CANADIAN PACIFIC RAILWAY LIMITED

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA | 2017

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS OF CANADIAN PACIFIC RAILWAY LIMITED

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of balance sheets of Canadian Pacific Railway Limited and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 16, 2018 expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Canada
February 16, 2018

We have served as the Company's auditor since 2011.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Canadian Pacific Railway Limited

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Canadian Pacific Railway Limited and subsidiaries (the "Company") as of December 31, 2017, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2017, of the Company and our report dated February 16, 2018, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Canada
February 16, 2018

CONSOLIDATED STATEMENTS OF INCOME

Year ended December 31 (in millions of Canadian dollars, except per share data)	2017	2016	2015
REVENUES			
Freight	**$ 6,375**	$ 6,060	$ 6,552
Non-freight	**179**	172	160
Total revenues	**6,554**	6,232	6,712
OPERATING EXPENSES			
Compensation and benefits	**1,035**	1,189	1,371
Fuel	**677**	567	708
Materials	**190**	180	184
Equipment rents	**142**	173	174
Depreciation and amortization	**661**	640	595
Purchased services and other (Note 10)	**1,056**	905	1,060
Gain on sale of Delaware & Hudson South (Note 10)	**—**	—	(68)
Total operating expenses	**3,761**	3,654	4,024
Operating income	**2,793**	2,578	2,688
Less:			
Other income and charges (Note 3)	**(178)**	(45)	335
Net interest expense (Note 4)	**473**	471	394
Income before income tax expense	**2,498**	2,152	1,959
Income tax expense (Note 5)	**93**	553	607
Net income	**$ 2,405**	$ 1,599	$ 1,352
Earnings per share (Note 6)			
Basic earnings per share	**$ 16.49**	$ 10.69	$ 8.47
Diluted earnings per share	**$ 16.44**	$ 10.63	$ 8.40
Weighted average number of shares (millions) (Note 6)			
Basic	**145.9**	149.6	159.7
Diluted	**146.3**	150.5	161.0

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year ended December 31 (in millions of Canadian dollars)	2017	2016	2015
Net income	**$ 2,405**	$ 1,599	$ 1,352
Net gain (loss) in foreign currency translation adjustments, net of hedging activities	**24**	18	(86)
Change in derivatives designated as cash flow hedges	**19**	(2)	(69)
Change in pension and post-retirement defined benefit plans	**80**	(434)	1,059
Other comprehensive income (loss) before income taxes (Note 7)	**123**	(418)	904
Income tax (expense) recovery on above items (Note 7)	**(65)**	96	(162)
Other comprehensive income (loss) (Note 7)	**58**	(322)	742
Comprehensive income	**$ 2,463**	$ 1,277	$ 2,094

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

As at December 31 (in millions of Canadian dollars, except Common Shares)	**2017**	2016
ASSETS		
Current assets		
Cash and cash equivalents	**$ 338**	$ 164
Accounts receivable, net (Note 9)	**687**	591
Materials and supplies	**152**	184
Other current assets	**97**	70
	1,274	1,009
Investments (Note 11)	**182**	194
Properties (Note 12)	**17,016**	16,689
Goodwill and intangible assets (Note 13)	**187**	202
Pension asset (Note 20)	**1,407**	1,070
Other assets (Note 14)	**69**	57
Total assets	**$ 20,135**	$ 19,221
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 15)	**$ 1,238**	$ 1,322
Long-term debt maturing within one year (Note 16)	**746**	25
	1,984	1,347
Pension and other benefit liabilities (Note 20)	**749**	734
Other long-term liabilities (Note 18)	**231**	284
Long-term debt (Note 16)	**7,413**	8,659
Deferred income taxes (Note 5)	**3,321**	3,571
Total liabilities	**13,698**	14,595
SHAREHOLDERS' EQUITY		
Share capital (Note 19) Authorized unlimited Common Shares without par value. Issued and outstanding are 144.9 million and 146.3 million at December 31, 2017 and 2016, respectively.	**2,032**	2,002
Authorized unlimited number of first and second preferred shares; none outstanding.		
Additional paid-in capital	**43**	52
Accumulated other comprehensive loss (Note 7)	**(1,741)**	(1,799)
Retained earnings	**6,103**	4,371
	6,437	4,626
Total liabilities and shareholders' equity	**$ 20,135**	$ 19,221

Commitments and contingencies (Note 23).

See Notes to Consolidated Financial Statements.

Approved on behalf of the Board:

/s/ ANDREW F. REARDON

Andrew F. Reardon, Director,
Chair of the Board

/s/ JANE L. PEVERETT

Jane L. Peverett, Director,
Chair of the Audit Committee

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 (in millions of Canadian dollars)	2017	2016	2015
OPERATING ACTIVITIES			
Net income	**$ 2,405**	$ 1,599	$ 1,352
Reconciliation of net income to cash provided by operating activities:			
Depreciation and amortization	**661**	640	595
Deferred income taxes (Note 5)	**(210)**	320	234
Pension funding in excess of expense (Note 20)	**(237)**	(138)	(49)
Foreign exchange (gain) loss on long-term debt (Note 3)	**(186)**	(79)	297
Other operating activities, net	**(113)**	(198)	(245)
Change in non-cash working capital balances related to operations (Note 8)	**(138)**	(55)	275
Cash provided by operating activities	**2,182**	2,089	2,459
INVESTING ACTIVITIES			
Additions to properties	**(1,340)**	(1,182)	(1,522)
Proceeds from the sale of Delaware & Hudson South (Note 10)	**—**	—	281
Proceeds from sale of properties and other assets (Note 10)	**42**	116	114
Other	**3**	(3)	4
Cash used in investing activities	**(1,295)**	(1,069)	(1,123)
FINANCING ACTIVITIES			
Dividends paid	**(310)**	(255)	(226)
Issuance of CP Common Shares (Note 19)	**45**	21	43
Purchase of CP Common shares (Note 19)	**(381)**	(1,210)	(2,787)
Issuance of long-term debt, excluding commercial paper (Note 16)	**—**	—	3,411
Repayment of long-term debt, excluding commercial paper (Note 16)	**(32)**	(38)	(505)
Net repayment of commercial paper (Note 16)	**—**	(8)	(893)
Settlement of forward starting swaps (Note 17)	**(22)**	—	—
Other	**—**	(3)	—
Cash used in financing activities	**(700)**	(1,493)	(957)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	**(13)**	(13)	45
CASH POSITION			
Increase (decrease) in cash and cash equivalents	**174**	(486)	424
Cash and cash equivalents at beginning of year	**164**	650	226
Cash and cash equivalents at end of year	**$ 338**	$ 164	$ 650
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Income taxes paid	**$ 425**	$ 322	$ 176
Interest paid	**$ 475**	$ 488	$ 336

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in millions of Canadian dollars except per share data)	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at December 31, 2014	$ 2,185	$ 36	$ (2,219)	$ 5,608	$ 5,610
Net income	—	—	—	1,352	1,352
Other comprehensive income (Note 7)	—	—	742	—	742
Dividends declared ($1.4000 per share)	—	—	—	(221)	(221)
Effect of stock-based compensation expense	—	17	—	—	17
CP Common Shares repurchased (Note 19)	(181)	—	—	(2,567)	(2,748)
Shares issued under stock option plan (Note 19)	54	(10)	—	—	44
Balance at December 31, 2015	2,058	43	(1,477)	4,172	4,796
Net income	—	—	—	1,599	1,599
Other comprehensive loss (Note7)	—	—	(322)	—	(322)
Dividends declared ($1.8500 per share)	—	—	—	(274)	(274)
Effect of stock-based compensation expense	—	14	—	—	14
CP Common Shares repurchased (Note 19)	(84)	—	—	(1,126)	(1,210)
Shares issued under stock option plan (Note 19)	28	(5)	—	—	23
Balance at December 31, 2016	2,002	52	(1,799)	4,371	4,626
Net income	—	—	—	2,405	2,405
Other comprehensive income (Note 7)	—	—	58	—	58
Dividends declared ($2.1875 per share)	—	—	—	(319)	(319)
Effect of stock-based compensation expense	—	3	—	—	3
CP Common Shares repurchased (Note 19)	(27)	—	—	(354)	(381)
Shares issued under stock option plan (Note 19)	57	(12)	—	—	45
Balance at December 31, 2017	**$ 2,032**	**$ 43**	**$ (1,741)**	**$ 6,103**	**$ 6,437**

See Notes to Consolidated Financial Statements.

CANADIAN PACIFIC RAILWAY LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

Canadian Pacific Railway Limited ("CPRL"), through its subsidiaries (collectively referred to as "CP" or "the Company"), operates a transcontinental railway in Canada and the United States ("U.S."). CP provides rail and intermodal transportation services over a network of approximately 12,500 miles, serving the principal business centres of Canada from Montreal, Quebec, to Vancouver, British Columbia, and the U.S. Northeast and Midwest regions. CP's railway network feeds directly into the U.S. heartland from the East and West coasts. Agreements with other carriers extend the Company's market reach east of Montreal in Canada, throughout the U.S. and into Mexico. CP transports bulk commodities, merchandise freight and intermodal traffic. Bulk commodities include grain, coal, fertilizers and sulphur. Merchandise freight consists of finished vehicles and automotive parts, as well as forest, industrial and consumer products. Intermodal traffic consists largely of 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting principles generally accepted in the United States of America ("GAAP")

These Consolidated Financial Statements are expressed in Canadian dollars and have been prepared in accordance with GAAP.

Principles of consolidation

These Consolidated Financial Statements include the accounts of CP and all its subsidiaries. The Company's investments in which it has significant influence are accounted for using the equity method. All intercompany accounts and transactions have been eliminated.

Use of estimates

The preparation of these Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the year, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Management regularly reviews its estimates, including those related to environmental liabilities, pensions and other benefits, depreciable lives of properties, deferred income tax assets and liabilities, as well as legal and personal injury liabilities based upon currently available information. Actual results could differ from these estimates.

Principal subsidiaries

The following list sets out CPRL's principal railway operating subsidiaries, including the jurisdiction of incorporation. All of these subsidiaries are wholly owned, directly or indirectly, by CPRL as at December 31, 2017.

Principal subsidiary	Incorporated under the laws of
Canadian Pacific Railway Company	Canada
Soo Line Railroad Company ("Soo Line")	Minnesota
Delaware and Hudson Railway Company, Inc. ("D&H")	Delaware
Dakota, Minnesota & Eastern Railroad Corporation ("DM&E")	Delaware
Mount Stephen Properties Inc. ("MSP")	Canada

Revenue recognition

Railway freight revenues are recognized based on the percentage of completed service method. The allocation of revenue between reporting periods is based on the relative transit time in each reporting period with expenses recognized as incurred. Volume rebates to customers are accrued as a reduction of freight revenues based on estimated volume and contract terms as freight service is provided. Other revenues, including passenger revenue, revenue from leasing certain assets, switching fees, and revenue from logistics services, are recognized as service is performed or contractual obligations are met. Revenues are presented net of taxes collected from customers and remitted to government authorities.

Cash and cash equivalents

Cash and cash equivalents include highly liquid short-term investments that are readily convertible to cash with original maturities of 3 months or less, but exclude cash and cash equivalents subject to restrictions.

Restricted cash and cash equivalents

Cash and cash equivalents that are restricted as to withdrawal or usage, in accordance with specific agreements, are presented as restricted cash and cash equivalents on the balance sheets when applicable. In the Consolidated Statements of Cash Flow, these balances, if any, are included with cash and cash equivalents.

Foreign currency translation

Assets and liabilities denominated in foreign currencies, other than those held through foreign subsidiaries, are translated into Canadian dollars at the year-end exchange rate for monetary items and at the historical exchange rates for non-monetary items. Foreign currency revenues and expenses are translated at the exchange rates in effect on the dates of the related transactions. Foreign exchange ("FX") gains and losses, other than those arising from the translation of the Company's net investment in foreign subsidiaries, are included in income.

The accounts of the Company's foreign subsidiaries are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average exchange rates during the year for revenues, expenses, gains and losses. FX gains and losses arising from the translation of the foreign subsidiaries' assets and liabilities are included in "Other comprehensive income (loss)". A portion of U.S. dollar-denominated long-term debt has been designated as a hedge of the net investment in foreign subsidiaries. As a result, unrealized FX gains and losses on U.S. dollar-denominated long-term debt, designated as a hedge, are offset against FX gains and losses arising from the translation of foreign subsidiaries' accounts in "Other comprehensive income (loss)".

Pensions and other benefits

Pension costs are actuarially determined using the projected-benefit method pro-rated over the credited service periods of employees. This method incorporates management's best estimates of expected plan investment performance, salary escalation and retirement ages of employees. The expected return on fund assets is calculated using market-related asset values developed from a five-year average of market values for the fund's public equity securities and absolute return strategies (with each prior year's market value adjusted to the current date for assumed investment income during the intervening period) plus the market value of the fund's fixed income, real estate and infrastructure securities, subject to the market-related asset value not being greater than 120% of the market value nor being less than 80% of the market value. The discount rate used to determine the projected-benefit obligation is based on blended market interest rates on high-quality corporate debt instruments with matching cash flows. Unrecognized actuarial gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of plan assets are amortized over the expected average remaining service period of active employees expected to receive benefits under the plan (approximately 12 years). Prior service costs arising from collectively bargained amendments to pension plan benefit provisions are amortized over the term of the applicable union agreement. Prior service costs arising from all other sources are amortized over the expected average remaining service period of active employees who are expected to receive benefits under the plan at the date of amendment.

Costs for post-retirement and post-employment benefits other than pensions, including post-retirement health care and life insurance and some workers' compensation and long-term disability benefits in Canada, are actuarially determined on a basis similar to pension costs.

The over or under funded status of defined benefit pension and other post-retirement benefit plans are measured as the difference between the fair value of the plan assets and the benefit obligation, and are recognized on the balance sheets. In addition, any unrecognized actuarial gains and losses and prior service costs and credits that arise during the period are recognized as a component of "Other comprehensive income (loss)", net of tax.

Gains and losses on post-employment benefits that do not vest or accumulate, including some workers' compensation and long-term disability benefits in Canada, are included immediately in income as "Compensation and benefits".

Materials and supplies

Materials and supplies are carried at the lower of average cost or market value and consist primarily of fuel and parts used in the repair and maintenance of track structures, equipment, locomotives and freight cars.

Properties

Fixed asset additions and major renewals are recorded at cost, including direct costs, attributable indirect costs and carrying costs, less accumulated depreciation and any impairment. When there is a legal obligation associated with the retirement of property, a liability is initially recognized at its fair value and a corresponding asset retirement cost is added to the gross book value of the related asset and amortized to expense over the estimated term to retirement. The Company reviews the carrying amounts of its properties whenever changes in circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows. When such properties are determined to be impaired, recorded asset values are revised to their fair value and an impairment loss is recognized.

The Company recognizes expenditures as additions to properties or operating expenses based on whether the expenditures increase the output or service capacity, lower the associated operating costs or extend the useful life of the properties and whether the expenditures exceed minimum physical and financial thresholds.

Much of the additions to properties, both new and replacement properties, are self-constructed. These are initially recorded at cost, including direct costs and attributable indirect costs, overheads and carrying costs. Direct costs include, among other things, labour costs, purchased services, equipment costs and material costs. Attributable indirect costs and overheads include incremental long-term variable costs resulting from the execution of capital projects. Indirect costs mainly include work trains, material distribution, highway vehicles and work equipment. Overheads primarily include a portion of the engineering department's costs, which plans, designs and administers these capital projects. These costs are allocated to projects by applying a measure consistent with the nature of the cost, based on cost studies. For replacement properties, the project costs are allocated to dismantling and installation based on cost studies. Dismantling work is performed concurrently with the installation.

Ballast programs including undercutting, shoulder ballasting and renewal programs that form part of the annual track program are capitalized as this work, and the related added ballast material, significantly improves drainage, which in turn extends the life of ties and other track materials. These costs are tracked separately from the underlying assets and depreciated over the period to the next estimated similar ballast program. Spot replacement of ballast is considered a repair which is expensed as incurred.

The costs of large refurbishments are capitalized and locomotive overhauls are expensed as incurred, except where overhauls represent a betterment of the locomotive in which case costs are capitalized.

The Company capitalizes development costs for major new computer systems.

The Company follows group depreciation, which groups assets which are similar in nature and have similar economic lives. The property groups are depreciated on a straight-line basis reflecting their expected economic lives determined by depreciation studies. Depreciation studies are regular reviews of asset service lives, salvage values, accumulated depreciation and other related factors. Depreciation rates are established through these studies. Actual use and retirement of assets may vary from current estimates, and would be identified in the next study. These changes in expected economic lives would impact the amount of depreciation expense recognized in future periods. All track assets are depreciated using a straight-line method which recognizes the value of the asset consumed as a percentage of the whole life of the asset.

When depreciable property is retired or otherwise disposed of in the normal course of business, the book value, less net salvage proceeds, is charged to accumulated depreciation and if different than the assumptions under the depreciation study could potentially result in adjusted depreciation expense over a period of years. However, when removal costs exceed the salvage value on assets and the Company has no legal obligation to remove the assets, the removal costs incurred are charged to income in the period in which the assets are removed and are not charged to accumulated depreciation.

For certain asset classes, the historical cost of the asset is separately recorded in the Company's property records. This amount is retired from the property records upon retirement of the asset. For assets for which the historical cost cannot be separately identified the amount of the gross book value to be retired is estimated using either an indexation methodology, whereby the current replacement cost of the asset is indexed to the estimated year of installation for the asset, or a first-in, first-out approach, or statistical analysis is used to determine the age of the retired asset. CP uses indices that closely correlate to the principal costs of the assets.

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

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

Revisions to the estimated useful lives and net salvage projections constitute a change in accounting estimate and are addressed prospectively by amending depreciation rates.

Equipment under capital lease is included in Properties and depreciated over the period of expected use.

Assets held for sale

Assets to be disposed that meet the held for sale criteria are reported at the lower of their carrying amount and fair value, less costs to sell, and are no longer depreciated.

Goodwill and intangible assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets upon acquisition of a business. Goodwill is assigned to the reporting units that are expected to benefit from the business acquisition which, after integration of operations with the railway network, may be different than the acquired business.

The carrying value of goodwill, which is not amortized, is assessed for impairment annually in the fourth quarter of each year as at October 1st, or more frequently as economic events dictate. The Company has the option of performing an assessment of certain qualitative factors ("Step 0") to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value or proceeding directly to a quantitative impairment test ("Step 1"). Qualitative factors include but are not limited to, economic, market and industry conditions, cost factors and overall financial performance of the reporting unit. If Step 0 indicates that the carrying value is less than the fair value, then performing the two-step impairment test is unnecessary. Under Step 1, the fair value of the reporting unit is compared to its carrying value, including goodwill. If the fair value of the reporting unit is less than its carrying value, goodwill is potentially impaired. The impairment charge that would be recognized is the excess of the carrying value of the goodwill over the fair value of the goodwill, determined in the same manner as in a business combination.

Intangible assets with finite lives are amortized on a straight-line basis over the estimated useful lives of the respective assets. Favourable leases, customer relationships and interline contracts have amortization periods ranging from 15 to 20 years. When there is a change in the estimated useful life of an intangible asset with a finite life, amortization is adjusted prospectively.

Financial instruments

Financial instruments are contracts that give rise to a financial asset of one party and a financial liability or equity instrument of another party.

Financial instruments are recognized initially at fair value, which is the amount of consideration that would be agreed upon in an arm's-length transaction between willing parties.

Subsequent measurement depends on how the financial instruments have been classified. Accounts receivable and investments, classified as loans and receivables, are measured at amortized cost, using the effective interest method. Cash and cash equivalents and derivatives are classified as held for trading and are measured at fair value. Accounts payable, accrued liabilities, short-term borrowings, dividends payable, other long-term liabilities and long-term debt, classified as other liabilities, are also measured at amortized cost.

Derivative financial instruments

Derivative financial and commodity instruments may be used from time to time by the Company to manage its exposure to risks relating to foreign currency exchange rates, stock-based compensation, interest rates and fuel prices. When CP utilizes derivative instruments in hedging relationships, CP identifies, designates and documents those hedging transactions and regularly tests the transactions to demonstrate effectiveness in order to continue hedge accounting.

All derivative instruments are classified as held for trading and recorded at fair value. Any change in the fair value of derivatives not designated as hedges is recognized in the period in which the change occurs in the Consolidated Statements of Income in the line item to which the derivative instrument is related. On the Consolidated Balance Sheets they are classified in "Other assets", "Other long-term liabilities", "Other current assets" or "Accounts payable and accrued liabilities" as applicable. Gains and losses arising from derivative instruments may affect the following lines on the Consolidated Statements of Income: "Revenues", "Compensation and benefits", "Fuel", "Other income and charges", and "Net interest expense".

For fair value hedges, the periodic changes in values are recognized in income, on the same line as the changes in values of the hedged items are also recorded. For a cash flow hedge, the change in value of the effective portion is recognized in "Other comprehensive income (loss)". Any ineffectiveness within an effective cash flow hedge is recognized in income as it arises in the same income account as the hedged item. Should a cash flow hedging relationship become ineffective, previously unrealized gains and losses remain within "Accumulated other comprehensive loss" until the hedged item is settled and, prospectively, future changes in value of the derivative are recognized in income. The change in value of the effective portion of a cash flow hedge remains in "Accumulated other comprehensive loss" until the related hedged item settles, at which time amounts recognized in "Accumulated other comprehensive loss" are reclassified to the same income or balance sheet account that records the hedged item.

In the Consolidated Statements of Cash Flows, cash flows relating to derivative instruments designated as hedges are included in the same line as the related hedged items.

Environmental remediation

Environmental remediation accruals, recorded on an undiscounted basis unless a reliably determinable estimate as to amount and timing of costs can be established, cover site-specific remediation programs. The accruals are recorded when the costs to remediate are probable and reasonably estimable. Certain future costs to monitor sites are discounted at an adjusted risk-free rate. 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".

Income taxes

The Company follows the liability method of accounting for income taxes. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The effect of a change in income tax rates on deferred income tax assets and liabilities is recognized in income in the period during which the change occurs.

When appropriate, the Company records a valuation allowance against deferred tax assets to reflect that these tax assets may not be realized. In determining whether a valuation allowance is appropriate, CP considers whether it is more likely than not that all or some portion of CP's deferred tax assets will not be realized, based on management's judgment using available evidence about future events.

At times, tax benefit claims may be challenged by a tax authority. Tax benefits are recognized only for tax positions that are more likely than not sustainable upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely to be realized upon settlement. A liability for "unrecognized tax benefits" is recorded for any tax benefits claimed in CP's tax returns that do not meet these recognition and measurement standards.

Investment and other similar tax credits are deferred on the Consolidated Balance Sheets and amortized to "Income tax expense" as the related asset is recognized in income.

Earnings per share

Basic earnings per share are calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method for determining the dilutive effect of options.

Stock-based compensation

CP follows the fair value based approach to account for stock options. Compensation expense and an increase in "Additional paid-in capital" are recognized for stock options over their vesting period, or over the period from the grant date to the date employees become eligible to retire when this is shorter than the vesting period, based on their estimated fair values on the grant date, as determined using the Black-Scholes option-pricing model.

Any consideration paid by employees on exercise of stock options is credited to "Share capital" when the option is exercised and the recorded fair value of the option is removed from "Additional paid-in capital" and credited to "Share capital".

Compensation expense is also recognized for deferred share units ("DSUs"), performance share units ("PSUs") and restricted share units ("RSUs") using the fair value method. Compensation expense is recognized over the vesting period, or for PSUs and DSUs only, over the period from the grant date to the date employees become eligible to retire when this is shorter than the vesting period. Forfeitures of DSUs, PSUs and RSUs are estimated at issuance and subsequently at the balance sheet date.

The employee share purchase plan ("ESPP") gives rise to compensation expense that is recognized using the issue price by amortizing the cost over the vesting period or over the period from the grant date to the date employees become eligible to retire when this is shorter than the vesting period.

2 ACCOUNTING CHANGES

Implemented in 2017

Compensation – Stock Compensation

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, Improvements to Employee Share-based Payment Accounting, under FASB Accounting Standards Codification ("ASC") Topic 718. The amendments clarify the guidance relating to treatment of excess tax benefits and deficiencies, acceptable forfeiture rate policies, and treatment of cash paid by an employer when directly withholding shares for tax-withholding purposes and the requirement to treat such cash flows as a financing activity. As a result of this ASU, excess tax benefits are no longer recorded in additional paid-in capital and instead are applied against taxes payable or recognized in the Consolidated Statement of Income. This ASU was effective for CP beginning on January 1, 2017. The Company has determined that there were no significant changes to disclosure, financial statement presentation, and no material changes to accounting as a result of adoption.

Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory under FASB ASC Topic 330. The amendments require that reporting entities measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments apply to inventory that is measured using the first-in, first-out or average cost basis. This ASU was effective for CP beginning on January 1, 2017 and was applied prospectively. The Company determined there were no changes to disclosure, financial statement presentation, or valuation of inventory as a result of adoption.

Future changes

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers under FASB ASC Topic 606. The FASB has also issued several updates to ASU 2014-09. The guidance in Topic 606, as amended, will be effective for CP for interim and annual periods commencing January 1, 2018. CP will adopt the new standard by using the modified retrospective approach.

CP has analyzed contracts and public tariffs for a significant proportion of the Company's annual rail freight revenue, which represents greater than 95% of CP's annual revenues, and has identified the distinct services provided to customers that represent performance obligations under contracts and public tariffs. CP has also assessed key contracts with customers that generate non-freight revenues. CP has concluded that recognizing rail freight revenues over time as performance obligations related to rail freight services are satisfied continues to be appropriate. Certain other services provided to customers are satisfied at a point in time and will continue to be recognized in this manner.

CP has substantially completed its assessment of its revenues earned from contracts with customers and does not expect any significant adjustment to be required upon adoption of the standard. Additional disclosures will be provided in CP's first quarter 2018 financial statements.

Compensation – Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost under FASB ASC Topic 715. The amendments clarify presentation requirements for net periodic pension cost and net periodic post-retirement benefit cost and require that an employer report the current service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit cost are required to be presented in the Consolidated Statement of Income separately from the current service cost component and outside a subtotal of income from operations. The amendments also restrict capitalization to the current service cost component when applicable. The amendments are effective for CP beginning on January 1, 2018. The amendments related to presentation are required to be applied retrospectively and the restrictions on capitalization of the current service cost component are applicable prospectively on the date of adoption. The impacts of the reclassification are detailed as follows:

	Year ended December 31		
(in millions of Canadian dollars)	**2017**	2016	2015
Decrease in operating income	**$ 274**	$ 167	$ 70

There will be no change to Net income or earnings per share as a result of adoption of this new standard. The new guidance restricting capitalization of pensions to the current service cost component of net periodic benefit cost will have no impact to operating income or amounts capitalized because the Company currently only capitalizes an appropriate portion of current service cost for self-constructed properties. CP is currently assessing the disclosure requirements of this ASU.

Derivatives and Hedging

In August 2017, the FASB issued Accounting Standards Update ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities, under FASB ASC Topic 815. This is intended to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. These amendments also make targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. The amendments require the entire change in the fair value of the hedging instrument to be recorded in other comprehensive income for effective cash flow hedges. Consequently, any ineffective portion of the change in fair value will, therefore, no longer be recorded to the Consolidated Statement of Income as it arises. The amendments are effective for CP beginning on January 1, 2019, although early adoption is permitted. Entities are required to apply the amendments in this update to hedging relationships existing on the date of adoption, reflected as a cumulative-effect adjustment as of the beginning of the fiscal year of adoption. Other amendments to presentation and disclosure are applied prospectively. The Company will early adopt this ASU effective January 1, 2018 and no significant cumulative-effect adjustment will be required.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases under FASB ASC Topic 842. This new standard requires recognition of right-of-use assets and lease liabilities by lessees for those leases classified as finance and operating leases with a maximum term exceeding 12 months. For CP this new standard will be effective for interim and annual periods commencing January 1, 2019. Entities are required to use a modified retrospective approach to adopt this new standard. The Company has a detailed plan to implement the new standard and is assessing contractual arrangements, through a cross-functional team, that may qualify as leases under the new standard. CP is also working with a vendor to implement a lease management system which will assist in delivering the required accounting changes. CP's cross-functional team and the vendor finalized system requirements and developed work flows and testing scenarios that will permit system implementation and parallel testing in 2018 for CP's lease system solution. The impact of the new standard will be a material increase to right of use assets and lease liabilities on the Company's Consolidated Balance Sheets, primarily, as a result of operating leases currently not recognized on the balance sheet. The Company does not anticipate a material impact to Net income and is currently evaluating the impact adoption of this new standard will have on disclosure.

Intangibles – Goodwill and Other

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment under FASB ASC Topic 350. This is intended to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The amendments are effective for CP beginning on January 1, 2020. Entities are required to apply the amendments in this update prospectively from the date of adoption. The Company does not anticipate that the adoption of this ASU will impact CP's financial statements as there is a sufficient excess between the fair value and carrying value of CP's goodwill. Furthermore CP expects to continue to apply the Step 0 qualitative assessment when testing for goodwill impairment.

3 OTHER INCOME AND CHARGES

(in millions of Canadian dollars)	**2017**	2016	2015
Foreign exchange (gain) loss on long-term debt	**$ (186)**	$ (79)	$ 297
Other foreign exchange gains	**(7)**	(5)	(24)
Early redemption premium on notes (Note 16)	**—**	—	47
Insurance recovery of legal settlement	**(10)**	—	—
Legal settlement	**—**	25	—
Charge on hedge roll and de-designation	**13**	—	—
Other	**12**	14	15
Total other income and charges	**$ (178)**	$ (45)	$ 335

4 NET INTEREST EXPENSE

(in millions of Canadian dollars)	**2017**	2016	2015
Interest cost	**$ 491**	$ 497	$ 409
Interest capitalized to Properties	**(16)**	(25)	(14)
Interest expense	**475**	472	395
Interest income	**(2)**	(1)	(1)
Net interest expense	**$ 473**	$ 471	$ 394

Interest expense includes interest on capital leases of $11 million for the year ended December 31, 2017 (2016 – $11 million; 2015 – $11 million).

5 INCOME TAXES

The following is a summary of the major components of the Company's income tax expense:

(in millions of Canadian dollars)	**2017**	2016	2015
Current income tax expense	**$ 303**	$ 233	$ 373
Deferred income tax expense			
Origination and reversal of temporary differences	**371**	336	105
Effect of tax rate (decrease) increase	**(541)**	—	23
Effect of hedge of net investment in foreign subsidiaries	**(42)**	(20)	100
Other	**2**	4	6
Total deferred income tax (recovery) expense	**(210)**	320	234
Total income taxes	**$ 93**	$ 553	$ 607
Income before income tax expense			
Canada	**$ 1,829**	$ 1,513	$ 1,099
Foreign	**669**	639	860
Total income before income tax expense	**$ 2,498**	$ 2,152	$ 1,959
Income tax expense			
Current			
Canada	**$ 257**	$ 165	$ 173
Foreign	**46**	68	200
Total current income tax expense	**303**	233	373
Deferred			
Canada	**256**	207	163
Foreign	**(466)**	113	71
Total deferred income tax (recovery) expense	**(210)**	320	234
Total income taxes	**$ 93**	$ 553	$ 607

The provision for deferred income taxes arises from temporary differences in the carrying values of assets and liabilities for financial statement and income tax purposes and the effect of loss carry forwards. The items comprising the deferred income tax assets and liabilities are as follows:

(in millions of Canadian dollars)	2017	2016
Deferred income tax assets		
Amount related to tax losses carried forward	**$ 12**	$ 18
Liabilities carrying value in excess of tax basis	**88**	149
Environmental remediation costs	**16**	30
Other	**11**	58
Total deferred income tax assets	**127**	255
Deferred income tax liabilities		
Properties carrying value in excess of tax basis	**3,181**	3,796
Pensions carrying value in excess of tax basis(1)	**226**	—
Other	**41**	30
Total deferred income tax liabilities	**3,448**	3,826
Total net deferred income tax liabilities	**$ 3,321**	$ 3,571

(1) Balance previously included as part of "Liabilities carrying value in excess of tax basis" as a component of deferred income tax assets.

The Company's consolidated effective income tax rate differs from the expected Canadian statutory tax rates. Expected income tax expense at statutory rates is reconciled to income tax expense as follows:

(in millions of Canadian dollars, except percentage)	2017	2016	2015
Statutory federal and provincial income tax rate (Canada)	**26.56%**	26.65%	26.47%
Expected income tax expense at Canadian enacted statutory tax rates	**$ 663**	$ 573	$ 519
Increase (decrease) in taxes resulting from:			
(Gains) losses not subject to tax	**(27)**	(23)	28
Canadian tax rate differentials	**1**	—	1
Foreign tax rate differentials	**(9)**	—	39
Effect of tax rate (decrease) increase	**(541)**	—	23
Other	**6**	3	(3)
Income tax expense	**$ 93**	$ 553	$ 607

The Company has no unrecognized tax benefits from capital losses at December 31, 2017 and 2016.

On December 22, 2017, the U.S. enacted the "Tax Cuts and Jobs Act" which has been commonly referred to as U.S. tax reform. A significant change under this reform is the reduction of U.S. federal statutory corporate income tax rate from 35% to 21% beginning in 2018. As a result of this and other tax rate increases in the province of British Columbia and the state of Illinois, the Company revalued its deferred income tax balances accordingly. For the full year 2017, revaluations of deferred tax balances associated with changes in rates total a net recovery of $541 million (2016 – $nil).

These recoveries are estimated based on the Company's analysis of the Tax Cuts and Jobs Act. These estimates may be impacted as U.S. authorities issue additional regulations and interpretations in the future.

The Company has not provided a deferred liability for the income taxes, if any, which might become payable on any temporary difference associated with its foreign investments because the Company intends to indefinitely reinvest in its foreign investments and has no intention to realize this difference by a sale of its interest in foreign investments. It is not practical to calculate the amount of the deferred tax liability.

At December 31, 2017, the Company had income tax operating losses carried forward of $11 million, which have been recognized as a deferred tax asset. Certain of these losses carried forward will begin to expire in 2027, with the majority expiring between 2029 and 2035. The Company did not have any minimum tax credits or investment tax credits carried forward.

It is more likely than not that the Company will realize the majority of its deferred income tax assets from the generation of future taxable income, as the payments for provisions, reserves and accruals are made and losses and tax credits carried forward are utilized.

The following table provides a reconciliation of uncertain tax positions in relation to unrecognized tax benefits for Canada and the U.S. for the year ended December 31, 2017:

(in millions of Canadian dollars)	**2017**	2016	2015
Unrecognized tax benefits at January 1	**$ 13**	$ 15	$ 17
Increase in unrecognized:			
Tax benefits related to the current year	**—**	—	4
Dispositions:			
Gross uncertain tax benefits related to prior years	**—**	(2)	(6)
Unrecognized tax benefits at December 31	**$ 13**	$ 13	$ 15

If these uncertain tax positions were recognized, all of the amount of unrecognized tax positions as at December 31, 2017 would impact the Company's effective tax rate.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense in the Company's Consolidated Statements of Income. The total amount of accrued interest and penalties in 2017 was $1 million (2016 – $1 million; 2015 – $4 million). The total amount of accrued interest and penalties associated with the unrecognized tax benefit at December 31, 2017 was $11 million (2016 – $10 million; 2015 – $9 million).

The Company and its subsidiaries are subject to either Canadian federal and provincial income tax, U.S. federal, state and local income tax, or the relevant income tax in other international jurisdictions. The Company has substantially concluded all Canadian federal and provincial income tax matters for the years through 2012. The federal and provincial income tax returns filed for 2013 and subsequent years remain subject to examination by the Canadian taxation authorities. The Internal Revenue Service ("IRS") of the United States has completed their examinations and issued notices of deficiency for the tax years 2012 and 2013. The Company disagrees with many of their proposed adjustments, and is at the IRS Appeals for those years. The income tax returns for 2014 and subsequent years continue to remain subject to examination by the IRS. Additionally, various U.S. state tax authorities are examining the Company's state income tax returns for the years 2011 through 2015. The Company believes that it has recorded sufficient income tax reserves at December 31, 2017 with respect to these income tax examinations.

The Company does not anticipate any material changes to the unrecognized tax benefits previously disclosed within the next twelve months as at December 31, 2017.

6 EARNINGS PER SHARE

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

Diluted earnings per share have been calculated using the treasury stock method which assumes that any proceeds received from the exercise of in-the-money options would be used to purchase CP Common Shares at the average market price for the period. For purposes of this calculation, at December 31, 2017, there were 1.4 million dilutive options outstanding (2016 – 2.2 million; 2015 – 2.5 million).

The number of shares used and the earnings per share calculations are reconciled as follows:

(in millions of Canadian dollars, except per share data)	**2017**	2016	2015
Net income	**$ 2,405**	$ 1,599	$ 1,352
Weighted average basic shares outstanding (millions)	**145.9**	149.6	159.7
Dilutive effect of weighted average number of stock options (millions)	**0.4**	0.9	1.3
Weighted average diluted shares outstanding (millions)	**146.3**	150.5	161.0
Earnings per share – basic	**$ 16.49**	$ 10.69	$ 8.47
Earnings per share – diluted	**$ 16.44**	$ 10.63	$ 8.40

In 2017, the number of options excluded from the computation of diluted earnings per share because their effect was not dilutive was 0.3 million (2016 – 0.4 million; 2015 – 0.2 million).

7 OTHER COMPREHENSIVE INCOME (LOSS) AND ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of Other comprehensive income (loss) and the related tax effects are as follows:

(in millions of Canadian dollars)	Before tax amount	Income tax (expense) recovery	Net of tax amount
For the year ended December 31, 2017			
Unrealized foreign exchange (loss) gain on:			
Translation of the net investment in U.S. subsidiaries	**$ (295)**	**$ —**	**$ (295)**
Translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries (Note 17)	**319**	**(42)**	**277**
Change in derivatives designated as cash flow hedges:			
Realized loss on cash flow hedges recognized in income	**25**	**(6)**	**19**
Unrealized loss on cash flow hedges	**(6)**	**2**	**(4)**
Change in pension and other benefits actuarial gains and losses	**84**	**(20)**	**64**
Change in prior service pension and other benefit costs	**(4)**	**1**	**(3)**
Other comprehensive income	**$ 123**	**$ (65)**	**$ 58**
For the year ended December 31, 2016			
Unrealized foreign exchange (loss) gain on:			
Translation of the net investment in U.S. subsidiaries	(132)	—	(132)
Translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries (Note 17)	150	(20)	130
Change in derivatives designated as cash flow hedges:			
Realized loss on cash flow hedges recognized in income	10	(2)	8
Unrealized loss on cash flow hedges	(12)	2	(10)
Change in pension and other benefits actuarial gains and losses	(422)	113	(309)
Change in prior service pension and other benefit costs	(12)	3	(9)
Other comprehensive loss	$ (418)	$ 96	$ (322)
For the year ended December 31, 2015			
Unrealized foreign exchange gain (loss) on:			
Translation of the net investment in U.S. subsidiaries	671	—	671
Translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries (Note 17)	(757)	100	(657)
Change in derivatives designated as cash flow hedges:			
Realized loss on cash flow hedges recognized in income	7	(2)	5
Unrealized loss on cash flow hedges	(76)	21	(55)
Change in pension and other benefits actuarial gains and losses	1,058	(281)	777
Change in prior service pension and other benefit costs	1	—	1
Other comprehensive income	$ 904	$ (162)	$ 742

The components of Accumulated other comprehensive loss, net of tax, are as follows:

(in millions of Canadian dollars)	**2017**	2016
Unrealized foreign exchange gain on translation of the net investment in U.S. subsidiaries	**$ 443**	$ 738
Unrealized foreign exchange loss on translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	**(334)**	(611)
Net deferred and unrealized losses on derivatives	**(88)**	(102)
Amounts for defined benefit pension and other post-retirement plans not recognized in income (Note 20)	**(1,761)**	(1,822)
Equity accounted investments	**(1)**	(2)
Accumulated other comprehensive loss	**$ (1,741)**	$ (1,799)

Changes in Accumulated other comprehensive loss by component are as follows:

(in millions of Canadian dollars)	Foreign currency net of hedging activities[1]	Derivatives and other[1]	Pension and post-retirement defined benefit plans[1]	Total[1]
Opening balance, 2017	**$ 127**	**$ (104)**	**$ (1,822)**	**$ (1,799)**
Other comprehensive loss before reclassifications	**(17)**	**(4)**	**(50)**	**(71)**
Amounts reclassified from accumulated other comprehensive loss	**(1)**	**19**	**111**	**129**
Net current-period other comprehensive (loss) income	**(18)**	**15**	**61**	**58**
Closing balance, 2017	**$ 109**	**$ (89)**	**$ (1,761)**	**$ (1,741)**
Opening balance, 2016	$ 129	$ (102)	$ (1,504)	$ (1,477)
Other comprehensive loss before reclassifications	(2)	(10)	(456)	(468)
Amounts reclassified from accumulated other comprehensive loss	—	8	138	146
Net current-period other comprehensive loss	(2)	(2)	(318)	(322)
Closing balance, 2016	$ 127	$ (104)	$ (1,822)	$ (1,799)

[1] Amounts are presented net of tax.

Amounts in Pension and post-retirement defined benefit plans reclassified from Accumulated other comprehensive loss are as follows:

	2017	2016
Amortization of prior service costs[1]	**$ (4)**	(6)
Recognition of net actuarial loss[1]	**154**	194
Total before income tax	**$ 150**	188
Income tax recovery	**(39)**	(50)
Net of income tax	**$ 111**	138

[1] Impacts Compensation and benefits on the Consolidated Statements of Income.

8 CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS

(in millions of Canadian dollars)	**2017**	2016	2015
(Use) source of cash:			
Accounts receivable, net	**$ (91)**	$ 44	$ 80
Materials and supplies	**9**	14	15
Other current assets	**(26)**	(18)	55
Accounts payable and accrued liabilities	**(30)**	(95)	125
Change in non-cash working capital	**$ (138)**	$ (55)	$ 275

9 ACCOUNTS RECEIVABLE, NET

(in millions of Canadian dollars)	2017	2016
Freight	$ 536	$ 461
Non-freight	176	162
	712	623
Allowance for doubtful accounts	(25)	(32)
Total accounts receivable, net	$ 687	$ 591

The Company maintains an allowance for doubtful accounts based on expected collectability of accounts receivable. Credit losses are based on specific identification of uncollectable accounts, the application of historical percentages by aging category and an assessment of the current economic environment. At December 31, 2017, allowances of $25 million (2016 – $32 million) were recorded in "Accounts receivable, net". During 2017, provisions of $3 million of accounts receivable (2016 – $7 million; 2015 – $7 million) were recorded within "Purchased services and other".

10 DISPOSITIONS OF PROPERTIES

Gain on sale of Obico

During the fourth quarter of 2016, the Company completed the sale of its Obico rail yard, for gross proceeds of $38 million. The Company recorded a gain on sale of $37 million ($33 million after tax) within "Purchased services and other" from the transaction.

Gain on sale of Arbutus Corridor

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

Gain on sale of Delaware & Hudson South

During the first quarter of 2015, the Company finalized a sales agreement with Norfolk Southern Corporation ("NS") for approximately 283 miles of the Delaware and Hudson Railway Company, Inc.'s line between Sunbury, Pennsylvania, and Schenectady, New York ("D&H South"). The sale, which received approval by the U.S. Surface Transportation Board ("STB") on May 15, 2015, was completed on September 18, 2015 for proceeds of $281 million (U.S. $214 million). The Company recorded a gain on sale of $68 million ($42 million after tax) from the transaction during the third quarter of 2015.

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

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

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

11 INVESTMENTS

(in millions of Canadian dollars)	2017	2016
Rail investments accounted for on an equity basis	$ 144	$ 136
Other investments	38	58
Total investments	$ 182	$ 194

12 PROPERTIES

(in millions of Canadian dollars except percentages)	2017	2017			2016		
	Weighted average annual depreciation rate	**Cost**	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
Track and roadway	2.8%	**$ 17,285**	**$ 4,814**	**$ 12,471**	$ 16,817	$ 4,573	$ 12,244
Buildings	3.0%	**719**	**196**	**523**	662	178	484
Rolling stock	2.9%	**4,114**	**1,557**	**2,557**	4,060	1,524	2,536
Information systems[1]	11.4%	**551**	**264**	**287**	584	299	285
Other	5.1%	**1,760**	**582**	**1,178**	1,691	551	1,140
Total		**$ 24,429**	**$ 7,413**	**$ 17,016**	$ 23,814	$ 7,125	$ 16,689

[1] During 2017, CP capitalized costs attributable to the design and development of internal-use software in the amount of $49 million (2016 – $46 million; 2015 – $42 million). Current year depreciation expense related to internal use software was $55 million (2016 – $63 million; 2015 – $69 million).

Capital leases included in properties

(in millions of Canadian dollars)	2017			2016		
	Cost	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
Buildings	**$ 1**	**$ 1**	**$ —**	$ 1	$ 1	$ —
Rolling stock	**311**	**115**	**196**	311	105	206
Total assets held under capital lease	**$ 312**	**$ 116**	**$ 196**	$ 312	$ 106	$ 206

13 GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible assets			
(in millions of Canadian dollars)	Net carrying amount	Cost	Accumulated amortization	Net carrying amount	Total goodwill and intangible assets
Balance at December 31, 2015	$ 198	$ 22	$ (9)	$ 13	$ 211
Amortization	—	—	(1)	(1)	(1)
Foreign exchange impact	(7)	—	(1)	(1)	(8)
Balance at December 31, 2016	$ 191	$ 22	$ (11)	$ 11	$ 202
Amortization	—	—	(1)	(1)	(1)
Foreign exchange impact	(13)	—	(1)	(1)	(14)
Balance at December 31, 2017	**$ 178**	**$ 22**	**$ (13)**	**$ 9**	**$ 187**

14 OTHER ASSETS

(in millions of Canadian dollars)	2017	2016
Long-term materials	$ 24	$ 22
Prepaid leases	5	6
Unamortized fees on credit facility	5	7
Contracted customer incentives	11	2
Long-term receivables	1	2
Other	23	18
Total other assets	$ 69	$ 57

Fees on credit facility and contracted customer incentives are amortized to income over the term of the related facility and over the term of the related revenue contract, respectively.

15 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in millions of Canadian dollars)	2017	2016
Trade payables	$ 402	$ 352
Accrued charges	256	282
Income and other taxes payable	72	146
Accrued interest	128	137
Financial derivative liability (Note 17)	55	69
Payroll-related accruals	72	73
Accrued vacation	59	65
Dividends payable	82	73
Personal injury and other claims provision	28	26
Provision for environmental remediation (Note 18)	8	9
Stock-based compensation liabilities	32	40
Other	44	50
Total accounts payable and accrued liabilities	$ 1,238	$ 1,322

16 DEBT

(in millions of Canadian dollars except percentages)			Maturity	Currency in which payable	2017	2016
6.500%	10-year Notes	(A)	May 2018	U.S.$	**$ 345**	$ 369
6.250%	10-year Medium Term Notes	(A)	Jun 2018	CDN$	**375**	375
7.250%	10-year Notes	(A)	May 2019	U.S.$	**439**	469
9.450%	30-year Debentures	(A)	Aug 2021	U.S.$	**314**	336
5.100%	10-year Medium Term Notes	(A)	Jan 2022	CDN$	**125**	125
4.500%	10-year Notes	(A)	Jan 2022	U.S.$	**311**	333
4.450%	12.5-year Notes	(A)	Mar 2023	U.S.$	**438**	469
2.900%	10-year Notes	(A)	Feb 2025	U.S.$	**878**	940
3.700%	10.5-year Notes	(A)	Feb 2026	U.S.$	**313**	335
7.125%	30-year Debentures	(A)	Oct 2031	U.S.$	**439**	470
5.750%	30-year Debentures	(A)	Mar 2033	U.S.$	**307**	328
4.800%	20-year Notes	(A)	Sep 2035	U.S.$	**375**	401
5.950%	30-year Notes	(A)	May 2037	U.S.$	**558**	597
6.450%	30-year Notes	(A)	Nov 2039	CDN$	**400**	400
5.750%	30-year Notes	(A)	Jan 2042	U.S.$	**308**	330
4.800%	30-year Notes	(A)	Aug 2045	U.S.$	**687**	736
6.125%	100-year Notes	(A)	Sep 2115	U.S.$	**1,129**	1,208
5.41%	Senior Secured Notes	(B)	Mar 2024	U.S.$	**111**	126
6.91%	Secured Equipment Notes	(C)	Oct 2024	CDN$	**120**	133
7.49%	Equipment Trust Certificates	(D)	Jan 2021	U.S.$	**52**	56
Obligations under capital leases						
6.57% – 6.99%		(E)	2022 – 2026	U.S.$	**148**	163
12.77%		(E)	Jan 2031	CDN$	**3**	3
					8,175	8,702
Perpetual 4% Consolidated Debenture Stock		(F)		U.S.$	**38**	41
Perpetual 4% Consolidated Debenture Stock		(F)		G.B.£	**6**	6
					8,219	8,749
Less: Unamortized fees on long-term debt					**60**	65
					8,159	8,684
Less: Long-term debt maturing within one year					**746**	25
					$ 7,413	$ 8,659

At December 31, 2017, the gross amount of long-term debt denominated in U.S. dollars was U.S. $5,755 million (2016 – U.S. $5,763 million).

Annual maturities and principal repayment requirements, excluding those pertaining to capital leases, for each of the five years following 2017 are (in millions): 2018 – $742; 2019 – $462; 2020 – $63; 2021 – $353; 2022 – $466.

Fees on long-term debt are amortized to income over the term of the related debt.

A. These debentures and notes pay interest semi-annually and are unsecured, but carry a negative pledge.

B. The 5.41% Senior Secured Notes are collateralized by specific locomotive units with a carrying value of $118 million at December 31, 2017. The Company pays equal blended semi-annual payments of principal and interest. Final repayment of the remaining principal of U.S. $44 million is due in March 2024.

C. The 6.91% Secured Equipment Notes are full recourse obligations of the Company collateralized by a first charge on specific locomotive units with a carrying value of $107 million at December 31, 2017. The Company pays equal blended semi-annual payments of principal and interest. Final repayment of the remaining principal of $11 million is due in October 2024.

D. The 7.49% Equipment Trust Certificates are secured by specific locomotive units with a carrying value of $104 million at December 31, 2017. The Company makes semi-annual payments that vary in amount and are interest-only payments or blended principal and interest payments. Final repayment of the remaining principal of U.S. $11 million is due in January 2021.

E. At December 31, 2017, capital lease obligations included in long-term debt were as follows:

(in millions of Canadian dollars)	Year	Capital leases
Minimum lease payments in:		
	2018	$ 15
	2019	15
	2020	15
	2021	15
	2022	105
	Thereafter	37
Total minimum lease payments		202
Less: Imputed interest		(51)
Present value of minimum lease payments		151
Less: Current portion		(4)
Long-term portion of capital lease obligations		$ 147

During the years ended 2017, 2016, and 2015, the Company had no additions to property, plant and equipment under capital lease obligations.

The carrying value of the assets collateralizing the capital lease obligations was $196 million at December 31, 2017.

F. The Consolidated Debenture Stock, authorized by an Act of Parliament of 1889, constitutes a first charge upon and over the whole of the undertaking, railways, works, rolling stock, plant, property and effects of the Company, with certain exceptions.

Credit facility

CP has a revolving credit facility (the “facility”) agreement with 16 highly rated financial institutions for a commitment amount of U.S. $2.0 billion. The facility includes a U.S. $1.0 billion one-year plus one-year term-out portion and a U.S. $1.0 billion five-year portion. The facility can accommodate draws of cash and/or letters of credit at market competitive pricing. The agreement requires the Company not to exceed a maximum debt to earnings before interest, tax, depreciation, and amortization ratio. As at December 31, 2017 and 2016, the Company was in compliance with all terms and conditions of the credit facility arrangements and satisfied the threshold stipulated in this financial covenant.

Effective June 23, 2017, the Company extended the maturity date by one year on its existing revolving U.S. $2.0 billion credit facility, which includes a U.S. $1.0 billion five-year portion and U.S. $1.0 billion one-year plus one-year term-out portion. The maturity date on the first U.S. $1.0 billion tranche was extended to June 27, 2019; the maturity date on the second U.S. $1.0 billion tranche was extended to June 28, 2022.

As at December 31, 2017 and 2016, the facility was undrawn. The amount available under the terms of the credit facility was U.S. $2.0 billion at December 31, 2017 (December 31, 2016 – U.S. $2.0 billion).

The Company also has a commercial paper program which enables it to issue commercial paper up to a maximum aggregate principal amount of U.S. $1.0 billion in the form of unsecured promissory notes. The commercial paper program is backed by the U.S. $1.0 billion one-year plus one-year term-out portion of the revolving credit facility. As at December 31, 2017, the Company had no commercial paper borrowings outstanding (December 31, 2016 – $nil).

CP has bilateral letter of credit facilities with six highly rated financial institutions to support its requirement to post letters of credit in the ordinary course of business. Under these agreements, the Company has the option to post collateral in the form of cash or cash equivalents, equal at least to the face value of the letter of credit issued. These agreements permit CP to withdraw amounts posted as collateral at any time; therefore, the amounts posted as collateral are presented as “Cash and cash equivalents” on the Company’s Consolidated Balance Sheets. As at December 31, 2017, the Company had $150 million posted as collateral on its bilateral letters of credit facility (December 31, 2016 – $nil). At December 31, 2017, under its bilateral facilities the Company had letters of credit drawn of $319 million (December 31, 2016 – $320 million) from a total available amount of $600 million (December 31, 2016 – $600 million).

17 FINANCIAL INSTRUMENTS

A. Fair values of financial instruments

The Company categorizes its financial assets and liabilities measured at fair value into a three-level hierarchy established by GAAP that prioritizes those inputs to valuation techniques used to measure fair value based on the degree to which they are observable. The three levels of the fair value hierarchy are as follows: Level 1 inputs are quoted prices in active markets for identical assets and liabilities; Level 2 inputs, other than quoted prices included within Level 1, are observable for the asset or liability either directly or indirectly; and Level 3 inputs are not observable in the market.

When possible, the estimated fair value is based on quoted market prices and, if not available, it is based on 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, FX and commodity) and volatility, depending on the type of derivative and nature of the underlying risk. The Company uses inputs and data used by willing market participants when valuing derivatives and considers its own credit default swap spread as well as those of its counterparties in its determination of fair value. All derivatives and long-term debt are classified as Level 2.

The carrying values of financial instruments equal or approximate their fair values with the exception of long-term debt:

(in millions of Canadian dollars)	**December 31, 2017**	December 31, 2016
Long-term debt (including current maturities):		
Fair value	**$ 9,680**	$ 9,981
Carrying value	**8,159**	8,684

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 principal and interest at estimated interest rates expected to be available to the Company at period end. As at December 31, 2017 and 2016, the Company did not have any deposits in the form of short-term investments with financial institutions.

B. Financial risk management

Derivative financial instruments

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

Credit risk management

Credit risk refers to the possibility that a customer or counterparty will fail to fulfill its obligations under a contract and as a result create a financial loss for the Company.

The railway industry predominantly serves financially established customers, and the Company has experienced limited financial losses with respect to credit risk. The credit worthiness of customers is assessed using credit scores supplied by a third party, and through direct monitoring of their financial well-being on a continual basis. The Company establishes guidelines for customer credit limits and should thresholds in these areas be reached, appropriate precautions are taken to improve collectability.

Counterparties to financial instruments expose the Company to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. The Company does not anticipate non-performance that would materially impact the Company's financial statements. In addition, the Company believes there are no significant concentrations of credit risk.

FX management

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

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

Net investment hedge

The FX gains and losses on long-term debt are mainly unrealized and can only be realized when U.S. dollar-denominated long-term debt matures or is settled. The Company also has long-term FX exposure on its investment in U.S. affiliates. The majority of the Company's U.S. dollar-denominated long-term debt has been designated as a hedge of the net investment in foreign subsidiaries. This designation has the effect of mitigating volatility on Net income by offsetting long-term FX gains and losses on U.S. dollar-denominated long-term debt and gains and losses on its net investment. The effective portion recognized in "Other comprehensive income" in 2017 was an FX gain of $319 million, the majority of which was unrealized (2016 – unrealized gain of $150 million; 2015 – unrealized loss of $757 million) (see Note 7). There was no ineffectiveness during 2017 (2016 – $nil; 2015 – $nil).

FX forward contracts

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

At December 31, 2017, the Company had a negligible amount of net unamortized gains related to FX forward contracts to fix the exchange rate on U.S. dollar-denominated debt maturities settled in previous years (December 31, 2016 – $1 million). During 2017, $1 million of pretax gain related to these previously settled derivatives has been amortized from "Accumulated other comprehensive loss" to "Other income and charges" (December 31, 2016 – $1 million). The Company expects that during the next 12 months, a negligible amount of pretax gain will be reclassified to "Other income and charges".

At December 31, 2017 and 2016, the Company had no remaining FX forward contracts to fix the exchange rate on U.S. dollar-denominated debt maturities.

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 ongoing market conditions. Debt subject to variable interest rates exposes the Company to variability in interest expense, while debt subject to fixed interest rates exposes the Company to variability in the fair value of debt.

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

Forward starting swaps

As at December 31, 2017, the Company had forward starting floating-to-fixed interest rate swap agreements ("forward starting swaps") totalling a notional amount of U.S. $500 million to fix the benchmark rate on cash flows associated with highly probable forecasted issuances of long-term notes (December 31, 2016 – U.S. $700 million). The effective portion of changes in fair value on the forward starting swaps is recorded in "Accumulated other comprehensive loss", net of tax, as cash flow hedges until the highly probable forecasted notes are issued. Subsequent to the notes issuance, amounts in "Accumulated other comprehensive loss" are reclassified to "Net interest expense".

During the second quarter of 2016, the Company de-designated a notional amount of U.S. $700 million of forward starting swaps. The Company did not cash settle these swaps, and there was no ineffectiveness to record upon de-designation. Concurrently, the Company re-designated and rolled the forward starting swaps totalling U.S. $700 million to fix the benchmark rate on cash flows associated with a highly probable forecasted debt issuance of long-term notes.

During the second quarter of 2017, the Company de-designated the hedging relationship for U.S. $700 million of forward starting swaps. The Company settled a notional amount of U.S. $200 million of forward starting swaps for a cash payment of U.S. $16 million ($22 million). The Company rolled the remaining notional amount of U.S. $500 million of forward starting swaps and did not cash settle these swaps. The impact of the U.S. $200 million settlement and U.S. $500 million roll of the forward starting swaps was a charge of $13 million to "Other income and charges" on the Company's Consolidated Statements of Income. Concurrently, the Company re-designated the forward starting swaps totalling U.S. $500 million to fix the benchmark rate on cash flows associated with highly probable forecasted issuances of long-term notes.

As at December 31, 2017, the total fair value loss of $55 million (December 31, 2016 – fair value loss of $69 million) derived from the forward starting swaps was included in "Accounts payable and accrued liabilities". Changes in fair value from the forward starting swaps for the year ended December 31, 2017 was a loss of $8 million (2016 – a loss of $9 million). The effective portion for the year ended December 31, 2017 was a loss of $7 million (2016 – loss of $12 million) and was recorded in "Other comprehensive income". In addition to the charge on hedge roll and de-designation, for the year ended December 31, 2017, an ineffectiveness loss of $1 million (2016 – gain of $3 million) was recorded in "Net interest expense" on the Consolidated Statements of Income.

For the year ended December 31, 2017, a loss of $11 million related to previous forward starting swap hedges has been amortized to "Net interest expense" (2016 – a loss of $11 million). The Company expects that during the next 12 months, $12 million of losses will be amortized to "Net interest expense".

Treasury rate locks

At December 31, 2017, the Company had net unamortized losses related to interest rate locks, which are accounted for as cash flow hedges, settled in previous years totalling $20 million (December 31, 2016 – $21 million). This amount is composed of various unamortized gains and losses related to specific debts which are reflected in "Accumulated other comprehensive loss" and are amortized to "Net interest expense" in the period that interest on the related debt is charged. The amortization of these gains and losses resulted in a $1 million increase to "Net interest expense" and "Other comprehensive income" in 2017 (2016 – negligible; 2015 – negligible). The Company expects that during the next 12 months, a net loss of $1 million related to these previously settled derivatives will be reclassified to "Net interest expense".

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 adjustment 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 may not be completely recovered from shippers due to timing and volatility in the market.

18 OTHER LONG-TERM LIABILITIES

(in millions of Canadian dollars)	**2017**	2016
Provision for environmental remediation, net of current portion(1)	**$ 70**	$ 76
Stock-based compensation liabilities, net of current portion	**67**	72
Deferred revenue on rights-of-way license agreements, net of current portion(2)	**26**	29
Deferred retirement compensation	**4**	29
Deferred gains on sale leaseback transactions(2)	**16**	19
Other, net of current portion	**48**	59
Total other long-term liabilities	**$ 231**	$ 284

(1) As at December 31, 2017, the aggregate provision for environmental remediation, including the current portion was $78 million (2016 – $85 million).

(2) The deferred revenue on rights-of-way license agreements, and deferred gains on sale leaseback transactions are being amortized to income on a straight-line basis over the related lease terms.

Environmental remediation accruals

Environmental remediation accruals cover site-specific remediation programs. The estimate of the probable costs to be incurred in the remediation of properties contaminated by past railway use reflects the nature of contamination at individual sites according to typical activities and scale of operations conducted. CP has developed remediation strategies for each property based on the nature and extent of the contamination, as well as the location of the property and surrounding areas that may be adversely affected by the presence of contaminants, considering available technologies, treatment and disposal facilities and the acceptability of site-specific plans based on the local regulatory environment. Site-specific plans range from containment and risk management of the contaminants through to the removal and treatment of the contaminants and affected soils and groundwater. The details of the estimates reflect the environmental liability at each property. 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" (see Note 15). Payments are expected to be made over 10 years to 2027.

The accruals for environmental remediation represent CP's best estimate of its probable future obligation and include both asserted and unasserted claims, without reduction for anticipated recoveries from third parties. Although the recorded accruals include CP's best estimate of all probable costs, CP's total environmental remediation costs cannot be predicted with certainty. Accruals for environmental remediation may change from time to time as new information about previously untested sites becomes known, environmental laws and regulations evolve and advances are made in environmental remediation technology. The accruals may also vary as the courts decide legal proceedings against outside parties responsible for contamination. These potential charges, which cannot be quantified at this time, 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. Changes to costs are reflected as changes to "Other long-term liabilities" or "Accounts payable and accrued liabilities" on the Company's Consolidated Balance Sheets and to "Purchased services and other" within operating expenses on the Company's Consolidated Statements of Income. The amount charged to income in 2017 was $5 million (2016 – $6 million; 2015 – $7 million).

19 SHAREHOLDERS' EQUITY

Authorized and issued share capital

The Company is authorized to issue an unlimited number of Common Shares, an unlimited number of First Preferred Shares and an unlimited number of Second Preferred Shares. At December 31, 2017, no First or Second Preferred Shares had been issued.

The following table summarizes information related to Common Share balances as at December 31:

(number of shares in millions)	**2017**	2016	2015
Share capital, January 1	**146.3**	153.0	166.1
CP Common Shares repurchased	**(1.9)**	(6.9)	(13.7)
Shares issued under stock option plan	**0.5**	0.2	0.6
Share capital, December 31	**144.9**	146.3	153.0

The change in the "Share capital" balances includes $nil related to the cancellation of the tandem share appreciation rights liability on exercise of tandem stock options (2016 – $1 million; 2015 – $2 million), and $12 million of stock-based compensation transferred from "Additional paid-in capital" (2016 – $5 million; 2015 – $10 million).

Share repurchase

On March 11, 2014, the Company announced a new share repurchase program to implement a normal course issuer bid ("NCIB") to purchase, for cancellation, up to 5.3 million Common Shares before March 16, 2015. On September 29, 2014, the Company announced the amendment of the bid to increase the maximum number of its Common Shares that may be purchased from 5.3 million to 12.7 million of its outstanding Common Shares. The Company completed the purchase of 10.5 million Common Shares in 2014. An additional 2.2 million Common Shares were purchased for $490 million in the first quarter of 2015 prior to the March 16, 2015 expiry date of the program.

On March 16, 2015, the Company announced the renewal of its NCIB, commencing March 18, 2015, to purchase up to 9.1 million of its outstanding Common Shares for cancellation before March 17, 2016. On August 31, 2015, the Company amended the NCIB to increase the maximum number of its Common Shares that may be purchased from 9.1 million to 11.9 million of its outstanding Common Shares. As at December 31, 2015, the Company had purchased 11.3 million Common Shares for $2,258 million under this NCIB program.

On April 20, 2016, the Company announced a new NCIB, commencing May 2, 2016 to May 1, 2017, to purchase up to 6.9 million of its outstanding Common Shares for cancellation. The Company completed this NCIB on September 28, 2016.

On May 10, 2017, the Company announced a new NCIB, commencing May 15, 2017, to purchase up to 4.38 million Common Shares for cancellation before May 14, 2018. As at December 31, 2017, the Company had purchased 1.9 million Common Shares for $381 million under this NCIB program.

All purchases are made in accordance with the respective NCIB at prevalent market prices plus brokerage fees, or such other prices that may be permitted by the Toronto Stock Exchange, with consideration allocated to share capital up to the average carrying amount of the shares, and any excess allocated to "Retained earnings".

The following table provides the activities under the share repurchase programs:

	2017	2016	2015
Number of Common Shares repurchased	**1,888,100**	6,910,000	13,549,977
Weighted-average price per share[1]	**$ 201.53**	$ 175.08	$ 202.79
Amount of repurchase (in millions)[1]	**$ 381**	$ 1,210	$ 2,748

[1] Includes brokerage fees.

20 PENSIONS AND OTHER BENEFITS

The Company has both defined benefit ("DB") and defined contribution ("DC") pension plans. At December 31, 2017, the Canadian pension plans represent approximately 99% of total combined pension plan assets and approximately 98% of total combined pension plan obligations.

The DB plans provide for pensions based principally on years of service and compensation rates near retirement. Pensions for Canadian pensioners are partially indexed to inflation. Annual employer contributions to the DB plans, which are actuarially determined, are made on the basis of being not less than the minimum amounts required by federal pension supervisory authorities.

The Company has other benefit plans including post-retirement health and life insurance for pensioners, and post-employment long-term disability and workers' compensation benefits, which are based on Company-specific claims. At December 31, 2017, the Canadian other benefits plans represent approximately 96% of total combined other plan obligations.

The Finance Committee of the Board of Directors has approved an investment policy that establishes long-term asset mix targets which take into account the Company's expected risk tolerances. Pension plan assets are managed by a suite of independent investment managers, with the allocation by manager reflecting these asset mix targets. Most of the assets are actively managed with the objective of outperforming applicable benchmarks. In accordance with the investment policy, derivative instruments may be used to hedge or adjust existing or anticipated exposures.

To develop the expected long-term rate of return assumption used in the calculation of net periodic benefit cost applicable to the market-related value of assets, the Company considers the expected composition of the plans' assets, past experience and future estimates of long-term investment returns. Future estimates of investment returns reflect the expected annual yield on applicable fixed income capital market indices, and the long-term return expectation for public equity, real estate, infrastructure and absolute return investments and the expected added value (relative to applicable benchmark indices) from active management of pension fund assets.

The Company has elected to use a market-related value of assets for the purpose of calculating net periodic benefit cost, developed from a five years average of market values for the plans' public equity and absolute return investments (with each prior year's market value adjusted to the current date for assumed investment income during the intervening period) plus the market value of the plans' fixed income, real estate and infrastructure securities.

The benefit obligation is discounted using a discount rate that is a blended yield to maturity for a hypothetical portfolio of high-quality corporate debt instruments with cash flows matching projected benefit payments. The discount rate is determined by management.

Net periodic benefit cost

The elements of net periodic benefit cost for DB pension plans and other benefits recognized in the year include the following components:

	Pensions			Other benefits		
(in millions of Canadian dollars)	**2017**	2016	2015	**2017**	2016	2015
Current service cost (benefits earned by employees in the year)	**$ 103**	$ 106	$ 126	**$ 12**	$ 11	$ 12
Other components of net periodic benefit (recovery) cost:						
Interest cost on benefit obligation	**451**	467	463	**20**	21	21
Expected return on fund assets	**(893)**	(846)	(816)	**—**	—	—
Recognized net actuarial loss (gain)	**153**	190	265	**(1)**	7	2
Amortization of prior service costs	**(5)**	(7)	(6)	**1**	1	1
Total other components of net periodic benefit (recovery) cost	**(294)**	(196)	(94)	**20**	29	24
Net periodic benefit (recovery) cost	**$ (191)**	$ (90)	$ 32	**$ 32**	$ 40	$ 36

Projected benefit obligation, fund assets, and funded status

Information about the Company's DB pension plans and other benefits, in aggregate, is as follows:

	Pensions		Other benefits	
(in millions of Canadian dollars)	**2017**	2016	**2017**	2016
Change in projected benefit obligation:				
Benefit obligation at January 1	**$ 11,399**	$ 11,194	**$ 510**	$ 513
Current service cost	**103**	106	**12**	11
Interest cost	**451**	467	**20**	21
Employee contributions	**44**	40	**1**	1
Benefits paid	**(648)**	(645)	**(35)**	(31)
Foreign currency changes	**(15)**	(7)	**(3)**	—
Plan amendments and other	**1**	6	**—**	—
Actuarial loss (gain)	**344**	238	**13**	(5)
Projected benefit obligation at December 31	**$ 11,679**	$ 11,399	**$ 518**	$ 510

	Pensions		Other benefits	
(in millions of Canadian dollars)	**2017**	2016	**2017**	2016
Change in fund assets:				
Fair value of fund assets at January 1	**$ 12,196**	$ 12,300	**$ 5**	$ 6
Actual return on fund assets	**1,183**	461	**(1)**	(1)
Employer contributions	**46**	48	**34**	30
Employee contributions	**44**	40	**1**	1
Benefits paid	**(648)**	(645)	**(35)**	(31)
Foreign currency changes	**(13)**	(8)	**—**	—
Fair value of fund assets at December 31	**$ 12,808**	$ 12,196	**$ 4**	$ 5
Funded status – plan surplus (deficit)	**$ 1,129**	$ 797	**$ (514)**	$ (505)

(in millions of Canadian dollars)	**2017** Pension plans in surplus	**2017** Pension plans in deficit	2016 Pension plans in surplus	2016 Pension plans in deficit
Projected benefit obligation at December 31	**$ (11,174)**	**$ (505)**	$ (10,902)	$ (497)
Fair value of fund assets at December 31	**12,581**	**227**	11,972	224
Funded Status	**$ 1,407**	**$ (278)**	$ 1,070	$ (273)

All Other benefits plans were in a deficit position at December 31, 2017 and 2016.

Pension asset and liabilities in the Company's Consolidated Balance Sheets

Amounts recognized in the Company's Consolidated Balance Sheets are as follows:

	Pensions		Other benefits	
(in millions of Canadian dollars)	**2017**	2016	**2017**	2016
Pension asset	**$ 1,407**	$ 1,070	**$ —**	$ —
Accounts payable and accrued liabilities	**(10)**	(10)	**(33)**	(34)
Pension and other benefit liabilities	**(268)**	(263)	**(481)**	(471)
Total amount recognized	**$ 1,129**	$ 797	**$ (514)**	$ (505)

The defined benefit pension plans' accumulated benefit obligation as at December 31, 2017 was $11,273 million (2016 – $11,143 million). The accumulated benefit obligation is calculated on a basis similar to the projected benefit obligation, except no future salary increases are assumed in the projection of future benefits.

The measurement date used to determine the plan assets and the accrued benefit obligation is December 31. The most recent actuarial valuation for pension funding purposes for the Company's main Canadian pension plan was performed as at January 1, 2017. During 2018, the Company expects to file a new valuation with the pension regulator.

Accumulated other comprehensive loss

Amounts recognized in accumulated other comprehensive loss are as follows:

	Pensions		Other benefits	
(in millions of Canadian dollars)	**2017**	2016	**2017**	2016
Net actuarial loss:				
Other than deferred investment gains	**$ 2,555**	$ 2,842	**$ 81**	$ 66
Deferred investment gains	**(178)**	(366)	**—**	—
Prior service cost	**(2)**	(7)	**2**	3
Deferred income tax	**(676)**	(699)	**(21)**	(17)
Total (Note 7)	**$ 1,699**	$ 1,770	**$ 62**	$ 52

The unamortized actuarial loss and the unamortized prior service cost included in "Accumulated other comprehensive loss" that are expected to be recognized in net periodic benefit cost during 2018 are $114 million and a recovery of $3 million, respectively, for pensions and $3 million and $nil, respectively, for other post-retirement benefits.

Actuarial assumptions

Weighted-average actuarial assumptions used were approximately:

(percentages)	**2017**	2016	2015
Benefit obligation at December 31:			
Discount rate	**3.80**	4.02	4.22
Projected future salary increases	**2.75**	2.75	3.00
Health care cost trend rate	**7.00**[(1)]	7.00[(1)]	7.00[(2)]
Benefit cost for year ended December 31:			
Discount rate	**4.02**	4.22	4.09
Expected rate of return on fund assets	**7.75**	7.75	7.75
Projected future salary increases	**2.75**	3.00	3.00
Health care cost trend rate	**7.00**[(1)]	7.00[(2)]	7.00[(2)]

[(1)] The health care cost trend rate is assumed to be 7.00% in 2017 and 2018, and then decreasing by 0.50% per year to an ultimate rate of 5.00% per year in 2022 and thereafter.

[(2)] The health care cost trend rate was previously assumed to be 6.50% in 2017 (7.00% in 2016 and 2015), and then decreasing by 0.50% per year to an ultimate rate of 5.00% per year in 2020 and thereafter.

Assumed health care cost trend rates affect the amounts reported for the health care plans. A one-percentage-point increase in the assumed health care cost trend rate would increase the post-retirement benefit obligation by $6 million, and a one-percentage-point decrease in the assumed health care cost trend rate would decrease the post-retirement benefit obligation by $6 million. A one-percentage-point increase or decrease in the assumed health care cost trend rate would have no material effect on the total of service and interest costs.

Plan assets

Plan assets are recorded at fair value. The major asset categories are public equity securities, fixed income securities, real estate, infrastructure and absolute return investments. The fair values of the public equity and fixed income securities are primarily based on quoted market prices. Real estate values are based on annual valuations performed by external parties, taking into account current market conditions and recent sales transactions where practical and appropriate. Infrastructure values are based on the fair value of each fund's assets as calculated by the fund manager, generally using a discounted cash flow analysis that takes into account current market conditions and recent sales transactions where practical and appropriate. Absolute return investments are a portfolio of units of externally managed hedge funds and are valued by the fund administrators.

The Company's pension plan asset allocation, the current weighted average asset allocation targets and the current weighted average policy range for each major asset class, were as follows:

			Percentage of plan assets at December 31	
Asset allocation (percentage)	Current asset allocation target	Current policy range	**2017**	2016
Cash and cash equivalents	0.5	0 – 5	**1.4**	1.1
Fixed income	29.5	20 – 40	**26.1**	21.4
Public equity	46.0	35 – 55	**53.3**	53.8
Real estate and infrastructure	12.0	4 – 20	**6.2**	7.5
Absolute return	12.0	0 – 18	**13.0**	16.2
Total	100.0		**100.0**	100.0

Summary of the assets of the Company's DB pension plans at fair values

The following is a summary of the assets of the Company's DB pension plans at fair values at December 31, 2017 and 2016:

(in millions of Canadian dollars)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at NAV[(1)]	Total
December 31, 2017					
Cash and cash equivalents	$ 165	$ 11	$ —	$ —	$ 176
Fixed income					
• Government bonds[(2)]	—	2,087	—	—	2,087
• Corporate bonds[(2)]	—	1,215	—	—	1,215
• Mortgages[(3)]	—	45	—	—	45
Public equities					
• Canada	1,467	62	—	—	1,529
• U.S. and international	5,254	42	—	—	5,296
Real estate[(4)]	—	—	—	622	622
Derivative assets[(5)]	—	—	—	—	—
Absolute return[(6)]					
• Funds of hedge funds	—	—	—	681	681
• Multi-strategy funds	—	—	—	515	515
• Credit funds	—	—	—	252	252
• Equity funds	—	—	—	214	214
Infrastructure[(7)]	—	—	—	176	176
	$ 6,886	**$ 3,462**	**$ —**	**$ 2,460**	**$ 12,808**
December 31, 2016					
Cash and cash equivalents	$ 121	$ 11	$ —	$ —	$ 132
Fixed income					
• Government bonds[(2)]	—	1,357	—	—	1,357
• Corporate bonds[(2)]	—	1,186	—	—	1,186
• Mortgages[(3)]	—	71	—	—	71
Public equities					
• Canada	1,480	57	—	—	1,537
• U.S. and international	4,985	36	—	—	5,021
Real estate[(4)]	—	—	437	188	625
Derivative assets[(5)]	—	7	—	—	7
Absolute return[(6)]					
• Funds of hedge funds	—	—	—	668	668
• Multi-strategy funds	—	—	—	502	502
• Credit funds	—	—	—	505	505
• Equity funds	—	—	—	300	300
Infrastructure[(7)]	—	—	—	285	285
	$ 6,586	$ 2,725	$ 437	$ 2,448	$ 12,196

(1) Investments measured at net asset value ("NAV"):
Amounts are comprised of certain investments measured at fair value using NAV (or its equivalent) as a practical expedient. These investments have not been classified in the fair value hierarchy.

(2) Government & Corporate Bonds:
Fair values for bonds are based on market prices supplied by independent sources as of the last trading day.

(3) Mortgages:
The fair value of mortgages of $45 million (2016 – $71 million) is based on current market yields of financial instruments of similar maturity, coupon and risk factors.

[4] Real estate:
Real estate fund values of $622 million (2016 – $188 million) are based on the NAV of the funds that invest directly in real estate investments. The fair values of the investments have been estimated using the capital accounts representing the plan's ownership interest in the funds. Of the total, $542 million (2016 – $134 million) is subject to redemption frequencies ranging from monthly to annually and a redemption notice period of 90 days. The remaining $80 million (2016 – $54 million) is not subject to redemption and is normally returned through distributions as a result of the liquidation of the underlying real estate investments. There are $53 million of unfunded commitments for real estate investments as at December 31, 2017 (2016 – $81 million).
The fair value of real estate investments of $nil (2016 – $437 million) is based on property appraisals which use a number of approaches that typically include a discounted cash flow analysis, a direct capitalization income method and/or a direct comparison approach. Appraisals of real estate investments are generally performed semi-annually by qualified external accredited appraisers.

[5] Derivatives:
The Company's pension funds may utilize the following derivative instruments: equity futures to replicate equity index returns (Level 2); currency forwards to partially hedge foreign currency exposures (Level 2); bond forwards to reduce asset/liability interest rate risk exposures (Level 2); interest rate swaps to manage duration and interest rate risk (Level 2); credit default swaps to manage credit risk (Level 2); and options to manage interest rate risk and volatility (Level 2). There are currency forwards with a notional value of $nil (2016 – $937 million) and a fair value of $nil (2016 – $7 million) as at December 31, 2017.

[6] Absolute return:
The fair value of absolute return fund investments of $1,662 million (2016 – $1,975 million) is based on the NAV reported by the fund administrators. The funds have different redemption policies and periods.

- Funds of hedge funds invest in a portfolio of hedge funds that allocate capital across a broad array of funds and/or investment managers, with monthly redemptions upon 95 days' notice.
- Multi-strategy funds include funds that invest in broadly diversified portfolios of equity, fixed income and derivative instruments with quarterly redemptions upon 60 days' notice.
- Credit funds invest in an array of fixed income securities with quarterly redemptions upon 60 days' notice.
- Equity funds invest primarily in U.S. and global equity securities. Redemptions range from quarterly upon 60 days' notice to triennially upon 45 days' notice.

[7] Infrastructure:
Infrastructure fund values of $176 million (2016 – $285 million) are based on the NAV of the funds that invest directly in infrastructure investments. The fair values of the investments have been estimated using the capital accounts representing the plans' ownership interest in the funds. The investment in each fund is not subject to redemption and is normally returned through distributions as a result of the liquidation of the underlying infrastructure investments. It was estimated that the investments in these funds will be liquidated over the weighted-average period of approximately one year.

Portion of the assets of the Company's DB pension plans measured at fair value using unobservable inputs (Level 3)

During 2016 and 2017 the portion of the assets of the Company's DB pension plans measured at fair value using unobservable inputs (Level 3) changed as follows:

(in millions of Canadian dollars)		Real Estate
As at January 1, 2016	$	451
Disbursements		(36)
Net realized gains		24
Decrease in net unrealized gains		(2)
As at December 31, 2016	$	437
Disbursements		(43)
Net realized gains		7
Decrease in net unrealized gains		(7)
Net transfers (out of) Level 3		(394)
As at December 31, 2017	**$**	**—**

Additional plan assets information

The Company's expected long-term target return is 7.75%, net of all fees and expenses. In identifying the asset allocation ranges, consideration was given to the long-term nature of the underlying plan liabilities, the solvency and going-concern financial position of the plan, long-term return expectations and the risks associated with key asset classes as well as the relationships of returns on key asset classes with each other, inflation and interest rates. When advantageous and with due consideration, derivative instruments may be utilized, provided the total value of the underlying assets represented by financial derivatives, excluding currency forwards, is limited to 30% of the market value of the fund.

When investing in foreign securities, the plans are exposed to foreign currency risk; the effect of which is included in the valuation of the foreign securities. At December 31, 2017 the plans were 40% exposed to the U.S. dollar, 11% exposed to European currencies, and 7% exposed to various other currencies.

At December 31, 2017, fund assets consisted primarily of listed stocks and bonds, including 107,330 of the Company's Common Shares (2016 – 109,630) at a market value of $25 million (2016 – $21 million) and Unsecured Notes issued by the Company at a par value of $1 million (2016 – $3 million) and a market value of $1 million (2016 – $3 million).

Cash flows

The Company contributed the following to its different pension plans:

(in millions of Canadian dollars)	**2017**	2016	2015
Canadian registered and U.S. qualified DB pension plans	**$ 33**	$ 36	$ 69
Canadian non-registered supplemental pension plan	**13**	12	12
DC plans	**9**	9	9
Total Company pension contribution	**$ 55**	$ 57	$ 90

In addition, the Company made payments directly to employees, their beneficiaries or estates or to third-party benefit administrators of $34 million in 2017 (2016 – $30 million; 2015 – $33 million) with respect to other benefits.

Estimated future benefit payments

The estimated future defined benefit pension and other benefit payments to be paid by the plans for each of the next five years and the subsequent five-year period are as follows:

(in millions of Canadian dollars)	Pensions	Other benefits
2018	$ 609	$ 33
2019	614	31
2020	620	31
2021	625	31
2022	631	30
2023 – 2027	3,220	146

The benefit payments from the Canadian registered and U.S. qualified DB pension plans are payable from their respective pension funds. Benefit payments from the supplemental pension plan and from the other benefits plans are payable directly from the Company.

Defined contribution plan

Canadian non-unionized employees hired prior to July 1, 2010 had the option to participate in the Canadian DC plan. All Canadian non-unionized employees hired after such date must participate in this plan. Employee contributions are based on a percentage of salary. The Company matches employee contributions to a maximum percentage each year.

Effective July 1, 2010, a new U.S. DC plan was established. All U.S. non-unionized employees hired after such date must participate in this plan. Employees do not contribute to the plan. The Company annually contributes a percentage of salary.

The DC plans provide a pension based on total employee and employer contributions plus investment income earned on those contributions.

In 2017, the net cost of the DC plans, which generally equals the employer's required contribution, was $9 million (2016 – $9 million; 2015 – $9 million).

Contributions to multi-employer plans

Some of the Company's unionized employees in the U.S. are members of a U.S. national multi-employer benefit plan. Contributions made by the Company to this plan in 2017 in respect of post-retirement medical benefits were $5 million (2016 – $4 million; 2015 – $4 million).

21 STOCK-BASED COMPENSATION

At December 31, 2017, the Company had several stock-based compensation plans, including a stock option plan, various cash settled liability plans and an employee share purchase plan. These plans resulted in an expense in 2017 of $35 million (2016 – $51 million; 2015 – $66 million).

Effective January 31, 2017, Mr. E. Hunter Harrison resigned from all positions held by him at the Company, including as the Company's Chief Executive Officer and as a member of the Board of Directors of the Company. In connection with Mr. Harrison's resignation, the Company entered into a separation agreement with Mr. Harrison. Under the terms of the separation agreement, the Company agreed to a limited waiver of Mr. Harrison's non-competition and non-solicitation obligations.

Effective January 31, 2017, pursuant to the separation agreement, Mr. Harrison forfeited certain pension and post-retirement benefits and agreed to the surrender for cancellation of 22,514 performance share units ("PSU"), 68,612 deferred share units ("DSU"), and 752,145 stock options.

As a result of this agreement, the Company recognized a recovery of $51 million in "Compensation and benefits" in the first quarter of 2017. Of this amount, $27 million related to a recovery from cancellation of certain pension benefits.

A. Stock Option Plan

The following table summarizes the Company's stock option plan as at December 31, 2017:

	Options outstanding		Nonvested options	
	Number of options	Weighted average exercise price	Number of options	Weighted average grant date fair value
Outstanding, January 1, 2017	2,450,082	$ 121.95	850,167	$ 44.49
Granted	369,980	$ 193.13	369,980	$ 45.78
Exercised	(536,291)	$ 84.93	N/A	N/A
Vested	N/A	N/A	(328,265)	$ 42.97
Forfeited	(803,796)	$ 120.97	(208,955)	$ 47.21
Expired	(700)	$ 62.56	N/A	N/A
Outstanding, December 31, 2017	1,479,275	$ 150.64	682,927	$ 45.46
Vested or expected to vest at December 31, 2017[(1)]	1,419,564	$ 149.05	N/A	N/A
Exercisable, December 31, 2017	796,348	$ 119.32	N/A	N/A

[(1)] As at December 31, 2017, the weighted average remaining term of vested or expected to vest options was 7.0 years with an aggregate intrinsic value of $114 million.

The following table provides the number of stock options outstanding and exercisable as at December 31, 2017 by range of exercise price and their related intrinsic aggregate value, and for options outstanding, the weighted-average years to expiration. The table also provides the aggregate intrinsic value for in-the-money stock options, which represents the amount that would have been received by option holders had they exercised their options on December 31, 2017 at the Company's closing stock price of $229.66.

	Options outstanding				Options exercisable		
Range of exercise prices	Number of options	Weighted average years to expiration	Weighted average exercise price	Aggregate intrinsic value (millions)	Number of options	Weighted average exercise price	Aggregate intrinsic value (millions)
$36.29 – $117.48	416,270	3.7	$ 84.50	$ 60	416,270	$ 84.50	$ 60
$117.49 – $165.95	359,997	6.8	$ 141.38	$ 32	200,362	$ 128.43	$ 20
$165.96 – $190.42	415,914	6.1	$ 182.48	$ 20	106,458	$ 169.28	$ 6
$190.43 – $222.88	287,094	6.7	$ 212.05	$ 5	73,258	$ 219.60	$ 1
Total[(1)]	1,479,275	5.7	$ 150.64	$ 117	796,348	$ 119.32	$ 87

[(1)] As at December 31, 2017, the total number of in-the-money stock options outstanding was 1,479,275 with a weighted-average exercise price of $150.64. The weighted-average years to expiration of exercisable stock options is 4.9 years.

Pursuant to the employee plan, options may be exercised upon vesting, which is between 12 months and 60 months after the grant date, and will expire after seven years. Certain stock options granted in 2017 vest upon the achievement of specific performance criteria. Under the fair value method, the fair value of options at the grant date was approximately $17 million for options issued in 2017 (2016 – $16 million; 2015 – $18 million). The weighted average fair value assumptions were approximately:

	2017	2016	2015
Expected option life (years)[(1)]	**5.48**	5.25	5.25
Risk-free interest rate[(2)]	**1.85%**	1.21%	1.10%
Expected stock price volatility[(3)]	**27%**	27%	26%
Expected annual dividends per share[(4)]	**$ 2.0010**	$ 1.4000	$ 1.4000
Estimated forfeiture rate[(5)]	**2.8%**	2.0%	1.2%
Weighted average grant date fair value of options granted during the year	**$ 45.78**	$ 39.01	$ 55.28

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

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

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

(4) Determined by the current annual dividend at the time of grant. The Company does not employ different dividend yields throughout the contractual term of the option. On May 10, 2017, the Company announced an increase in its quarterly dividend to $0.5625 per share, representing $2.2500 on an annual basis.

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

In 2017, the expense for stock options (regular and performance) was $3 million (2016 – $14 million; 2015 – $15 million). At December 31, 2017, there was $9 million of total unrecognized compensation related to stock options which is expected to be recognized over a weighted-average period of approximately 1.3 years.

The total fair value of shares vested for the stock option plan during 2017 was $14 million (2016 – $15 million; 2015 – $17 million).

The following table provides information related to all options exercised in the stock option plan during the years ended December 31:

(in millions of Canadian dollars)	**2017**	2016	2015
Total intrinsic value	**$ 36**	$ 30	$ 72
Cash received by the Company upon exercise of options	**$ 45**	$ 21	$ 43

B. Other Share-based Plans

Performance share units plan

During 2017, the Company issued 134,991 PSUs with a grant date fair value of approximately $27 million. These units attract dividend equivalents in the form of additional units based on the dividends paid on the Company's Common Shares. PSUs vest and are settled in cash or in CP Common Shares, approximately 3 years after the grant date, contingent upon CP's performance (performance factor). Grant recipients who are eligible to retire and have provided six months of service during the performance period are entitled to the full award. The fair value of PSUs is measured periodically until settlement, using a lattice-based valuation model.

The performance period for PSUs issued in 2017 is January 1, 2017 to December 31, 2019, and the performance factors for these PSUs are Return on Invested Capital ("ROIC"), Total Shareholder Return ("TSR") compared to the S&P/TSX Capped Industrial index, and TSR compared to S&P 1500 Road and Rail index.

The performance period for PSUs issued in 2016 is January 1, 2016 to December 31, 2018, and the performance factors for these PSUs are Operating Ratio, ROIC, TSR compared to the S&P/TSX60 index, and TSR compared to Class I railways.

The performance period for the PSUs issued in 2015 was January 1, 2015 to December 31, 2017. The performance factors for these PSUs were Operating Ratio, ROIC, TSR compared to the S&P/TSX60 index, and TSR compared to Class I railways. The resulting estimated payout was 160% on 82,673 total outstanding awards representing a total fair value of $30 million at December 31, 2017, calculated using the Company's average share price using the last 30 trading days preceding December 31, 2017.

The performance period for the PSUs issued in 2014 was January 1, 2014 to December 31, 2016. The performance factors for these PSUs were Operating Ratio, Free cash flow, TSR compared to the S&P/TSX60 index, and TSR compared to Class I railways. The resulting payout was 118% of the Company's average share price that was calculated using the last 30 trading days preceding December 31, 2016. In the first quarter of 2017, payouts occurred on the total outstanding awards, including dividends reinvested, totalling $31 million on 133,728 outstanding awards.

The following table summarizes information related to the Company's PSUs as at December 31:

	2017	2016
Outstanding, January 1	**373,593**	348,276
Granted	**134,991**	147,157
Units, in lieu of dividends	**3,571**	4,010
Settled	**(133,728)**	(83,466)
Forfeited	**(44,399)**	(42,384)
Outstanding, December 31	**334,028**	373,593

In 2017, the expense for PSUs was $30 million (2016 – $29 million; 2015 – $55 million). At December 31, 2017, there was $20 million of total unrecognized compensation related to PSUs which is expected to be recognized over a weighted-average period of approximately 1.5 years.

Deferred share units plan

The Company established the DSU plan as a means to compensate and assist in attaining share ownership targets set for certain key employees and Directors. A DSU entitles the holder to receive, upon redemption, a cash payment equivalent to the Company's average share price using the 10 trading days prior to redemption. DSUs vest over various periods of up to 48 months and are only redeemable for a specified period after employment is terminated.

Senior managers may elect to receive DSUs in lieu of annual bonus cash payments in the bonus deferral program. In addition, senior managers will be granted a 25% company match of DSUs when deferring cash to DSUs to meet ownership targets. The election to receive eligible payments in DSUs is no longer available to a participant when the value of the participant's DSUs is sufficient to meet the Company's stock ownership guidelines. Senior managers have five years to meet their ownership targets.

An expense for DSUs is recognized over the vesting period for both the initial subscription price and the change in value between reporting periods.

The following table summarizes information related to the DSUs as at December 31:

	2017	2016
Outstanding, January 1	**234,036**	318,176
Granted	**23,932**	31,069
Units, in lieu of dividends	**1,969**	2,798
Settled	**(33,682)**	(87,996)
Forfeited	**(69,708)**	(30,011)
Outstanding, December 31	**156,547**	234,036

During 2017, the Company granted 23,932 DSUs with a grant date fair value of approximately $5 million. In 2017, the recovery for DSUs was $3 million (2016 – $2 million expense; 2015 – $10 million recovery). At December 31, 2017, there was $1 million of total unrecognized compensation related to DSUs which is expected to be recognized over a weighted-average period of approximately 1.4 years.

Summary of share based liabilities paid

The following table summarizes the total share based liabilities paid for each of the years ended December 31:

(in millions of Canadian dollars)	2017	2016	2015
Plan			
DSUs	**$ 6**	$ 17	$ 3
PSUs	**31**	31	79
Other	**2**	—	8
Total	**$ 39**	$ 48	$ 90

C. Employee share purchase plan

The Company has an employee share purchase plan whereby both employee and the Company contributions are used to purchase shares on the open market for employees. The Company's contributions are expensed over the one year vesting period. Under the plan, the Company matches $1 for every $3 contributed by employees up to a maximum employee contribution of 6% of annual salary.

The total number of shares purchased in 2017 on behalf of participants, including the Company's contributions, was 130,041 (2016 – 140,560; 2015 – 131,703). In 2017, the Company's contributions totalled $5 million (2016 – $5 million; 2015 – $5 million) and the related expense was $4 million (2016 – $5 million; 2015 – $4 million).

22 VARIABLE INTEREST ENTITIES

The Company leases equipment from certain trusts, which have been determined to be variable interest entities financed by a combination of debt and equity provided by unrelated third parties. The lease agreements, which are classified as operating leases, have fixed price purchase options which create the Company's variable interests and result in the trusts being considered variable interest entities.

Maintaining and operating the leased assets according to specific contractual obligations outlined in the terms of the lease agreements and industry standards is the Company's responsibility. The rigor of the contractual terms of the lease agreements and industry standards are such that the Company has limited discretion over the maintenance activities associated with these assets. As such, the Company concluded these terms do not provide the Company with the power to direct the activities of the variable interest entities in a way that has a significant impact on the entities' economic performance.

The financial exposure to the Company as a result of its involvement with the variable interest entities is equal to the fixed lease payments due to the trusts. In 2017, lease payments after tax were $10 million. Future minimum lease payments, before tax, of $177 million will be payable over the next 13 years.

The Company does not guarantee the residual value of the assets to the lessor; however, it must deliver to the lessor the assets in good operating condition, subject to normal wear and tear, at the end of the lease term.

As the Company's actions and decisions do not significantly affect the variable interest entities' performance, and the Company's fixed price purchase option is not considered to be potentially significant to the variable interest entities, the Company is not considered to be the primary beneficiary, and does not consolidate these variable interest entities.

23 COMMITMENTS AND CONTINGENCIES

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions it considers to be adequate for such actions. While the final outcome with respect to actions outstanding or pending at December 31, 2017, 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.

Commitments

At December 31, 2017, the Company had committed to total future capital expenditures amounting to $632 million and operating expenditures relating to supplier purchase obligations, such as locomotive maintenance and overhaul agreements, as well as agreements to purchase other goods and services amounting to approximately $1.7 billion for the years 2018–2032, of which CP estimates approximately $1.4 billion will be incurred in the next five years.

As at December 31, 2017, the Company's commitments under operating leases were estimated at $351 million in aggregate, with minimum annual payments in each of the next five years and thereafter as follows:

(in millions of Canadian dollars)	Operating leases
2018	$ 71
2019	57
2020	45
2021	38
2022	31
Thereafter	109
Total minimum lease payments	$ 351

Expenses for operating leases for the year ended December 31, 2017, were $104 million (2016 – $111 million; 2015 – $127 million).

Legal proceedings related to Lac-Mégantic rail accident

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

In the wake of the derailment, MMAC sought court protection in Canada under the Companies' Creditors Arrangement Act, R.S.C., 1985, c. C-36 and MMAR filed for bankruptcy in the United States. Plans of arrangement have been approved in both Canada and the U.S. (the "Plans"). These Plans provide for the distribution of a fund of approximately $440 million amongst those claiming derailment damages.

A number of legal proceedings, set out below, were commenced after the derailment in Canada and/or in the U.S. against CP and others:

(1) Québec's Minister of Sustainable Development, Environment, Wildlife and Parks (the "Minister") ordered various parties, including CP, to clean up the derailment site (the "Cleanup Order"). CP appealed the Cleanup Order to the Administrative Tribunal of Québec (the "TAQ"). The Minister subsequently served a Notice of Claim seeking $95 million for compensation spent on cleanup. CP filed a contestation of the Notice of Claim with the TAQ (the "TAQ Proceeding"). CP and the Minister agreed to stay the TAQ Proceedings pending the outcome of the Province of Québec's action, described in item #2 below.

(2) Québec's Attorney General sued CP in the Québec Superior Court initially claiming $409 million in damages, which claim was amended and reduced to $315 million (the "Province's Action"). The Province's Action alleges that CP exercised custody or control over the petroleum crude oil until its delivery to Irving Oil, that CP was negligent in its custody and control of the petroleum crude oil and that therefore CP is jointly and severally liable with third parties responsible for the derailment and vicariously liable for the acts and omissions of MMAC.

(3) A class action in the Québec Superior Court on behalf of persons and entities residing in, owning or leasing property in, operating a business in or physically present in Lac-Mégantic at the time of the derailment (the "Class Action") was certified against CP, MMAC and the train conductor, Mr. Thomas Harding. The Class Action seeks unquantified damages, including for wrongful death, personal injury, and property damage arising from the derailment. All known wrongful death claimants in the Class Action have opted out and, by court order, cannot re-join the Class Action.

(4) Eight subrogated insurers sued CP in the Québec Superior Court initially claiming approximately $16 million in damages, which claim was amended and reduced to $14 million (the "Promutuel Action") and two additional subrogated insurers sued CP in the Québec Superior Court claiming approximately $3 million in damages (the "Royal Action"). Both Actions contain essentially the same allegations as the Province's Action. The lawsuits do not identify the parties to which the insurers are subrogated, and therefore the extent to which these claims overlap with the proof of claims process under the Plans is difficult to determine at this stage. The Royal Action has been stayed pending the determination of the consolidated proceedings described below.

The Province's Action, the Class Action and the Promutuel Action have been consolidated and will proceed together through the litigation process in the Québec Superior Court. While each Action will remain a separate legal proceeding, there will be a trial to determine liability issues commencing mid-September 2019, and subsequently, if necessary, a trial to determine damages issues.

(5) An adversary proceeding filed by the MMAR U.S. estate representative ("Estate Representative") in Maine accuses CP of failing to abide by certain regulations (the "Adversary Proceeding"). The Estate Representative alleges that CP should not have moved the petroleum crude oil train because an inaccurate classification by the shipper was or should have been known. The Estate Representative seeks damages for MMAR's business value (as yet unquantified) allegedly destroyed by the derailment.

(6) A class action and mass tort action on behalf of Lac-Mégantic residents and wrongful death representatives commenced in Texas and wrongful death and personal injury actions commenced in Illinois and Maine against CP were all removed to and consolidated in Maine (the "Maine Actions"). The Maine Actions allege that CP negligently misclassified and mis-packaged the petroleum crude oil being shipped. On CP's motion, the Maine Actions were dismissed by the Court on several grounds. The plaintiffs are appealing the dismissal decision.

(7) The Trustee (the "WD Trustee") for the wrongful death trust (the "WD Trust"), as defined and established by the Estate Representative under the Plans, asserts Carmack Amendment claims against CP in North Dakota federal court (the "Carmack Claims"). The WD Trustee seeks to recover approximately $6 million for damaged rail cars, and the settlement amounts the consignor and the consignee paid to the bankruptcy estates, alleged to be $110 million and $60 million, respectively. On CP's motion, the federal court in North Dakota dismissed the Carmack Claims. The WD Trustee is appealing the dismissal decision.

At this stage of the proceedings, any potential responsibility and the quantum of potential losses cannot be determined. Nevertheless, CP denies liability and is vigorously defending the above noted proceedings.

24 GUARANTEES

In the normal course of operating the railway, the Company enters into contractual arrangements that involve providing certain guarantees, which extend over the term of the contracts. These guarantees include, but are not limited to:

- residual value guarantees on operating lease commitments of $6 million at December 31, 2017;
- guarantees to pay other parties in the event of the occurrence of specified events, including damage to equipment, in relation to assets used in the operation of the railway through operating leases, rental agreements, easements, trackage, and interline agreements; and
- indemnifications of certain tax-related payments incurred by lessors and lenders.

The maximum amount that could be payable under these guarantees, excluding residual value guarantees, cannot be reasonably estimated due to the nature of certain of these guarantees. All or a portion of amounts paid under guarantees to other parties in the event of the occurrence of specified events could be recoverable from other parties or through insurance. The Company has accrued for all guarantees that it expects to pay. At December 31, 2017, these accruals amounted to $9 million (2016 – $5 million) and are recorded in "Accounts payable and accrued liabilities".

Indemnifications

Pursuant to a trust and custodial services agreement with the trustee of the Canadian Pacific Railway Company Pension Plan, the Company has undertaken to indemnify and save harmless the trustee, to the extent not paid by the fund, from any and all taxes, claims, liabilities, damages, costs, and expenses arising out of the performance of the trustee's obligations under the agreement, except as a result of misconduct by the trustee. The indemnity includes liabilities, costs, or expenses relating to any legal reporting or notification obligations of the trustee with respect to the defined benefit and defined contribution options of the pension plans, or otherwise with respect to the assets of the pension plans that are not part of the fund. The indemnity survives the termination or expiry of the agreement with respect to claims and liabilities arising prior to the termination or expiry. At December 31, 2017, the Company had not recorded a liability associated with this indemnification, as it does not expect to make any payments pertaining to it.

25 SEGMENTED AND GEOGRAPHIC INFORMATION

Operating segment

The Company operates in only one operating segment: rail transportation. Operating results by geographic areas, railway corridors or other lower-level components or units of operation are not reviewed by the Company's chief operating decision-maker to make decisions about the allocation of resources to, or the assessment of performance of, such geographic areas, corridors, components or units of operation.

In the years ended December 31, 2017, 2016, and 2015, no one customer comprised more than 10% of total revenues and accounts receivable.

Geographic information

(in millions of Canadian dollars)	Canada	United States	Total
2017			
Revenues	**$ 4,667**	**$ 1,887**	**$ 6,554**
Long-term assets excluding financial instruments and pension assets	**$ 11,505**	**$ 5,947**	**$ 17,452**
2016			
Revenues	$ 4,473	$ 1,759	$ 6,232
Long-term assets excluding financial instruments and pension assets	$ 11,000	$ 6,121	$ 17,121
2015			
Revenues	$ 4,662	$ 2,050	$ 6,712
Long-term assets excluding financial instruments and pension assets	$ 10,630	$ 6,068	$ 16,698

26 SELECTED QUARTERLY DATA (UNAUDITED)

For the quarter ended	**2017**				2016			
(in millions of Canadian dollars, except per share data)	**Dec. 31**	**Sep. 30**	**Jun. 30**	**Mar. 31**	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Total revenues	**$ 1,713**	**$ 1,595**	**$ 1,643**	**$ 1,603**	$ 1,637	$ 1,554	$ 1,450	$ 1,591
Operating income	**753**	**690**	**679**	**671**	717	657	551	653
Net income	**984**	**510**	**480**	**431**	384	347	328	540
Basic earnings per share[(1)]	**$ 6.79**	**$ 3.50**	**$ 3.28**	**$ 2.94**	$ 2.63	$ 2.35	$ 2.16	$ 3.53
Diluted earnings per share[(1)]	**6.77**	**3.50**	**3.27**	**2.93**	2.61	2.34	2.15	3.51

[(1)] Per share Net income for the four quarters combined may not equal the per share Net income for the year due to rounding.

27 CONDENSED CONSOLIDATING FINANCIAL INFORMATION

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

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

The tables include all adjustments necessary to reconcile the CCFI on a consolidated basis to CPRL's Consolidated Financial Statements for the periods presented.

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
YEAR ENDED DECEMBER 31, 2017

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Revenues					
Freight	$ —	$ 4,516	$ 1,859	$ —	$ 6,375
Non-freight	—	140	372	(333)	179
Total revenues	—	4,656	2,231	(333)	6,554
Operating expenses					
Compensation and benefits	—	601	427	7	1,035
Fuel	—	522	155	—	677
Materials	—	134	41	15	190
Equipment rents	—	143	(1)	—	142
Depreciation and amortization	—	400	261	—	661
Purchased services and other	—	826	585	(355)	1,056
Total operating expenses	—	2,626	1,468	(333)	3,761
Operating income	—	2,030	763	—	2,793
Less:					
Other income and charges	(33)	(149)	4	—	(178)
Net interest (income) expense	(12)	517	(32)	—	473
Income before income tax expense and equity in net earnings of subsidiaries	45	1,662	791	—	2,498
Less: Income tax expense (recovery)	7	475	(389)	—	93
Add: Equity in net earnings of subsidiaries	2,367	1,180	—	(3,547)	—
Net income	$ 2,405	$ 2,367	$ 1,180	$ (3,547)	$ 2,405

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
YEAR ENDED DECEMBER 31, 2016

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Revenues					
Freight	$ —	$ 4,332	$ 1,728	$ —	$ 6,060
Non-freight	—	134	386	(348)	172
Total revenues	—	4,466	2,114	(348)	6,232
Operating expenses					
Compensation and benefits	—	749	434	6	1,189
Fuel	—	458	109	—	567
Materials	—	130	32	18	180
Equipment rents	—	204	(31)	—	173
Depreciation and amortization	—	422	218	—	640
Purchased services and other	—	673	604	(372)	905
Total operating expenses	—	2,636	1,366	(348)	3,654
Operating income	—	1,830	748	—	2,578
Less:					
Other income and charges	(40)	(34)	29	—	(45)
Net interest expense (income)	1	493	(23)	—	471
Income before income tax expense and equity in net earnings of subsidiaries	39	1,371	742	—	2,152
Less: Income tax expense	6	337	210	—	553
Add: Equity in net earnings of subsidiaries	1,566	532	—	(2,098)	—
Net income	$ 1,599	$ 1,566	$ 532	$ (2,098)	$ 1,599

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
YEAR ENDED DECEMBER 31, 2015

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Revenues					
Freight	$ —	$ 4,532	$ 2,020	$ —	$ 6,552
Non-freight	—	128	363	(331)	160
Total revenues	—	4,660	2,383	(331)	6,712
Operating expenses					
Compensation and benefits	—	943	428	—	1,371
Fuel	—	549	159	—	708
Materials	—	148	36	—	184
Equipment rents	—	181	(7)	—	174
Depreciation and amortization	—	411	184	—	595
Purchased services and other	—	711	680	(331)	1,060
Gain on sale of Delaware & Hudson South	—	—	(68)	—	(68)
Total operating expenses	—	2,943	1,412	(331)	4,024
Operating income	—	1,717	971	—	2,688
Less:					
Other income and charges	84	322	(71)	—	335
Net interest (income) expense	(5)	447	(48)	—	394
(Loss) income before income tax expense and equity in net earnings of subsidiaries	(79)	948	1,090	—	1,959
Less: Income tax (recovery) expense	(21)	303	325	—	607
Add: Equity in net earnings of subsidiaries	$ 1,410	$ 765	$ —	$ (2,175)	$ —
Net income	$ 1,352	$ 1,410	$ 765	$ (2,175)	$ 1,352

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME YEAR ENDED DECEMBER 31, 2017

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Net income	$ 2,405	$ 2,367	$ 1,180	$ (3,547)	$ 2,405
Net gain (loss) in foreign currency translation adjustments, net of hedging activities	—	318	(294)	—	24
Change in derivatives designated as cash flow hedges	—	19	—	—	19
Change in pension and post-retirement defined benefit plans	—	82	(2)	—	80
Other comprehensive income (loss) before income taxes	—	419	(296)	—	123
Income tax (expense) recovery on above items	—	(66)	1	—	(65)
Equity accounted investments	58	(295)	—	237	—
Other comprehensive income (loss)	58	58	(295)	237	58
Comprehensive income	$ 2,463	$ 2,425	$ 885	$ (3,310)	$ 2,463

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME YEAR ENDED DECEMBER 31, 2016

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Net income	$ 1,599	$ 1,566	$ 532	$ (2,098)	$ 1,599
Net gain (loss) in foreign currency translation adjustments, net of hedging activities	—	149	(131)	—	18
Change in derivatives designated as cash flow hedges	—	(2)	—	—	(2)
Change in pension and post-retirement defined benefit plans	—	(443)	9	—	(434)
Other comprehensive loss before income taxes	—	(296)	(122)	—	(418)
Income tax recovery (expense) on above items	—	99	(3)	—	96
Equity accounted investments	(322)	(125)	—	447	—
Other comprehensive loss	(322)	(322)	(125)	447	(322)
Comprehensive income	$ 1,277	$ 1,244	$ 407	$ (1,651)	$ 1,277

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME YEAR ENDED DECEMBER 31, 2015

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Net income	$ 1,352	$ 1,410	$ 765	$ (2,175)	$ 1,352
Net (loss) gain in foreign currency translation adjustments, net of hedging activities	—	(757)	671	—	(86)
Change in derivatives designated as cash flow hedges	—	(69)	—	—	(69)
Change in pension and post-retirement defined benefit plans	—	1,061	(2)	—	1,059
Other comprehensive income before income taxes	—	235	669	—	904
Income tax (expense) recovery on above items	—	(163)	1	—	(162)
Equity accounted investments	742	670	—	(1,412)	—
Other comprehensive income	742	742	670	(1,412)	742
Comprehensive income	$ 2,094	$ 2,152	$ 1,435	$ (3,587)	$ 2,094

CONDENSED CONSOLIDATING BALANCE SHEETS
AS AT DECEMBER 31, 2017

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ —	$ 241	$ 97	$ —	$ 338
Accounts receivable, net	—	508	179	—	687
Accounts receivable, intercompany	97	153	215	(465)	—
Short-term advances to affiliates	500	1,004	4,996	(6,500)	—
Materials and supplies	—	120	32	—	152
Other current assets	—	31	66	—	97
	597	2,057	5,585	(6,965)	1,274
Long-term advances to affiliates	590	—	410	(1,000)	—
Investments	—	27	155	—	182
Investments in subsidiaries	10,623	12,122	—	(22,745)	—
Properties	—	8,982	8,034	—	17,016
Goodwill and intangible assets	—	—	187	—	187
Pension asset	—	1,407	—	—	1,407
Other assets	—	56	13	—	69
Deferred income taxes	3	—	—	(3)	—
Total assets	$ 11,813	$ 24,651	$ 14,384	$ (30,713)	$ 20,135
Liabilities and shareholders' equity					
Current liabilities					
Accounts payable and accrued liabilities	$ 82	$ 844	$ 312	$ —	$ 1,238
Accounts payable, intercompany	3	309	153	(465)	—
Short-term advances from affiliates	5,291	1,185	24	(6,500)	—
Long-term debt maturing within one year	—	746	—	—	746
	5,376	3,084	489	(6,965)	1,984
Pension and other benefit liabilities	—	672	77	—	749
Long-term advances from affiliates	—	1,000	—	(1,000)	—
Other long-term liabilities	—	108	123	—	231
Long-term debt	—	7,362	51	—	7,413
Deferred income taxes	—	1,802	1,522	(3)	3,321
Total liabilities	5,376	14,028	2,262	(7,968)	13,698
Shareholders' equity					
Share capital	2,032	1,037	6,730	(7,767)	2,032
Additional paid-in capital	43	1,643	259	(1,902)	43
Accumulated other comprehensive (loss) income	(1,741)	(1,742)	417	1,325	(1,741)
Retained earnings	6,103	9,685	4,716	(14,401)	6,103
	6,437	10,623	12,122	(22,745)	6,437
Total liabilities and shareholders' equity	$ 11,813	$ 24,651	$ 14,384	$ (30,713)	$ 20,135

CONDENSED CONSOLIDATING BALANCE SHEETS
AS AT DECEMBER 31, 2016

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ —	$ 100	$ 64	$ —	$ 164
Accounts receivable, net	—	435	156	—	591
Accounts receivable, intercompany	90	113	206	(409)	—
Short-term advances to affiliates	500	692	4,035	(5,227)	—
Materials and supplies	—	150	34	—	184
Other current assets	—	38	32	—	70
	590	1,528	4,527	(5,636)	1,009
Long-term advances to affiliates	1	—	91	(92)	—
Investments	—	47	147	—	194
Investments in subsidiaries	8,513	10,249	—	(18,762)	—
Properties	—	8,756	7,933	—	16,689
Goodwill and intangible assets	—	—	202	—	202
Pension asset	—	1,070	—	—	1,070
Other assets	1	48	8	—	57
Deferred income taxes	11	—	—	(11)	—
Total assets	$ 9,116	$ 21,698	$ 12,908	$ (24,501)	$ 19,221
Liabilities and shareholders' equity					
Current liabilities					
Accounts payable and accrued liabilities	$ 73	$ 945	$ 304	$ —	$ 1,322
Accounts payable, intercompany	14	292	103	(409)	—
Short-term advances from affiliates	4,403	816	8	(5,227)	—
Long-term debt maturing within one year	—	25	—	—	25
	4,490	2,078	415	(5,636)	1,347
Pension and other benefit liabilities	—	658	76	—	734
Long-term advances from affiliates	—	92	—	(92)	—
Other long-term liabilities	—	152	132	—	284
Long-term debt	—	8,605	54	—	8,659
Deferred income taxes	—	1,600	1,982	(11)	3,571
Total liabilities	4,490	13,185	2,659	(5,739)	14,595
Shareholders' equity					
Share capital	2,002	1,037	5,823	(6,860)	2,002
Additional paid-in capital	52	1,638	298	(1,936)	52
Accumulated other comprehensive (loss) income	(1,799)	(1,799)	712	1,087	(1,799)
Retained earnings	4,371	7,637	3,416	(11,053)	4,371
	4,626	8,513	10,249	(18,762)	4,626
Total liabilities and shareholders' equity	$ 9,116	$ 21,698	$ 12,908	$ (24,501)	$ 19,221

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Cash provided by operating activities	$ 338	$ 1,334	$ 989	$ (479)	$ 2,182
Investing activities					
Additions to properties	—	(950)	(390)	—	(1,340)
Proceeds from sale of properties and other assets	—	29	13	—	42
Advances to affiliates	(590)	(550)	(1,528)	2,668	—
Repayment of advances to affiliates	—	242	243	(485)	—
Capital contributions to affiliates	—	(1,039)	—	1,039	—
Repurchase of share capital from affiliates	—	156	—	(156)	—
Other	—	5	(2)	—	3
Cash used in investing activities	(590)	(2,107)	(1,664)	3,066	(1,295)
Financing activities					
Dividends paid	(310)	(310)	(169)	479	(310)
Issuance of share capital	—	—	1,039	(1,039)	—
Return of share capital to affiliates	—	—	(156)	156	—
Issuance of CP Common Shares	45	—	—	—	45
Purchase of CP Common Shares	(381)	—	—	—	(381)
Repayment of long-term debt, excluding commercial paper	—	(32)	—	—	(32)
Advances from affiliates	1,383	1,285	—	(2,668)	—
Repayment of advances from affiliates	(485)	—	—	485	—
Settlement of forward starting swaps	—	(22)	—	—	(22)
Cash provided by (used in) financing activities	252	921	714	(2,587)	(700)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	—	(7)	(6)	—	(13)
Cash position					
Increase in cash and cash equivalents	—	141	33	—	174
Cash and cash equivalents at beginning of year	—	100	64	—	164
Cash and cash equivalents at end of year	$ —	$ 241	$ 97	$ —	$ 338

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Cash provided by operating activities	$ 255	$ 1,424	$ 879	$ (469)	$ 2,089
Investing activities					
Additions to properties	—	(728)	(454)	—	(1,182)
Proceeds from sale of properties and other assets	—	102	14	—	116
Advances to affiliates	—	(664)	(539)	1,203	—
Repayment of advances to affiliates	—	222	—	(222)	—
Capital contributions to affiliates	—	(472)	—	472	—
Repurchase of share capital from affiliates	—	8	—	(8)	—
Other	—	—	(3)	—	(3)
Cash used in investing activities	—	(1,532)	(982)	1,445	(1,069)
Financing activities					
Dividends paid	(255)	(255)	(214)	469	(255)
Issuance of share capital	—	—	472	(472)	—
Return of share capital to affiliates	—	—	(8)	8	—
Issuance of CP Common Shares	21	—	—	—	21
Purchase of CP Common Shares	(1,210)	—	—	—	(1,210)
Repayment of long-term debt, excluding commercial paper	—	(24)	(14)	—	(38)
Net repayment of commercial paper	—	(8)	—	—	(8)
Advances from affiliates	1,189	—	14	(1,203)	—
Repayment of advances from affiliates	—	—	(222)	222	—
Other	—	(3)	—	—	(3)
Cash (used in) provided by financing activities	(255)	(290)	28	(976)	(1,493)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	—	(4)	(9)	—	(13)
Cash position					
Decrease in cash and cash equivalents	—	(402)	(84)	—	(486)
Cash and cash equivalents at beginning of year	—	502	148	—	650
Cash and cash equivalents at end of year	$ —	$ 100	$ 64	$ —	$ 164

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Cash provided by operating activities	$ 2,283	$ 1,650	$ 1,074	$ (2,548)	$ 2,459
Investing activities					
Additions to properties	—	(766)	(756)	—	(1,522)
Proceeds from the sale of Delaware & Hudson South	—	—	281	—	281
Proceeds from sale of properties and other assets	—	103	11	—	114
Advances to affiliates	(1,133)	(311)	(1,820)	3,264	—
Repayment of advances to affiliates	—	804	1,000	(1,804)	—
Capital contributions to affiliates	—	(1,655)	—	1,655	—
Repurchase of share capital from affiliates	—	1,210	—	(1,210)	—
Other	—	6	(2)	—	4
Cash used in investing activities	(1,133)	(609)	(1,286)	1,905	(1,123)
Financing activities					
Dividends paid	(226)	(2,272)	(276)	2,548	(226)
Issuance of share capital	—	—	1,655	(1,655)	—
Return of share capital to affiliates	—	—	(1,210)	1,210	—
Issuance of CP Common Shares	43	—	—	—	43
Purchase of CP Common Shares	(2,787)	—	—	—	(2,787)
Issuance of long-term debt, excluding commercial paper	—	3,411	—	—	3,411
Repayment of long-term debt, excluding commercial paper	—	(461)	(44)	—	(505)
Net repayment of commercial paper	—	(893)	—	—	(893)
Advances from affiliates	1,820	500	944	(3,264)	—
Repayment of advances from affiliates	—	(1,000)	(804)	1,804	—
Cash (used in) provided by financing activities	(1,150)	(715)	265	643	(957)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	—	24	21	—	45
Cash position					
Increase in cash and cash equivalents	—	350	74	—	424
Cash and cash equivalents at beginning of year	—	152	74	—	226
Cash and cash equivalents at end of year	$ —	$ 502	$ 148	$ —	$ 650

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

The following documents are filed as part of this report:

(a) Financial Statements

The financial statements filed as part of this filing are listed on the Index to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

(b) Financial Statement Schedule

Schedule II – Valuation and Qualifying Accounts

(in millions of Canadian dollars)	Beginning balance at January 1	Additions charged to expenses	Payments and other reductions	Impact of FX	Ending balance at December 31
Accruals for personal injury and other claims liabilities[1]					
2015	$ 150	$ 79	$ (102)	$ 6	$ 133
2016	$ 133	$ 67	$ (71)	$ 1	$ 130
2017	**$ 130**	**$ 66**	**$ (77)**	**$ (1)**	**$ 118**
Environmental liabilities					
2015	$ 91	$ 7	$ (17)	$ 12	$ 93
2016	$ 93	$ 6	$ (12)	$ (2)	$ 85
2017	**$ 85**	**$ 5**	**$ (8)**	**$ (4)**	**$ 78**

[1] Includes WCB, FELA, occupational, foreign car damage and property & lading damage claims.