CANADIAN PACIFIC RAILWAY LTD/CN
Form 6-K
October 24, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 under

the Securities Exchange Act of 1934

For the month of October, 2012

CANADIAN PACIFIC RAILWAY LIMITED

(Commission File No. 1-01342)

CANADIAN PACIFIC RAILWAY COMPANY

(Commission File No. 1-15272)

(translation of each Registrant s name into English)

Suite 500, Gulf Canada Square, 401 - 9th Avenue, S.W., Calgary, Alberta, Canada, T2P 4Z4

(address of principal executive offices)

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

Form 20-F ¨ Form 40-F x

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

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

The interim financial statements, Management s Discussion and Analysis, and updated earnings coverage calculations included in this Report furnished on Form 6-K shall be incorporated by reference into, or as an exhibit to, as applicable, the Registration Statements of Canadian Pacific Railway Limited on Form S-8 (File Nos. 333-127943, 333-13962, 333-140955, 333-183891, S-8 No. 333-183892, and 333-183893) and Form F-10 (File No. 333-175033) and the Registration Statement of Canadian Pacific Railway Company on Form F-9 (File No. 333-175032).

SIGNATURES

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

CANADIAN PACIFIC RAILWAY LIMITED
(Registrant)

Date: October 24, 2012

Signed: /s/ Paul Bachand
By: Name: Paul Bachand
Title: Associate Corporate Secretary

CANADIAN PACIFIC RAILWAY COMPANY
(Registrant)

Date: October 24, 2012

Signed: /s/ Paul Bachand
By: Name: Paul Bachand
Title: Associate Corporate Secretary

Release: Immediate October 24, 2012

PROGRESS UNDERWAY CANADIAN PACIFIC ANNOUNCES IMPROVED THIRD-QUARTER 2012 RESULTS

CALGARY Canadian Pacific Railway Limited (TSX: CP) (NYSE: CP) today announced its third-quarter 2012 results with reported net income of $224 million, an increase of $37 million, or 20 per cent and diluted earnings per share of $1.30, an increase of $0.20, or 18 per cent, when compared to third-quarter 2011.

For the nine months of 2012 Canadian Pacific s net income was $469 million, an increase of $120 million, or 34 per cent and diluted earnings per share of $2.72, an increase of $0.68, or 33 per cent, when compared to the same period last year.

E. Hunter Harrison, President and Chief Executive Officer said, Momentum is building at Canadian Pacific. We have implemented new services; closed terminals and certain yard operations; and we ve put a new leadership team in place. The team has made significant progress on operational improvements, controlling costs and on delivering results. And this is just the beginning.

THIRD-QUARTER 2012 RESULTS COMPARED WITH THIRD-QUARTER 2011

- Total revenues were $1.5 billion, an increase of $110 million or 8 per cent
- Operating expenses were $1.1 billion, an increase of $58 million or 6 per cent
- Operating income was $376 million, an increase of $52 million or 16 per cent
- Operating ratio was 74.1 per cent, an improvement of 170 basis points

Conference Call Information

CP will discuss its results with analysts in a conference call beginning at 11:00 a.m. Eastern time (9:00 a.m. Mountain time) on October 24, 2012.

Conference call access

Toronto participants dial in number: (647) 427-7452

Operator assisted toll free dial in number: 1-888-231-8193

Callers should dial in 10 minutes prior to the call

Webcast

For those with Internet access we encourage you to listen via CP s website at www.cpr.ca. To access the webcast and the presentation material, click on Invest In CP tab.

A replay of the conference call will be available by phone through November 21, 2012 at 416-849- 0833 or toll free 1-855-859-2056, password 35137957. A webcast of the presentation and an audio file will be available at www.cpr.ca under Invest In CP tab.

About Canadian Pacific

Canadian Pacific (CP: TSX)(NYSE: CP) operates a North American transcontinental railway providing freight transportation services, logistics solutions and supply chain expertise. Incorporating best-in-class technology and environmental practices, CP is re-defining itself as a modern 21st century transportation company built on safety, service reliability and operational efficiency. Visit www.cpr.ca to learn more.

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CANADIAN PACIFIC RAILWAY LIMITED

CONSOLIDATED STATEMENTS OF INCOME

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

(unaudited)

	For the three months ended September 30 2012	For the three months ended September 30 2011	For the nine months ended September 30 2012	For the nine months ended September 30 2011
Revenues				
Freight	$ 1,414	$ 1,309	$ 4,086	$ 3,677
Other	37	32	107	92
Total revenues	1,451	1,341	4,193	3,769
Operating expenses				
Compensation and benefits *(Notes 8 and 11)*	371	336	1,128	1,037
Fuel	232	238	743	701
Materials	57	56	178	185
Equipment rents	52	53	158	158
Depreciation and amortization	137	123	399	367
Purchased services and other *(Notes 10 and 11)*	226	211	698	657
Total operating expenses	1,075	1,017	3,304	3,105
Operating income	**376**	**324**	**889**	**664**
Less:				
Other income and charges	2	14	34	8
Net interest expense	69	64	207	191
Income before income tax expense	305	246	648	465
Income tax expense *(Note 3)*	81	59	179	116
Net income	**$ 224**	**$ 187**	**$ 469**	**$ 349**
Earnings per share *(Note 4)*				
Basic earnings per share	**$ 1.31**	**$ 1.10**	**$ 2.74**	**$ 2.06**
Diluted earnings per share	**$ 1.30**	**$ 1.10**	**$ 2.72**	**$ 2.04**
Weighted-average number of shares (millions)				
Basic	172.2	169.4	171.3	169.4
Diluted	173.4	170.5	172.6	170.6
Dividends declared per share	**$ 0.3500**	**$ 0.3000**	**$ 1.0000**	**$ 0.8700**

See Notes to Interim Consolidated Financial Statements.

CANADIAN PACIFIC RAILWAY LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions of Canadian dollars)

(unaudited)

	For the three months ended September 30 2012	For the three months ended September 30 2011	For the nine months ended September 30 2012	For the nine months ended September 30 2011
Net income	$ 224	$ 187	$ 469	$ 349
Net gain (loss) in foreign currency translation adjustments, net of hedging activities	14	(7)	12	(7)
Change in derivatives designated as cash flow hedges	9	(2)	11	(5)
Change in defined benefit pension and post-retirement plans	53	40	161	115
Other comprehensive income before income taxes	76	31	184	103
Income tax (expense) recovery	(30)	21	(58)	(9)
Other comprehensive income	46	52	126	94
Comprehensive income	$ 270	$ 239	$ 595	$ 443

See Notes to Interim Consolidated Financial Statements.

CANADIAN PACIFIC RAILWAY LIMITED

CONSOLIDATED BALANCE SHEETS

(in millions of Canadian dollars)

(unaudited)

	September 30 2012	December 31 2011
Assets		
Current assets		
Cash and cash equivalents	$ 207	$ 47
Accounts receivable, net	533	518
Materials and supplies	142	138
Deferred income taxes	175	101
Other current assets	61	52
	1,118	856
Investments *(Note 6)*	87	167
Net properties	12,967	12,752
Goodwill and intangible assets	185	192
Other assets	134	143
Total assets	$ 14,491	$ 14,110
Liabilities and shareholders equity		
Current liabilities		
Short-term borrowing	$	$ 27
Accounts payable and accrued liabilities	1,047	1,133
Long-term debt maturing within one year	54	50
	1,101	1,210
Pension and other benefit liabilities *(Note 8)*	1,174	1,372
Other long-term liabilities	306	365
Long-term debt *(Note 5)*	4,602	4,695
Deferred income taxes	2,077	1,819
Total liabilities	9,260	9,461
Shareholders equity		
Share capital	2,042	1,854
Additional paid-in capital	57	86
Accumulated other comprehensive loss	(2,610)	(2,736)
Retained earnings	5,742	5,445
	5,231	4,649
Total liabilities and shareholders equity	$ 14,491	$ 14,110

Commitments and contingencies (*Note 9)*

See Notes to Interim Consolidated Financial Statements.

CANADIAN PACIFIC RAILWAY LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of Canadian dollars)

(unaudited)

	For the three months ended September 30		**For the nine months ended September 30**	
	2012	**2011**	**2012**	**2011**
Operating activities				
Net income	$ 224	$ 187	$ 469	$ 349
Reconciliation of net income to cash provided by operating activities:				
Depreciation and amortization	137	123	399	367
Deferred income taxes *(Note 3)*	68	59	162	119
Pension funding in excess of expense *(Note 8)*	(14)	(16)	(44)	(40)
Other operating activities, net	(58)	(34)	(81)	(47)
Change in non-cash working capital balances related to operations	(25)	6	(46)	(75)
Cash provided by operating activities	**332**	**325**	**859**	**673**
Investing activities				
Additions to properties	(287)	(352)	(812)	(704)
Proceeds from the sale of properties and other assets *(Note 6)*	76	20	138	41
Other		(6)	(1)	(7)
Cash used in investing activities	**(211)**	**(338)**	**(675)**	**(670)**
Financing activities				
Dividends paid	(60)	(50)	(162)	(142)
Issuance of common shares *(Note 7)*	81	2	136	13
Issuance of long-term debt *(Note 5)*			71	
Repayment of long-term debt	(16)	(126)	(41)	(144)
Net decrease in short-term borrowing			(27)	
Cash provided by (used in) financing activities	**5**	**(174)**	**(23)**	**(273)**
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	**(1)**	**16**	**(1)**	**6**
Cash position				
Increase (decrease) in cash and cash equivalents	125	(171)	160	(264)
Cash and cash equivalents at beginning of period	82	268	47	361
Cash and cash equivalents at end of period	**$ 207**	**$ 97**	**$ 207**	**$ 97**
Supplemental disclosures of cash flow information:				
Income taxes (refunded) paid	$ (1)	$	$ (8)	$ 3
Interest paid	$ 60	$ 40	$ 194	$ 180

See Notes to Interim Consolidated Financial Statements.

CANADIAN PACIFIC RAILWAY LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

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

(unaudited)

	Common shares (in millions)	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders equity
Balance at January 1, 2012	170.0	$ 1,854	$ 86	$ (2,736)	$ 5,445	$ 4,649
Net income					469	469
Other comprehensive income				126		126
Dividends declared					(172)	(172)
Effect of stock-based compensation expense			21			21
Shares issued under stock option plans *(Note 7)*	2.8	188	(50)			138
Balance at September 30, 2012	172.8	$ 2,042	$ 57	$ (2,610)	$ 5,742	$ 5,231

	Common shares (in millions)	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders equity
Balance at January 1, 2011	169.2	$ 1,813	$ 24	$ (2,086)	$ 5,073	$ 4,824
Net income					349	349
Other comprehensive income				94		94
Dividends declared					(148)	(148)
Effect of stock-based compensation expense			13			13
Changes to stock-based compensation awards *(Note 7)*			54			54
Shares issued under stock option plans	0.3	16	(2)			14
Balance at September 30, 2011	169.5	$ 1,829	$ 89	$ (1,992)	$ 5,274	$ 5,200

See Notes to Interim Consolidated Financial Statements.

CANADIAN PACIFIC RAILWAY LIMITED

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(unaudited)

1 Basis of presentation

These unaudited interim consolidated financial statements of Canadian Pacific Railway Limited (CP , or the Company) reflect management s estimates and assumptions that are necessary for their fair presentation in conformity with accounting principles generally accepted 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 2011 consolidated financial statements. The accounting policies used are consistent with the accounting policies used in preparing the 2011 consolidated financial statements.

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

In management s opinion, the unaudited interim consolidated financial statements include all adjustments (consisting solely of normal 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

Fair value measurement

In May 2011, the Financial Accounting Standards Board (FASB) issued amended guidance on fair value measurement which updates some of the measurement guidance and includes enhanced disclosure requirements. The amended guidance is effective for interim and annual periods beginning after December 15, 2011. The adoption did not impact the results of operations or financial position but resulted in increased note disclosure (*see Note 6*).

Other comprehensive income

In June 2011, the FASB issued an accounting standard update on the *Presentation of Comprehensive Income*, which eliminates the current option to report other comprehensive income and its components in the Consolidated Statement of Changes in Shareholders Equity. The Company has elected to present items of net income and other comprehensive income in two separate, but consecutive, statements as opposed to one continuous statement. With FASB s deferral of certain aspects of this accounting standard update in December 2011 and as the new guidance does not change those components that are recognized in net income or those components that are recognized in other comprehensive income, adoption did not impact the results of operations or financial position.

Intangibles goodwill and other

In September 2011, the FASB issued amended guidance on the testing of goodwill for impairment. The amendments allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. For 2012, the Company has not elected this option for the test of goodwill for impairment. As it does not change how a goodwill impairment loss is measured, the adoption of the guidance would not impact the results of operations and financial position.

3 Income taxes

During the second quarter of 2012, legislation was enacted to cancel the previously planned province of Ontario s corporate income tax rate reductions. As a result of these changes, the Company recorded an income tax expense of $11 million in the second quarter of 2012, based on its deferred income tax balances as at December 31, 2011.

(in millions of Canadian dollars)	For the three months ended September 30 2012	2011	For the nine months ended September 30 2012	2011
Current income tax expense (recovery)	$ 13	$	$ 17	$ (3)
Deferred income tax expense	68	59	162	119
Income tax expense	$ 81	$ 59	$ 179	$ 116

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CANADIAN PACIFIC RAILWAY LIMITED

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(unaudited)

3 Income taxes (continued)

The effective income tax rate for the three and nine months ended September 30, 2012 was 26.6% and 27.6%, respectively, (three and nine months ended September 30, 2011 24.0% and 24.9%, respectively) and the changes in tax rates are primarily due to the change in the province of Ontario s corporate income tax rate.

4 Earnings per share

At September 30, 2012, the number of shares outstanding was 172.8 million (September 30, 2011 169.5 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)	**2012**	**2011**	**2012**	**2011**
Weighted-average shares outstanding	172.2	169.4	171.3	169.4
Dilutive effect of stock options	1.2	1.1	1.3	1.2
Weighted-average diluted shares outstanding	173.4	170.5	172.6	170.6

For the three and nine months ended September 30, 2012, there were no options and 208,667 options, respectively, excluded from the computation of diluted earnings per share because their effects were not dilutive (three and nine months ended September 30, 2011 2,305,458 and 1,739,167, respectively).

5 Long-term debt

During the first quarter of 2012, the Company issued US$71 million 4.28% Senior Secured Notes due in 2027 for net proceeds of $71 million. These Notes are secured by locomotives previously acquired by the Company with a carrying value of $70 million at September 30, 2012. The Company pays equal blended semi-annual payments of principal and interest up to and including March 2027. Final repayment of the remaining principal of US$35 million is due in March 2027.

6 Financial instruments

A. Fair values of financial instruments

GAAP establishes a fair value hierarchy 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 have the highest priority. Level 2 and 3 inputs are based on significant other observable inputs and significant unobservable inputs, respectively, and have lower priorities.

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

The carrying values of financial instruments equal or approximate their fair values with the exception of long-term debt which has a fair value of approximately $5,587 million at September 30, 2012 (December 31, 2011 $5,314 million) with a carrying value of $4,656 million (December 31, 2011 $4,745 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

CANADIAN PACIFIC RAILWAY LIMITED

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(unaudited)

6 Financial instruments (continued)

expected to be available to the Company at period end. All derivatives and long-term debt are classified as Level 2.

A detailed analysis of the techniques used to value long-term floating rate notes, which are classified as Level 3, is discussed below:

Long-term floating rate notes

During the third quarter of 2012, the Company sold its remaining investment in long-term floating rate notes (Master Asset Vehicle (MAV) 2 Class A-1 Notes) which had a carrying value of $48 million (original cost $59 million) for proceeds and interest of $48 million.

During the first quarter of 2012, the Company sold all of its MAV 2 Class A-2 Notes which had a carrying value of $33 million (original cost $46 million) for proceeds and interest of $33 million.

At September 30, 2012, the Company had no remaining investment in long-term floating rate notes (December 31, 2011 carrying value $79 million, being the estimated fair value of the notes, reported in Investments).

Accretion, redemption of notes and other minor changes in market assumptions resulted in a negligible net gain in the three months ended September 30, 2012 and a net gain of $2 million in the nine months ended September 30, 2012, respectively (three and nine months ended September 30, 2011 gains of $4 million and $14 million, respectively) which were reported in Other income and charges .

The valuation technique and assumptions used by the Company to estimate the fair value of its investment in long-term floating rate notes during 2012 were similar with that used at December 31, 2011, and incorporated probability weighted discounted cash flows considered the best available public information regarding market conditions and other factors that a market participant would have considered for such investments.

B. Financial risk management

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

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

Foreign exchange management

The Company is exposed to fluctuations of financial commitments, assets, liabilities, income or cash flows due to changes in FX rates. The Company conducts business transactions and owns assets in both Canada and the United States; as a result, revenues and expenses are incurred in both Canadian and U.S. dollars. The Company enters into foreign exchange risk management transactions primarily to manage fluctuations in the exchange rate between Canadian and U.S. currencies. In terms of net income, excluding FX on long-term debt, mitigation of U.S. dollar FX exposure is provided primarily through offsets created by revenues and expenses incurred in the same currency. Where appropriate, the

Company negotiates with customers and suppliers to reduce the net exposure.

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

CANADIAN PACIFIC RAILWAY LIMITED

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(unaudited)

6 Financial instruments (continued)

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, 2012 was an unrealized foreign exchange gain of $112 million and $106 million, respectively (three and nine months ended September 30, 2011 unrealized loss of $238 million and $148 million, respectively). There was no ineffectiveness for the three and nine months ended September 30, 2012, and comparative periods.

Foreign exchange forward contracts

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

At September 30, 2012, the Company had FX forward contracts to fix the exchange rate on US$100 million of principal outstanding on a capital lease due in January 2014, US$175 million of its 6.50% Notes due in May 2018, and US$100 million of its 7.25% Notes due in May 2019. At September 30, 2011, the Company had FX forward contracts to fix the exchange rate on US$175 million of its 6.50% Notes due in May 2018, and US$100 million of its 7.25% Notes due in May 2019. These derivatives, which are accounted for as cash flow hedges, guarantee the amount of Canadian dollars that the Company will repay when these obligations mature.

During the three and nine months ended September 30, 2012, an unrealized foreign exchange loss of $8 million and $7 million, respectively (three months and nine months ended September 30, 2011 unrealized gain of $19 million and $14 million, respectively) was recorded in Other income and charges in relation to these derivatives. These losses in 2012 recorded in Other income and charges were largely offset by the unrealized gains on the underlying debt which the derivatives were designated to hedge. Similarly, the gains in 2011 were largely offset by the unrealized losses on the underlying debt.

At September 30, 2012, the unrealized gain derived from these FX forwards was $5 million which was included in Other assets with the offset reflected as an unrealized gain of $6 million in Accumulated other comprehensive loss and as an unrealized loss of $1 million in Retained earnings . At December 31, 2011, the unrealized gain derived from these FX forwards was $6 million which was included in Other assets with the offset reflected as an unrealized loss of $1 million in Accumulated other comprehensive loss and as an unrealized gain of $7 million in Retained earnings .

During the three months ended September 30, 2011, in anticipation of a cash tender to offer to redeem the Company s US$101 million 5.75% May 2013 Notes, the Company unwound a similar amount of FX forward contracts to fix the exchange rate on these Notes for total proceeds of $2 million.

At September 30, 2012, the Company expected that, during the next twelve months, unrealized pre-tax losses of $3 million would be reclassified to Other income and charges .

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 such as treasury rate locks, bond forwards or forward starting swaps, designated as cash flow hedges, to substantially lock in all or a portion of the effective future interest expense. The

CANADIAN PACIFIC RAILWAY LIMITED

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(unaudited)

6 Financial instruments (continued)

Company may also enter into swap agreements, designated as fair value hedges, to manage the mix of fixed and floating rate debt.

At September 30, 2012 and December 31, 2011, the Company had no outstanding interest rate swaps.

Fuel price management

The Company is exposed to commodity risk related to purchases of diesel fuel and the potential reduction in net income due to increases in the price of diesel. Fuel expense constitutes a large portion of the Company s operating costs and volatility in diesel fuel prices can have a significant impact on the Company s income. Items affecting volatility in diesel prices include, but are not limited to, fluctuations in world markets for crude oil and distillate fuels, which can be affected by supply disruptions and geopolitical events.

The impact of variable fuel expense is mitigated substantially through fuel cost recovery programs which apportion incremental changes in fuel prices to shippers through price indices, tariffs, and by contract, within agreed upon guidelines. While these programs provide effective and meaningful coverage, residual exposure remains as the fuel expense risk cannot be completely recovered from shippers due to timing and volatility in the market. The Company continually monitors residual exposure, and where appropriate, may enter into derivative instruments.

Energy futures

At September 30, 2012, the Company had diesel futures contracts, which are accounted for as cash flow hedges, to purchase approximately 20 million U.S. gallons during the period October 2012 to September 2013 at an average price of $3.01 per U.S. gallon. This represents approximately 7% of estimated fuel purchases for this period. At September 30, 2012, the unrealized gain on these futures contracts was $1 million (December 31, 2011 unrealized loss $3 million) and was reflected in Other current assets (December 31, 2011 Accounts payable and accrued liabilities) with the offset, net of tax, reflected in Accumulated other comprehensive loss on the Consolidated Balance Sheets.

During the three and nine months ended September 30, 2012, the impact of settled commodity swaps decreased Fuel expense by $1 million and $1 million, respectively, as a result of realized gains on diesel swaps. During the three and nine months ended September 30, 2011, these swaps decreased Fuel expense by $1 million and $8 million, respectively, as a result of realized gains. At September 30, 2012, the Company expected that, during the next twelve months, $1 million of unrealized pre-tax holding gains on diesel future contracts would be realized and recognized in Fuel expense as a result of these derivatives being settled.

Stock-based compensation expense management

Total Return Swaps (TRS)

The Company is exposed to stock-based compensation risk, which is the probability of increased compensation expense when the Company s share price rises.

The TRS was a derivative that provided a gain to offset increased compensation expense as the share price increased and a loss to offset reduced compensation expense when the share price declined. If stock-based compensation share units fall out of the money after entering the program, the loss associated with the swap would no longer be fully offset by the compensation expense reductions, which would reduce the effectiveness of the swap. This derivative was not designated as a hedge and changes in fair value were recognized in net income in the period in which the change occurred.

During the nine months ended September 30, 2012, the Company exited the TRS program and unwound 0.6 million of its remaining share units for proceeds of $3 million. During the same period of 2011, the program was reduced by 0.5 million share units at minimal cost. At September 30, 2012, the Company had no share units (December 31, 2011 0.6 million) remaining in the TRS.

7 Stock-based compensation

At September 30, 2012, the Company had several stock-based compensation plans, including stock option plans, various cash settled liability plans, which are remeasured to fair value quarterly based on share price and vesting conditions, and an employee stock savings plan. These plans resulted in an expense of $12 million for the three months ended September 30, 2012 and an expense of $38 million for the nine months

CANADIAN PACIFIC RAILWAY LIMITED

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(unaudited)

7 Stock-based compensation (continued)

ended September 30, 2012 (three and nine months ended September 30, 2011 expense recovery of $9 million and expense of $6 million, respectively). Most of the stock-based compensation plans include a provision whereby vesting is accelerated should certain changes in the composition of the Board of Directors occur. These provisions were triggered on June 26, 2012 and the recognition of the revised vesting terms as outlined in the stock-based compensation plans resulted in a credit to Compensation and benefits of $8 million in the second quarter of 2012. RSUs and TSARs were not impacted by this change and for DSUs 14,080 units were subject to immediate vesting. The impact discussed above on options and performance share units is outlined in more detail below.

Regular options

In the nine months ended September 30, 2012, under CP s stock option plans, the Company issued 1,236,100 regular options, including options granted upon management transition (*see Note 11*) at the weighted-average price of $74.48 per share, based on the last closing price immediately prior to the grant. Pursuant to the employee plans, these regular options vest between 12 and 48 months after the grant date, and will expire after 10 years. Certain of these options granted are only exercisable after employment is terminated.

The recent changes to the composition of the Board triggered the immediate vesting on June 26, 2012 of all unvested regular options granted prior to 2012, 4,000 unvested options granted in 2012, and all unvested performance options. As at September 30, 2012, 3,897,583 options are exercisable.

During the nine months ended September 30, 2012, 2,812,990 options, were exercised for cash proceeds of $136 million.

Under the fair value method, the fair value at the grant date of the regular options issued in the nine months ended September 30, 2012 was $22 million. The weighted-average fair value assumptions were approximately:

		For the nine months ended September 30, 2012
Grant price	$	74.48
Expected option life (years) [1]		5.99
Risk-free interest rate [2]		1.48%
Expected stock price volatility [3]		31%
Expected annual dividends per share [4]	$	1.40
Expected forfeiture rate [5]		1.00%
Weighted-average grant date fair value of regular options granted during the period	$	17.66

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

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

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

(4)

Determined by the current annual dividend at the time of grant. The Company does not employ different dividend yields throughout the contractual term of the option.

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

Performance share unit (PSU) plan

In the nine months ended September 30, 2012, the Company issued 278,670 PSUs with a grant date fair value of $21 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 approximately three years after the grant date contingent upon CP s performance (performance factor). The fair value of PSUs

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CANADIAN PACIFIC RAILWAY LIMITED

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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(unaudited)

7 Stock-based compensation (continued)

is measured, both on the grant date and each subsequent quarter until settlement, using a Monte Carlo simulation model. The model utilizes multiple input variables that determine the probability of satisfying the performance and market conditions stipulated in the grant.

Recent changes to the Board also resulted in the immediate vesting of a pro-rata portion of all unvested PSUs during the second quarter of 2012. The number of units that vested was based on the number of months of the total performance period that had passed and the fair value of the units to be settled was based on the average closing price of the 30 trading days prior to June 26, 2012. The payout of $31 million occurred in the third quarter of 2012.

The performance period for the first grant of PSUs issued in 2009 ended December 31, 2011. These PSUs are earned based on the Total Shareholder Return (TSR) compared to the S&P/TSX60 index, and Return on Capital Employed (ROCE). The TSR for the three-year period exceeded target, while ROCE targets were not met. The TSR component of the plan resulted in a total PSU payout equal to 200% for half of the award, in effect resulting in a target payout. The payout of $24 million occurred in March 2012 and was calculated using the Company s average share price during the last 30 trading days ending on December 31, 2011.

Deferred share unit (DSU) plan

In the nine months ended September 30, 2012, the Company granted 179,713 DSUs with a grant date fair value of $14 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. In the nine months ended September 30, 2012, $5 million in DSUs were paid out.

Restricted share unit (RSU) plan

In the nine months ended September 30, 2012, the Company granted 113,408 RSUs with a grant date fair value of $9 million. RSUs are subject to time vesting over various periods of up to 36 months. An expense to income for RSUs is recognized over the vesting period for both the initial subscription price and the change in value between reporting periods.

Tandem share appreciation rights (TSARs)

As a result of changes to Canadian tax legislation, which eliminated the favourable tax treatment on cash settled compensation awards, the Company offered employees the option of cancelling the outstanding SAR and keeping in place the outstanding option. During the first quarter of 2011, the Company cancelled 3.1 million SARs and reclassified the fair value of the previously recognized liability ($70 million) and the recognized deferred tax asset ($18 million) to Additional paid-in capital . During the third quarter of 2011, the Company cancelled a further 0.3 million SARs and reclassified the fair value of the previously recognized liability ($2 million) and the recognized deferred tax asset ($1 million) to Additional paid-in capital . The terms of the awards were not changed and as a result no incremental cost was recognized. The weighted average fair value of the units cancelled during the first and third quarters of 2011 was $25.36 per unit and $10.21 per unit, respectively.

8 Pensions and other benefits

In the three and nine months ended September 30, 2012, the Company made contributions of $24 million and $74 million, respectively (2011 $27 million and $74 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, 2012, included the following components:

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(unaudited)

8 Pensions and other benefits (continued)

(in millions of Canadian dollars)	For the three months ended September 30			
	Pensions		Other benefits	
	2012	2011	2012	2011
Current service cost (benefits earned by employees in the period)	$ 33	$ 26	$ 5	$ 4
Interest cost on benefit obligation	113	115	6	6
Expected return on fund assets	(188)	(168)		
Recognized net actuarial loss	52	35	1	1
Amortization of prior service costs		3		
Net periodic benefit cost	$ 10	$ 11	$ 12	$ 11

(in millions of Canadian dollars)	For the nine months ended September 30			
	Pensions		Other benefits	
	2012	2011	2012	2011
Current service cost (benefits earned by employees in the period)	$ 99	$ 78	$ 14	$ 12
Interest cost on benefit obligation	339	345	18	19
Expected return on fund assets	(564)	(505)		
Recognized net actuarial loss	156	106	5	4
Amortization of prior service costs		10		(1)
Net periodic benefit cost	$ 30	$ 34	$ 37	$ 34

9 Commitments and contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damages 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, 2012 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.

At September 30, 2012, the Company had committed to total future capital expenditures amounting to $343 million and supplier purchases amounting to approximately $1.7 billion for the years 2012-2031.

Minimum payments under operating leases were estimated at $744 million in aggregate, with annual payments in each of the five years following 2012 of (in millions): 2013 $138; 2014 $106; 2015 $91; 2016 $70 and 2017 $53.

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

The accruals for environmental remediation represent CP s best estimate of its probable future obligation and include both asserted and unasserted claims, without reduction for anticipated recoveries from third parties. Although the recorded accruals include CP s best estimate of all probable costs, CP s total environmental remediation costs cannot be predicted with certainty. Accruals for environmental remediation may change from time to time as new information about previously untested sites becomes known,

CANADIAN PACIFIC RAILWAY LIMITED

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(unaudited)

9 Commitments and contingencies (continued)

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, 2012 was $1 million and $2 million, respectively (three and nine months ended September 30, 2011 recovery of $1 million and expense of $1 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, 2012 was $92 million (December 31, 2011 $ 97 million). Payments are expected to be made over 10 years to 2022.

The Dakota, Minnesota & Eastern Railroad Corporation was purchased for $1.5 billion resulting in goodwill of $150 million (US$147 million) as at September 30, 2012. Future contingent payments of up to approximately US$1.2 billion consisting of US$447 million which would become due if construction of the Powder River Basin expansion project starts prior to December 31, 2025 and up to approximately US$780 million would become due upon the movement of specified volumes over the Powder River Basin extension prior to December 31, 2025. Certain interest and inflationary adjustments would also become payable up to December 31, 2025 upon achievement of certain milestones. The contingent payments would be accounted for as an increase in the purchase price.

10 Insurance recovery

In 2010, the Company suffered losses due to flooding in southern Alberta and Saskatchewan. An amount of $12 million for business interruption insurance recoveries was recognized in Purchased services and other in the first quarter of 2012. In addition, in the fourth quarter of 2011 the Company recorded $5 million of insurance recoveries with respect to the same incident.

11 Management transition

On May 17, 2012, Mr. Fred Green resigned as a director from the Board of Directors and 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 Compensation and benefits and Purchased services and other , $16 million and $22 million, respectively.

Included in this charge were amounts totalling $16 million in respect of deferred retirement compensation for Mr. Harrison and $20 million to Pershing Square Capital Management, L.P. (Pershing Square) and related entities. Pershing Square and related entities own or control approximately 14% of the Company s outstanding shares, and two Board members, Mr. William Ackman and Mr. Paul Hilal, are partners of Pershing Square. The amount payable 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. Reimbursement on behalf of Mr. Harrison was a precondition of Mr. Harrison accepting the Company s offer of employment. As a result of the payment, the Company would be entitled to enforce Mr. Harrison s rights in the aforementioned legal proceedings, which will allow the Company to recover to the extent of Mr. Harrison s success in those proceedings. The Company may also receive repayment in other circumstances in the event of certain breaches of Mr. Harrison s employment obligations to it. Mr. Harrison was also granted stock options and DSUs upon commencing employment that had a grant date fair value of $12 million *(see Note 7)*.

CANADIAN PACIFIC RAILWAY LIMITED

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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(unaudited)

11 Management transition (continued)

In addition, the Company agreed to indemnify Mr. Harrison for certain other amounts, to a maximum of $3 million plus legal fees. No amount has been accrued at September 30, 2012.

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

Summary of Rail Data

Third Quarter 2012	2011	Fav/ (Unfav)		%	Financial (millions, except per share data)	Year-to-date 2012	2011	Fav/ (Unfav)		%
					Revenues					
$ 1,414	$ 1,309	$ 105		**8**	Freight revenue	$ 4,086	$ 3,677	$ 409		**11**
37	32	5		**16**	Other revenue	107	92	15		**16**
1,451	1,341	110		**8**	Total revenues	4,193	3,769	424		**11**
					Operating expenses					
371	336	(35)		**(10)**	Compensation and benefits	1,128	1,037	(91)		**(9)**
232	238	6		**3**	Fuel	743	701	(42)		**(6)**
57	56	(1)		**(2)**	Materials	178	185	7		**4**
52	53	1		**2**	Equipment rents	158	158			
137	123	(14)		**(11)**	Depreciation and amortization	399	367	(32)		**(9)**
226	211	(15)		**(7)**	Purchased services and other	698	657	(41)		**(6)**
1,075	1,017	(58)		**(6)**	Total operating expenses (OE)	3,304	3,105	(199)		**(6)**
376	324	52		**16**	Operating income	889	664	225		**34**
					Less:					
2	14	12		**86**	Other income and charges	34	8	(26)		
69	64	(5)		**(8)**	Net interest expense	207	191	(16)		**(8)**
305	246	59		**24**	Income before income tax expense	648	465	183		**39**
81	59	(22)		**(37)**	Income tax expense	179	116	(63)		**(54)**
$ 224	$ 187	$ 37		**20**	Net income	$ 469	$ 349	$ 120		**34**
74.1	75.8	1.7	**170**	**bps**	Operating ratio (%)	78.8	82.4	3.6	**360**	**bps**
$ 1.31	**$ 1.10**	**$ 0.21**		**19**	Basic earnings per share	**$ 2.74**	**$ 2.06**	**$ 0.68**		**33**
$ 1.30	**$ 1.10**	**$ 0.20**		**18**	Diluted earnings per share	**$ 2.72**	**$ 2.04**	**$ 0.68**		**33**
					Shares Outstanding					
172.2	169.4	2.8		**2**	Weighted average number of shares outstanding (millions)	171.3	169.4	1.9		**1**
173.4	170.5	2.9		**2**	Weighted average number of diluted shares outstanding (millions)	172.6	170.6	2.0		**1**
					Foreign Exchange					
1.00	1.03	0.03		**3**	Average foreign exchange rate (US$/Canadian$)	1.00	1.03	0.03		**3**
1.00	0.97	0.03		**3**	Average foreign exchange rate (Canadian$/US$)	1.00	0.97	0.03		**3**

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Summary of Rail Data (Page 2)

Third Quarter					Year-to-date			
2012	2011	Fav/ (Unfav)	%		2012	2011	Fav/ (Unfav)	%
				Commodity Data				
				Freight Revenues (millions)				
$ 296	$ 290	$ 6	**2**	- Grain	$ 817	$ 777	$ 40	**5**
161	147	14	**10**	- Coal	446	398	48	**12**
111	137	(26)	**(19)**	- Sulphur and fertilizers	387	416	(29)	**(7)**
329	266	63	**24**	- Industrial and consumer products	933	729	204	**28**
105	80	25	**31**	- Automotive	326	244	82	**34**
49	51	(2)	**(4)**	- Forest products	147	142	5	**4**
363	338	25	**7**	- Intermodal	1,030	971	59	**6**
$ 1,414	$ 1,309	$ 105	**8**	Total Freight Revenues	$ 4,086	$ 3,677	$ 409	**11**
				Millions of Revenue Ton-Miles (RTM)				
8,142	8,294	(152)	**(2)**	- Grain	23,454	23,370	84	
6,032	5,647	385	**7**	- Coal	16,566	15,181	1,385	**9**
3,561	5,057	(1,496)	**(30)**	- Sulphur and fertilizers	13,220	15,569	(2,349)	**(15)**
8,066	6,167	1,899	**31**	- Industrial and consumer products	22,122	17,644	4,478	**25**
604	477	127	**27**	- Automotive	1,921	1,545	376	**24**
1,200	1,313	(113)	**(9)**	- Forest products	3,584	3,784	(200)	**(5)**
6,528	6,113	415	**7**	- Intermodal	18,636	17,882	754	**4**
34,133	33,068	1,065	**3**	Total RTMs	99,503	94,975	4,528	**5**
				Freight Revenue per RTM (cents)				
3.64	3.50	0.14	**4**	- Grain	3.48	3.32	0.16	**5**
2.67	2.60	0.07	**3**	- Coal	2.69	2.62	0.07	**3**
3.12	2.71	0.41	**15**	- Sulphur and fertilizers	2.93	2.67	0.26	**10**
4.08	4.31	(0.23)	**(5)**	- Industrial and consumer products	4.22	4.13	0.09	**2**
17.38	16.77	0.61	**4**	- Automotive	16.97	15.79	1.18	**7**
4.08	3.88	0.20	**5**	- Forest products	4.10	3.75	0.35	**9**
5.56	5.53	0.03	**1**	- Intermodal	5.53	5.43	0.10	**2**
4.14	3.96	0.18	**5**	Total Freight Revenue per RTM	4.11	3.87	0.24	**6**
				Carloads (thousands)				
110	117	(7)	**(6)**	- Grain	311	329	(18)	**(5)**
89	85	4	**5**	- Coal	249	226	23	**10**
38	48	(10)	**(21)**	- Sulphur and fertilizers	134	151	(17)	**(11)**
122	111	11	**10**	- Industrial and consumer products	350	307	43	**14**
39	33	6	**18**	- Automotive	123	106	17	**16**
17	19	(2)	**(11)**	- Forest products	51	55	(4)	**(7)**
272	255	17	**7**	- Intermodal	771	747	24	**3**
687	668	19	**3**	Total Carloads	1,989	1,921	68	**4**
				Freight Revenue per Carload				
$ 2,691	$ 2,479	$ 212	**9**	- Grain	$ 2,627	$ 2,362	$ 265	**11**
1,809	1,729	80	**5**	- Coal	1,791	1,761	30	**2**
2,921	2,854	67	**2**	- Sulphur and fertilizers	2,888	2,755	133	**5**

2,697	2,396	301	**13**	- Industrial and consumer products	2,666	2,375	291	**12**
2,692	2,424	268	**11**	- Automotive	2,650	2,302	348	**15**
2,882	2,684	198	**7**	- Forest products	2,882	2,582	300	**12**
1,335	1,325	10	**1**	- Intermodal	1,336	1,300	36	**3**
$ 2,058	$ 1,960	$ 98	**5**	Total Freight Revenue per Carload	$ 2,054	$ 1,914	$ 140	**7**

Summary of Rail Data (Page 3)

Third Quarter 2012	2011 [1]	Fav/ (Unfav)	%		Year-to-date 2012	2011 [1]	Fav/ (Unfav)	%
				Operations Performance				
1.67	1.60	(0.07)	**(4)**	OE per GTM (cents)[2]	1.76	1.70	(0.06)	**(4)**
1.70	1.61	(0.09)	**(6)**	OE, less land sales, fuel price impact, and CEO transition costs, per GTM (cents)[3]	1.73	1.70	(0.03)	**(2)**
17,366	16,639	(727)	**(4)**	Average number of active employees Total	16,782	15,924	(858)	**(5)**
14,832	14,262	(570)	**(4)**	Average number of active employees Expense	14,755	14,073	(682)	**(5)**
17,026	16,675	(351)	**(2)**	Number of employees at end of period Total	17,026	16,675	(351)	**(2)**
14,545	14,295	(250)	**(2)**	Number of employees at end of period Expense	14,545	14,295	(250)	**(2)**
40.6	49.6	9.0	**18**	Average daily active cars on-line (thousands)	40.5	53.0	12.5	**24**
983	1,081	98	**9**	Average daily active road locomotives on-line	1,025	1,086	61	**6**
64,536	63,485	1,051	**2**	Freight gross ton-miles (millions)	188,150	182,483	5,667	**3**
10,201	10,230	(29)		Train miles (thousands)	30,224	29,534	690	**2**
6,723	6,627	96	**1**	Average train weight excluding local traffic (tons)	6,608	6,595	13	
5,878	5,667	211	**4**	Average train length excluding local traffic (feet)	5,742	5,669	73	**1**
24.5	22.1	2.4	**11**	Average train speed AAR definition (mph)	24.5	20.6	3.9	**19**
17.7	18.5	0.8	**4**	Average terminal dwell AAR definition (hours)	17.7	20.7	3.0	**14**
205.4	168.7	36.7	**22**	Car miles per car day	202.6	153.2	49.4	**32**
184.3	170.1	14.2	**8**	Locomotive productivity (daily average GTMs/active HP)	174.4	163.9	10.5	**6**
4.4	4.5	(0.1)	**(2)**	Employee productivity (million GTMs/expense employee)	12.8	13.0	(0.2)	**(2)**
1.09	1.13	0.04	**4**	Fuel efficiency[4]	1.15	1.19	0.04	**3**
69.4	71.5	2.1	**3**	U.S. gallons of locomotive fuel consumed (millions)[5]	214.8	214.8		
3.35	3.44	0.09	**3**	Average fuel price (U.S. dollars per U.S. gallon)	3.45	3.35	(0.10)	**(3)**
				Safety				
1.36	2.18	0.82	**38**	FRA personal injuries per 200,000 employee-hours	1.26	1.90	0.64	**34**
2.09	1.81	(0.28)	**(15)**	FRA train accidents per million train-miles	1.69	2.05	0.36	**18**

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

(2) Gross Ton-Mile (GTM) is the movement of the combined tons (freight car tare, inactive locomotive tare, and contents) a distance of one mile.

(3) OE, less land sales, fuel price impact, and CEO transition costs, per GTM is calculated consistently with OE per GTM except for the exclusion of net gains on land sales, fuel price impact, the latter to remove the volatility of fuel prices and to provide comparative fuel expenses at the 2011 fuel price, and CEO transition costs. Net gains on land sales were $15 million and $3 million for the three months ended September 30, 2012 and 2011, respectively, and $22 million and $5 million for the nine months ended September 30, 2012 and 2011, respectively. The impact in fuel price, net of hedging and B.C. carbon tax was favourable $6 million for the three months ended September 30, 2012 and unfavourable $23 million for the nine months ended September 30, 2012. CEO transition costs were nil for the three months ended September 30, 2012 and $42 million for the nine months ended September 30, 2012.

(4) Fuel efficiency is defined as U.S. gallons of locomotive fuel consumed per 1,000 GTMs freight and yard.

(5) Includes gallons of fuel consumed from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities.

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This Management s Discussion and Analysis (MD&A) is provided in conjunction with the Consolidated Financial Statements and related notes for the three and nine months ended September 30, 2012 prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All information has been prepared in accordance with GAAP, except as described in Section 14, Non-GAAP Measures of this MD&A. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars.

October 24, 2012

In this MD&A, 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. Other terms not defined in the body of this MD&A are defined in Section 23, Glossary of Terms.

Unless otherwise indicated, all comparisons of results for the third quarter and year to date of 2012 are against the results for the third quarter and year to date of 2011.

1. BUSINESS PROFILE

Canadian Pacific Railway Limited, through its subsidiaries, operates a transcontinental railway in Canada and the United States (U.S.) and provides logistics and supply chain expertise. We provide rail and intermodal transportation services over a network of approximately 14,400 miles, serving the principal business centres of Canada from Montreal, Quebec, to Vancouver, British Columbia (B.C.), and the U.S. Northeast and Midwest regions. Our railway feeds directly into the U.S. heartland from the East and West coasts. Agreements with other carriers extend our market reach east of Montreal in Canada, throughout the U.S. and into Mexico. We transport bulk commodities, merchandise freight and intermodal traffic. Bulk commodities include grain, coal, sulphur and fertilizers. Merchandise freight consists of finished vehicles and automotive parts, as well as forest and industrial and consumer products. Intermodal traffic consists largely of high-value, time-sensitive retail goods in overseas containers that can be transported by train, ship and truck, and in domestic containers and trailers that can be moved by train and truck.

2. STRATEGY

Our vision is to become the safest and most fluid railway in North America. Our objective is to create long-term value for our customers, shareholders and employees by disciplined execution of our Plan, and by aligning all parts of the organization around our five core beliefs.

Service: Reliable and consistent service is our product. We are committed to executing our Plan in order to meet and exceed the needs of our customers in a cost-effective manner.

Safety: There is no job at CP that is so important that we can t take the time to do it safely. Our comprehensive safety framework safeguards our employees, the communities we operate through, the environment and our customers freight enabling us to provide an effective transportation solution.

Productivity and Efficiency: Based on a culture of continuous improvement and accountability, we are always looking for better, less costly, more reliable ways to operate our business.

People: We pride ourselves on our well trained and knowledgeable team of railroaders. We are committed to executing the Plan and collaboratively working with our customers.

Growth: We invest in our franchise to enhance productivity and service, which allows us to capitalize on growth opportunities with new and existing customers at low incremental cost.

Our strategy is undergoing further refinement as we drive towards a higher service, more profitable company.

3. FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking statements within the meaning of the United States *Private Securities Litigation Reform Act of 1995* and other relevant securities legislation. These forward-looking statements include, but are not limited to statements concerning our operations, anticipated financial performance, business prospects and strategies as well as statements concerning the anticipation that cash flow from operations and various sources of financing will be sufficient to meet debt repayments and future obligations in the foreseeable future, statements regarding future payments including income taxes and pension contributions, and capital expenditures. Forward-looking information typically contains statements with words such as anticipate , believe , expect , plan or similar words suggesting future outcomes.

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

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

There are more specific factors that could cause actual results to differ materially from those described in the forward-looking statements contained in this MD&A. These more specific factors are identified and discussed in Section 20, Business Risks and elsewhere in this MD&A. Other risks are detailed from time to time in reports filed by CP with securities regulators in Canada and the United States.

2012 Financial Assumptions

Defined benefit pension contributions are currently estimated to be between $100 million and $125 million in each of the years through 2016. These contribution levels reflect the Company s intentions with respect to the rate at which we apply the voluntary prepayments to reduce contribution requirements. Defined benefit pension expense for 2012 is expected to be $41 million. For 2013, defined benefit pension expense is estimated to be approximately $125 million and in the range of $125 million to $135 million through 2016. These pension contributions and pension expense estimates assume normal equity market returns and modest increases in bond yields over this period. In addition, there are a number of other economic and demographic assumptions on which these estimates are based. Adverse experience with respect to equity returns, bond yields or other factors may put upward pressure on pension expense for 2013 and later years. We continue to monitor these factors. Pensions is discussed further in Section 21, Critical Accounting Estimates.

The expected annual effective income tax rate of approximately 26% is based on certain estimates and assumptions for the year, discussed further in Section 20, Business Risks. It excludes the impact of the one-time revaluation of deferred tax balances as at December 31, 2011 of $11 million that was associated with the province of Ontario s corporate income tax rate change.

4. ADDITIONAL INFORMATION

Additional information, including our Consolidated Financial Statements, Annual Information Form, press releases and other required filing documents, are available on SEDAR at www.sedar.com in Canada, on EDGAR at www.sec.gov in the U.S. and on our website at www.cpr.ca. The aforementioned documents are issued and made available in accordance with legal requirements and are not incorporated by reference into this MD&A.

5. FINANCIAL HIGHLIGHTS

(in millions, except percentages and per-share data)	For the three months ended September 30 2012	2011	For the nine months ended September 30 2012	2011
Revenues	**$ 1,451**	$ 1,341	**$ 4,193**	$ 3,769
Operating income	**376**	324	**889**	664
Net income	**224**	187	**469**	349
Basic earnings per share	**1.31**	1.10	**2.74**	2.06
Diluted earnings per share	**1.30**	1.10	**2.72**	2.04
Dividends declared per share	**0.3500**	0.3000	**1.0000**	0.8700
Return on capital employed (ROCE[1])	**8.7%**	7.5%	**8.7%**	7.5%
Operating ratio	**74.1%**	75.8%	**78.8%**	82.4%
Free cash[2]	**60**	(47)	**21**	(133)
Total assets at September 30	**14,491**	14,008	**14,491**	14,008
Total long-term financial liabilities at September 30[3]	**4,709**	4,169	**4,709**	4,169

(1) ROCE is defined as earnings before interest and taxes (EBIT) (on a rolling 12 month basis), divided by the average for the year of total assets, less current liabilities excluding current portion of long-term debt, as measured under GAAP, and it is discussed further in Section 14, Non-GAAP Measures.

(2) This measure has no standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures of other companies. This measure is discussed in Section 14, Non-GAAP Measures along with a reconciliation of free cash to GAAP cash position in Section 13, Liquidity and Capital Resources.

(3) Excludes deferred income taxes: $2,077 million and $2,046 million; and other non-financial deferred liabilities of $1,373 million and $1,258 million at September 30, 2012 and 2011 respectively.

6. OPERATING RESULTS

Income

Operating income in the third quarter of 2012 was $376 million, an increase of $52 million, or 16%, from $324 million in the same period of 2011.

Operating income increased primarily due to:

- increased volumes of traffic, generating higher freight revenue;
- higher freight rates;
- improved operating performance and improved operating conditions relative to the residual impacts of flooding conditions in 2011; and
- higher land sales.

This increase in operating income was partially offset by:

- higher incentive and stock based compensation expense;
- higher depreciation and amortization expense;
- higher IT costs associated with infrastructure and maintenance service;
- higher freight car repair costs associated with the return of leased freight cars; and
- labour and benefits inflation.

Operating income in the first nine months of 2012 was $889 million, an increase of $225 million, or 34% from $664 million in the same period of 2011.

Operating income increased primarily due to:

- increased volumes of traffic, generating higher freight revenue;
- higher freight rates; and
- improved operating performance and improved operating conditions relative to the impact of winter and prolonged flooding conditions in 2011.

This increase in operating income was partially offset by:

- the net impact of the strike in the second quarter which resulted in a nine day work stoppage affecting Canadian shipments;
- higher incentive and stock-based compensation expense;
- management transition costs, discussed in Section 19, Future Trends and Commitments;
- higher depreciation and amortization expense; and
- labour and benefits inflation.

Net income was $224 million in the third quarter of 2012, an increase of $37 million, or 20%, from $187 million in the same period of 2011.

Net income increased primarily due to higher operating income and lower Other income and charges, partially offset by higher income taxes due to the impact of higher earnings and increased interest expense associated with higher debt levels.

Net income was $469 million for the first nine months of 2012, an increase of $120 million, or 34%, from $349 million in the same period of 2011.

Net income increased primarily due to higher operating income, partially offset by higher:

- income tax expense due to the impact of higher earnings and the province of Ontario s corporate income tax rate change;
- other charges due to advisory fees related to shareholder matters; and
- interest expense associated with higher debt levels.

Diluted Earnings per Share

Diluted earnings per share (EPS) was $1.30 in the third quarter of 2012, an increase of $0.20, or 18%, from $1.10 in the same period of 2011. Diluted EPS for first nine months of 2012 was $2.72, an increase of $0.68, or 33%, from $2.04 in the same period of 2011. These increases were primarily due to higher net income.

Operating Ratio

The operating ratio provides the percentage of revenues used to operate the railway, and is calculated as total operating expenses divided by total revenues. A lower percentage normally indicates higher efficiency in the operation of the railway. The operating ratio was 74.1% in the third quarter of 2012, compared with 75.8% in the same period of 2011. This decrease was primarily due to improved operational performance, higher traffic volumes, improved operating conditions, and higher land sales, partially offset by higher incentive and compensation benefits expense and higher depreciation and amortization costs. The operating ratio was 78.8% for the nine months ended September 30, 2012, compared with 82.4% in the same period of 2011. This decrease was primarily due to improved operational performance and higher traffic volumes and improved operating conditions, partially offset by the impact of management transition costs and the strike.

Return on Capital Employed

Return on capital employed was 8.7% at September 30, 2012, compared with 7.5% in the same period of 2011. This increase was primarily due to higher operating income.

Impact of Foreign Exchange on Earnings

Fluctuations in foreign exchange (FX) affect our results because U.S. dollar-denominated revenues and expenses are translated into Canadian dollars. U.S. dollar-denominated revenues and expenses decrease when the Canadian dollar strengthens in relation to the U.S. dollar.

Canadian to U.S. dollar

Average exchange rates	**2012**	2011
For the three months ended September 30	**$ 1.00**	$ 0.97
For the nine months ended September 30	**$ 1.00**	$ 0.97

Canadian to U.S. dollar

Exchange rates	**2012**	2011
Beginning of year January 1	**$ 1.02**	$ 0.99
Beginning of quarter July 1	**$ 1.02**	$ 0.96
End of quarter September 30	**$ 0.98**	$ 1.05

Average Fuel Price

(U.S. dollars per U.S. gallon)	**2012**	2011
For the three months ended September 30	**$ 3.35**	$ 3.44
For the nine months ended September 30	**$ 3.45**	$ 3.35

7. PERFORMANCE INDICATORS

	For the three months ended September 30			For the nine months ended September 30		
	2012	2011	% Change	**2012**	2011	% Change
Operations performance						
Average number of active employees expense	**14,832**	14,262	4	**14,755**	14,073	5
Average daily active cars on-line (thousands)	**40.6**	49.6	(18)	**40.5**	53.0	(24)
Average daily active road locomotives on-line	**983**	1,081	(9)	**1,025**	1,086	(6)
Freight gross ton-miles (GTMs) (millions)	**64,536**	63,485	2	**188,150**	182,483	3
Train miles (thousands)	**10,201**	10,230		**30,224**	29,534	2
Average train weight excluding local traffic (tons)	**6,723**	6,627	1	**6,608**	6,595	
Average train length excluding local traffic (feet)	**5,878**	5,667	4	**5,742**	5,669	1
Average train speed AAR definition (mph)	**24.5**	22.1	11	**24.5**	20.6	19
Average terminal dwell AAR definition (hours)	**17.7**	18.5	(4)	**17.7**	20.7	(14)
Car miles per car day	**205.4**	168.7	22	**202.6**	153.2	32
Locomotive productivity (daily average GTMs/active horse power (HP))	**184.3**	170.1	8	**174.4**	163.9	6
Employee productivity (million GTMs/expense employee)	**4.4**	4.5	(2)	**12.8**	13.0	(2)
Fuel efficiency(1)	**1.09**	1.13	(4)	**1.15**	1.19	(3)
Safety indicators						
FRA personal injuries per 200,000 employee-hours(2)	**1.36**	2.18	(38)	**1.26**	1.90	(34)
FRA train accidents per million train-miles(2)	**2.09**	1.81	15	**1.69**	2.05	(18)

(1) Fuel efficiency is defined as U.S. gallons of locomotive fuel consumed per 1,000 GTMs freight and yard.
(2) Certain prior period figures have been revised to conform with current presentation or have been updated to reflect new information.

The indicators listed in this table are key measures of our operating performance. Definitions of these performance indicators are provided in Section 23, Glossary of Terms.

Operations Performance

The average number of active expense employees for the third quarter increased by 570 or 4%, compared with the same period of 2011. This increase was primarily due to additional hiring to address volume growth projections and anticipated attrition over future quarters. For the first nine months of 2012, active expense employees increased by 682 or 5%. This increase was primarily due to additional hiring to address volume growth projections and anticipated attrition over future quarters, partially offset by the impact of the strike including temporary layoffs.

The average daily active cars on-line for the third quarter of 2012 decreased by approximately 9,000 cars, or 18%, compared with the same period of 2011 and for the first nine months of 2012 decreased by approximately 12,500 cars, or 24%, compared with the same period of 2011. These decreases were primarily due to improved network fluidity, execution of our operating plan and a focus on the storage, disposal and return to lessors of surplus cars.

The average daily active road locomotives on-line for the third quarter of 2012 was 983 units, a decrease of 98 units or 9%, compared with 1,081 units in the same period of 2011 and for the first nine months of 2012 decreased by approximately 61 units, or 6%, compared with the same period of 2011. These improvements were primarily the result of improved asset velocity due to more efficient and fluid operations, improved fleet reliability, and the execution of the operating plan, offset in part by higher traffic volumes.

GTMs for the third quarter of 2012 were 64,536 million which increased by 2%, compared with 63,485 million in the same period of 2011. GTMs for the first nine months of 2012 increased by 3% compared to the same period of 2011. These increases were due to higher traffic volumes in the Company s merchandise and intermodal franchises offset by a reduction in bulk shipments. Year to date workload was also impacted by volumes lost during the strike in the second quarter.

Train miles were essentially unchanged in the third quarter of 2012, compared with the same period of 2011, with increased workload offset by increases in both train weights and lengths. Train miles increased by 2% for the first nine months of 2012, compared to the same period of 2011. This increase was due to higher workload, partially offset by the Company s execution of the operating plan.

Average train weight for the third quarter of 2012 was 6,723 tons, an increase of 96 tons or 1%, compared with 6,627 tons in the same period of 2011. Average train weights for the first nine months of 2012 was essentially unchanged compared with the same period of 2011.

Average train length for the third quarter of 2012 was 5,878 feet, an increase of 211 feet or 4%, compared with 5,667 feet in the same period of 2011. Average train length for the first nine months of 2012 was 5,742 feet, an increase of 1% compared with the same period of 2011.

Average train weight and average train length benefited from increased workload, improved network operating conditions and the execution of our operating plan.

Average train speed increased by 11% and 19%, in the third quarter and first nine months of 2012 respectively, compared with the same periods of 2011. These increases were primarily due to ongoing capacity investments, improved operating conditions and the execution of the Company s operating plan.

Average terminal dwell, the average time a freight car resides in a terminal, decreased by 4% and 14% in the third quarter and first nine months of 2012 respectively, compared with the same periods of 2011. These decreases were primarily due to a focus on improving yard fluidity.

Car miles per car day were 205.4 in the third quarter of 2012, an increase of 22% compared to 168.7 in the same period of 2011 and increased by 32% in the first nine months of 2012, compared to the same period of 2011. These increases were primarily due to execution of the operating plan, improved operating conditions and the removal of over 9,000 active cars from the network, resulting in improved fluidity.

Locomotive productivity, which is daily average GTMs per active HP, for the third quarter of 2012 was 184.3, an increase of 8% compared to the same period of 2011. Locomotive productivity for the first nine months of 2012 was 174.4, an improvement of 6%, compared with the same period of 2011. These increases were primarily due to improved fluidity resulting from both improved operating conditions and the execution of the Company s operating plan.

Employee productivity, measured as million GTMs per expense employee, for the third quarter of 2012 was 4.4, a decrease of 2% from 4.5 in the same period of 2011. Employee productivity for the first nine months of 2012 was 12.8 a decrease of 2%, compared with the same period of 2011. These decreases reflect the Company s hiring plan in advance of anticipated attrition, partially offset by the productivity benefits realized through the execution of the operating plan. Furthermore, the first nine months of 2012 were also impacted by the significant reduction in workload during the strike in the second quarter.

Fuel efficiency in the third quarter of 2012 improved by 4% compared to the same period of 2011 and by 3% in the first nine months of 2012, compared to the same period of 2011. These improvements were primarily due to

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improved operating conditions and the advancement of the Company s fuel conservation strategies including replacement of older units with new more fuel efficient locomotives.

Safety Indicators

Safety is a key priority for our management, employees and Board of Directors. Our two main safety indicators personal injuries and train accidents follow strict U.S. Federal Railroad Administration (FRA) reporting guidelines. CP strives to continually improve its safety performance through key strategies and activities such as training and technology.

The FRA personal injury rate per 200,000 employee-hours for CP was 1.36 for the third quarter of 2012, compared with 2.18 in the same period of 2011. This rate was 1.26 for the first nine months of 2012, compared with 1.90 for the same period of 2011.

The FRA train accident rate for CP for the third quarter of 2012 was 2.09 accidents per million train-miles, compared with 1.81 in the same period of 2011. This rate was 1.69 for the first nine months of 2012, compared with 2.05 for the same period of 2011.

8. LINES OF BUSINESS

Revenues

	For the three months ended September 30			For the nine months ended September 30		
(in millions)	**2012**	2011	% Change	**2012**	2011	% Change
Freight revenues						
Grain	**$ 296**	$ 290	2	**$ 817**	$ 777	5
Coal	**161**	147	10	**446**	398	12
Sulphur and fertilizers	**111**	137	(19)	**387**	416	(7)
Industrial and consumer products	**329**	266	24	**933**	729	28
Automotive	**105**	80	31	**326**	244	34
Forest products	**49**	51	(4)	**147**	142	4
Intermodal	**363**	338	7	**1,030**	971	6
Total freight revenues	**1,414**	1,309	8	**4,086**	3,677	11
Other revenue	**37**	32	16	**107**	92	16
Total revenues	**$ 1,451**	$ 1,341	8	**$ 4,193**	$ 3,769	11

Our revenues are primarily derived from transporting freight. Other revenue is generated from leasing of certain assets, switching fees, other engagements including logistical services, and contracts with passenger service operators.

Freight Revenues

Freight revenues are earned from transporting bulk commodities, merchandise and intermodal goods, and include fuel recoveries billed to our customers. Freight revenues were $1,414 million in the third quarter of 2012, an increase of $105 million, or 8%, from $1,309 million in the same period of 2011.

This increase was primarily due to:

higher Industrial and consumer products driven by energy volumes, Automotive, Intermodal and Coal shipments;

higher freight rates;

- the favourable impact in the change in FX; and
- higher fuel surcharge revenues.

This increase was partially offset by lower overall shipments of Sulphur and fertilizers, Grain, and Forest products.

Freight revenues were $4,086 million in the first nine months of 2012, an increase of $409 million, or 11%, from $3,677 million in the same period of 2011.

This increase was primarily due to:

- higher Industrial and consumer products driven by energy volumes, Automotive, Intermodal and Coal shipments;

- higher fuel surcharge revenues;
- higher freight rates; and
- the favourable impact in the change in FX.

This increase was partially offset by lower overall Sulphur and fertilizers and Forest products shipments and the strike impacting Canadian shipments in the second quarter of 2012.

Fuel Cost Recovery Programs

The short term volatility in fuel prices may adversely impact expenses and revenues. CP employs a fuel cost recovery program designed to mechanistically respond to fluctuations in fuel prices and help mitigate the financial impact of rising fuel prices.

Grain

Grain revenue was $296 million in the third quarter of 2012, an increase of $6 million, or 2%, from $290 million in the same period of 2011.

This increase was primarily due to:

- increased freight rates;
- increased long haul U.S. exports to Asian markets due to an early harvest; and
- the favourable impact in the change in FX.

This increase was partially offset by lower Canadian originating traffic volumes due to low carryout stocks from the prior crop year.

Grain revenue was $817 million for the first nine months of 2012, an increase of $40 million, or 5%, from $777 million in the same period of 2011.

This increase was primarily due to:

- higher overall Canadian originating traffic volumes, as measured in carloads;
- increased freight rates;
- higher fuel surcharge recovery revenues; and
- the favourable impact in the change in FX.

This increase was partially offset by lower U.S. originating shipments in the first half of 2012 due to a poor 2011 harvest in CP s draw territory and the strike impacting Canadian originating shipments in the second quarter of 2012.

Coal

Coal revenue was $161 million, in the third quarter of 2012, an increase of $14 million, or 10%, from $147 million in the same period of 2011.

This increase was primarily due to higher:

- overall Canadian originating shipments of export metallurgical coal volumes;
- interline shipments of thermal coal from the Powder River Basin exported through Canadian west coast ports; and
- freight rates.

This increase was partially offset by lower U.S. originating thermal coal shipments to Midwestern U.S. markets.

Coal revenue was $446 million for the first nine months of 2012, an increase of $48 million, or 12%, from $398 million in the same period of 2011.

This increase was primarily due to higher:

- Canadian originating shipments of metallurgical coal reflecting strong market demand;
- interline shipments of thermal coal from the Powder River Basin exported through Canadian west coast ports;
- fuel surcharge recovery revenues; and
- freight rates.

This increase was partially offset by the strike impacting Canadian shipments in the second quarter of 2012.

Sulphur and Fertilizers

Sulphur and fertilizers revenue was $111 million in the third quarter of 2012, a decrease of $26 million, or 19%, from $137 million in the same period of 2011. This decrease was primarily due to lower export potash shipments reflecting weaker market demand and lower overall volumes of Sulphur traffic due to longer than expected customer outages on our lines.

This decrease was partially offset by:

- higher fuel surcharge revenues;
- higher freight rates; and
- the favourable impact in the change in FX.

Sulphur and fertilizers revenue was $387 million for the first nine months of 2012, a decrease of $29 million, or 7%, from $416 million in the same period of 2011. This decrease was primarily due to weaker export potash demand and delays of purchases by some domestic potash customers due to market uncertainty in the first half of the year.

This decrease was partially offset by:

- higher freight rates;
- higher fuel surcharge revenues; and
- the favourable impact in the change in FX.

Industrial and Consumer Products

Industrial and consumer products revenue was $329 million in the third quarter of 2012, an increase of $63 million, or 24%, from $266 million in the same period of 2011. Industrial and consumer products revenue was $933 million for the first nine months of 2012, an increase of $204 million, or 28%, from $729 million in the same period of 2011.

These increases were primarily due to:

- higher volumes of energy related inputs and outputs as a result of strong growth driven by the development of shale formations;
- higher fuel surcharge revenues;
- increased freight rates; and
- the favourable impact of the change in FX.

Automotive

Automotive revenue was $105 million in the third quarter of 2012, an increase of $25 million, or 31%, from $80 million in the same period of 2011.

This increase was primarily due to higher:

- shipments due to the recovery of production by Japanese manufacturers from the impacts of the 2011 tsunami as well as higher North American auto sales;
- overall North American auto production and consumption;
- movements of one-time dimensional loads of transformers and windmills;
- fuel surcharge revenues; and
- freight rates.

This increase was partially offset by the permanent closure of a plant on our line by a domestic producer.

Automotive revenue was $326 million for the first nine months of 2012, an increase of $82 million, or 34%, from $244 million in the same period of 2011.

This increase was primarily due to higher:

- shipments due to the recovery of production by Japanese manufacturers from the impacts of the 2011 tsunami as well as higher North American auto sales;
- overall North American auto production and consumption;
- fuel surcharge revenues; and
- freight rates.

This increase was partially offset by the permanent closure of a plant on our line by a domestic producer.

Forest Products

Forest products revenue was $49 million in the third quarter of 2012, a decrease of $2 million, or 4%, from $51 million in the same period of 2011.

This decrease was primarily due to lower overall pulp and paper products shipments.

This decrease was partially offset by increased lumber and panel shipments due to improving market conditions and higher freight rates.

Forest products revenue was $147 million for the first nine months of 2012, an increase of $5 million, or 4%, from $142 million in the same period of 2011.

This increase was primarily due to higher:

- lumber and panel shipments due to improving market conditions;
- freight rates; and
- fuel surcharge revenues.

This increase was partially offset by weaker market conditions for pulp and paper products.

Intermodal

Intermodal revenue was $363 million in the third quarter of 2012, an increase of $25 million, or 7%, from $338 million in the same period of 2011. Intermodal revenue was $1,030 million for the first nine months of 2012, an increase of $59 million, or 6%, from $971 million in the same period of 2011.

These increases were primarily due to:

- higher volumes driven by consumer demand in Canada and the U.S.;
- improved operating performance;
- higher fuel surcharge revenues; and
- higher freight rates.

These increases were partially offset by the strike impacting Canadian domestic intermodal and import and export shipments in the second quarter.

Other Revenues

Other revenues were $37 million in the third quarter of 2012, an increase of $5 million, or 16%, from $32 million in the same period of 2011. This increase was across all categories of other revenues.

Other revenues were $107 million for the first nine months of 2012, an increase of $15 million, or 16%, from $92 million in the same period of 2011. This increase was primarily due to higher passenger, leasing and logistics services revenues.

Volumes

	For the three months ended September 30			For the nine months ended September 30		
	2012	2011	% Change	**2012**	2011	% Change
Carloads (in thousands)						
Grain	**110**	117	(6)	**311**	329	(5)
Coal	**89**	85	5	**249**	226	10
Sulphur and fertilizers	**38**	48	(21)	**134**	151	(11)
Industrial and consumer products	**122**	111	10	**350**	307	14
Automotive	**39**	33	18	**123**	106	16
Forest products	**17**	19	(11)	**51**	55	(7)
Intermodal	**272**	255	7	**771**	747	3
Total carloads	**687**	668	3	**1,989**	1,921	4
Revenue ton-miles (in millions)						
Grain	**8,142**	8,294	(2)	**23,454**	23,370	
Coal	**6,032**	5,647	7	**16,566**	15,181	9
Sulphur and fertilizers	**3,561**	5,057	(30)	**13,220**	15,569	(15)
Industrial and consumer products	**8,066**	6,167	31	**22,122**	17,644	25
Automotive	**604**	477	27	**1,921**	1,545	24
Forest products	**1,200**	1,313	(9)	**3,584**	3,784	(5)
Intermodal	**6,528**	6,113	7	**18,636**	17,882	4
Total revenue ton-miles	**34,133**	33,068	3	**99,503**	94,975	5

Changes in freight volumes generally contribute to corresponding changes in freight revenues and certain variable expenses, such as fuel, equipment rents and crew costs.

Volumes in the third quarter of 2012, as measured by total carloads, increased by approximately 19,000 units, or 3%, and for the first nine months of 2012, increased by approximately 68,000 units, or 4%, compared to the same periods of 2011.

These increases in carloads were primarily due to higher:

- Intermodal volumes driven by consumer demand in Canada and the U.S;
- volumes of energy related inputs and outputs as a result of strong growth driven by the development of shale formations;
- Automotive shipments due to the recovery of production by Japanese manufacturers from the impacts of the 2011 tsunami as well as higher North American auto sales; and
- overall Canadian originating shipments of metallurgical coal volumes and interline shipments of thermal coal from the Powder River Basin exported through Canadian west coast ports.

These increases in carloads were partially offset by:

- weaker export potash demand;
- lower U.S. originating grain shipments due to weaker U.S. crop production; and
- the strike impacting Canadian shipments across all shipments in the second quarter of 2012.

Revenue ton miles (RTMs) in the third quarter of 2012 increased by approximately 1,065 million, or 3%, and for the first nine months of 2012 increased by approximately 4,528 million, or 5%, compared to the same periods of 2011.

These increases in RTMs were primarily due to higher:

- shipments of energy related commodities which have above average RTMs compared to other traffic;
- Canadian originating shipments of metallurgical coal volumes through Port Metro Vancouver; and
- Intermodal shipments through Port Metro Vancouver with above average RTMs per unit.

These increases in RTMs were partially offset by lower export and domestic potash shipments in Sulphur and fertilizers and pulp and paper products shipments in Forest products.

Freight Revenue per Carload

(dollars)	For the three months ended September 30 **2012**	2011	% Change	For the nine months ended September 30 **2012**	2011	% Change
Freight revenue per carload						
Grain	**$ 2,691**	$ 2,479	9	**$ 2,627**	$ 2,362	11
Coal	**1,809**	1,729	5	**1,791**	1,761	2
Sulphur and fertilizers	**2,921**	2,854	2	**2,888**	2,755	5
Industrial and consumer products	**2,697**	2,396	13	**2,666**	2,375	12
Automotive	**2,692**	2,424	11	**2,650**	2,302	15
Forest products	**2,882**	2,684	7	**2,882**	2,582	12
Intermodal	**1,335**	1,325	1	**1,336**	1,300	3
Total freight revenue per carload	**$ 2,058**	$ 1,960	5	**$ 2,054**	$ 1,914	7

Total freight revenue per carload in the third quarter and first nine months of 2012 increased by 5% and 7% respectively, compared to the same periods of 2011.

These increases were due to:

- increased freight rates;
- higher fuel surcharge revenues; and
- the favourable impact in the change of FX.

Freight Revenue per Revenue Ton-mile

(cents)	For the three months ended September 30 **2012**	2011	% Change	For the nine months ended September 30 **2012**	2011	% Change
Freight revenue per revenue ton-mile						
Grain	**3.64**	3.50	4	**3.48**	3.32	5
Coal	**2.67**	2.60	3	**2.69**	2.62	3
Sulphur and fertilizers	**3.12**	2.71	15	**2.93**	2.67	10
Industrial and consumer products	**4.08**	4.31	(5)	**4.22**	4.13	