

CANADIAN PACIFIC RAILWAY LIMITED

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA





ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm	3
Consolidated Statements of Income For the Year Ended December 31, 2016, 2015, and 2014	5
Consolidated Statements of Comprehensive Income For the Year Ended December 31, 2016, 2015, and 2014	5
Consolidated Balance Sheets At December 31, 2016 and 2015	6
Consolidated Statements of Cash Flows For the Year Ended December 31, 2016, 2015, and 2014	7
Consolidated Statements of Changes in Shareholders' Equity For the Year Ended December 31, 2016, 2015, and 2014	8
Notes to Consolidated Financial Statements	9

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Canadian Pacific Railway Limited and subsidiaries (the "Company") as of December 31, 2016 and 2015 and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Canadian Pacific Railway Limited and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the 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, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE LLP

Chartered Professional Accountants
February 16, 2017
Calgary, Canada

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Canadian Pacific Railway Limited and subsidiaries (the "Company") as of December 31, 2016, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. 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 generally accepted accounting principles, 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2016 of the Company and our report dated February 16, 2017 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE LLP

Chartered Professional Accountants
February 16, 2017
Calgary, Canada

CONSOLIDATED STATEMENTS OF INCOME

Year ended December 31 (in millions of Canadian dollars, except per share data)	2016	2015	2014
REVENUES			
Freight	\$ 6,060	\$ 6,552	\$ 6,464
Non-freight	172	160	156
Total revenues	6,232	6,712	6,620
OPERATING EXPENSES			
Compensation and benefits	1,189	1,371	1,348
Fuel	567	708	1,048
Materials	180	184	193
Equipment rents	173	174	155
Depreciation and amortization	640	595	552
Purchased services and other (Note 10)	905	1,060	985
Gain on sale of Delaware & Hudson South (Note 10)	—	(68)	—
Total operating expenses	3,654	4,024	4,281
Operating income	2,578	2,688	2,339
Less:			
Other income and charges (Note 3)	(45)	335	19
Net interest expense (Note 4)	471	394	282
Income before income tax expense	2,152	1,959	2,038
Income tax expense (Note 5)	553	607	562
Net income	\$ 1,599	\$ 1,352	\$ 1,476
Earnings per share (Note 6)			
Basic earnings per share	\$ 10.69	\$ 8.47	\$ 8.54
Diluted earnings per share	\$ 10.63	\$ 8.40	\$ 8.46
Weighted-average number of shares (millions) (Note 6)			
Basic	149.6	159.7	172.8
Diluted	150.5	161.0	174.4

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year ended December 31 (in millions of Canadian dollars)	2016	2015	2014
Net income	\$ 1,599	\$ 1,352	\$ 1,476
Net gain (loss) in foreign currency translation adjustments, net of hedging activities	18	(86)	(32)
Change in derivatives designated as cash flow hedges	(2)	(69)	(49)
Change in pension and post-retirement defined benefit plans	(434)	1,059	(941)
Other comprehensive (loss) income before income taxes (Note 7)	(418)	904	(1,022)
Income tax recovery (expense) on above items (Note 7)	96	(162)	306
Other comprehensive (loss) income (Note 7)	(322)	742	(716)
Comprehensive income	\$ 1,277	\$ 2,094	\$ 760

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

As at December 31 (in millions of Canadian dollars, except Common Shares)

2016

2015

ASSETS

Current assets

Cash and cash equivalents	\$ 164	\$ 650
Accounts receivable, net (Note 9)	591	645
Materials and supplies	184	188
Other current assets	70	54

1,009 1,537

Investments (Note 11)	194	152
Properties (Note 12)	16,689	16,273
Goodwill and intangible assets (Note 13)	202	211
Pension asset (Note 20)	1,070	1,401
Other assets (Note 14)	57	63

Total assets **\$ 19,221** **\$ 19,637**

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Accounts payable and accrued liabilities (Note 15)	\$ 1,322	\$ 1,417
Long-term debt maturing within one year (Note 16)	25	30

1,347 1,447

Pension and other benefit liabilities (Note 20)	734	758
Other long-term liabilities (Note 18)	284	318
Long-term debt (Note 16)	8,659	8,927
Deferred income taxes (Note 5)	3,571	3,391

Total liabilities **14,595** 14,841

SHAREHOLDERS' EQUITY

Share capital (Note 19)		
Authorized unlimited Common Shares without par value. Issued and outstanding are 146.3 million and 153.0 million at December 31, 2016 and 2015, respectively.	2,002	2,058
Authorized unlimited number of first and second preferred shares; none outstanding.		
Additional paid-in capital	52	43
Accumulated other comprehensive loss (Note 7)	(1,799)	(1,477)
Retained earnings	4,371	4,172

4,626 4,796

Total liabilities and shareholders' equity **\$ 19,221** **\$ 19,637**

Commitments and contingencies (Note 23).

Subsequent event (Note 27).

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/ MATTHEW H. PAULL

**Matthew H. Paull, Director,
Chair of the Audit Committee**

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 (in millions of Canadian dollars)	2016	2015	2014
OPERATING ACTIVITIES			
Net income	\$ 1,599	\$ 1,352	\$ 1,476
Reconciliation of net income to cash provided by operating activities:			
Depreciation and amortization	640	595	552
Deferred income taxes (Note 5)	320	234	354
Pension funding in excess of expense (Note 20)	(138)	(49)	(132)
Foreign exchange (gain) loss on long-term debt (Note 3)	(79)	297	11
Other operating activities, net	(198)	(245)	(14)
Change in non-cash working capital balances related to operations (Note 8)	(55)	275	(124)
Cash provided by operating activities	2,089	2,459	2,123
INVESTING ACTIVITIES			
Additions to properties	(1,182)	(1,522)	(1,449)
Proceeds from the sale of west end of Dakota, Minnesota and Eastern Railroad (Note 10)	—	—	236
Proceeds from the sale of Delaware & Hudson South (Note 10)	—	281	—
Proceeds from sale of properties and other assets (Note 10)	116	114	52
Other	(3)	4	—
Cash used in investing activities⁽¹⁾	(1,069)	(1,123)	(1,161)
FINANCING ACTIVITIES			
Dividends paid	(255)	(226)	(244)
Issuance of CP Common Shares (Note 19)	21	43	62
Purchase of CP Common shares (Note 19)	(1,210)	(2,787)	(2,050)
Issuance of long-term debt, excluding commercial paper (Note 16)	—	3,411	—
Repayment of long-term debt, excluding commercial paper (Note 16)	(38)	(505)	(183)
Net (repayment) issuance of commercial paper (Note 16)	(8)	(893)	771
Settlement of foreign exchange forward on long-term debt	—	—	17
Other	(3)	—	(3)
Cash used in financing activities	(1,493)	(957)	(1,630)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	(13)	45	7
CASH POSITION			
(Decrease) increase in cash, cash equivalents, and restricted cash ⁽¹⁾	(486)	424	(661)
Cash, cash equivalents, and restricted cash at beginning of year ⁽¹⁾	650	226	887
Cash, cash equivalents, and restricted cash at end of year⁽¹⁾	\$ 164	\$ 650	\$ 226
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Income taxes paid	\$ 322	\$ 176	\$ 226
Interest paid	\$ 488	\$ 336	\$ 309

⁽¹⁾ Certain figures have been reclassified due to a retrospective change in accounting policy (Note 2).

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, 2013	\$ 2,240	\$ 34	\$ (1,503)	\$ 6,326	\$ 7,097
Net income	—	—	—	1,476	1,476
Other comprehensive loss (Note 7)	—	—	(716)	—	(716)
Dividends declared (\$1.4000 per share)	—	—	—	(241)	(241)
Effect of stock-based compensation expense	—	19	—	—	19
CP Common Shares repurchased (Note 19)	(136)	—	—	(1,953)	(2,089)
Shares issued under stock option plan (Note 19)	81	(17)	—	—	64
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 (Note 7)	—	—	(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

See Notes to Consolidated Financial Statements.

CANADIAN PACIFIC RAILWAY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

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. CP provides rail and intermodal transportation services over a network of approximately 12,400 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, 2016.

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 three 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.

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 11 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.

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 studies of historical retirements of properties in the group and engineering estimates of changes in current operations and of technological advances. Actual use and retirement of assets may vary from current estimates, which would impact the amount of depreciation expense recognized in future periods. Rail and other track material in the U.S. are depreciated based directly on usage.

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 the sale or retirement of larger groups of depreciable assets that are unusual and were not considered in depreciation studies, CP records a gain or loss for the difference between net proceeds and net book value of the assets sold or retired.

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 2016

Early Adoption of Restricted Cash

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-18, Restricted Cash a consensus of the FASB Emerging Issues Task Force under FASB Accounting Standards Codification ("ASC") Topic 230 Statement of Cash Flows. The amendments required the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. Restricted cash will therefore be included in beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The updated standard does not provide a definition of restricted cash and restricted cash equivalents. This ASU is effective retrospectively for public entities for fiscal years and interim periods within those years, beginning on or after December 15, 2017. Early adoption of this ASU is permitted. The Company adopted the provisions of this ASU during the fourth quarter of 2016. As a result of the adoption of ASU 2016-18, the 2014 comparative Statement of Cash Flows has been restated to reflect \$411 million in restricted cash and cash equivalents used to collateralize letters of credit in the beginning-of-period total cash and cash equivalents, with the

corresponding change in restricted cash and cash equivalents of the year removed from investing activities. There was no restricted cash balance remaining at the end of both comparative periods.

Amendments to the Consolidation Analysis

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

Future changes

Simplifying the Subsequent Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory under FASB ASC Topic 330 Inventory. The amendments require reporting entities to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices 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 will be effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2016, and will be applied prospectively. The Company does not anticipate that the adoption of this ASU will have an impact on the consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases. The new FASB ASC Topic 842 Leases supersedes the lease recognition and measurement requirements in Topic 840 Leases. This new standard requires recognition of right-of-use assets and lease liabilities by lessees for those leases classified as finance and operating leases with a maximum term exceeding 12 months. This ASU will be effective for public entities for fiscal years, and interim periods within those years, beginning on or after December 15, 2018. Entities are required to use a modified retrospective approach to adopt this ASU. The Company is assessing contractual arrangements through a cross functional team and assessing potential system changes required to deliver accounting changes. There will be a material increase to right of use assets and lease liabilities on the Consolidated balance sheet, but the Company does not anticipate a material impact on the Consolidated statement of income.

Revenue from Contracts with Customers

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations under FASB ASC Topic 606. The amendments clarify the principal versus agent guidance in determining whether to recognize revenue on a gross or net basis. The amendments are effective for public entities for annual reporting periods beginning on or after December 15, 2017, including interim periods within that reporting period. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt this ASU. CP is currently assessing the transition methods for adoption in the first quarter of 2018. CP expects to continue to recognize freight revenue, which represents greater than 95% of CP’s annual revenues, over time and is currently reviewing agreements to determine the impact of the new standard on non-freight revenue.

Compensation – Stock Compensation

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation, under ASC Topic 718. The amendments clarify the guidance relating to treatment of excess tax benefits and deficiencies, acceptable forfeiture rate policies, and treatment of cash paid by an employer when directly withholding shares for tax-withholding purposes and the requirement to treat such cash flows as a financing activity. This ASU will be effective for public entities for fiscal years, and interim periods within those years, beginning on or after December 15, 2016. Early adoption is permitted. The Company does not anticipate the adoption of this ASU will have an impact on the consolidated financial statements.

3 OTHER INCOME AND CHARGES

(in millions of Canadian dollars)	2016	2015	2014
Foreign exchange (gain) loss on long-term debt	\$ (79)	\$ 297	\$ 11
Other foreign exchange gains	(5)	(24)	—
Early redemption premium on notes (Note 16)	—	47	—
Legal settlement	25	—	—
Other	14	15	8
Total other income and charges	\$ (45)	\$ 335	\$ 19

4 NET INTEREST EXPENSE

(in millions of Canadian dollars)	2016	2015	2014
Interest cost	\$ 497	\$ 409	\$ 301
Interest capitalized to Properties	(25)	(14)	(15)
Interest expense	472	395	286
Interest income	(1)	(1)	(4)
Net interest expense	\$ 471	\$ 394	\$ 282

Interest expense includes interest on capital leases of \$11 million for the year ended December 31, 2016 (2015 – \$11 million; 2014 – \$12 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)	2016	2015	2014
Current income tax expense	\$ 233	\$ 373	\$ 208
Deferred income tax expense			
Origination and reversal of temporary differences	336	105	317
Effect of tax rate increases	—	23	—
Effect of hedge of net investment in foreign subsidiaries	(20)	100	42
Other	4	6	(5)
Total deferred income tax expense	320	234	354
Total income taxes	\$ 553	\$ 607	\$ 562
Income before income tax expense			
Canada	\$ 1,513	\$ 1,099	\$ 1,269
Foreign	639	860	769
Total income before income tax expense	\$ 2,152	\$ 1,959	\$ 2,038
Income tax expense			
Current			
Canada	\$ 165	\$ 173	\$ 50
Foreign	68	200	158
Total current income tax expense	233	373	208
Deferred			
Canada	207	163	292
Foreign	113	71	62
Total deferred income tax expense	320	234	354
Total income taxes	\$ 553	\$ 607	\$ 562

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)	2016	2015
Deferred income tax assets		
Amount related to tax losses carried forward	\$ 18	\$ 16
Liabilities carrying value in excess of tax basis	149	89
Future environmental remediation costs	30	33
Tax credits carried forward including minimum tax	—	—
Other	58	72
Total deferred income tax assets	255	210
Deferred income tax liabilities		
Properties carrying value in excess of tax basis	3,796	3,553
Other	30	48
Total deferred income tax liabilities	3,826	3,601
Total net deferred income tax liabilities	\$ 3,571	\$ 3,391

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)	2016	2015	2014
Statutory federal and provincial income tax rate (Canada)	26.65%	26.47%	26.31%
Expected income tax expense at Canadian enacted statutory tax rates	\$ 573	\$ 519	\$ 536
Increase (decrease) in taxes resulting from:			
(Gains) losses not subject to tax	(23)	28	(5)
Canadian tax rate differentials	—	1	(1)
Foreign tax rate differentials	—	39	36
Effect of tax rate increases	—	23	—
Other	3	(3)	(4)
Income tax expense	\$ 553	\$ 607	\$ 562

The Company has no unrecognized tax benefits from capital losses at December 31, 2016 and 2015.

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.

During the second quarter of 2015, legislation was enacted to increase the province of Alberta's corporate income tax rate. As a result, the Company recalculated its deferred income taxes as at January 1, 2015 based on this change and recorded an income tax expense of \$23 million in the second quarter of 2015.

At December 31, 2016, the Company had income tax operating losses carried forward of \$48 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 also has minimum tax credits of approximately \$1 million that are carried forward indefinitely without expiration. The Company did not have any 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 United States for the year ended December 31, 2016:

(in millions of Canadian dollars)	2016	2015	2014
Unrecognized tax benefits at January 1	\$ 15	\$ 17	\$ 16
Increase in unrecognized:			
Tax benefits related to the current year	—	4	2
Dispositions:			
Gross uncertain tax benefits related to prior years	(2)	(6)	(1)
Unrecognized tax benefits at December 31	\$ 13	\$ 15	\$ 17

If these uncertain tax positions were recognized, all of the amount of unrecognized tax positions as at December 31, 2016 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 2016 was \$1 million (2015 – \$4 million; 2014 – \$1 million). The total amount of accrued interest and penalties associated with the unrecognized tax benefit at December 31, 2016 was \$10 million (2015 – \$9 million; 2014 – \$5 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, 2016 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, 2016.

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, 2016, there were 2.2 million dilutive options outstanding (2015 – 2.5 million; 2014 – 3.1 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)	2016	2015	2014
Net income	\$ 1,599	\$ 1,352	\$ 1,476
Weighted average basic shares outstanding (millions)	149.6	159.7	172.8
Dilutive effect of weighted average number of stock options (millions)	0.9	1.3	1.6
Weighted average diluted shares outstanding (millions)	150.5	161.0	174.4
Earnings per share – basic	\$ 10.69	\$ 8.47	\$ 8.54
Earnings per share – diluted	\$ 10.63	\$ 8.40	\$ 8.46

In 2016, the number of options excluded from the computation of diluted earnings per share because their effect was not dilutive was 0.4 million (2015 – 0.2 million; 2014 – 0.1 million).

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

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

(in millions of Canadian dollars)	2016	2015
Unrealized foreign exchange gain on translation of the net investment in U.S. subsidiaries	\$ 738	\$ 870
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	(611)	(741)
Deferred losses on settled hedge instruments	(3)	(11)
Unrealized effective losses on cash flow hedges	(99)	(89)
Amounts for defined benefit pension and other post-retirement plans not recognized in income (Note 20)	(1,822)	(1,504)
Equity accounted investments	(2)	(2)
Accumulated other comprehensive loss	\$ (1,799)	\$ (1,477)

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

(in millions of Canadian dollars)	Before tax amount	Income tax recovery (expense)	Net of tax amount
For the year ended December 31, 2016			
Unrealized foreign exchange gain (loss) 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
For the year ended December 31, 2014			
Unrealized foreign exchange gain (loss) on:			
Translation of the net investment in U.S. subsidiaries	\$ 287	\$ —	\$ 287
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 gain on cash flow hedges recognized in income	(3)	—	(3)
Unrealized loss on cash flow hedges	(46)	12	(34)
Change in pension and other benefits actuarial gains and losses	(873)	234	(639)
Change in prior service pension and other benefit costs	(68)	18	(50)
Other comprehensive loss	\$ (1,022)	\$ 306	\$ (716)

Changes in accumulated other comprehensive loss by component:

(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, 2016	\$ 129	\$ (102)	\$ (1,504)	\$ (1,477)
Other comprehensive (loss) income before reclassifications	(2)	(10)	(456)	(468)
Amounts reclassified from accumulated other comprehensive loss	—	8	138	146
Net current-period other comprehensive income (loss)	(2)	(2)	(318)	(322)
Closing balance, 2016	\$ 127	\$ (104)	\$ (1,822)	\$ (1,799)
Opening balance, 2015	\$ 115	\$ (52)	\$ (2,282)	\$ (2,219)
Other comprehensive income (loss) before reclassifications	14	(55)	585	544
Amounts reclassified from accumulated other comprehensive loss	—	5	193	198
Net current-period other comprehensive income (loss)	14	(50)	778	742
Closing balance, 2015	\$ 129	\$ (102)	\$ (1,504)	\$ (1,477)

⁽¹⁾ Amounts are presented net of tax.

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

	2016	2015
Amortization of prior service costs ⁽¹⁾	\$ (6)	\$ (5)
Recognition of net actuarial loss ⁽¹⁾	194	269
Total before income tax	\$ 188	\$ 264
Income tax recovery	(50)	(71)
Net of income tax	\$ 138	\$ 193

⁽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)	2016	2015	2014
Source (use) of cash:			
Accounts receivable, net	\$ 44	\$ 80	\$ (112)
Materials and supplies	14	15	7
Other current assets	(18)	55	(75)
Accounts payable and accrued liabilities	(95)	125	56
Change in non-cash working capital	\$ (55)	\$ 275	\$ (124)

9 ACCOUNTS RECEIVABLE, NET

(in millions of Canadian dollars)	2016	2015
Freight	\$ 461	\$ 491
Non-freight	162	185
	623	676
Allowance for doubtful accounts	(32)	(31)
Total accounts receivable, net	\$ 591	\$ 645

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, 2016, allowances of \$32 million (2015 – \$31 million) were recorded in “Accounts receivable, net”. During 2016, provisions of \$7 million of accounts receivable (2015 – \$7 million; 2014 – \$2 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 CP's Arbutus Corridor (the "Arbutus Corridor") to the City of Vancouver for gross proceeds of \$55 million. The agreement allows the Company to share in future proceeds on the eventual development and/or sale of certain parcels of the Arbutus Corridor. The Company recorded a gain on sale of \$50 million (\$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".

Dakota, Minnesota & Eastern Railroad – West

On January 2, 2014, the Company executed an agreement with Genesee & Wyoming Inc. ("G&W") for the sale of a portion of CP's DM&E line between Tracy, Minnesota; Rapid City, South Dakota; Colony, Wyoming; and Crawford, Nebraska to connecting branch lines ("DM&E West"). The sale was subject to regulatory approval by the STB.

On May 30, 2014, the Company completed the sale of DM&E West to G&W for net proceeds of \$236 million (U.S. \$218 million). As the assets of DM&E West had previously been written down to the estimated transaction amount in 2013, the transaction did not give rise to a significant earnings impact in 2014.

11 INVESTMENTS

(in millions of Canadian dollars)	2016	2015
Rail investments accounted for on an equity basis	\$ 136	\$ 115
Other investments	58	37
Total investments	\$ 194	\$ 152

12 PROPERTIES

(in millions of Canadian dollars except percentages)

	2016	2016			2015		
	Average annual depreciation rate	Accumulated Cost	depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Track and roadway	2.8%	\$ 16,817	\$ 4,573	\$ 12,244	\$ 16,303	\$ 4,427	\$ 11,876
Buildings	3.0%	662	178	484	642	165	477
Rolling stock	2.8%	4,060	1,524	2,536	4,041	1,524	2,517
Information systems ⁽¹⁾	11.7%	584	299	285	599	291	308
Other	5.3%	1,691	551	1,140	1,640	545	1,095
Total		\$ 23,814	\$ 7,125	\$ 16,689	\$ 23,225	\$ 6,952	\$ 16,273

⁽¹⁾ During 2016, CP capitalized costs attributable to the design and development of internal-use software in the amount of \$46 million (2015 – \$42 million; 2014 – \$69 million). Current year depreciation expense related to internal use software was \$63 million (2015 – \$69 million; 2014 – \$70 million).

Capital leases included in properties

	2016			2015		
	Accumulated Cost	depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Buildings	\$ 1	\$ 1	\$ —	\$ 1	\$ 1	\$ —
Rolling stock	311	105	206	311	96	215
Total assets held under capital lease	\$ 312	\$ 106	\$ 206	\$ 312	\$ 97	\$ 215

13 GOODWILL AND INTANGIBLE ASSETS

(in millions of Canadian dollars)	Goodwill	Intangible assets			Total goodwill and intangible assets
		Cost	Accumulated amortization	Net carrying amount	
Balance at December 31, 2014	\$ 164	\$ 22	\$ (10)	\$ 12	\$ 176
Amortization	—	—	(1)	(1)	(1)
Foreign exchange impact	31	—	2	2	33
Additions	3	—	—	—	3
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

14 OTHER ASSETS

(in millions of Canadian dollars)	2016	2015
Long-term materials	\$ 22	\$ 20
Prepaid leases	6	9
Unamortized fees on credit facility	7	6
Contracted customer incentives	2	5
Long-term receivables	2	2
Other	18	21
Total other assets	\$ 57	\$ 63

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)	2016	2015
Trade payables	\$ 352	\$ 339
Accrued charges	282	293
Income and other taxes payable	146	218
Accrued interest	137	147
Financial derivative liability (Note 17)	69	60
Payroll-related accruals	73	88
Accrued vacation	65	69
Dividends payable	73	53
Personal injury and other claims provision	26	30
Provision for environmental remediation (Note 18)	9	13
Stock-based compensation liabilities	40	48
Other	50	59
Total accounts payable and accrued liabilities	\$ 1,322	\$ 1,417

16 DEBT

(in millions of Canadian dollars)		Maturity	Currency in which payable	2016	2015
6.500%	10-year Notes (A)	2018-05	U.S.\$	\$ 369	\$ 380
6.250%	10-year Medium Term Notes (A)	2018-06	CDN\$	375	374
7.250%	10-year Notes (A)	2019-05	U.S.\$	469	484
9.450%	30-year Debentures (A)	2021-08	U.S.\$	336	346
5.100%	10-year Medium Term Notes (A)	2022-01	CDN\$	125	125
4.500%	10-year Notes (A)	2022-01	U.S.\$	333	343
4.450%	12.5-year Notes (A)	2023-03	U.S.\$	469	483
7.125%	30-year Debentures (A)	2031-10	U.S.\$	470	484
5.750%	30-year Debentures (A)	2033-03	U.S.\$	328	339
5.950%	30-year Notes (A)	2037-05	U.S.\$	597	615
6.450%	30-year Notes (A)	2039-11	CDN\$	400	400
5.750%	30-year Notes (A)	2042-01	U.S.\$	330	340
2.900%	10-year Notes (A)	2025-02	U.S.\$	940	968
3.700%	10.5-year Notes (A)	2026-02	U.S.\$	335	345
4.800%	30-year Notes (A)	2045-08	U.S.\$	736	759
4.800%	20-year Notes (A)	2035-09	U.S.\$	401	413
6.125%	100-year Notes (A)	2115-09	U.S.\$	1,208	1,246
5.41%	Senior Secured Notes (B)	2024-03	U.S.\$	126	138
6.91%	Secured Equipment Notes (C)	2024-10	CDN\$	133	145
7.49%	Equipment Trust Certificates (D)	2021-01	U.S.\$	56	64
Other long-term loans (nil% – 5.50%)		2016 – 2025	U.S.\$ / CDN\$	—	10
Obligations under capital leases					
	(6.313% – 6.99%) (E)	2022 – 2026	U.S.\$	163	172
	(12.77%) (E)	2031-01	CDN\$	3	3
				8,702	8,976
Perpetual 4% Consolidated Debenture Stock (F)			U.S.\$	41	42
Perpetual 4% Consolidated Debenture Stock (F)			G.B.£	6	7
				8,749	9,025
Less: Unamortized fees on long-term debt				65	68
				8,684	8,957
Less: Long-term debt maturing within one year				25	30
				\$ 8,659	\$ 8,927

At December 31, 2016, the gross amount of long-term debt denominated in U.S. dollars was U.S. \$5,763 million (2015 – U.S. \$5,788 million).

Annual maturities and principal repayment requirements, excluding those pertaining to capital leases, for each of the five years following 2016 are (in millions): 2017 – \$21; 2018 – \$766; 2019 – \$493; 2020 – \$66; 2021 – \$377.

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

During the year ended December 31, 2015, the Company repaid Senior Secured Notes in advance of their maturities for a total of U.S. \$285 million (\$379 million). The repayments were inclusive of the remaining principal of the notes, totalling U.S. \$247 million (\$329 million), early redemption premiums of U.S. \$34 million (\$45 million), and accrued interest of U.S. \$4 million (\$5 million). The early redemption premiums and accrued interest are included in “Other income and charges” and “Net interest expense” on the Company’s Consolidated Statements of Income, respectively. The Company also expensed the unamortized financing fees of \$2 million to “Other income and charges” upon payments of the notes.

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

During the first quarter of 2015, the Company issued U.S. \$700 million 2.900% 10-year Notes due February 1, 2025 for net proceeds of U.S. \$694 million (\$873 million). In addition, the Company settled a notional U.S. \$700 million of forward starting floating-to-fixed interest rate swap agreements (“forward starting swaps”) for a payment of U.S. \$50 million (\$63 million) cash (see Note 17). This payment was included in the same line item as the related hedged item on the Company’s Consolidated Statements of Cash Flows. Inclusive of the settlement of the forward starting swap, the annualized effective yield at issuance was 3.61%.

During the third quarter of 2015, the Company issued U.S. \$550 million 4.800% 30-year Notes due August 1, 2045 and U.S. \$250 million 3.700% 10.5-year notes due February 1, 2026 for a total of U.S. \$800 million with net proceeds of U.S. \$789 million (\$1,032 million).

During the third quarter of 2015, the Company also issued U.S. \$900 million 6.125% 100-year Notes due September 15, 2115 and U.S. \$300 million 4.800% 20-year Notes due September 15, 2035 for a total of U.S. \$1,200 million with net proceeds of U.S. \$1,186 million (\$1,569 million). At the time of the debt issuance the Company de-designated the hedging relationship for U.S. \$700 million of the existing forward starting swaps. The Company did not cash settle these swaps and therefore recorded a non-cash loss of U.S. \$36 million (\$47 million) in “Accumulated other comprehensive loss” (see Note 17). Subsequently, the Company re-designated U.S. \$700 million forward starting swaps as a hedging relationship to fix the benchmark rate on cash flows associated with a highly probable forecasted issuance of long-term notes.

B. The 5.41% Senior Secured Notes are collateralized by specific locomotive units with a carrying value of \$124 million at December 31, 2016. 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 \$115 million at December 31, 2016. 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 \$117 million at December 31, 2016. 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, 2016, capital lease obligations included in long-term debt were as follows:

(in millions of Canadian dollars)	Year	Capital leases
Minimum lease payments in:		
	2017	\$ 16
	2018	16
	2019	16
	2020	16
	2021	16
	Thereafter	152
<hr/>		
Total minimum lease payments		232
Less: Imputed interest		(66)
<hr/>		
Present value of minimum lease payments		166
Less: Current portion		(4)
<hr/>		
Long-term portion of capital lease obligations		\$ 162

During 2016, the Company had no additions to property, plant and equipment under capital lease obligations (2015 – \$nil; 2014 – \$nil).

The carrying value of the assets collateralizing the capital lease obligations was \$206 million at December 31, 2016.

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 15 highly rated financial institutions for a commitment amount of U.S. \$2 billion. The facility includes a U.S. \$1 billion one-year plus one-year term-out portion and a U.S. \$1 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.

Effective June 28, 2016, the Company extended the maturity date by one year on its credit facility. The maturity date on the first U.S. \$1 billion tranche was extended to June 28, 2018; the maturity date on the second U.S. \$1 billion tranche was extended to June 28, 2021. As at December 31, 2016 and 2015, the Company was in compliance with all terms and conditions of the credit facility arrangements and satisfied the threshold stipulated in the amended financial covenant. As at December 31, 2016 and 2015, the facility was undrawn.

The amount available under the terms of the credit facility was U.S. \$2 billion at December 31, 2016 (December 31, 2015 – U.S. \$2 billion).

The Company has also established a commercial paper program which enables it to issue commercial paper up to a maximum aggregate principal amount of U.S. \$1 billion in the form of unsecured promissory notes. The commercial paper program is backed by the U.S. \$1 billion committed, revolving credit facility tranche which matures on June 28, 2018. The Company had no commercial paper borrowings as at December 31, 2016 (December 31, 2015 - \$nil).

CP has bilateral letter of credit facilities with 6 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.

At December 31, 2016, under its bilateral facilities the Company had letters of credit drawn of \$320 million (December 31, 2015 – \$375 million) from a total available amount of \$600 million (December 31, 2015 – \$600 million). At December 31, 2016, under the terms of the bilateral letter of credit facilities, no cash and cash equivalents was recorded as “Restricted cash and cash equivalents” (December 31, 2015 – \$nil).

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, 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.

The carrying values of financial instruments equal or approximate their fair values with the exception of long-term debt which has a fair value of approximately \$9,981 million at December 31, 2016 (December 31, 2015 – \$9,750 million) and a carrying value of \$8,684 million (December 31, 2015 – \$8,957 million). The estimated fair value of current and long-term borrowings has been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Company at period end. All derivatives and long-term debt are classified as Level 2.

As at December 31, 2016 and 2015, 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 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 will 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 2016 was an FX gain of \$150 million, the majority of which was unrealized (2015 – loss of \$757 million, the majority of which was unrealized; 2014 – unrealized loss of \$319 million) (see Note 7). There was no ineffectiveness during 2016 (2015 – \$nil; 2014 – \$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, 2016, the Company had net unamortized gains related to FX forward contracts to fix the exchange rate on U.S. dollar-denominated debt maturities settled in previous years totalling \$1 million (December 31, 2015 – \$2 million). During 2016, \$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, 2015 - \$1 million). At December 31, 2016, the Company expected that, during the next 12 months, a \$1 million pretax gain will be reclassified to "Other income and charges".

At December 31, 2016 and 2015, 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, 2016 and 2015, the Company had forward starting floating-to-fixed interest rate swap agreements ("forward starting swaps") totalling a notional U.S. \$700 million to fix the benchmark rate on cash flows associated with highly probable forecasted issuances of long-term notes. The effective portion of changes in fair value on the forward starting swaps is recorded in "Accumulated other comprehensive loss", net of tax, as cash flow hedges until the highly probable forecasted notes are issued. Subsequent to the notes issuance, amounts in "Accumulated other comprehensive loss" are reclassified to "Net interest expense".

During the first quarter of 2015, the Company settled a notional U.S. \$700 million of forward starting swaps related to the U.S. \$700 million 2.900% 10-year notes issued in the same period.

During the third quarter of 2015, the Company de-designated the hedging relationship for U.S. \$700 million of forward starting swaps related to a portion of the U.S. \$900 million 6.125% 100-year notes issued. The Company did not cash settle these swaps and concurrently re-designated the forward starting swaps totalling U.S. \$700 million to fix the benchmark rate on cash flows associated with a highly probable forecasted issuance of long-term notes.

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

Concurrently the Company re-designated the forward starting swaps 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.

As at December 31, 2016, the total fair value loss of \$69 million (December 31, 2015 – fair value loss of \$60 million) derived from the forward starting swaps was included in “Accounts payable and accrued liabilities”. Changes in fair value from the forward starting swaps for the year ended December 31, 2016 was a loss of \$9 million (2015 – a loss of \$77 million). The effective portion for the year ended December 31, 2016 was a loss of \$12 million (2015 – loss of \$75 million) and was recorded in “Other comprehensive income”. For the year ended December 31, 2016, the ineffective portion was a \$3 million gain (2015 – \$2 million loss) and is recorded to “Net interest expense” on the Consolidated Statements of Income.

For the year ended December 31, 2016, a loss of \$11 million related to previous forward starting swap hedges has been amortized to “Net interest expense” (2015 – a loss of \$6 million). The Company expects that during the next 12 months \$11 million of losses will be amortized to “Net interest expense”.

Treasury rate locks

At December 31, 2016, the Company had net unamortized losses related to interest rate locks, which are accounted for as cash flow hedges, settled in previous years totalling \$21 million (December 31, 2015 – \$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 negligible increase to “Net interest expense” and “Other comprehensive income” in 2016 (2015 – negligible; 2014 – negligible). At December 31, 2016, the Company expected that, during the next 12 months, a negligible amount of loss related to these previously settled derivatives would 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)	2016	2015
Provision for environmental remediation, net of current portion ⁽¹⁾	\$ 76	\$ 80
Stock-based compensation liabilities, net of current portion	72	73
Deferred revenue on rights-of-way licence agreements, net of current portion	29	33
Deferred retirement compensation	29	28
Deferred gains on sale leaseback transactions	19	22
Other, net of current portion	59	82
Total other long-term liabilities	\$ 284	\$ 318

⁽¹⁾ As at December 31, 2016, the aggregate provision for environmental remediation, including the current portion was \$85 million (2015 – \$93 million).

The deferred revenue on rights-of-way licence 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 2026.

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 2016 was \$6 million (2015 – \$7 million; 2014 – \$4 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 unlimited number of Second Preferred Shares. At December 31, 2016, no First or Second Preferred Shares had been issued.

An analysis of Common Share balances is as follows:

(number of shares in millions)	2016	2015	2014
Share capital, January 1	153.0	166.1	175.4
CP Common Shares repurchased	(6.9)	(13.7)	(10.3)
Shares issued under stock option plan	0.2	0.6	1.0
Share capital, December 31	146.3	153.0	166.1

The change in the "Share capital" balances includes \$1 million (2015 – \$2 million; 2014 – \$3 million) related to the cancellation of the tandem share appreciation rights liability on exercise of tandem stock options, and \$5 million (2015 – \$10 million; 2014 – \$17 million) of stock-based compensation transferred from "Additional paid-in capital".

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.

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:

	2016	2015	2014
Number of Common Shares repurchased ⁽¹⁾	6,910,000	13,549,977	10,476,074
Weighted-average price per share ⁽²⁾	\$ 175.08	\$ 202.79	\$ 199.42
Amount of repurchase (in millions) ⁽²⁾	\$ 1,210	\$ 2,748	\$ 2,089

⁽¹⁾ Excludes shares repurchased and not yet cancelled in the prior year.

⁽²⁾ Includes brokerage fees.

20 PENSIONS AND OTHER BENEFITS

The Company has both defined benefit ("DB") and defined contribution ("DC") pension plans. At December 31, 2016, 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, 2016, 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-year 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 project 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:

(in millions of Canadian dollars)	Pensions			Other benefits		
	2016	2015	2014	2016	2015	2014
Current service cost (benefits earned by employees in the year)	\$ 106	\$ 126	\$ 106	\$ 11	\$ 12	\$ 14
Interest cost on benefit obligation	467	463	477	21	21	23
Expected return on fund assets	(846)	(816)	(757)	—	—	—
Recognized net actuarial loss (gain)	190	265	190	7	2	(2)
Amortization of prior service costs	(7)	(6)	(68)	1	1	—
Net periodic benefit (recovery) cost	\$ (90)	\$ 32	\$ (52)	\$ 40	\$ 36	\$ 35

Projected benefit obligation, fund assets, and funded status

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

(in millions of Canadian dollars)	Pensions		Other benefits	
	2016	2015	2016	2015
Change in projected benefit obligation:				
Benefit obligation at January 1	\$ 11,194	\$ 11,360	\$ 513	\$ 517
Current service cost	106	126	11	12
Interest cost	467	463	21	21
Employee contributions	40	43	1	1
Benefits paid	(645)	(608)	(31)	(34)
Foreign currency changes	(7)	42	—	4
Plan amendments and other	6	(6)	—	—
Actuarial loss (gain)	238	(226)	(5)	(8)
Projected benefit obligation at December 31	\$ 11,399	\$ 11,194	\$ 510	\$ 513

(in millions of Canadian dollars)	Pensions		Other benefits	
	2016	2015	2016	2015
Change in fund assets:				
Fair value of fund assets at January 1	\$ 12,300	\$ 11,376	\$ 6	\$ 7
Actual return on fund assets	461	1,374	(1)	(1)
Employer contributions	48	81	30	33
Employee contributions	40	43	1	1
Benefits paid	(645)	(608)	(31)	(34)
Foreign currency changes	(8)	34	—	—
Fair value of fund assets at December 31	\$ 12,196	\$ 12,300	\$ 5	\$ 6
Funded status – plan surplus (deficit)	\$ 797	\$ 1,106	\$ (505)	\$ (507)

(in millions of Canadian dollars)	2016		2015	
	Pension plans in surplus	Pension plans in deficit	Pension plans in surplus	Pension plans in deficit
Projected benefit obligation at December 31	\$ (10,902)	\$ (497)	\$ (10,681)	\$ (513)
Fair value of fund assets at December 31	11,972	224	12,082	218
Funded Status	\$ 1,070	\$ (273)	\$ 1,401	\$ (295)

All Other benefits plans were in a deficit position at December 31, 2016 and 2015.

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

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

(in millions of Canadian dollars)	Pensions		Other benefits	
	2016	2015	2016	2015
Pension asset	\$ 1,070	\$ 1,401	\$ —	\$ —
Accounts payable and accrued liabilities	(10)	(10)	(34)	(34)
Pension and other benefit liabilities	(263)	(285)	(471)	(473)
Total amount recognized	\$ 797	\$ 1,106	\$ (505)	\$ (507)

The defined benefit pension plans' accumulated benefit obligation as at December 31, 2016 was \$11,143 million (2015 – \$10,893 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, 2016. During 2017, the Company expects to file a new valuation with the pension regulator.

Accumulated other comprehensive losses

Amounts recognized in accumulated other comprehensive losses are as follows:

(in millions of Canadian dollars)	Pensions		Other benefits	
	2016	2015	2016	2015
Net actuarial loss:				
Other than deferred investment gains	\$ 2,842	\$ 3,144	\$ 66	\$ 77
Deferred investment gains	(366)	(1,101)	—	—
Prior service cost	(7)	(20)	3	4
Deferred income tax	(699)	(580)	(17)	(20)
Total (Note 7)	\$ 1,770	\$ 1,443	\$ 52	\$ 61

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 2017 are \$153 million and a recovery of \$5 million, respectively, for pensions and \$2 million and \$1 million, respectively, for other post-retirement benefits.

Actuarial assumptions

Weighted-average actuarial assumptions used were approximately:

(percentages)	2016	2015	2014
Benefit obligation at December 31:			
Discount rate	4.02	4.22	4.09
Projected future salary increases	2.75	3.00	3.00
Health care cost trend rate	7.00 ⁽¹⁾	7.00 ⁽²⁾	7.00 ⁽²⁾
Benefit cost for year ended December 31:			
Discount rate	4.22	4.09	4.90
Expected rate of return on fund assets	7.75	7.75	7.75
Projected future salary increases	3.00	3.00	3.00
Health care cost trend rate	7.00 ⁽²⁾	7.00 ⁽²⁾	7.50 ⁽³⁾

⁽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.

⁽³⁾ For the 2014 benefit cost, the health care cost trend rate was assumed to be 6.00% in 2017 (6.50% in 2016, 7.00% in 2015, 7.50% in 2014), and then decreasing by 0.50% per year to an ultimate rate of 5.00% per year in 2019 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 \$5 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.

In 2014, the Canadian Institute of Actuaries and the Society of Actuaries each published updated mortality tables based on broad pension plan experience in Canada and the U.S., respectively. At December 31, 2014, the Company changed the basis for its obligations for defined benefit pension and post-retirement benefit plans to these new mortality tables, with adjustments to reflect actual plan mortality experience to the extent that credible experience data were available. The changes to the new mortality tables increased the obligations for pensions and post-retirement benefits at that date by approximately \$225 million. The Company's obligations for defined benefit pension and post-retirement benefit plans continue to be based on the new mortality tables at December 31, 2016.

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:

Asset allocation (percentage)	Current asset allocation target	Current policy range	Percentage of plan assets at December 31	
			2016	2015
Cash and cash equivalents	0.5	0 – 5	1.1	1.1
Fixed income	29.5	20 – 40	21.4	21.0
Public equity	46.0	35 – 55	53.8	54.5
Real estate and infrastructure	12.0	4 – 20	7.5	5.8
Absolute return	12.0	0 – 18	16.2	17.6
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, 2016 and 2015:

(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, 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
December 31, 2015					
Cash and cash equivalents	\$ 129	\$ 11	\$ —	\$ —	\$ 140
Fixed income					
• Government bonds ⁽²⁾	—	1,276	—	—	1,276
• Corporate bonds ⁽²⁾	—	1,228	—	—	1,228
• Mortgages ⁽³⁾	—	81	—	—	81
Public equities					
• Canada	1,449	46	—	—	1,495
• U.S. and international	5,169	34	—	—	5,203
Real estate ⁽⁴⁾	—	—	451	—	451
Derivative assets ⁽⁵⁾	—	—	—	—	—
Absolute return ⁽⁶⁾					
• Funds of hedge funds	—	—	—	781	781
• Multi-strategy funds	—	—	—	517	517
• Credit funds	—	—	—	555	555
• Equity funds	—	—	—	311	311
Infrastructure ⁽⁷⁾	—	—	—	262	262
	\$ 6,747	\$ 2,676	\$ 451	\$ 2,426	\$ 12,300

⁽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 \$71 million (2015 – \$81 million) is based on current market yields of financial instruments of similar maturity, coupon and risk factors.

⁽⁴⁾ Real estate:

The fair value of real estate investments of \$437 million (2015 – \$451 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. There are \$81 million of unfunded commitments for real estate investments as at December 31, 2016 (2015 – \$278 million).

⁽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 \$937 million and a fair value of \$7 million as at December 31, 2016 with maturities varying from three to fifteen months. These currency forwards reduce the funds' exposure to the U.S. dollar.

⁽⁶⁾ Absolute return:

The fair value of absolute return fund investments of \$1,975 million (2015 – \$2,164 million) is based on the NAV reported by the fund administrators. The funds have different redemption policies and periods. There are no unfunded commitments for absolute return investments as at December 31, 2016 (2015 – \$nil).

- 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 \$285 million (2015 – \$262 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 two years. As at December 31, 2016, unfunded commitments for infrastructure investments were \$nil (2015 - \$nil).

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

During 2015 and 2016 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, 2015	\$ 654
Disbursements	(223)
Net realized gains	64
Decrease in net unrealized gains	(44)
As at December 31, 2015	\$ 451
Disbursements	(36)
Net realized gains	24
Decrease in net unrealized gains	(2)
As at December 31, 2016	\$ 437

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. CP has entered into currency forward contracts to partially offset pension plan exposure to the U.S. dollar. At December 31, 2016 the plans were 34% exposed to the U.S. dollar net of the currency forwards (42% excluding the currency forwards), 14% exposed to European currencies, and 5% exposed to various other currencies.

At December 31, 2016, fund assets consisted primarily of listed stocks and bonds, including 109,630 of the Company's Common Shares (2015 – 188,276) at a market value of \$21 million (2015 – \$33 million) and Unsecured Notes issued by the Company at a par value of \$3 million (2015 – \$3 million) and a market value of \$3 million (2015 – \$3 million).

Cash flows

In 2016, the Company contributed \$57 million to its pension plans (2015 – \$90 million; 2014 – \$88 million), including \$9 million to the DC plans (2015 – \$9 million; 2014 – \$8 million), \$36 million to the Canadian registered and U.S. qualified DB pension plans (2015 – \$69 million; 2014 – \$67 million), and \$12 million to the Canadian non-registered supplemental pension plan (2015 – \$12 million; 2014 – \$13 million). In addition, the Company made payments directly to employees, their beneficiaries or estates or to third-party benefit administrators of \$30 million in 2016 (2015 – \$33 million; 2014 – \$26 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
2017	\$ 616	\$ 33
2018	626	32
2019	634	32
2020	641	31
2021	649	31
2022 – 2026	3,315	147

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 2016, the net cost of the DC plans, which generally equals the employer's required contribution, was \$9 million (2015 – \$9 million; 2014 – \$8 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 2016 in respect of post-retirement medical benefits were \$4 million (2015 – \$4 million; 2014 – \$4 million).

21 STOCK-BASED COMPENSATION

At December 31, 2016, the Company had several stock-based compensation plans, including a stock option plan, various cash settled liability plans and an employee stock savings plan. These plans resulted in an expense in 2016 of \$51 million (2015 – \$66 million; 2014 – \$110 million). The information in this note excludes the effects of the subsequent event described in Note 27.

A. Stock Option Plan

Summary of stock options

The following table summarizes the Company's stock option plan as at December 31, 2016:

	Options outstanding		Nonvested options	
	Number of options	Weighted average exercise price	Number of options	Weighted average grant date fair value
Outstanding, January 1, 2016	2,407,973	\$ 113.01	984,979	\$ 41.88
New options granted	403,740	161.06	403,740	39.01
Exercised	(269,491)	74.99	—	—
Vested	—	—	(449,712)	33.70
Forfeited	(90,340)	186.95	(88,840)	42.42
Expired	(1,800)	60.84	—	—
Outstanding, December 31, 2016	2,450,082	\$ 121.95	850,167	\$ 44.49
Vested or expected to vest at December 31, 2016 ⁽¹⁾	2,437,475	\$ 121.62	N/A	N/A
Exercisable, December 31, 2016	1,599,915	\$ 93.79	N/A	N/A

⁽¹⁾ As at December 31, 2016, the weighted average remaining term of vested or expected to vest options was 6.9 years with an aggregate intrinsic value of \$181 million.

The following table provides the number of stock options outstanding and exercisable as at December 31, 2016 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, 2016 at the Company's closing stock price of \$191.56.

Range of exercise prices	Options outstanding				Options exercisable		
	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 – \$72.54	304,025	2.3	\$ 60.59	\$ 40	\$ 304,025	\$ 60.59	\$ 40
\$72.55 – \$86.71	747,445	5.4	73.69	88	747,445	73.69	88
\$86.72 – \$161.38	678,416	7.0	127.62	44	347,061	111.34	28
\$161.39 – \$236.50	720,196	8.5	192.56	(1)	201,384	188.23	—
Total ⁽¹⁾	2,450,082	6.2	\$ 121.94	\$ 171	\$ 1,599,915	\$ 93.79	\$ 156

⁽¹⁾ As at December 31, 2016, the total number of in-the-money stock options outstanding was 2,140,692 with a weighted-average exercise price of \$107.27. The weighted-average years to expiration of exercisable stock options is 5.1 years.

Pursuant to the employee plan, options may be exercised upon vesting, which is between 12 months and 48 months after the grant date, and will expire after 10 years. Under the fair value method, the fair value of options at the grant date was approximately \$16 million for options issued in 2016 (2015 – \$18 million; 2014 – \$21 million). The weighted average fair value assumptions were approximately:

	2016	2015	2014
Expected option life (years) ⁽¹⁾	5.25	5.25	5.98
Risk-free interest rate ⁽²⁾	1.21%	1.10%	1.66%
Expected stock price volatility ⁽³⁾	27%	26%	29%
Expected annual dividends per share ⁽⁴⁾	\$ 1.40	\$ 1.40	\$ 1.40
Estimated forfeiture rate ⁽⁵⁾	2.0%	1.2%	1.2%
Weighted average grant date fair value of options granted during the year	\$ 39.01	\$ 55.28	\$ 48.88

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

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

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

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

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

In 2016, the expense for stock options (regular and performance) was \$14 million (2015 – \$15 million; 2014 – \$18 million). At December 31, 2016, there was \$8 million of total unrecognized compensation related to stock options which is expected to be recognized over a weighted-average period of approximately 1.1 years.

The total fair value of shares vested for the stock option plan during 2016 was \$15 million (2015 – \$17 million; 2014 – \$15 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)	2016	2015	2014
Total intrinsic value	\$ 30	\$ 72	\$ 115
Cash received by the Company upon exercise of options	21	43	62

B. Other Share-based Plans

Performance share units plan

During 2016, the Company issued 147,157 PSUs with a grant date fair value of \$25 million. These units attract dividend equivalents in the form of additional units based on the dividends paid on the Company's Common Shares. PSUs vest and are settled in cash or in CP Common Shares, approximately three 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 latticed-based valuation model.

The performance period of the PSUs issued in 2016 is January 1, 2016 to December 31, 2018, and the performance period for the PSUs issued in 2015 is January 1, 2015 to December 31, 2017. The performance factors for these PSUs are Operating Ratio, Return on Invested Capital, Total Shareholder Return ("TSR") compared to the S&P/TSX60 index, and TSR compared to Class 1 railways.

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 estimated payout was 118% on 134,063 total outstanding awards at December 31, 2016 resulting in a liability of \$31 million at December 31, 2016 and was calculated using the Company's average share price using the last 30 trading days preceding December 31, 2016.

The performance period for the PSUs issued in the fourth quarter of 2012 and in 2013 was January 1, 2013 to December 31, 2014. 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. All performance factors met the 200% payout thresholds, in effect resulting in a target payout of 200% on 300,095 total outstanding awards as at December 31, 2015. A payout of \$79 million on 217,179 outstanding awards, occurred on December 31, 2015 and was calculated using the Company's average share price using the last 30 trading days preceding December 31, 2015. In the first quarter of 2016, final payouts occurred on the total outstanding awards, including dividends reinvested, totalling \$31 million on 83,466 outstanding awards

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

	2016	2015
Outstanding, January 1	348,276	460,783
Granted	147,157	137,958
Units, in lieu of dividends	4,010	3,570
Settled	(83,466)	(217,179)
Forfeited	(42,384)	(36,856)
Outstanding, December 31	373,593	348,276

In 2016, the expense for PSUs was \$29 million (2015 – \$55 million; 2014 – \$50 million). At December 31, 2016, there was \$15 million of total unrecognized compensation related to PSUs which is expected to be recognized over a weighted-average period of approximately 1.4 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:

	2016	2015
Outstanding, January 1	318,176	308,447
Granted	31,069	21,690
Units, in lieu of dividends	2,798	2,015
Settled	(87,996)	(11,784)
Forfeited	(30,011)	(2,192)
Outstanding, December 31	234,036	318,176

During 2016, the Company granted 31,069 DSUs with a grant date fair value of \$5 million. In 2016, the expense was \$2 million (2015 – \$10 million recovery; 2014 – \$28 million expense). At December 31, 2016, there was \$1 million of total unrecognized compensation related to DSUs which is expected to be recognized over a weighted-average period of approximately 1.2 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)	2016	2015	2014
Plan			
DSUs	\$ 17	\$ 3	\$ 17
PSUs	31	79	—
Other	—	8	12
Total	\$ 48	\$ 90	\$ 29

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 2016 on behalf of participants, including the Company's contributions, was 140,560 (2015 – 131,703; 2014 – 176,906). In 2016, the Company's contributions totalled \$5 million (2015 – \$5 million; 2014 – \$5 million) and the related expense was \$5 million (2015 – \$4 million; 2014 – \$5 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 a fixed price purchase option which create the Company's variable interest 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 2016, lease payments after tax were \$12 million. Future minimum lease payments, before tax, of \$207 million will be payable over the next 14 years (see Note 23).

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, 2016, cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

Commitments

At December 31, 2016, the Company had committed to total future capital expenditures amounting to \$186 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 \$2.5 billion for the years 2017–2032 of which CP estimates approximately \$1.9 billion will be incurred in the next five years.

As at December 31, 2016, the Company's commitments under operating leases were estimated at \$450 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
2017	\$ 97
2018	66
2019	52
2020	44
2021	40
Thereafter	151
Total minimum lease payments	\$ 450

Expenses for operating leases for the year ended December 31, 2016, were \$111 million (2015 – \$127 million; 2014 – \$121 million).

Legal proceedings related to Lac-Mégantic rail accident

On July 6, 2013, a train carrying crude oil operated by Montreal Maine and Atlantic Railway ("MMA") or a subsidiary, Montreal Maine & Atlantic Canada Co. ("MMAC" and collectively the "MMA Group") derailed and exploded in Lac-Mégantic, Québec. The accident 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.

Following this incident, Québec's Minister of Sustainable Development, Environment, Wildlife and Parks (the "Minister") ordered the named parties to recover the contaminants and to clean up the derailment site. On August 14, 2013, the Minister added CP as a party (the "Amended Cleanup Order"). CP appealed the Amended Cleanup Order to the Administrative Tribunal of Québec. On July 5, 2016, the Minister served a Notice of Claim for nearly \$95 million of compensation spent on cleanup, alleging that CP refused or neglected to undertake the work. On September 6, 2016, CP filed a contestation of the Notice of Claim with the Administrative Tribunal of Québec. In October 2016, CP and the Minister agreed to stay the tribunal proceedings pending the outcome of the Province of Québec's action, set out below. The Court's decision to stay the tribunal proceedings is pending, but *de facto*, the file has been suspended. Directly related to that matter, on July 6, 2015, the Province of Québec sued CP in Québec Superior Court claiming \$409 million in derailment damages, including cleanup costs. The Province alleges that CP exercised custody or control over the crude

oil lading and that CP was otherwise negligent. Therefore, CP is said to be solidarily (joint and severally) liable with third parties responsible for the accident. The Province filed a motion for leave to amend its complaint in September 2016, but no date has been fixed for the hearing of this motion, as most of the Attorney General of Québec's lawyers have been on strike since October 2016 and current reports are that there is no imminent end in sight. As at the end of 2016, no timetable governing the conduct of this lawsuit has been ordered by the Québec Superior Court. This proceeding appears to be duplicative of the administrative proceedings.

A class action lawsuit has also been filed 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"). That lawsuit seeks derailment damages, including for wrongful death, personal injury, and property harm. On August 16, 2013, CP was added as a defendant. On May 8, 2015, the Québec Superior Court authorized (certified) the Class Action against CP, the shipper – Western Petroleum, and the shipper's parent – World Fuel Services (collectively, the "World Fuel Entities"). The World Fuel Entities have since settled. The plaintiffs filed a motion for leave to amend their complaint, but subsequently withdrew it.

On October 24, 2016, the Québec Superior Court authorized class action proceedings against two additional defendants in the same matter discussed above, i.e., against MMAC and Mr. Thomas Harding. On December 9, 2016, the Superior Court granted CP's motion asking the latter to confirm the validity of the opt-outs from this class action by most of the estates of the deceased parties following the train derailment who had opted out to allow them to sue in the United States instead (i.e., the wrongful death cases, filed in the United States, which are further discussed hereinafter). As at the end of 2016, no timetable governing the conduct of this lawsuit has been ordered by the Québec Superior Court.

On July 4, 2016, eight subrogated insurers served CP with claims of approximately \$16 million. On July 11, 2016, two additional subrogated insurers served CP with claims of approximately \$3 million. The lawsuits do not identify the parties to which the insurers are subrogated, and therefore the extent of claim overlap and the extent that claims will be satisfied after proof of claim review and distribution from the Plans, referred to below, is difficult to determine. These lawsuits have been stayed until June 2, 2017.

In the wake of the derailment and ensuing litigation, MMAC filed for bankruptcy in Canada (the "Canadian Proceeding") and MMA filed for bankruptcy in the United States (the "U.S. Proceeding"). Plans of arrangement have been approved in both the Canadian Proceeding and the U.S. Proceeding (the "Plans"). These Plans provide for the distribution of a fund of approximately \$440 million amongst those claiming derailment damages. The Plans also provide settling parties broadly worded third-party releases and injunctions preventing lawsuits against settlement contributors. CP has not settled and therefore will not benefit from those provisions. Both Plans do, however, contain judgment reduction provisions, affording CP a credit for the greater of (i) the settlement monies received by the plaintiff(s), or (ii) the amount, in contribution or indemnity, that CP would have been entitled to charge against third parties other than MMA and MMAC, but for the Plans' releases and injunctions. CP may also have judgment reduction rights, as part of the contribution/indemnification credit, for the fault of the MMA Group. Finally, the Plans provide for a potential re-allocation of the MMA Group's liability among plaintiffs and CP, the only non-settling party.

An Adversary Proceeding filed by the MMA U.S. bankruptcy trustee (now, estate representative) against CP, Irving Oil, and the World Fuel Entities accuses CP of failing to ensure that World Fuel Entities or Irving Oil properly classified the oil lading and of not refusing to ship the misclassified oil as packaged. By that action the estate representative seeks to recover MMA's going concern value supposedly destroyed by the derailment. The estate representative has since settled with the World Fuel Entities and Irving Oil and now bases CP misfeasance on the railroad's failure to abide in North Dakota by a Canadian regulation. That regulation supposedly would have caused the railroads to not move the crude oil train because an inaccurate classification was supposedly suspected. In a recently amended complaint, the estate representative named a CP affiliate, Soo Line Railroad Company ("Soo Line"), and asserts that CP and Soo Line breached terms or warranties allegedly contained in the bill of lading. CP's motion to dismiss this amended complaint was heard on December 20, 2016 and a decision is pending.

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

Lac-Mégantic residents and wrongful death representatives commenced a class action and a mass action in Texas and wrongful death and personal injury actions in Illinois and Maine. CP removed all of these lawsuits to federal court, and a federal court thereafter consolidated those cases in Maine. These actions generally charge CP with misclassification and

mis-packaging (that is, using inappropriate DOT-111 tank cars) negligence. On CP's motion, the Maine court dismissed all wrongful death and personal injury actions on several grounds on September 28, 2016. The plaintiffs' subsequent motion for reconsideration was denied on January 9, 2017. The plaintiffs filed a notice of appeal on January 19, 2017. CP will file a motion to dismiss the appeal. If the ruling is upheld on appeal these cases will be litigated, if anywhere, in Canada. As previously mentioned, many of these plaintiffs had previously opted-out of the Québec Class Action in order to bring their claims in the United States. CP brought a motion on December 1, 2016 to seek a declaration from the Québec Superior Court that the plaintiffs who had opted were precluded from opting back into the Québec Class Action. CP's motion was successful. Accordingly, if these plaintiffs seek to sue CP, they would have to do so in Québec in individual actions (they could also join their individual claims in the same individual action).

CP has received two damage to cargo notices of claims from the shipper of the oil, Western Petroleum. Western Petroleum submitted U.S. and Canadian notices of claims for the same damages and under the Carmack Amendment (49 U.S.C. Section 11706) Western Petroleum seeks to recover for all injuries associated with, and indemnification for, the derailment. Both jurisdictions permit a shipper to recover the value of damaged lading against any carrier in the delivery chain, subject to limitations in the carrier's tariffs. CP's tariffs significantly restrict shipper damage claim rights. Western Petroleum is part of the World Fuel Services Entities, and those companies settled with the trustee. In settlements with the estate representative the World Fuel Services Entities and the consignee (Irving Oil) assigned all claims against CP, if any, including Carmack Amendment claims. The estate representative has since designated a trust formed for the benefit of the wrongful death plaintiff to pursue those claims.

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

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

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 \$19 million at December 31, 2016;
- 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, 2016, these accruals amounted to \$5 million (2015 – \$4 million), 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 contribution option 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, 2016, 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, 2016, 2015, and 2014, no one customer comprised more than 10% of total revenues and accounts receivable.

Geographic information

(in millions of Canadian dollars)	Canada	United States	Total
2016			
Revenues	\$ 4,473	\$ 1,759	\$ 6,232
Long-term assets excluding financial instruments, mortgages receivable and deferred tax assets	\$ 11,000	\$ 6,121	\$ 17,121
2015			
Revenues	\$ 4,662	\$ 2,050	\$ 6,712
Long-term assets excluding financial instruments, mortgages receivable and deferred tax assets	\$ 10,630	\$ 6,068	\$ 16,698
2014			
Revenues	\$ 4,655	\$ 1,965	\$ 6,620
Long-term assets excluding financial instruments, mortgages receivable and deferred tax assets	\$ 10,114	\$ 4,733	\$ 14,847

26 SELECTED QUARTERLY DATA (UNAUDITED)

For the quarter ended (in millions of Canadian dollars, except per share data)	2016				2015			
	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Total revenues	\$ 1,637	\$ 1,554	\$ 1,450	\$ 1,591	\$ 1,687	\$ 1,709	\$ 1,651	\$ 1,665
Operating income	717	657	551	653	677	753	646	612
Net income	384	347	328	540	319	323	390	320
Basic earnings per share ⁽¹⁾	\$ 2.63	\$ 2.35	\$ 2.16	\$ 3.53	\$ 2.09	\$ 2.05	\$ 2.38	\$ 1.94
Diluted earnings per share ⁽¹⁾	2.61	2.34	2.15	3.51	2.08	2.04	2.36	1.92

⁽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 SUBSEQUENT EVENT

On January 18, 2017, the Company announced the resignation of Mr. E. Hunter Harrison from all positions held by him at the Company, including as the Company's Chief Executive Officer and a member of the Board of Directors of the Company, effective January 31, 2017. 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 has 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 PSUs, 68,612 DSUs, and 752,145 Stock options.

As a result of this agreement, the Company has recognized a recovery of \$51 million in "Compensation and benefits" in the first quarter of 2017.

28 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, 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 Income
Year Ended December 31, 2014

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Revenues					
Freight	\$ —	\$ 4,524	\$ 1,940	\$ —	\$ 6,464
Non-freight	—	130	357	(331)	156
Total revenues	—	4,654	2,297	(331)	6,620
Operating expenses					
Compensation and benefits	—	945	403	—	1,348
Fuel	—	779	269	—	1,048
Materials	—	156	37	—	193
Equipment rents	—	137	18	—	155
Depreciation and amortization	—	396	156	—	552
Purchased services and other	—	706	610	(331)	985
Total operating expenses	—	3,119	1,493	(331)	4,281
Operating income	—	1,535	804	—	2,339
Less:					
Other income and charges	3	46	(30)	—	19
Net interest expense	—	250	32	—	282
(Loss) income before income tax expense and equity in net earnings of subsidiaries	(3)	1,239	802	—	2,038
Less: Income tax (recovery) expense	(1)	320	243	—	562
Add: Equity in net earnings of subsidiaries	\$ 1,478	\$ 559	\$ —	\$ (2,037)	\$ —
Net income	\$ 1,476	\$ 1,478	\$ 559	\$ (2,037)	\$ 1,476

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 Statements of Comprehensive Income Year Ended December 31, 2014

(in millions of Canadian dollars)	CPRL (Parent Guarantor)	CPRC (Subsidiary Issuer)	Non-Guarantor Subsidiaries	Consolidating Adjustments and Eliminations	CPRL Consolidated
Net income	\$ 1,476	\$ 1,478	\$ 559	\$ (2,037)	\$ 1,476
Net (loss) gain in foreign currency translation adjustments, net of hedging activities	—	(316)	284	—	(32)
Change in derivatives designated as cash flow hedges	—	(49)	—	—	(49)
Change in pension and post-retirement defined benefit plans	—	(908)	(33)	—	(941)
Other comprehensive (loss) income before income taxes	—	(1,273)	251	—	(1,022)
Income tax recovery on above items	—	293	13	—	306
Equity accounted investments	(716)	264	—	452	—
Other comprehensive (loss) income	(716)	(716)	264	452	(716)
Comprehensive income	\$ 760	\$ 762	\$ 823	\$ (1,585)	\$ 760

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 Balance Sheets As at December 31, 2015

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

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

Condensed Consolidating Statements of Cash Flows
Year Ended December 31, 2014

(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	\$ 183	\$ 1,684	\$ 604	\$ (348)	\$ 2,123
Investing activities					
Additions to properties	—	(816)	(702)	69	(1,449)
Proceeds from the sale of west end of Dakota, Minnesota and Eastern Railroad	—	—	236	—	236
Proceeds from sale of properties and other assets	—	116	5	(69)	52
Advances to affiliates	—	(611)	(2,636)	3,247	—
Repayment of advances to affiliates	—	2,167	1,592	(3,759)	—
Capital contributions to affiliates	—	(2,927)	—	2,927	—
Other	—	2	(2)	—	—
Cash used in investing activities⁽¹⁾	—	(2,069)	(1,507)	2,415	(1,161)
Financing activities					
Dividends paid	(244)	(182)	(166)	348	(244)
Issuance of share capital	—	—	2,927	(2,927)	—
Issuance of CP Common Shares	62	—	—	—	62
Purchase of CP Common Shares	(2,050)	—	—	—	(2,050)
Repayment of long-term debt, excluding commercial paper	—	(174)	(9)	—	(183)
Net issuance of commercial paper	—	771	—	—	771
Settlement of foreign exchange forward on long-term debt	—	17	—	—	17
Advances from affiliates	2,049	1,198	—	(3,247)	—
Repayment of advances from affiliates	—	(1,592)	(2,167)	3,759	—
Other	—	—	(3)	—	(3)
Cash (used in) provided by financing activities	(183)	38	582	(2,067)	(1,630)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	—	(3)	10	—	7
Cash position					
Decrease in cash, cash equivalents, and restricted cash ⁽¹⁾	—	(350)	(311)	—	(661)
Cash, cash equivalents, and restricted cash at beginning of year ⁽¹⁾	—	502	385	—	887
Cash, cash equivalents, and restricted cash at end of year⁽¹⁾	\$ —	\$ 152	\$ 74	\$ —	\$ 226

⁽¹⁾ Certain figures have been reclassified due to a retrospective change in accounting policy (Note 2).

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 legal, personal injury and casualty-related claims ⁽¹⁾					
2014	\$ 153	\$ 32	\$ (38)	\$ 3	\$ 150
2015	\$ 150	\$ 79	\$ (102)	\$ 6	\$ 133
2016	\$ 133	\$ 67	\$ (71)	\$ 1	\$ 130
Environmental liabilities					
2014	\$ 90	\$ 4	\$ (9)	\$ 6	\$ 91
2015	\$ 91	\$ 7	\$ (17)	\$ 12	\$ 93
2016	\$ 93	\$ 6	\$ (12)	\$ (2)	\$ 85

⁽¹⁾ Includes WCB, FELA, occupational, foreign car damage and property & lading damage claims.