covered by it, will be posted on the Registrants' web site and provided in print to any shareholder who requests them.





**Table of Contents**

**CORPORATE GOVERNANCE PRINCIPLES AND GUIDELINES**

The Registrants have adopted their Corporate Governance Principles and Guidelines which pertain to such matters as, but are not limited to: director qualification standards and responsibilities; election of directors; discretionary term limits for service as board or board committee chairs; access by directors to management and independent advisors; director compensation; director retirement age; director orientation and continuing education; management succession; and annual performance evaluations of the board, including its committees and individual directors, and of the Chief Executive Officer. The Corporate Governance Principles and Guidelines are available on the Registrants web site at [www.cpr.ca](http://www.cpr.ca) and in print to any shareholder who requests them.

**COMMITTEE TERMS OF REFERENCE**

The terms of reference of each of the following committees of the Registrants are available on the Registrants web site at [www.cpr.ca](http://www.cpr.ca) and in print to any shareholder who requests them: the Audit Committee; the Corporate Governance and Nominating Committee; the Finance Committee; the Management Resources and Compensation Committee; and the Safety, Operations and Environment Committee.

**DIRECTOR INDEPENDENCE**

The boards of the Registrants have adopted standards for director independence: (a) prescribed by Section 10A(m)(3) of the Exchange Act and Rule 10A-3(b)(1) promulgated thereunder and National Instrument 52-110 for members of public company audit committees; and (b) set forth in the NYSE Listed Company Manual (the NYSE Standards ), the Canadian corporate governance standards set forth in National Instrument 58-101 and National Instrument 52-110 in respect of public company directors. The boards also conducted a comprehensive assessment of each of their members as against these standards and determined that all current directors, except Mr. Harrison, have no material relationship with the Registrants and are independent. Mr. Harrison is not independent by virtue of the fact that he is the Chief Executive Officer of the Registrants.

**EXECUTIVE SESSIONS OF NON-MANAGEMENT DIRECTORS**

The independent directors met in executive sessions without management present at the regular and special meetings of the board of directors of CPRL and its standing committees in 2014. In fact, each regularly scheduled meeting s agenda included one or more such sessions during the meeting.

Interested parties may communicate directly with Mr. G.F. Colter, the Chair of the boards of the Registrants, who presided at such executive sessions, by writing to him at the following address, and all communications received at this address will be forwarded to him:

Office of the Corporate Secretary

Canadian Pacific Railway

7550 Ogden Dale Road S.E., Calgary, Alberta

Canada, T2C 4X9



**Table of Contents**

**IDENTIFICATION OF AUDIT COMMITTEE AND AUDIT COMMITTEE FINANCIAL EXPERT**

The following individuals comprise the current membership of the Registrants' Audit Committees ( Audit Committees ), which have been established in accordance with Section 3(a)(58)(A) of the Exchange Act:

Isabelle Courville

Paul Haggis

Linda J. Morgan

Andrew F. Reardon

Each of the aforementioned directors, with the exception of Ms. Morgan, has been determined by the boards of the Registrants to meet the audit committee financial expert criteria prescribed by the Commission and have been designated as an audit committee financial expert for the Audit Committees of the boards of both Registrants. Each of the aforementioned directors has been determined by the boards of the Registrants to be independent within the criteria referred to above under the subheading Director Independence , including the NYSE Standards.

**FINANCIAL LITERACY OF AUDIT COMMITTEE MEMBERS**

The boards of the Registrants have determined that all members of the Audit Committees have accounting or related financial management expertise within the meaning of the NYSE Standards. The boards have determined that all members of the Audit Committees are financially literate within the definition contained in, and as required by, National Instrument 52-110 and the NYSE Standards.

**SERVICE ON OTHER PUBLIC COMPANY AUDIT COMMITTEES**

Each Registrant's board has determined that no director who serves on more than two public company audit committees in addition to its own Audit Committee shall be eligible to serve as a member of the Audit Committee of that Registrant, unless that Registrant's board determines that such simultaneous service would not impair the ability of such member to effectively serve on that Registrant's Audit Committee. For purposes of calculating the aggregate number of public company audit committees on which a director serves, each Registrant is counted as a separate public company.

No members of the Audit Committees of the Registrants serve on more than two public company audit committees in addition to the Audit Committee of each Registrant.

**Table of Contents****PRINCIPAL ACCOUNTANT FEES AND SERVICES**

In accordance with applicable laws and the requirements of stock exchanges and securities regulatory authorities, the Audit Committee of a company must pre-approve all audit and non-audit services to be provided by the independent auditors. Fees payable to Deloitte LLP for the years ended December 31, 2014, and December 31, 2013, totalled \$2,885,400 and \$2,213,000, respectively, as detailed in the following table:

<b>For the year ended December 31</b>	<b>Total 2014 (\$)</b>	<b>Total 2013 (\$)</b>
Audit Fees	<b>2,184,800</b>	1,943,000
Audit-Related Fees	<b>155,000</b>	228,500
Tax Fees	<b>295,600</b>	41,500
All Other Fees	<b>250,000</b>	
<b>TOTAL</b>	<b>2,885,400</b>	2,213,000

The nature of the services provided under each of the categories indicated in the table is described below.

***Audit Fees***

Audit fees were for professional services rendered for the audit and interim reviews of the Registrants' annual financial statements and services provided in connection with statutory and regulatory filings or engagements, including the attestation engagement for the report from the independent registered public accounting firm on the effectiveness of internal controls over financial reporting, the audit or interim reviews of financial statements of certain subsidiaries and of various pension and benefits plans of the Registrants; special attestation services as may be required by various government entities; and general advice and assistance related to accounting and/or disclosure matters with respect to new and proposed U.S. accounting standards, securities regulations, and/or laws.

***Audit-Related Fees***

Audit-related fees were for assurance and related services reasonably related to the performance of the audit or review of the annual financial statements, but which are not reported under *Audit Fees* above. These services consisted of audit work related to securities filings; refinancing of subsidiary companies; and accounting training.

***Tax Fees***

Tax fees were for professional services related to tax compliance, tax planning and tax advice. These services consisted of: tax compliance including the review of tax returns; assistance with questions regarding corporate tax audits; tax planning and advisory services relating to common forms of domestic and international taxation (i.e. income tax, capital tax, goods and services tax, and value added tax); and access fees for taxation database resources.

***All Other Fees***

Fees disclosed under this category would be for products and services other than those described under *Audit Fees*, *Audit-Related Fees* and *Tax Fees* above. These finance services consisted of advice with respect to an internal reorganization initiative. There were no such services in 2013.



**Table of Contents**

**PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES PROVIDED BY  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of each Registrant has adopted a written policy governing the pre-approval of audit and non-audit services to be provided to the Registrants by their independent registered public accounting firm. The policy is reviewed annually and the audit and non-audit services to be provided by their independent registered public accounting firm, as well as the budgeted amounts for such services, are pre-approved at that time, including by the board of directors of the Registrant in respect of fees for audit services. The Comptroller of the Registrants must submit to the Audit Committee at least quarterly a report of all services performed or to be performed by the independent registered public accounting firm pursuant to the policy. Any additional non-audit services to be provided by the independent registered public accounting firm either not included among the pre-approved services or exceeding the budgeted amount for such pre-approved services by more than 10% must be individually pre-approved by the Audit Committee or its Chairman, who must report all such additional pre-approvals to the Audit Committee at its next meeting following the granting thereof. The independent registered public accounting firm's annual audit services engagement terms are subject to the specific pre-approval of the Audit Committee, with the associated fees being subject to approval by the board of directors of the Registrant. In addition, prior to the granting of any pre-approval, the Audit Committee or its Chairman, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of the independent registered public accounting firm. The Chief Internal Auditor for the Registrants monitors compliance with this policy.

**OFF-BALANCE SHEET ARRANGEMENTS**

A description of the Registrants' off-balance sheet arrangements is set forth on page 52 of the Registrants' 2014 Annual Report incorporated by reference and included herein.

**TABLE OF CONTRACTUAL COMMITMENTS**

The table setting forth the Registrants' contractual commitments is set forth on page 52 of the Registrants' 2014 Annual Report incorporated by reference and included herein.

**UNDERTAKING AND CONSENT TO SERVICE OF PROCESS**

**A. Undertaking**

Each Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

**B. Consent to Service of Process**

Each Registrant has previously filed a Form F-X in connection with the class of securities to which the obligation to file this report arises. Any change to the name or address of the agent for service of process of either Registrant shall be communicated promptly to the Commission by an amendment to the Form F-X referencing the file number of such Registrant.



Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Exchange Act, each Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this Annual Report on Form 40-F to be signed on its behalf by the undersigned, thereto duly authorized, in the City of Calgary, Province of Alberta, Canada.

**CANADIAN PACIFIC RAILWAY  
LIMITED**

**CANADIAN PACIFIC RAILWAY  
COMPANY**

(Registrants)

/s/ Paul A. Guthrie  
Name: Paul A. Guthrie

Title: Corporate Secretary

Date: February 23, 2015



**Table of Contents**

**EXHIBITS**

- 99.1 Consent of Deloitte LLP, Independent Registered Public Accounting Firm.
- 99.2 Certification by the Chief Executive Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
- 99.3 Certification by Chief Financial Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
- 99.4 Certification by the Chief Executive Officer of the Registrants furnished pursuant to 18 U.S.C. Section 1350.
- 99.5 Certification by the Chief Financial Officer of the Registrants filed pursuant to 18 U.S.C. Section 1350.
- 101 Interactive Data File

**Table of Contents**

**ANNUAL INFORMATION FORM | 2014**

FEBRUARY 23, 2015

**Table of Contents****TABLE OF CONTENTS**

<b>1. CORPORATE STRUCTURE</b>	
<u>1.1 NAME, ADDRESS AND INCORPORATION INFORMATION</u>	1
<b>2. INTERCORPORATE RELATIONSHIPS</b>	
<u>2.1 PRINCIPAL SUBSIDIARIES</u>	2
<b>3. GENERAL DEVELOPMENTS OF THE BUSINESS</b>	
<u>3.1 RECENT DEVELOPMENTS</u>	3
<b>4. DESCRIPTION OF THE BUSINESS</b>	
<u>4.1 BACKGROUND AND NETWORK</u>	7
<u>4.2 STRATEGY</u>	7
<u>4.3 PARTNERSHIPS, ALLIANCES AND NETWORK EFFICIENCY</u>	8
<u>4.4 NETWORK AND RIGHT-OF-WAY</u>	8
<u>4.5 QUARTERLY TRENDS</u>	11
<u>4.6 BUSINESS CATEGORIES</u>	11
<u>4.7 REVENUES</u>	12
<u>4.8 RAILWAY PERFORMANCE</u>	16
<u>4.9 FRANCHISE INVESTMENT</u>	17
<u>4.10 OPERATING PLAN ( OP )</u>	18
<u>4.11 INFORMATION TECHNOLOGY</u>	18
<u>4.12 BUSINESS RISKS AND ENTERPRISE RISK MANAGEMENT</u>	18
<u>4.13 INDEMNIFICATIONS</u>	18
<u>4.14 SAFETY</u>	19
<u>4.15 ENVIRONMENTAL PROTECTION</u>	19
<u>4.16 INSURANCE</u>	20
<u>4.17 COMPETITIVE CONDITIONS</u>	20
<b>5. DIVIDENDS</b>	
<u>5.1 DECLARED DIVIDENDS AND DIVIDEND POLICY</u>	21
<b>6. CAPITAL STRUCTURE</b>	
<u>6.1 DESCRIPTION OF CAPITAL STRUCTURE</u>	22
<u>6.2 SECURITY RATINGS</u>	23
<b>7. MARKET FOR SECURITIES</b>	
<u>7.1 STOCK EXCHANGE LISTINGS</u>	26
<u>7.2 TRADING PRICE AND VOLUME</u>	26
<b>8. DIRECTORS AND OFFICERS</b>	
<u>8.1 DIRECTORS</u>	27
<u>8.2 CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS</u>	28

<u>8.3 SENIOR OFFICERS</u>	28
<u>8.4 SHAREHOLDINGS OF DIRECTORS AND OFFICERS</u>	28
<b><u>9. LEGAL PROCEEDINGS AND REGULATORY ACTIONS</u></b>	29
<b>10. TRANSFER AGENTS AND REGISTRARS</b>	
<u>10.1 TRANSFER AGENT</u>	30
<b><u>11. INTERESTS OF EXPERTS</u></b>	31
<b>12. AUDIT COMMITTEE</b>	
<u>12.1 COMPOSITION OF THE AUDIT COMMITTEE AND RELEVANT EDUCATION AND EXPERIENCE</u>	32
<u>12.2 PRE-APPROVAL OF POLICIES AND PROCEDURES</u>	33
<u>12.3 AUDIT COMMITTEE CHARTER</u>	33
<u>12.4 AUDIT AND NON-AUDIT FEES AND SERVICES</u>	40
<b><u>13. FORWARD LOOKING INFORMATION</u></b>	41
<b>14. ADDITIONAL INFORMATION</b>	
<u>14.1 ADDITIONAL COMPANY INFORMATION</u>	42

February 23, 2015

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**Table of Contents**

**CANADIAN PACIFIC**

**1. CORPORATE STRUCTURE**

*In this Annual Information Form ( AIF ), our , us , we , CP and the Company 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. All information in this AIF is stated as at December 31, 2014 and all financial statements were prepared in accordance with United States generally accepted accounting principles ( GAAP ) unless otherwise indicated. Except where otherwise indicated, all financial information and references to dollar or \$ reflected herein are expressed in Canadian dollars.*

**1.1 Name, Address and Incorporation Information**

Canadian Pacific Railway Limited was incorporated on June 22, 2001, as 3913732 Canada Inc. pursuant to the *Canada Business Corporations Act*

( the CBCA ). On July 20, 2001, CP amended its Articles of Incorporation to change its name to Canadian Pacific Railway Limited. On October 1, 2001, Canadian Pacific Limited ( CPL ) completed an arrangement ( the Arrangement ) pursuant to section 192 of the CBCA whereby it distributed to its common shareholders all of the shares of newly formed corporations holding the assets of four of CPL s five primary operating divisions. The transfer of Canadian Pacific Railway Company ( CPRC ), previously a wholly owned subsidiary of CPL, to CPRL was accomplished as part of a series of steps, pursuant to the terms of the Arrangement.

The Company s registered, executive and head office is located at 7550 Ogden Dale Road S.E., Calgary, Alberta T2C 4X9.

**Table of Contents****2. INTERCORPORATE RELATIONSHIPS****2.1 Principal Subsidiaries**

The table below sets out the Company's principal subsidiaries, including the jurisdiction of incorporation and the percentage of voting and non-voting securities CP currently own directly or indirectly:

Principal Subsidiary <sup>(1)</sup>	Incorporated under the Laws of	Percentage of Voting Securities Held Directly or Indirectly	Percentage of Non-Voting Securities Beneficially Owned, or over which Control or Direction is Exercised
Canadian Pacific Railway Company	Canada	100%	Not applicable
Soo Line Corporation <sup>(2)</sup>	Minnesota	100%	Not applicable
Soo Line Railroad Company <sup>(3)</sup>	Minnesota	100%	Not applicable
Dakota, Minnesota & Eastern Railroad Corporation <sup>(4)</sup>	Delaware	100%	Not applicable
Delaware and Hudson Railway Company, Inc. <sup>(3)</sup>	Delaware	100%	Not applicable
Mount Stephen Properties Inc. <sup>(5)</sup>	Canada	100%	Not applicable

<sup>(1)</sup>This table does not include all of the Company's subsidiaries. The assets and revenues of unnamed subsidiaries did not exceed 10% of the total consolidated assets or total consolidated revenues of CP individually, or 20% of the total consolidated assets or total consolidated revenues of CP in aggregate.

<sup>(2)</sup>Indirect wholly owned subsidiary of Canadian Pacific Railway Company.

<sup>(3)</sup>Wholly owned subsidiary of Soo Line Corporation.

<sup>(4)</sup>Indirect wholly owned subsidiary of Soo Line Corporation.

<sup>(5)</sup>Wholly owned subsidiary of Canadian Pacific Railway Company.

**Table of Contents**

**CANADIAN PACIFIC**

**3. GENERAL DEVELOPMENTS OF THE BUSINESS**

**3.1 Recent Developments**

**2014 Developments**

On May 7, 2014, CP announced Chief Executive Officer E. Hunter Harrison agreed to a contract extension with the railway for an additional year, and will remain with the Company until 2017. Prior to the Company's shareholder meeting on May 1, 2014, it was announced that Mr. Richard Kelly would not stand for re-election as a member of the Company's Board of Directors. On May 1, 2014, the Company announced that Gary Colter was elected Chairman of the Company's Board of Directors. Effective May 20, 2014, the Hon. Jim Prentice resigned as a member of the Company's Board of Directors. Mr. Prentice had been appointed to the Board on June 7, 2013.

On October 1-2, 2014, the Company unveiled new growth targets extending to 2018. These financial expectations include:

more than doubling diluted earnings per share (EPS) over the next four years compared to 2014;

growing annual revenue to \$10 billion in 2018; and

generating cumulative cash flow before dividends of \$6 billion through 2018.

Over the course of 2014 and in early 2015, CP took a number of steps to optimize the Company's capital structure and lower cost of capital. Key initiatives included:

on January 28, 2015, CP issued U.S. \$700 million 2.900% 10-year Notes due 2025 for net proceeds of U.S.\$694 million;

during the fourth quarter of 2014, the Company established a commercial paper program which enabled it to issue commercial paper up to a maximum aggregate principal amount of U.S. \$1 billion in the form of unsecured promissory notes. The commercial paper program is backed by a U.S. \$1 billion committed, revolving credit facility, which matures on September 26, 2016. As at December 31, 2014, the Company had total commercial paper borrowings of U.S. \$675 million (CDN \$783 million) presented in Long-term debt on the Company's Consolidated Balance Sheets;

at September 26, 2014, CP terminated its existing revolving credit facility agreement dated as of November 29, 2013. On the same day CP entered into a new revolving credit facility agreement with 15 highly rated financial institutions for a commitment amount of U.S. \$2 billion. The facility includes a U.S. \$1 billion five years portion and a U.S. \$1 billion one year plus one year term out portion. The facility can accommodate draws of cash and/or

letters of credit at market competitive pricing. At December 31, 2014, the facility was undrawn; and

on March 17, 2014 the Company commenced a Normal Course Issuer Bid ( NCIB ) to purchase, for cancellation up to 5.3 million common shares. On September 29, 2014, the Company announced the amendment of the NCIB to increase the maximum number of its Common Shares that could be purchased from 5.3 million to 12.7 million by March 16, 2015. From March 17, 2014 to December 31, 2014, the Company repurchased 10.5 million Common shares for \$2,089 million at an average price of \$199.42 per share.

As a result of the Company's improved financial position, CP received two ratings upgrades in 2014 from all three agencies. Standard & Poor's ( S&P ), Moody's Investors Services ( Moody's ), and Dominion Bond Rating Services ( DBRS ) increased their ratings to BBB+, Baa1 and BBB (High), respectively, from BBB-, Baa3, and BBB (Low), respectively. In addition, the Company was assigned short-term ratings on its newly established U.S. commercial paper program. S&P, Moody's, and DBRS assigned ratings of A-2, P-2, and R-2 (High), respectively.

On November 17, 2014, the Company announced a proposed agreement with Norfolk Southern Corporation ( NS ) for the sale of approximately 283 miles of the Delaware and Hudson Railway Company, Inc.'s line between Sunbury, Pennsylvania, and Schenectady, New York. The assets expected to be sold to NS upon completion of this transaction have been classified as Assets held for sale on the Company's Consolidated Balance Sheets. The assets continue to be reported at their carrying value as this is lower than their expected fair value. The sale to NS, when agreed, will be subject to regulatory approval



## **Table of Contents**

by the U.S. Surface Transportation Board and is expected to close in 2015.

On January 2, 2014, the Company executed an agreement with Genesee & Wyoming Inc. ( G&W ) for the sale of the Dakota, Minnesota, & Eastern ( DM&E ) West tracks between Tracy, Minnesota and Rapid City, South Dakota, Colony, Wyoming and Crawford, Nebraska. DM&E West encompasses approximately 660 miles and the sale closed on May 30, 2014 for U.S. \$218 million (CDN \$236 million) in gross proceeds.

On January 20, 2015, CP announced it had an agreement to create a joint venture with DREAM Unlimited called DREAM Van Horne Properties. The joint venture was created to evaluate the Company's real estate, and to explore innovative ways to maximize value, including industrial, commercial and residential development.

### **2013 Developments**

Effective February 5, 2013, Mr. Keith Creel was appointed as President and Chief Operating Officer as part of the Company's long-term succession plan. In connection to this appointment, Mr. E. Hunter Harrison remains Chief Executive Officer of the Company. On November 29, 2013, CP further announced the appointment of Mr. Bart W. Demosky as Executive Vice President and Chief Financial Officer effective December 28, 2013. Mr. Demosky replaced Mr. Brian Grassby, who retired from his role as Senior Vice President, Chief Financial Officer and Treasurer as announced on October 23, 2013. Mr. Grassby remained a key part of the senior management team until the end of 2013 to lead a successful transition.

Early in 2014, the Company executed an agreement with G&W for the sale of a portion of the DM&E line between Tracy, Minnesota and Rapid City, South Dakota, Colony, Wyoming and Crawford, Nebraska and connecting branch lines as result of the Company's 2012 initiative to assess the opportunities with this 660 mile portion of DM&E. The Company recorded an asset impairment charge and accruals for future associated costs totaling \$435 million (\$257 million after tax) which impacted diluted EPS by \$1.46 in 2013.

### **2012 Highlights**

During 2012, the Company experienced a number of other noteworthy events summarized below:

#### ***Proxy Contest***

In January 2012, Pershing Square Capital Management, L.P. ( Pershing Square ) launched a proxy contest in order to replace a minority of the Board of Directors of the Company (the Board ) and to advocate for management change (the Proxy Contest ). The proxy contest was settled in May 2012 with changes described below in Change in Board of Directors and Management transition .

#### ***Change in Board of Directors***

On May 17, 2012, following the Proxy Contest Messrs. John Cleghorn, Tim Faithfull, Fred Green, Edmond Harris, Michael Phelps and Roger Phillips advised the Company that they did not intend to stand for re-election to the Board.

At the Company's annual shareholders meeting held on May 17, 2012, seven new directors were elected to the Board, namely Messrs. William Ackman, Gary Colter, Paul Haggis and Paul Hilal, Ms. Rebecca MacDonald, and Messrs. Anthony Melman and Stephen Tobias. In addition, Mr. Richard George, Ms. Krystyna Hoeg, Messrs. Tony Ingram and Richard Kelly, the Hon. John Manley, Mesdames Linda Morgan and Madeleine Paquin, and Messrs. David Raisbeck and Hartley Richardson were all re-elected to the Board at the May 17, 2012 meeting. Following the

meeting, the new Board selected Ms. Paquin to serve as acting Chair of the Company. On June 4, 2012, Mr. Haggis was appointed Chairman of the Company's Board.

Subsequent to the May 17, 2012 shareholders meeting, Messrs. Raisbeck, George and Ingram resigned from the Board on June 11, June 26 and July 5, 2012, respectively. In addition, effective July 6, 2012, Mr. E. Hunter Harrison was appointed to the Board.

As a result of the aforementioned changes to the composition of the Board, certain accelerated vesting provisions for certain grants under the Company's management stock option incentive plan, performance share unit plan and deferred share unit plan were triggered effective June 26, 2012. The effect of such accelerated vesting on the Company's second quarter financial statements was a credit to Compensation and benefits of \$8 million and the recognition of a related liability under the

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**Table of Contents****CANADIAN PACIFIC**

accelerated vesting provisions of these plans of \$31 million, which liability was settled in full in the third quarter of 2012.

*Management transition*

On May 17, 2012, following the Proxy Contest, Mr. Fred Green left his position as President and Chief Executive Officer of the Company. That same day, Mr. Stephen Tobias, a new Board member elected at the Company's annual shareholders meeting held on May 17, 2012, was appointed by the Board as Interim Chief Executive Officer and served in that role until June 28, 2012. On June 28, 2012, Mr. E. Hunter Harrison was appointed by the Board as President and Chief Executive Officer. As a result of the appointment of Mr. Harrison, the Company recorded a charge of \$38 million with respect to compensation and other transition costs, including \$2 million of associated costs, in the second quarter of 2012. This charge was recorded in the Company's financial statements in Compensation and benefits and Purchased services and other, in the amounts of \$16 million and \$22 million respectively.

Included in this charge were amounts totaling \$16 million in respect of deferred retirement compensation for Mr. Harrison and \$20 million to Pershing Square and related entities. Pershing Square and related entities owned or controlled approximately 14% of the Company's outstanding shares as at December 31, 2012 and two Board members, Mr. William Ackman and Mr. Paul Hilal, are partners of Pershing Square. The amount paid to Pershing Square and related entities was to reimburse them, on behalf of Mr. Harrison, for certain amounts they had previously paid to, or incurred on behalf of, Mr. Harrison pursuant to an indemnity in favour of Mr. Harrison in connection with losses suffered in legal proceedings commenced against Mr. Harrison by his former employer. The terms of Pershing Square's indemnity required Mr. Harrison to return any funds advanced under the indemnity in the event he accepted employment at CP. As a result, Mr. Harrison made it a precondition of accepting the Company's offer of employment that CP assumes the indemnity obligations and returns the funds advanced by Pershing Square. As a result of the payment, the Company would have been entitled to enforce

Mr. Harrison's rights in the aforementioned legal proceedings, allowing the Company to recover to the extent of Mr. Harrison's success in those proceedings; however, on February 3, 2013, the Company and Mr. Harrison settled the legal proceedings with Mr. Harrison's former employer, providing the Company with partial recovery (U.S. \$9 million) of the amounts in dispute. The Company may receive repayment in other circumstances in the event of certain breaches by Mr. Harrison of his obligations under an employment agreement with the Company. In addition, the Company agreed to indemnify Mr. Harrison for certain other amounts sought for repayment by Mr. Harrison's former employer, to a maximum of \$3 million plus legal fees, but as a result of the settlement of the aforementioned legal proceedings, such indemnity is no longer applicable.

The Company also recorded a charge of \$4 million in the second quarter of 2012 with respect to a retirement allowance for Mr. Green.

*Strike*

On May 23, 2012, the Teamsters Canada Rail Conference Running Trade Employees (TCRC-RTE) and the Rail Canada Traffic Controllers (TCRC-RCTC), representing 4,800 engineers, conductors and rail traffic controllers in Canada, commenced a strike that caused a nine-day Canadian work stoppage (the strike). Bill C-39, the Restoring Rail Service Act, was passed by the Parliament of Canada on May 31, 2012 and employees returned to work on June 1, 2012.

The strike caused a significant loss of revenue during the second quarter. Partly offsetting this revenue loss were cost savings in Compensation and benefits, Fuel, and Equipment rents. During the strike, CP took the opportunity to advance track and other maintenance including mechanical and engineering work.

Once the unions returned to work the Company quickly re-established service and reset the network.

*Strategic update*

On December 4-5, 2012, CP's Chief Executive Officer E. Hunter Harrison outlined the Company's plan for change to improve service, increase the railway's efficiency, lower cost and grow the business.

**Table of Contents**

Under the leadership of new management, the second half of 2012 included a rapid change agenda where progress was made on this plan. Highlights of CP's evolution to a more competitive railway include:

a new executive leadership team in place, including a new Senior Operations lead team, with a mandate for centralized planning and decentralized execution, that eliminates bureaucracy to make service decisions faster and closer to the customer;

revamped intermodal and merchandise train services which provide faster transit times for customers, such as the new intermodal services connecting Vancouver to Chicago or Toronto;

the closure of hump-switching yards in Toronto, Winnipeg, Calgary and Chicago which provides significant cost savings and more efficient operating practices;

the closure of intermodal terminals in Milwaukee, Obico (Toronto), and Schiller Park (Chicago) which reduced CP's footprint and operating expenses while also facilitating efficient operating practices and reduced end-to-end transit times;

network design changes made after July 2012 allowed CP to reduce operating plan train miles by 39,000 per week, a 7 percent improvement, and crew starts by approximately 30 per day, a 5 percent improvement over previous designs from the first half of the year. Together, these design changes reduced annual operating costs, while increasing capacity; and

a reduction of the Company's active locomotive fleet by more than 195 engines in the second half of 2012, with more than 460 locomotives stored, returned or declared surplus year-to-date. Over the course of 2012, CP provided return notification on 5,400 rail cars.

*Asset impairment and labour restructuring charges*

During the fourth quarter of 2012, the Company recorded a number of significant charges in part due to on-going efforts to improve the efficiency of the Company. These significant charges, included:

\$53 million labour restructuring charge (\$39 million after tax), which unfavourably impacted diluted EPS by 22 cents;

\$185 million impairment of Powder River Basin ( PRB ) and other investment (\$111 million after tax), which unfavourably impacted diluted EPS by 64 cents; and

\$80 million asset impairment of certain locomotives (\$59 million after tax), which unfavourably impacted diluted EPS by 34 cents.

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**Table of Contents**

**CANADIAN PACIFIC**

**4. DESCRIPTION OF THE BUSINESS**

**4.1 Background and Network**

CPRC was incorporated by Letters Patent in 1881 pursuant to an Act of the Parliament of Canada. CPRC is one of Canada's oldest corporations. From the Company's inception 134 years ago, CP has developed into a fully integrated and technologically advanced Class I railway (a railroad earning a minimum of U.S. \$452.7 million in revenues annually as defined by the Surface Transportation Board in the U.S.) providing rail and intermodal freight transportation services over a 13,700 mile network serving the principal business centres of Canada, from Montreal, Quebec to Vancouver, British Columbia ( B.C. ), and the U.S. Midwest and Northeast regions.

CP owns approximately 9,900 miles of track. An additional 3,800 miles of track are owned jointly, leased or operated under trackage rights. Of the total mileage operated, approximately 5,800 miles are located in western Canada, 2,300 miles in eastern Canada, 4,500 miles in the U.S. Midwest and 1,100 miles in the U.S. Northeast. The Company's business is based on funnelling railway traffic from feeder lines and connectors, including secondary and branch lines, onto the Company's high-density mainline railway network. CP has extended its network reach by establishing alliances and connections with other major Class I railways in North America, which allow the Company to provide competitive services and access to markets across North America beyond CP's own rail network. The Company also provides service to markets in Europe and the Pacific Rim through direct access to the Port of Montreal and the Port Metro Vancouver in Vancouver, B.C., respectively.

CP's network accesses the U.S. market directly through three wholly owned subsidiaries: Soo Line Railroad Company ( Soo Line ), a Class I railway operating in the U.S. Midwest; DM&E, a wholly owned subsidiary of the Soo Line, which operates in the U.S. Midwest; and the Delaware and Hudson Railway Company, Inc. ( D&H ), which operates between eastern Canada and major U.S. Northeast markets, including New York City, New York; Philadelphia, Pennsylvania; and Washington, D.C.

**4.2 Strategy**

Canadian Pacific is driving change as it moves through its transformational journey to become the best railroad in North America, while creating long-term value for shareholders. The Company is focused on providing customers with industry leading rail service; driving sustainable, profitable growth; optimizing our assets; and reducing costs, while remaining a leader in rail safety.

Looking forward, CP is executing its strategic plan to become the lowest cost rail carrier centred on five key foundations, which are the Company's performance drivers.

**Provide Service:** Providing efficient and consistent transportation solutions for the Company's customers. Doing what we say we are going to do is what drives CP by providing a reliable product with a lower cost operating model. Centralized planning aligned with local execution is bringing the Company closer to the customer and accelerating decision-making.

**Control Costs:** Controlling and removing unnecessary costs from the organization, eliminating bureaucracy and continuing to identify productivity enhancements are the keys to success.

**Optimize Assets:** Through longer sidings, improved asset utilization, and increased train lengths, the Company is moving increased volumes with fewer locomotives and cars while unlocking capacity for future growth potential.

**Operate Safely:** Each year, CP safely moves millions of carloads of freight across North America while ensuring the safety of our people and the communities through which we operate. Safety is never to be compromised. Continuous research and development in state-of-the-art safety technology and highly focused employees ensure our trains are built for safe, efficient operations across our network.

**Develop People:** CP recognizes that none of the other foundations can be achieved without its people. Every CP employee is a railroader and the Company is shaping a new culture focused on a passion for service with integrity in everything it does. Coaching and mentoring managers into becoming leaders will help drive CP forward.



## **Table of Contents**

### **4.3 Partnerships, Alliances and Network Efficiency**

Some customers' goods may have to travel on more than one railway to reach their final destination. The transfer of goods between railways can cause delays and service interruptions. The Company's rail network connects to other North American rail carriers and, through partnerships, the Company continues to co-develop processes and products designed to provide seamless and efficient scheduled train service to these customers.

CP continues to increase the capacity and efficiency of the Company's core franchise through infrastructure-sharing and joint-service programs with other railways and third parties, strategic capital investment programs, and operating plan strategies. Combined with the continued improvement of CP locomotive and rail car fleets, these strategies enable the Company to achieve more predictable and fluid train operations between major terminals.

Over the past few years, Class I railway initiatives have included:

Co-operation initiatives with the Canadian National Railway Company ( CN ) in the Port Metro Vancouver Terminal and B.C. Lower Mainland;

Working very closely with all the Class I and other carriers that serve Chicago, Illinois under the Chicago Region Environmental and Transportation Efficiency ( CREATE ) program. Class I s, Amtrak, Metra and switching carriers Indiana Harbor Belt Railroad ( IHB ) and Belt Railway of Chicago ( BRC ) have partnered in CREATE to construct operating and structural changes that will improve operating efficiency and fluidity in and around Chicago, the largest railroad hub in North America; and

CP, working with the State Departments of Transportation of New York, Illinois, Wisconsin and Minnesota, to develop plans for improved track and road infrastructure to support intercity passenger rail. This infrastructure will support the fluidity of passenger and freight traffic on shared CP track.

CP also develops mutually beneficial arrangements with smaller railways, including shortline and regional carriers.

### **4.4 Network and Right-of-Way**

The Company's 13,700-mile network extends from the Port Metro Vancouver on Canada's Pacific Coast to the Port of Montreal in eastern Canada, and to the U.S. industrial centres of Chicago; Detroit, Michigan; Newark, New Jersey; and Buffalo, New York; Kansas City, Missouri; and Minneapolis, Minnesota.