CANADIAN PACIFIC RAILWAY CO/NEW
Form 40-F
March 07, 2005

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U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

CANADIAN PACIFIC RAILWAY LIMITED
(Commission File No. 1-01342)
CANADIAN PACIFIC RAILWAY COMPANY
(Commission File No. 1-15272)

(Exact name of Registrant as specified in its charter)

CANADA	**4011**	**98-0355078 (Canadian Pacific Railway Limited) 98-0001377 (Canadian Pacific Railway Company)**
(Province or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

Suite 500, Gulf Canada Square, 401-9th Avenue S.W., Calgary, Alberta, Canada T2P 4Z4
(403) 319-7000

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

CT Corporation System, 111-8th Avenue, New York, New York 10011, (212) 894-8940

(Name, address (including zip code) and telephone number (including area code) of Agent for Service of Canadian Pacific Railway Limited in the United States)

The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street
Wilmington, Delaware 19801, (302) 658-7581

(Name, address (including zip code) and telephone number (including area code) of Agent for Service of Canadian Pacific Railway Company in the United States)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares of Canadian Pacific Railway Limited	**New York Stock Exchange**
Perpetual 4% Consolidated Debenture Stock of Canadian Pacific Railway Company	**New York Stock Exchange**

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

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

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

[X] Annual information form [X] Audited annual financial statements

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

At December 31, 2004, 158,779,413 Common Shares of Canadian Pacific Railway Limited were issued and outstanding. At December 31, 2004, 347,170,009 Ordinary Shares of Canadian Pacific Railway Company were issued and outstanding.

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the Exchange Act). If Yes is marked, indicate the file number assigned to the Registrant in connection with such Rule.

YES ___ NO _X_

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES _X_ NO ___

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PRIOR FILINGS MODIFIED AND SUPERSEDED

The Registrants Annual Report on Form 40-F for the year ended December 31, 2004, at the time of filing with the Securities and Exchange Commission, modifies and supersedes all prior documents filed pursuant to Sections 13 and 15(d) of the Exchange Act for purposes of any offers or sales of any securities after the date of such filing pursuant to any Registration Statement under the Securities Act of 1933 of either Registrant which incorporates by reference such Annual Report, including without limitation the following: Form S-8 No. 333-13846 (Canadian Pacific Railway Limited); and Form S-8 No. 333-13962 (Canadian Pacific Railway Limited). The documents (or portions thereof) identified under the heading Documents Filed as Part of This Report below as forming part of this Form 40-F are incorporated by reference into the Registration Statement on Form F-9 No. 333-114696 (Canadian Pacific Railway Company) as exhibits thereto.

CONSOLIDATED AUDITED ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT S DISCUSSION AND ANALYSIS

A. Audited Annual Financial Statements

For consolidated audited financial statements, including the report of the auditors with respect thereto, see pages 42 through 88 of the Registrants 2004 Annual Report incorporated by reference and included herein. For a reconciliation of important differences between Canadian and United States generally accepted accounting principles, see Note 25 Supplementary Data of the Notes to Consolidated Financial Statements on pages 80 through 88 of such 2004 Annual Report.

B. Management s Discussion and Analysis

For management s discussion and analysis, see pages 4 through 41 of the Registrants 2004 Annual Report incorporated by reference and included herein.

For the purposes of this Annual Report on Form 40-F, only pages 4 through 88 of the Registrants 2004 Annual Report referred to above shall be deemed filed, and the balance of such 2004 Annual Report, except as it may be otherwise specifically incorporated by reference in the Registrants Annual Information Form, shall be deemed not filed with the Securities and Exchange Commission as part of this Annual Report on Form 40-F under the Exchange Act.

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2004, an evaluation was carried out under the supervision of and with the participation of the Registrants management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Registrants disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of December 31, 2004, to ensure that information required to be disclosed by the Registrants in reports that they file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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CODE OF BUSINESS ETHICS

The Registrants Code of Business Ethics was last revised in late 2003 to ensure that it was in compliance with the corporate governance standards of the New York Stock Exchange (NYSE Standards). The Code applies to all directors, officers and employees, both unionized and non-unionized, of the Registrants and their subsidiaries in Canada, the U.S. and elsewhere, and forms part of the terms and conditions of employment of all such individuals. Contractors engaged on behalf of the Registrants or their subsidiaries must undertake, as a condition of their engagement, to adhere to principles and standards of business conduct consistent with those set forth in the Code. The Code is available on the Registrants web site at www.cpr.ca and in print to any shareholder who requests it. All amendments to the Code, and all waivers of the Code with respect to any director or executive officer of the Registrants, will be posted on the Registrants web site and provided in print to any shareholder who requests them.

CODE OF ETHICS FOR CHIEF EXECUTIVE OFFICER AND SENIOR FINANCIAL OFFICERS

The Registrants adopted a Code of Ethics for Chief Executive Officer and Senior Financial Officers in 2003. This code applies to the Registrants President and Chief Executive Officer, the Executive Vice-President and Chief Financial Officer and the Vice-President and Comptroller. It is available on the Registrants web site at www.cpr.ca and in print to any shareholder who requests it. All amendments to the code, and all waivers of the code with respect to any of the officers covered by it, will be posted on the Registrants web site and provided in print to any shareholder who requests them.

CORPORATE GOVERNANCE PRINCIPLES AND GUIDELINES

The Registrants amended their Corporate Governance Principles and Guidelines in 2004. These principles and guidelines pertain to such matters as, but are not limited to: director qualification standards and responsibilities; access by directors to management and independent advisors; director compensation; director orientation and continuing education; management succession; and annual performance evaluations of the board, including its committees and individual directors, and of the Chief Executive Officer. The Corporate Governance Principles and Guidelines are available on the Registrants web site at www.cpr.ca and in print to any shareholder who requests them.

COMMITTEE TERMS OF REFERENCE

The terms of reference of each of the following committees of the Registrants are available on the Registrants web site at www.cpr.ca and in print to any shareholder who requests them: the Audit, Finance and Risk Management Committee; the Corporate Governance and Nominating Committee; the Management Resources and Compensation Committee; the Environmental and Safety Committee; and the Pension Trust Fund Committee.

DIRECTOR INDEPENDENCE

The boards of the Registrants have adopted the criteria for director independence and unrelatedness: (a) prescribed by Section 10A(m)(3) of the Exchange Act and Rule 10A-3(b)(1) promulgated thereunder and Multilateral Instrument 52-110 for members of public company audit committees; and (b) set forth in the NYSE Standards, the Corporate Governance Guidelines of the Toronto Stock Exchange, as proposed to be amended in April and November 2002 (Proposed TSX Guidelines) and Multilateral Instrument 52-110 in respect of public company directors. The boards also conducted a comprehensive assessment of each of their members as against these criteria and determined that all current directors, except R.J. Ritchie, have no material relationship with the Registrants and are independent and unrelated. Mr. Ritchie is not independent or unrelated by virtue of the fact that he is the President and Chief Executive Officer of the Registrants.

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EXECUTIVE SESSIONS OF NON-MANAGEMENT DIRECTORS

The Corporate Governance and Nominating Committees of the boards of the Registrants are comprised of all the unrelated and independent directors on the boards and are required by their terms of reference to meet at least quarterly and at such other times as they deem appropriate. They are chaired by Mr. J.E. Newall. Interested parties may communicate directly with Mr. Newall by writing to him at the following address, and all communications received at this address will be forwarded to him:

Office of the Corporate Secretary
Canadian Pacific Railway
Suite 920, 401 9th Avenue, S.W.
Calgary, Alberta
Canada
T2P 4Z4

AUDIT COMMITTEE FINANCIAL EXPERTS

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

Stephen E. Bachand
John E. Cleghorn
M. Paquin
Roger Phillips
Michael W. Wright

Each of the aforementioned directors, except Ms. Paquin, has been determined by the boards of the Registrants to meet the audit committee financial expert criteria prescribed by the Securities and Exchange Commission and has been designated as an audit committee financial expert for the Audit Committees of the boards of both Registrants. Each of the aforementioned directors has also been determined by the boards of the Registrants to be independent within the criteria referred to above under the subheading Director Independence .

FINANCIAL LITERACY OF AUDIT COMMITTEE MEMBERS

The boards of the Registrants have determined that all members of the Audit Committees have accounting or related financial management expertise within the meaning of the NYSE Standards and accounting or related financial experience within the meaning of the Proposed TSX Guidelines. The boards have also adopted the definition of financial literacy contained in the practice notes of the Proposed TSX Guidelines and have determined that all members of the Audit Committees are financially literate within that definition and as required by Multilateral Instrument 52-110 and the NYSE Standards.

SERVICE ON OTHER PUBLIC COMPANY AUDIT COMMITTEES

John E. Cleghorn serves on two public company audit committees, in addition to the Audit Committees of the two Registrants. Each Registrant s board has determined that no director who serves on more than two public company audit committees other than its own Audit Committee shall be eligible to serve as a member of the Audit Committee of that Registrant, unless that Registrant s board determines that such simultaneous service would not impair the ability of such member to effectively serve on that Registrant s Audit Committee.

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The boards of the Registrants have determined that the service of Mr. Cleghorn on the audit committees of two public companies other than the two Registrants does not impair his ability to effectively serve on the Audit Committees of the Registrants, for the following reasons:

Two of the public company audit committees on which Mr. Cleghorn serves are the Audit Committees of the Registrants. As Canadian Pacific Railway Company is a wholly-owned subsidiary of Canadian Pacific Railway Limited, and the latter company carries on no business operations and has no assets or liabilities of more than nominal value beyond its 100% shareholding in Canadian Pacific Railway Company, the workload of the Audit Committees is essentially equivalent to the workload of one public company audit committee;

The two public companies other than the Registrants on whose audit committees Mr. Cleghorn serves have a holding company/operating company relationship similar to that between the Registrants. Consequently, the workload involved in such audit committees is essentially equivalent to the workload of one public company audit committee; and

Mr. Cleghorn is a retired chief executive officer of a large public company and qualifies, and has been designated as, an audit committee financial expert for the Registrants. As a result, he no longer has any day-to-day executive or managerial responsibilities and, in addition, brings to his role on the Audit Committees of the Registrants considerable business experience and a highly-focused and effective approach to audit-related matters.

PRINCIPAL ACCOUNTING FEES AND SERVICES   INDEPENDENT AUDITORS

Fees payable to the Registrants   independent auditor, PricewaterhouseCoopers, LLP for the years ended December 31, 2004, and December 31, 2003, totaled $1,898,000 and $1,501,000, respectively, as detailed in the following table:

	Year ended December 31, 2004	Year ended December 31, 2003
Audit Fees	$ 1,005,000	$ 855,000
Audit-Related Fees	$ 543,000	$ 329,000
Tax Fees	$ 350,000	$ 310,000
All Other Fees	$ 0	$ 7,000
TOTAL	$ 1,898,000	$ 1,501,000

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

Audit Fees

Audit fees were for professional services rendered by PricewaterhouseCoopers LLP for the audit of the Registrants annual financial statements and services provided in connection with statutory and regulatory filings or engagements.

Audit-Related Fees

Audit-related fees were for assurance and related services reasonably related to the performance of the audit or review of the annual statements and are not reported under   Audit Fees   above. These services consisted of: special attest services as required by various government entities; accounting consultations and special audits in connection with acquisitions; the audit of financial statements of certain subsidiaries and of various pension and benefits plans of the Registrants; assistance with prospectus filings; access fees for technical accounting database resources; and assistance with preparations for compliance with section 404 of the *Sarbanes-Oxley Act of 2002*.

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Tax Fees

Tax fees were for tax compliance, tax advice and tax planning professional services. These services consisted of: tax compliance including the review of tax returns; assistance with questions regarding tax audits, the preparation of employee tax returns under the Registrants expatriate tax services program and assistance in completing routine tax schedules and calculations; tax planning and advisory services relating to common forms of domestic and international taxation (i.e. income tax, capital tax, goods and services tax, and valued added tax); and access fees for taxation database resources.

All Other Fees

Fees disclosed under this category were for products and services other than those described under Audit Fees , Audit-Related Fees and Tax Fees above. In 2004, there were no services in the category, and in 2003, these services consisted of assistance in reviewing an agreement and proposed transaction.

PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES PROVIDED BY INDEPENDENT AUDITORS

The Audit Committees have adopted a written policy governing the pre-approval of audit and non-audit services to be provided to the Registrants by their independent auditors. The policy is renewed annually and the audit and non-audit services to be provided to the Registrants by their independent auditors, as well as the budgeted amounts for such services, are pre-approved at that time. A report of all such services performed or to be performed by the independent auditors pursuant to the policy must be submitted to the Audit Committees by the Vice-President and Comptroller at least quarterly. Any additional audit or non-audit services to be provided by the independent auditors either not included among the pre-approved services or exceeding the budgeted amount for such pre-approved services by more than 10% must be individually pre-approved by the Audit Committees or their Chairman, who must report all such additional pre-approvals to the Audit Committees at their next meeting following the granting thereof. The independent auditors annual audit services engagement terms and fees are subject to the specific pre-approval of the Audit Committees. Non-audit services that the Registrants independent auditors are prohibited from providing to the Registrants may not be pre-approved. In addition, prior to the granting of any pre-approval, the Audit Committees or their Chairman, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of the independent auditors. Compliance with this policy is monitored by the Registrants Director, Internal Audit.

OFF-BALANCE SHEET ARRANGEMENTS

A description of the Registrants off-balance sheet arrangements is set forth on pages 29 and 30 of the Registrants 2004 Annual Report incorporated by reference and included herein.

TABLE OF CONTRACTUAL COMMITMENTS

The table setting forth the Registrants contractual commitments is set forth on page 30 of the Registrants 2004 Annual Report incorporated by reference and included herein.

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UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

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

B. Consent to Service of Process

A Form F-X signed by Canadian Pacific Railway Limited and its agent for service of process was filed with the Commission together with Canadian Pacific Railway Limited s Annual Report on Form 40-F for the fiscal year ended December 31, 2000. A Form F-X signed by Canadian Pacific Railway Company and its agent for service of process was filed with the Commission on April 21, 2004.

SIGNATURES

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

CANADIAN PACIFIC RAILWAY LIMITED
CANADIAN PACIFIC RAILWAY COMPANY
(Registrants)

Signed Robert V. Horte
Name: Robert V. Horte
Title: Corporate Secretary

Date: March 7, 2005

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DOCUMENTS FILED AS PART OF THIS REPORT

1. Annual Information Form of the Registrants for the year ended December 31, 2004.

2. Annual Report of the Registrants for the year ended December 31, 2004, including Management s Discussion and Analysis and Audited Consolidated Financial Statements of the Registrants as of December 31, 2004 and for each of the three years then ended[1].

EXHIBITS

A. Consent of PricewaterhouseCoopers, Independent Accountants.

B. Certifications by the Chief Executive Officer and Chief Financial Officer of the Registrants pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

C. Certifications by the Chief Executive Officer and Chief Financial Officer of the Registrants pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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[1] For the purposes of this Annual Report on Form 40-F, only pages 4 through 88 of the Registrants 2004 Annual Report referred to above shall be deemed filed, and the balance of such 2004 Annual Report, except as it may be otherwise specifically incorporated by reference in the Registrants Annual Information Form, shall be deemed not filed with the Securities and Exchange Commission as part of this Annual Report on Form 40-F under the Exchange Act.

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* In this Annual Information Form (AIF), all dollar amounts are in Canadian dollars unless otherwise noted.

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CORPORATE STRUCTURE

Name, Address and Incorporation Information

Canadian Pacific Railway Limited (the Company or CPR) was incorporated on June 22, 2001, as 3913732 Canada Inc. pursuant to the Canada Business Corporations Act (the CBCA). On July 20, 2001, CPR amended its Articles of Incorporation to change its name to Canadian Pacific Railway Limited . On October 1, 2001, Canadian Pacific Limited (CPL) completed an arrangement (the Arrangement) whereby it distributed to its common shareholders all of the shares of newly-formed corporations holding the assets of four of CPL s five primary operating divisions. The Arrangement was effected as an arrangement pursuant to section 192 of the CBCA. On September 26, 2001, the Arrangement was approved by the shareholders of CPL and Canadian Pacific Railway Company (CPRC), previously a wholly-owned subsidiary of CPL, was transferred to CPR effective October 1, 2001. The transfer was accomplished as part of a series of steps, pursuant to the terms of the Arrangement, whereby CPL transferred all of its outstanding shares of CPRC to a CPL subsidiary, 3921760 Canada Inc. (3921760). CPL then transferred all of its outstanding shares of 3921760 to CPR and CPR amalgamated with 3921760**.** ***In this Annual Information Form, unless the context requires otherwise, CPR and the Company refer to Canadian Pacific Railway Limited and, where applicable, its subsidiaries, including CPRC.***

CPR s registered office, executive offices and principal place of business are located at Suite 500, 401 9th Avenue S.W., Calgary, Alberta T2P 4Z4.

INTERCORPORATE RELATIONSHIPS

Principal Subsidiaries

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

Principal Subsidiary	Incorporated under the laws of	Percentage of voting securities held directly or indirectly	Percentage of non-voting securities beneficially owned, or over which control or direction is exercised
Canadian Pacific Railway Company	Canada	100%	Not applicable.
Soo Line Corporation (1)	Minnesota	100%	Not applicable.
Soo Line Railroad Company (2)	Minnesota	100%	Not applicable.
Delaware and Hudson Railway Company, Inc. (2)	Delaware	100%	Not applicable.

(1) Indirect wholly-owned subsidiary of Canadian Pacific Railway Company.
(2) Wholly-owned subsidiary of Soo Line Corporation.

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GENERAL DEVELOPMENT OF THE BUSINESS

Development of CPR

CPRC was incorporated by Letters Patent in 1881 pursuant to an Act of the Parliament of Canada. CPRC is one of Canada s oldest corporations and was North America s first transcontinental railway. From its inception over 120 years ago, CPRC has developed into a fully-integrated and technologically-advanced Class 1 railway (a railroad earning revenues of US$258.5 million annually) providing rail and intermodal freight transportation services over a 13,800-mile network serving the principal business centres of Canada, the U.S. Midwest and the U.S. Northeast.

Of the total mileage operated by CPR, approximately 6,850 miles are located in western Canada, 2,200 miles in eastern Canada, 3,250 miles in the U.S. Midwest and 1,500 miles in the U.S. Northeast. CPR owns 9,500 miles of track and an additional 4,300 miles of track are jointly owned, leased or operated under trackage rights.

CPR s business is based on funnelling traffic from network feeders and connectors, carrying railway traffic to and from the main rail lines, onto a 4,700-mile high-density, high-quality railway network. CPR has extended its network reach by establishing alliances and connections with other major Class 1 railways in North America, which allows CPR to provide competitive product offerings and access to markets across North America and, via the Port of Montreal, Quebec, and the Port of Vancouver, British Columbia (B.C.), to markets in Europe and the Pacific Rim, respectively.

CPR s network accesses the U.S. market directly through two wholly-owned subsidiaries: Soo Line Railroad Company (Soo Line), a Class 1 railway operating in the U.S. Midwest; and Delaware and Hudson Railway Company, Inc. (D&H), which operates between eastern Canada and major U.S. Northeast markets including New York City, New York; Philadelphia, Pennsylvania; and Washington, D.C.

Strategy

CPR s goals are to become the preferred business partner for rail-based transportation services in North America and to be at the forefront of the railway industry in operating profitability and return on capital employed. Its principal strategies to accomplish these goals include maximizing the strengths of its North American railway franchise by operating a low-cost scheduled railway, developing new products and services in cooperation with customers and partners, and extending the reach of the franchise through marketing and operating partnerships, as well as agreements and commercial arrangements with other railways and transport companies in North America. CPR s overall marketing and sales activities within each of its lines of business are focused on targeted growth, product efficiency and maximizing value from existing assets.

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GENERAL DEVELOPMENT OF THE BUSINESS

Recent History

CPR focuses on franchise renewal, increasing network efficiency, asset maintenance efficiency and asset utilization, train operations productivity and labour productivity. The following table summarizes the effect of these strategies on a number of industry recognized performance indicators:

	Year ended December 31				
Performance Indicators	**2004**	**2003**	**2002**	**2001**	**2000**
Gross ton-miles (GTM) (millions)[1]	236,451	221,884	209,596	212,928	211,946
Revenue ton-miles (RTM) (millions)[2]	123,627	114,599	107,689	110,622	110,409
Train-miles (thousands)[3]	41,344	40,470	38,299	38,162	39,120
Average number of active employees[4]	16,056	16,126	16,116	16,987	17,965
Average train weights (tons)[5]	5,719	5,483	5,473	5,580	5,418
Traffic density (GTMs per mile of road operated, excluding track on which CPR has haulage rights (thousands))	17,113	16,023	15,107	15,326	15,183
Employee productivity (GTMs per average active employee (thousands))	14,727	13,759	13,005	12,535	11,798
Fuel efficiency (U.S. gallons of fuel per 1,000 GTMs)	1.20	1.24	1.24	1.25	1.29
Locomotive utilization (GTMs per active locomotive per day (thousands))	675	664	673	681	652
Total operating expenses, before other specified items, per GTM (cents) [6] [7]	1.32	1.32	1.35	1.35	1.33

Notes:

(1) Gross Ton-Miles of freight measure the movement of total train weight over one mile in a year. The total train weight is comprised of the weight of the freight cars, their contents and inactive locomotives.

(2) Revenue ton-miles of freight measure the movement of a revenue-producing ton of freight a distance of one mile.

(3) Train-miles is a measure reflecting the distance traveled by the lead locomotive on each train operating over CPR s track.

(4) Average number of active employees is the average number of actively employed workers for the period. The number of actively employed workers includes employees who are taking vacation and statutory holidays and other forms of short-term paid leave, and excludes individuals who have a continuing employment relationship with CPR but are not currently working. This indicator is calculated by adding the monthly average employee counts for the year and dividing this total by 12.

(5) Average train weight is the result of dividing GTMs by train miles. It represents the average total weight of all CPR trains operating over CPR s track and track on which CPR has running rights.

(6) The item total operating expenses, before other specified items does not have a standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and, therefore, is unlikely to be comparable to similar measures of other companies. Other specified items are described under the heading Selected Consolidated Financial Information in this AIF and CPR s 2004 Management s Discussion and Analysis.

(7) Expenses for all prior years presented were restated to reflect the implementation of a new accounting standard under Canadian GAAP for Asset Retirement Obligations.

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GENERAL DEVELOPMENT OF THE BUSINESS

Network Efficiency

CPR continues to increase the capacity of its core franchise through infrastructure-sharing and joint-service programs with other railways, strategic capital investment programs, and operating plan strategies. Combined with the continued improvement of CPR s locomotive fleet, these strategies enable CPR to achieve more predictable and fluid train operations between major terminals.

CPR has expanded its physical network with the following infrastructure-sharing and joint-service programs:

CPR-CSX Transportation, Inc. (CSX) track connection at Detroit, Michigan reduces transit times and improves consistency of service between eastern Canada and the U.S. Midwest;

CPR- UP provides joint service from western Canada to the U.S. Pacific-Northwest, California and Arizona and to Texas/Mexico and Kansas/Missouri; and

CPR-Norfolk Southern Corporation joint intermodal service between the Port of New York/New Jersey and eastern Canada reduces transit times for import-export shippers. CPR constructed a new passing siding at Clarks Summit, Pennsylvania and granted Norfolk Southern Railway Company (NS) trackage rights between Sunbury, Pennsylvania and Mechanicville, New York in order to increase traffic and improve freight service to upstate New York, northern Pennsylvania and New England.

In 2002 and 2003, CPR spent approximately $25 million to extend the length of 16 rail sidings throughout northern and eastern Ontario in order to increase operating efficiency and reduce costs. A siding is a limited length of track parallel to the main line and linked to it at both ends by switches, enabling trains running in either direction to pass each other. Longer sidings permit the use of longer and fewer trains. It also permits fewer locomotives to be used to move the same amount of freight in a given rail corridor. CPR has identified other corridor bottlenecks on its network and a plan is in place to provide appropriate capacity in order to increase train density and fluidity on all its major routes. Later in 2003, CPR sold a lower-density 12.6-km (7.8-mile) rail line in northern New Brunswick known as the Edmunston Spur to Canadian National Railway (CN). This line runs between Grand Falls and Cyr Junction, near St. Leonard, New Brunswick. CPR also sold a 32.5-mile rail line that runs from Madison to Watertown, Wisconsin to the Wisconsin & Southern Railroad.

In 2004, CPR entered into a three-railway agreement with CN and NS to provide a significantly shorter, more direct routing over D&H lines for NS-CN interline traffic moving between Eastern Canada and the Eastern U.S. Under the agreement:

CN traffic destined for the Eastern U.S. will move in CPR trains on D&H s line between Rouses Point, New York, and Saratoga Springs, New York, under a freight haulage arrangement between CPR and NS;

This CN traffic will then move in NS trains over D&H s line between Saratoga Springs and the NS connection near Harrisburg, Pennsylvania, under trackage rights agreements between CPR and NS.

The agreement generates one train per day of new business each direction, seven days a week on the D&H. This arrangement is expected to improve traffic density and generate additional revenue.

Franchise Renewal

Franchise renewal is an integral part of CPR s multi-year capital program. From 2002 to 2004 the Company has invested approximately $1.9 billion in its core assets. CPR s annual average capital spending is approximately 18% of revenues. However, funding of network maintenance programs may be increased to ensure plant, property, and equipment assets are well maintained.

CPR s annual program to modernize and upgrade its core strategic assets typically includes track and facilities (including rail yards and intermodal terminals); locomotives; information technology; and freight cars and other equipment investments. Over the three-year period from 2002 to 2004, CPR invested approximately $1.3 billion in track and facilities, about $217 million in locomotives, and approximately $457 million in information technology, growth initiatives, freight cars and other equipment.

GENERAL DEVELOPMENT OF THE BUSINESS

Locomotive Fleet Modernization

CPR has upgraded its locomotive fleet with the acquisition of high-adhesion alternating current (AC) locomotives, which are more fuel efficient and reliable and have superior haulage capacity relative to standard direct current (DC) locomotives. CPR s locomotive fleet now includes 582 AC locomotives, representing approximately 52% of CPR s road-freight locomotive fleet, and handling about 70% of CPR s workload. This investment has improved CPR s service reliability and has produced cost savings in fuel, equipment rents and maintenance. It has also allowed CPR to remove from service 810 older locomotives and enabled CPR to more efficiently utilize its repair and maintenance facilities.

Railcar Fleet Modernization

Starting in 1998, and continuing through 2004, CPR undertook a freight-car modernization program to fully leverage its rail network and locomotive fleet. The program s general aim included the following objectives:

1. increase the productivity and standardization of each car fleet;

2. secure lower lease costs by reducing CPR s reliance on short-term leasing; and

3. improve customer satisfaction through the introduction of higher-capacity cars.

In 2003, CPR introduced its Intermodal Fleet Renewal (IFR) initiative in order to increase the density of its intermodal trains and allow CPR to move more containers with fewer trains. In connection with the implementation of the IFR initiative, 5,500 new double-stack, 53- and 40-foot cars were introduced in 2003 and 2004.

Freight cars owned and long-term leased

	2004	**2003**	**2002**
Covered Hoppers (1)	26,200	25,100	23,200
Open Tops	5,400	4,600	5,500
Box Cars	6,100	7,000	7,800
Gondolas	2,900	2,500	2,500
Flats	3,000	2,700	2,000
Automotive	3,300	3,100	3,500
Intermodal	3,400	2,600	3,100
Total	50,300	47,600	47,600

(1) includes 9,000 government cars.

CPR s covered hopper car fleet consists of a mixture of owned and leased cars. A portion of the fleet used for the export of grain is leased from the federal government of Canada, which has indicated a desire to sell or otherwise dispose of its cars. The potential impact of this on CPR s grain business cannot be ascertained until the government s decision is announced. However, CPR has advocated for a process, in the event of a disposition, that is market driven and open to all interested parties.

Strengthening Business Fundamentals

Yield Management

CPR believes that its customers, many of whom compete in global markets, demand competitively priced transportation service. In order to offer competitive prices to its customers, CPR has redesigned its train operations and terminal processes and is continually working at increasing productivity through cost-reduction programs and improving asset utilization through initiatives aimed at targeted growth, product efficiency and maximizing value from existing resources. CPR has a Price and Yield management team to standardize price and yield business processes across the Company.

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GENERAL DEVELOPMENT OF THE BUSINESS

Train Operations Productivity

In 1999, CPR introduced a new operating plan to increase productivity, improve asset utilization and enhance service quality for customers. This means CPR is running longer, heavier trains more consistently to make connections and meet delivery commitments for less cost.

Commencing December 2003, CPR became the first railway in Canada to operate intermodal freight trains with mid-train remote-control (Locotrol) locomotives. These remote-control units enable CPR to run intermodal trains approaching three kilometres in length, which is particularly helpful in winter weather. CPR extended the area of its Locotrol operation to encompass Moose Jaw, Saskatchewan to Toronto, Ontario and extended the use of Locotrol from exclusively bulk train operation to intermodal and mixed-manifest trains.

Asset Maintenance Efficiency

CPR has improved the efficiency of its repair facilities primarily through outsourcing arrangements and by reducing the costs of maintenance. CPR has improved the reliability of its locomotive fleet by entering into warranty service agreements with suppliers pursuant to which suppliers have made strict performance commitments.

In May 2002, CPR closed its Frog Shop in Lethbridge, Alberta. The shop produced second-hand frogs (a track component that allows trains to cross from one adjacent track to another) for use on CPR s network. In January 2003, coinciding with the purchase of 46 new AC locomotives, CPR announced an expansion of its warranty service agreements in eastern Canada, pursuant to which diesel locomotive manufacturers manage the ongoing servicing of CPR locomotives using CPR employees.

Commencing in 2004, CPR became the first Canadian railway to use a programmable linear unloading system (PLUS) train, a high-speed and highly efficient system for spreading new ballast to maintain the integrity of track roadbed. Ballast, made up of cleaned crushed rock, is the solid foundation that ensures tracks are able to handle modern trains. PLUS reduces both the time required for ballast spreading and the disruption of train operations. CPR expects to achieve a 10% saving on ballast expense in 2005 as a result of using this system.

Information Technology

As a 24-hour-a-day, 7-day-a-week business, CPR relies heavily on its computer systems to schedule all components of its operations. Computer applications map out complex interconnections of freight cars, locomotives, facilities, track and train crews to meet more than 10,000 individual customer service commitments every day. CPR uses intricate automated traffic-forecasting systems, determines car routings and yard workloads using bypass and circuitry analysis software, and generates time-distance diagrams to examine track capacity.

CPR has substantially completed the implementation of a suite of new operating systems, collectively referred to as Service Excellence . This investment in information technology has assisted CPR in becoming a scheduled railway operation, by helping increase the productivity of CPR s asset base and improving customer service. The final step in the Service Excellence program was the implementation of the TYES software program in 2004, with rollout to a few remaining yards in Eastern Canada and the U.S. in 2005. The TYES application is a rail-yard management system that manages shipment connections from train-to-train.

CPR is currently investing in a new application called TRIEX that will improve the efficiency and customer-service capabilities in its intermodal business. CPR is developing TRIEX in co-operation with a U.S.-based software firm. The Company expects TRIEX will be installed in 2005. CPR is also updating its train-control system by moving it to a more current technological platform, thereby extending the life of this critical system by many years in line with the overall strategy of optimizing assets.

In late 2003, a transfer of assets to IBM Canada Ltd. was part of a seven-year, $200-million agreement reached with IBM to operate and enhance CPR s computer infrastructure. The transition of CPR s data centre to IBM s ownership and facility was completed in late 2004. CPR expects that this arrangement will reduce its costs over time and allow remaining information technology staff to focus on applications that improve efficiency and service.

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GENERAL DEVELOPMENT OF THE BUSINESS

Integrated Operating Plan

In May 1999, CPR launched its scheduled railway Integrated Operating Plan (IOP). Under the IOP, trains are scheduled to run consistently and at times agreed upon by CPR and the customer, thereby ensuring connections at intermediate terminals are made and delivery commitments are met. A plan is established for each rail car covering its entire trip from point of origin to final destination. Cars with similar destinations are consolidated into blocks, thus reducing delays at intermediate locations by simplifying processes for employees, eliminating the duplication of work and helping to ensure fluid rail yards and terminals. These efficiencies help reduce transit times for shipments throughout CPR s network and increase car availability for customers. Since the implementation of the IOP, CPR has improved on-time performance of its premium intermodal train services and has increased terminal performance for its customers while delivering a significant reduction in the cost base of its operations.

CPR now operates a scheduled railway and strives to deliver high service quality to its customers and achieve a high level of efficiency through improved asset utilization. CPR is committed to further pursuing methods to improve the scheduling of trains with other railways and to develop systems designed to share advanced information, thereby improving service. In 2003, CPR s approach to scheduled-railway operations won the Franz Edelman Award for Achievement in Operations Research and the Management Sciences.

In 2004, CPR, consistent with its IOP philosophy, phased in a rail capacity allocation system to better manage growth in the import container business on Canada s west coast. CPR has experienced an increase in traffic volumes as a result of this new system and believes the implementation of this system moderates traffic flow and avoids the significant surges that create congestion in the supply chain. Under the new system, CPR allocates to each of the shipping lines it serves an annual import container volume through the Port of Vancouver gateway based on past volumes and growth projections. CPR supplies sufficient railcars to meet the allocated volume. Intermodal terminal operators commit to quick turnaround of railcars to maximize car availability.

Labour Productivity and Efficiency

CPR continually takes steps to improve the effectiveness of its organizational structure in order to increase its productivity and efficiency. Since 1996, the Company has centralized its management team to improve communication and decision-making, simplified the organization s management structure, and increased the responsibility given to management personnel. CPR regularly reviews its organizational processes, workforce needs and related organizational costs, with a focus on improving the productivity and efficiency of its workforce while reducing expenses. For example, CPR eliminated approximately 1,900 permanent positions in 2000 (representing approximately 10% of its workforce), including positions in management, administration, maintenance shops, train operations and track maintenance.

In 2001, CPR launched further cost-reduction initiatives, including the integration of the St. Lawrence & Hudson Railway Company Limited (previously a CPR subsidiary operating in eastern Canada), which resulted in the elimination of approximately 800 positions. In addition, approximately 600 positions were transferred to service suppliers, who improved utilization of CPR facilities through access to a larger customer base.

During 2002, CPR began new restructuring initiatives to reduce costs by eliminating an additional 85 positions. In the second quarter of 2003, CPR began a productivity program that planned to eliminate 820 positions by the end of 2005 through consolidation of administrative functions, applications of new information technology to improve the productivity of administrative functions and yard operations, and improvements in car and locomotive maintenance efficiency. The Company eliminated 656 positions under this program as of the end of 2004.

In order to stimulate and reward employee participation in CPR s efficiency initiatives, CPR has implemented a number of incentive-based compensation programs designed to allow eligible employees, both unionized and non-unionized, to share in the profits they help generate for CPR.

GENERAL DEVELOPMENT OF THE BUSINESS

North American Railway Franchise

CPR believes it is well positioned to achieve its goals because of its network and assets, its emphasis on customer service and its team of dedicated employees.

Network and Assets The competitive strengths of CPR s network and assets include the following:

CPR offers access to U.S. markets through 11 major interchanges and agreements and commercial arrangements with other Class 1 railways;

CPR handles the largest volume of intermodal containers through the Port of Montreal, a major North American gateway for European trade;

CPR has competitive access to new, state-of-the-art facilities at the Port of Vancouver, a major shipping gateway to and from Pacific Rim markets;

CPR offers the shortest rail route from the Port of Vancouver to the Chicago, Illinois rail hub;

CPR has made significant investments in efficient AC locomotives; and

CPR has invested strategically in new computer operating systems, enabling CPR to operate more effectively and efficiently for the benefit of its customers while further enhancing its scheduled-railway operations.

Customer-Oriented Initiatives CPR believes that its emphasis on customer service has differentiated the Company from its competitors and has allowed its customers to compete effectively in their respective markets, while permitting CPR to retain and enhance its customer base. Some of CPR s customer-oriented initiatives include the following:

CPR has extended its rail lines directly to the new facilities of some of its key customers;

CPR has introduced services and acquired assets that are custom-designed for certain of its key customers;

CPR s service quality has helped to motivate several of its significant intermodal customers to locate large distribution centres adjacent to CPR s intermodal terminals (for example, Sears, Canadian Tire and Consolidated Fastfrate); and

CPR has achieved a strong market position across a diversified base of customers and products through its cross-functional approach.

Dedicated Employees CPR considers its team of employees to be its most valued asset. Through results-sharing programs, CPR s employees receive financial incentives for helping CPR attain its goals.

Extending Franchise Reach

CPR aims to continue to increase revenue through initiatives designed to extend its business beyond the physical railway network, thereby providing the flexibility needed to capture market share from its competitors. CPR plans to extend its franchise reach by creating new markets and by concentrating on providing new products, expanded truck-rail transfer facilities and improved, value-added service through customer-relationship management.

New Product Offerings

CPR works with its customers to develop and introduce new products into the marketplace. For example, CPR introduced its Trans-Pacific initiative, a highly-efficient, freight-transportation service between the Port of Vancouver and Chicago for import-export intermodal containers. By working with the Port of Vancouver and various shipping lines to establish Vancouver, B.C., as the preferred port for North America-bound deliveries from the Pacific Rim, CPR has created a competitive route for the movement of containers into the Chicago market. CPR continues to secure long-term agreements with customers in this corridor including OOCL, COSCO, China Shipping, NYK, Columbus Lines and Lykes Lines Limited LLC, which are among, or are affiliated with, the world s largest container shipping companies.

GENERAL DEVELOPMENT OF THE BUSINESS

Expanded Truck-Rail Transfer Facilities

CPR has also extended its franchise reach through the use of truck-rail transfer facilities, which it uses to gain competitive access to key resource production areas not directly served by the CPR network. This service will be provided through the Company s logistics and supply chain division, Canadian Pacific Logistics Solutions (CPLS).

Customer Relationship Management

CPR s customer service team, located in Winnipeg, Manitoba; Calgary, Alberta; and Minneapolis, Minnesota, aims to provide value to customers through the use of technology, a formalized cross-functional approach to problem solving and the development of new opportunities for customers. CPR s customer service group also includes a damage-prevention team, which works with customers to ensure proper loading techniques are employed thereby enabling shipments to arrive in good condition.

CPR has put in place a Customer Relationship Management (CRM) program directed at understanding and anticipating the needs of its current and potential customers. This program has better positioned CPR to:

- understand customer needs and expectations;
- deliver the expected product quality;
- work with customers to generate new product ideas;
- manage and improve the overall customer experience with CPR; and
- continuously improve CPR s performance.

CPR will continue to build on this success through strengthened customer relationships and an increased focus on sustainable growth opportunities.

Railway Partnerships and Alliances

In order for certain customers to transport their goods from their desired points of origin to their desired final destination points, goods may have to travel on more than one railway. Transfers of goods from railway to railway can cause delays and service interruptions. CPR s rail network connects to other North American rail carriers and CPR, in partnership continues to co-develop processes and products designed to provide seamless and efficient scheduled train service to these customers.

Recent Class 1 railway initiatives include:

- a joint CPR-UP service from western Canada to the U.S. Pacific-Northwest, California and Arizona via Kingsgate, B.C.;
- a joint CPR-UP service from western Canada to the Texas/Mexico and Kansas/Missouri markets via Minneapolis;
- a joint CPR-NS intermodal service between the Port of New York/New Jersey and eastern Canada;
- CPR-NS trackage-rights agreement to handle NS traffic over CPR s D&H lines in the U.S. Northeast; and

a joint CPR-UP service from eastern Canada to the U.S. Gulf Coast and Mexico.

CPR also works with smaller (short-line or non-Class 1) railways to develop partnerships that benefit both parties.

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GENERAL DEVELOPMENT OF THE BUSINESS

In November 2004, CPR reached agreements with CN on three network initiatives that will improve railway transit times and asset utilization in B.C., Alberta and Ontario.

These agreements provide for:

A slot-sharing arrangement allowing CPR to operate eight trains a week containing bulk commodities over CN s line between Edmonton, Alberta and CPR s network at Coho, B.C., near Kamloops, B.C., a distance of about 550 miles. Under the arrangement, trains are equipped with CPR locomotives and operated by CN crews. At Coho, CPR trains enter already-established directional running trackage that permits all westbound trains of both railways to operate through the B.C. Fraser Valley on CN s line and all eastbound trains to operate on CPR s line.

Directional running over about 100 miles of parallel CPR and CN track in Ontario between Waterfall, which is near Sudbury, and Parry Sound. The two railways have agreed to operate eastbound trains over CN s line and westbound trains over CPR s line, improving network fluidity in this corridor. Implementation is expected in the second half of 2005.

A haulage arrangement pursuant to which CPR will transport CN freight moving over about 300 miles of CPR track in Ontario between Thunder Bay and a junction with CN at Franz, Ontario using CPR s route north of Lake Superior. This arrangement is expected to be implemented in the second half of 2005.

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Network and Right of Way

CPR s 13,800-mile network extends from the Port of Vancouver in Canada s west to the Port of Montreal in Canada s east, and to the U.S. industrial centres of Chicago; Newark, New Jersey, Philadelphia; Washington, D.C.; New York City and Buffalo, New York.

CPR s network is composed of four primary corridors: the Western, the Southern, the Central, and the Eastern corridors. These corridors are comprised of main lines, totalling approximately 4,700 miles, supported by feeder lines that carry traffic to and from the main lines.

The Western Corridor: Vancouver-Moose Jaw

Overview The Western Corridor links Vancouver with Moose Jaw, the western Canadian terminus of both CPR s Southern and Central corridors. With service through Calgary, this corridor provides the shortest rail route for most bulk products transported from western Canada to the Port of Vancouver. The Western Corridor is also an important part of CPR s highly-competitive service routes between Vancouver and the U.S. Midwest and between Vancouver and central and eastern Canada.

Products The Western Corridor is CPR s primary route for bulk and resource-products traffic from western Canada to the Port of Vancouver for export. CPR also handles significant volumes of import/export intermodal containers and domestic general merchandise traffic.

Feeder Lines CPR supports its Western Corridor with three significant feeder lines. The Coal Route links the southeastern B.C. coal deposits to the Western Corridor and to the Roberts Bank terminal at the Port of Vancouver. The Calgary-Edmonton Route provides rail access to central Alberta s petrochemical industries, natural resources markets and Edmonton. The Pacific Can-Am Route connects Calgary and Medicine Hat, Alberta with the UP at Kingsgate, B.C.

Connections CPR s Western Corridor connects with UP at Kingsgate, B.C. The Western Corridor also connects with Burlington Northern and Santa Fe Railway (BNSF) at Coutts, Alberta, and at New Westminster and Huntingdon, B.C.

Yards and Repair Facilities CPR supports rail operations on the Western Corridor with major rail yards at Vancouver, Calgary, Edmonton and Moose Jaw. CPR also has significant intermodal terminals at Vancouver, Calgary and Edmonton, and locomotive and rail car repair facilities at Vancouver, Golden, Calgary and Moose Jaw.

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DESCRIPTION OF THE BUSINESS

Other The Western Corridor includes the 9.8-mile Mount Macdonald tunnel, which reduces the ruling grade for loaded westbound trains to 1%, through the mountains of B.C.

The Southern Corridor: Moose Jaw-Chicago

Overview CPR s Southern Corridor connects with the Western Corridor at Moose Jaw. By running through the twin cities of Minneapolis and St. Paul, Minnesota and Milwaukee, Wisconsin, south to Chicago, CPR provides a direct, single-carrier route between western Canada and the U.S. Midwest.

Products Primary traffic categories served on the Southern Corridor include intermodal containers originated at the Port of Vancouver, Canadian fertilizers, chemicals, grain, coal, automotive and U.S. agricultural products.

Feeder Lines CPR supports the Southern Corridor with a significant feeder line connecting Glenwood, Minnesota and Winnipeg. This line is both a gathering network for U.S. grain and a route for Canadian fertilizers and merchandise traffic destined to the U.S.

CPR has operating rights over the BNSF line between Minneapolis and the twin ports of Duluth, Minnesota and Superior, Wisconsin (Duluth/Superior). This line provides an outlet for grain from the U.S. Midwest to the grain terminals at Duluth/Superior.

CPR has a route from Chicago to Louisville, Kentucky through a combination of operating rights and owned lines. CPR handles general merchandise traffic on this route, as well as a significant amount of coal traffic from mines in southern Indiana.

Connections CPR s Southern Corridor connects with all major railways at Chicago. Outside of Chicago, CPR has major connections with BNSF at Minneapolis and at Minot, North Dakota; with UP at St. Paul; and with CSX and NS at Louisville. CPR also links its Southern Corridor to several shortline railways that primarily serve grain and coal producing areas in the U.S.

Yards and Repair Facilities CPR supports rail operations on the Southern Corridor with major rail yards at Chicago, St. Paul and Glenwood. At Chicago, CPR also owns 49 % of the Indiana Harbor Belt Railroad Company, a switching railway serving Greater Chicago and northwest Indiana. CPR has two significant intermodal terminals at Chicago and one at Minneapolis. In addition, CPR has a major locomotive repair facility at St. Paul and car repair facilities at St. Paul and Chicago.

The Central Corridor: Moose Jaw-Toronto

Overview The Central Corridor extends from Moose Jaw, through Winnipeg to its eastern terminus at Toronto, Ontario. CPR complements the Central Corridor with a secondary route that is leased and operated by Ottawa Valley Railway that connects Sudbury and Smiths Falls, Ontario and expedites the movement of CPR traffic between Montreal and western Canada. CPR s Central Corridor provides shippers direct rail service from Toronto and Montreal to Calgary and Vancouver via CPR s Western Corridor. This is a key element of CPR s transcontinental intermodal and other competitive services. The Central Corridor also provides access to the Port of Thunder Bay, Ontario, Canada s primary Great Lakes bulk terminal.

Products Major traffic categories on the Central Corridor include Canadian grain, coal, forest and industrial products, intermodal containers, automotive products and general merchandise.

Feeder Lines CPR supports the Central Corridor with a significant feeder line connecting Edmonton with Winnipeg, through Saskatoon and Regina, Saskatchewan. This line is an important collector of Canadian grain and fertilizer.

*Connection*s The Central Corridor connects with BNSF at Emerson, Manitoba, as well as a number of shortline railways.

Yards and Repair Facilities CPR supports its rail operations on the Central Corridor with major rail yards at Saskatoon, Winnipeg, Thunder Bay and Toronto. CPR s intermodal facility in the northern Toronto suburb of Vaughan is CPR s largest intermodal facility, and serves the Greater Toronto and southwestern Ontario area. CPR also operates intermodal terminals at Thunder Bay, Winnipeg, Saskatoon and Regina.

CPR has significant locomotive repair facilities at Winnipeg and Toronto and has car repair facilities at Winnipeg, Thunder Bay and Toronto.

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DESCRIPTION OF THE BUSINESS

The Eastern Corridor

Overview The Eastern Corridor provides CPR with an important link between the major population centres of eastern Canada, the U.S. Midwest and the U.S. Northeast. The Eastern Corridor supports CPR s leading market position at the Port of Montreal by providing one of the shortest rail routes for European cargo destined to the U.S. Midwest. The Eastern Corridor consists of a route that is owned and maintained by CPR between Montreal and Detroit, coupled with a trackage rights arrangement (starting in 2005) with NS over the shortest rail route between Detroit and Chicago, and a long-term rail car haulage contract with CSX that links Detroit with CPR-owned infrastructure at Chicago.

Products Over the Eastern Corridor, CPR predominantly handles intermodal containers, automotive, forest and industrial products, as well as motor-carrier trailers on CPR s fast roll-on/roll-off Expressway service.

Feeder Lines The Eastern Corridor connects with a number of important feeder lines. The route between Montreal and Sunbury in combination with trackage rights over other railways, provides CPR direct access to New York City, New York; Albany, New York; Philadelphia, Newark, and Washington, D.C. The line between Guelph Junction, Ontario and Binghamton, New York, including haulage rights over the NS lines, links the southern Ontario industrial region with key U.S. connecting rail carriers at Buffalo, and with the Montreal-to-Sunbury line at Binghamton.

Connections The Eastern Corridor connects with all major railways at Chicago. We have major connections with NS at Detroit, Buffalo, and at Harrisburg and Allentown, Pennsylvania. CPR also has major connections with CSX located at Detroit, Buffalo, Albany, Washington D.C., and Philadelphia.

Yards and Repair Facilities In addition to yards and terminals at Toronto and Chicago, CPR supports its Eastern Corridor with major rail yards at Montreal and Binghamton. CPR also has intermodal facilities at Montreal and Detroit, as well as a second intermodal facility in Toronto dedicated to serving the Eastern Corridor. CPR has Expressway terminals at Montreal and Toronto (Milton and Agincourt). In addition to repair facilities in Toronto and Chicago, CPR has locomotive and car repair facilities in Montreal and Binghamton.

Other On June 30, 2004 CPR announced a restructuring of the D&H whereby D&H and NS will provide yard and haulage services for each other, which restructuring is expected to reduce D&H s costs and provide new income. The changes resulting from the D&H-NS arrangement are discussed further under the heading Network Efficiency in this AIF. The first set of changes was implemented in November 2004, and the remainder of the changes are expected to be implemented by the second quarter of 2005. The expected 2005 changes are subject to approval by the U.S. Surface Transportation Board (STB).

Right of Way

CPR s rail network is standard gauge, which is used by all of the major railways in Canada, the U.S. and Mexico. Continuous welded rail is used on over 96% of CPR s mainline. Virtually all of the network and primary feeder trackage is 100-pound rail or heavier, suitable for movements of 286,000-pound cars, the North American rail industry s preferred car size.

CPR uses different train control systems on different portions of its owned track, depending on the volume of rail traffic. Centralized traffic control (CTC) signals are used to authorize the movement of trains where traffic is heaviest. Approximately 3,450 miles of the network are controlled with CTC signals.

Where rail traffic is lightest, train movements are directed by written instructions transmitted electronically and by radio from rail traffic controllers to train crews. In areas of intermediate traffic density, CPR uses an automatic block signalling system (ABS) in conjunction with the written instructions from rail traffic controllers. Approximately 700 miles of the network have ABS in place.

DESCRIPTION OF THE BUSINESS

Rolling Stock

The following table summarizes the locomotive fleet owned or leased by CPR, including the age distribution of the locomotive fleet:

Number of Locomotives
(owned and leased)

	Road Freight		Road	Yard	
Age in Years	**AC**	**DC**	**Switcher**	**Switcher**	**Total**
0-5	268				268
6-10	314				314
11-15		21			21
16-20		95	94	8	197
Over 20		426	175	252	853
Totals	582	542	269	260	1,653

In addition to its locomotive fleet, CPR owns or leases approximately 50,300 freight cars, of which approximately 23,100 cars are owned by CPR and 9,000 of which are hopper cars owned by Canadian federal- or provincial-government agencies. Long-term leases on approximately 4,200 cars are scheduled to expire during 2005, and the leases on approximately 13,900 additional cars are scheduled to expire before the end of 2008.

Business Categories

CPR provides the shortest rail route for most bulk products transported from western Canada to the Port of Vancouver. CPR also provides highly competitive service routes between Vancouver and the U.S. Midwest and between Vancouver and the major population centres in central and eastern Canada. The CPR network provides a strategic link between the Port of Montreal and the U.S. Midwest. CPR also serves the major eastern population centres of Montreal, Toronto, Newark, New York City, Buffalo, Philadelphia and Washington, D.C.

The following table compares the percentage of CPR s total freight revenue derived from each of its major business lines in 2004 versus 2002. CPR s business balance has evolved to meet the needs of its customers and growth in the intermodal market.

Business Category	**2004**	**2002**
Bulk	44%	43%
Merchandise	28%	32%
Intermodal	28%	25%

DESCRIPTION OF THE BUSINESS

Freight

The following table summarizes CPR s freight revenues since 2002.

Freight Revenues (in $ millions, except for percentages) **Business Category**	**Fiscal 2004**	**Fiscal 2004 Growth Rate as Compared to Fiscal 2003**	**Fiscal 2003**	**Fiscal 2003 Growth Rate as Compared to Fiscal 2002**	**Fiscal 2002**	**Fiscal 2002 Growth Rate as Compared to Fiscal 2001**
Bulk						
Grain	668	3.7%	644	2.1%	631	(15.8)%
Coal	530	19.4%	444	0.2%	443	(6.5)%
Sulphur and fertilizers	460	10.0%	418	4.2%	401	5.2%
Total bulk	**1,658**	**10.1%**	**1,506**	**2.1%**	**1,475**	**(8.0)%**
Merchandise						
Forest products	322	(2.1)%	329	(8.6)%	360	1.7%
Industrial products	430	7.5%	400	(5.2)%	422	(2.0)%
Automotive	289	(4.9)%	304	(8.7)%	333	9.5%
Total merchandise	**1,041**	**0.8%**	**1,033**	**(7.4)%**	**1,115**	**2.4%**
Intermodal	1,030	9.6%	940	6.6%	882	9.7%
Total freight revenues	**3,729**	**7.2%**	**3,479**	**0.2%**	**3,472**	**(0.7)%**

Bulk

CPR s bulk business, comprised of grain, coal, sulphur and fertilizers, represented approximately 44% of total freight revenues in 2004. CPR provides bulk transportation services along the shortest routes from major production areas in British Columbia, Alberta and Saskatchewan to the Port of Vancouver.

Grain

CPR s grain business comprised approximately 18% of total freight revenues in 2004.

The grain moved by CPR consists of whole grains, primarily wheat, barley and canola, and processed products such as canola meal, vegetable oil and flour.

CPR s network provides grain producers throughout North America with access to domestic and export markets. CPR has direct access to the ports of Vancouver, Thunder Bay, Montreal, and Duluth/Superior. Through its relationships with other railways, CPR also provides access to major ports in both Canada and the U.S.

CPR s revenues from Canadian export grain movements are subject to the *Canada Transportation Act*, which includes a revenue formula. The revenue formula is indexed annually to reflect changes in the input costs associated with moving grain destined for export.

CPR has introduced a variety of products, including multi-car block incentives and car order fulfillment products, which encourage more efficient grain movements.

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DESCRIPTION OF THE BUSINESS

Coal

CPR s coal businesses represented approximately 14% of total freight revenues in 2004. In Canada, CPR transports metallurgical coal from mines in southeastern B.C. to port terminals for export to world markets, particularly the Pacific Rim. The mines located on CPR s lines, some of the most efficient in North America, produce high-quality coal and have long-life reserves. The U.S. coal business handled by CPR consists mainly of thermal coal and petroleum coke, transported mainly within the U.S. Midwest.

Elk Valley Coal Corporation (EVCC)

Coal shipper Elk Valley Coal Corporation (EVCC), pursuant to the rules of the Canadian Transportation Agency (CTA), referred the matter of rates and services for the transportation by CPR of coal from EVCC s Elkview mine in southeastern B.C. to the Port of Vancouver to an independent arbitrator. Notwithstanding that CPR maintains that this matter is governed by a confidential contract, which CPR claims governs the movement of coal from all five of EVCC s mines in southeastern BC, the arbitrator ruled in CPR s favour. In a closely related matter, CPR has filed a statement of claim against EVCC in respect of all five mines for failure to pay applicable rail freight charges in accordance with the confidential contract. In January 2005, EVCC and CPR agreed to suspend all legal proceedings and entered into non-binding mediation in an attempt to resolve all disputes between the parties. The disputes are not expected to affect the continued shipment of coal by CPR from EVCC s mines. The outcome of this matter could have a material impact on CPR s revenues and financial position.

Sulphur and Fertilizers

Sulphur and fertilizers business represented approximately 12% of total freight revenues in 2004.

Sulphur

Sulphur is a by-product of the oil and gas industry, primarily used in the production of phosphate fertilizers. CPR provides rail transportation services from the key production facilities in Canada to the U.S. and offshore markets mainly China, Australia, and South Africa via the Port of Vancouver.

Fertilizers

The two main segments of the fertilizer business are potash and chemical fertilizers. CPR s potash business moves primarily from Saskatchewan to markets in the U.S. and offshore countries through the ports of Vancouver, Thunder Bay, and Portland, Oregon. Chemical fertilizers are transported to Canadian and northern U.S. markets from key production areas in the Canadian Prairie provinces. Phosphate fertilizer traffic is also received from U.S. railways. CPR has long-term, inflation-protected contracts covering most of its fertilizer business.

Merchandise

CPR s merchandise business represented approximately 28% of total freight revenues in 2004. Merchandise freight consists of finished vehicles and automotive parts, and forest and industrial products. Merchandise cargo moves in various car types on mixed trains accommodating a robust customer base across numerous traffic lanes. Significant volumes of merchandise traffic flows through a network of truck- rail transload facilities managed through CPLS. This division has the capability to offer logistics solutions to individual merchandise shippers.

Automotive

CPR s automotive business represented approximately 8% of total freight revenues in 2004. CPR transports vehicles to and from several automotive plants in Ontario and automotive facilities across the CPR network. Automotive business consists of the transportation of domestic and import vehicles, automotive parts and agricultural equipment from North American assembly plants and the Port of Vancouver to destinations in the Canadian and U.S. marketplace.

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DESCRIPTION OF THE BUSINESS

Forest Products

CPR s forest products business represented approximately 9% of total freight revenues in 2004, transporting a variety of forest products including wood pulp, lumber, newsprint, paper, panel board and fibreboard. CPR mainly transports wood pulp from B.C. and eastern Canada, lumber from B.C. and Alberta and newsprint from eastern Canada, primarily destined for the U.S.

Industrial Products

CPR s industrial products business represented approximately 11% of freight revenues in 2004. The industrial products business line includes many input commodities, such as chemicals, plastics, minerals, aggregates, metals, steel and scrap and energy-related products. Traffic moves within the domestic North American market and to export markets in the Pacific Rim.

Intermodal

CPR s intermodal business accounted for approximately 28% of CPR s total freight revenues in fiscal 2004. This business line, which generally consists of high-value, time-sensitive shipments, has grown significantly in recent years. CPR also believes that the intermodal business has attractive, long-term growth prospects. To enhance competitiveness and prepare for continued growth, CPR has increased capacity at its intermodal terminals in Vancouver, Calgary, Chicago, Toronto and Montreal. CPR is also implementing new technology to provide better shipment tracking and an improved overall service product to its customers.

Import/Export Intermodal

The international segment mainly handles containers of consumer goods between the ports of Vancouver and Fraser Surrey, B.C., Montreal, New York and Philadelphia, and inland Canadian and U.S. destinations.

North American Intermodal

North American intermodal traffic, transporting mainly retail goods, moves between Toronto, Montreal, Chicago and several western Canadian cities. CPR has entered into co-location initiatives, under which major retailers have built regional distribution facilities adjacent to certain CPR intermodal terminals.

Expressway

CPR s Expressway provides high-quality rail services in the short-haul market. Expressway works in partnership with the trucking industry by carrying standard, non-reinforced trailers between major urban centres. A number of major motor carriers serving the automotive, resource, food and retail sectors use CPR s Expressway.

Canadian Pacific Logistics Solutions

CPLS, a division of CPR, provides supply-chain consulting, logistics management, and facility services, to rail and non-rail customers.

Other Business

CPR earns additional revenues through the sale or lease of its assets. These arrangements include infrastructure and operating agreements with government-sponsored commuter rail authorities, the sale of CPR s rights to lay fibre-optic cable along its track right-of-way and contracts with passenger-service operators. CPR also operates the Royal Canadian Pacific , a luxury train composed of CPR s historic business car fleet.

Economic Dependence

At December 31, 2004, one customer comprised 11.7% of total revenues and 12.4% of CPR s total accounts receivable. At December 31, 2003 and 2002, no customer s revenues were greater than 10% of total freight revenues.

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DESCRIPTION OF THE BUSINESS

Risk Factors

Competition

The freight transportation industry is highly competitive. CPR faces intense competition for freight transportation in Canada and the U.S., including competition from other railways and trucking companies. Competition is based mainly on price, quality of service and access to markets. Any improvement in the cost structure or service of CPR s competitors could increase this competition and materially adversely affect the Company s business or operating results.

In recent years there has been significant consolidation of the railway industry in North America. The resulting larger railway companies are able to offer services in larger market areas and compete with CPR in these markets. Competition from current and future competitors in the railway industry could create a risk for CPR s competitive position and may materially adversely affect the Company s business, financial condition or operating results.

Economic and Other Conditions

CPR s freight volumes and revenues are largely dependent upon the health of the North American and global economy and other factors affecting the volumes and patterns of international trade. CPR is also sensitive to factors such as weather, commodity pricing and global supply and demand, as well as factors affecting North America s agricultural, mining, forest products, consumer products, import/export markets and automotive sectors. These factors are beyond the influence or control of the railway industry generally and CPR specifically.

Fuel Prices

The Company is particularly dependent upon fuel costs which constitute a significant portion of CPR s operating costs. Fuel prices and supplies are influenced significantly by international political and economic circumstances. If a fuel shortage were to arise from OPEC production curtailments, a disruption of oil imports or other factors, the resulting higher fuel prices could materially affect CPR s operating results. Specifically, an increase in the price of fuel would result in lower earnings and increased cash outflows. To manage this exposure to fluctuations in fuel prices, as part of CPR s hedge policy, the Company sells or purchases crude oil futures. To the extent that fuel costs decline below the levels specified in any such futures contracts, CPR will not receive the full benefit of these contracts.

Foreign Exchange Risk

Although CPR conducts its business and receives revenues primarily in Canadian dollars, a significant portion of CPR s revenues, expenses, assets and debt are denominated in U.S. dollars. Thus, the Company s results are affected by fluctuations in the exchange rate between these currencies. In addition, changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and, in turn, positively or negatively affects the Company s revenues and expenses. To manage this exposure to fluctuations in exchange rates between Canadian and U.S. dollars on future revenue streams and certain U.S. dollar expenditures, CPR sells or purchases forward U.S. dollars at fixed rates in future periods. To the extent that exchange rates decline below the rate fixed by such futures contracts, the Company will not receive the full benefit of these contracts.

Regulatory Bodies

CPR s railway operations in Canada are subject to regulations under the *Canada Transportation Act* and the *Railway Safety Act* and certain other statutes administered by the Canadian Transportation Agency and the Federal Minister of Transportation. U.S. railway operations are subject to regulation administered by the STB and the Federal Railroad Administration (FRA). Other federal, provincial, state and local regulations also govern the Company s railway operations, as well as a variety of health, safety, labour, environmental and other matters.

The Company is also subject to statutory and regulatory directives in the U.S. addressing homeland security concerns. Future decisions by the U.S. government on homeland security matters or decisions by the industry in response to security threats to the North American rail network could materially adversely affect CPR s business or operating results.

DESCRIPTION OF THE BUSINESS

Environmental Laws and Regulations

The Company s operations and real estate assets are subject to extensive federal, provincial, state and local environmental laws and regulations governing emissions to the air, discharges to waters and the handling, storage, transportation and disposal of waste and other materials. CPR transports hazardous materials and periodically uses hazardous materials in its operations. Any allegations or findings to the effect that the Company has violated such laws or regulations could materially affect business or operating results.

In certain locations, CPR operates on properties that have been used for railways for over a century. As a result, historic releases of hazardous waste or materials may be discovered, requiring remediation of CPR properties or subjecting the Company to liability for damages, the cost of which may be material. Changing regulations and remedial approaches in Canada and the U.S. will ultimately impact the costs of remediation and overall environmental liability. The regulatory tendency towards increased protection of human health from specific chemicals may mean that sites that were previously remediated, or that did not require actions, could be subject to further scrutiny. There is a possibility that an accidental release of hazardous waste or materials on CPR properties could occur and the costs of remediation of properties affected by such accidental release may be material.

In the operation of a railway, it is possible that derailments or other accidents may occur that could cause harm to human health or to the environment. As a result, the Company may incur costs in the future to address any such harm, including costs relating to the performance of clean-ups, natural resource damages and compensatory or punitive damages relating to harm to individuals or property.

Labour Relations

Relations with CPR employees could deteriorate due to disputes related to, among other things, wage or benefit levels or the Company s response to changes in government regulation of workers and the workplace. CPR s operations rely heavily on its employees. Any labour shortage or stoppage caused by poor relations with employees, including those represented by unions, could adversely affect CPR s ability to provide services and the costs of providing such services, which could materially harm business or operating results and materially harm relationships with CPR s customers.

Certain of CPR s union agreements are currently under renegotiation, as discussed under the heading Labour Relations in this AIF. The Company has no guarantee that these negotiations will be resolved in a timely manner or on terms favourable to CPR.

Pension Plans

CPR maintains both defined benefit and defined contribution pension plans. With historic declines in equity markets and current low interest rates, the plans unfunded liabilities have increased significantly. Pension funding requirements are dependent upon various factors, including interest rate levels, asset returns, regulatory requirements for funding purposes and changes to pension plan benefits. In the absence of favourable changes to these factors, the Company may have to satisfy the under-funded amounts of its plans through cash contributions from time to time.

Indemnifications

Pursuant to a trust and custodial services agreement between the Company and the trustee of the Canadian Pacific Railway Company Pension Trust Fund, 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, liabilities, etc., arising prior to the termination or expiry. At December 31, 2004, the Company had not recorded a liability associated with this indemnification, as the Company does not expect to make any payments pertaining to it.

Pursuant to the bylaws of CPR, all current and former directors and officers of the Company are indemnified by the Company. CPR carries a directors and officers liability insurance policy subject to a maximum coverage limit and certain deductibles in cases where a director or officer is reimbursed by CPR for any loss covered by the policy.

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DESCRIPTION OF THE BUSINESS

Safety

CPR s Safety and Health Management Committee provides ongoing focus, leadership, commitment and support for efforts to improve the safety of CPR s operations, and the safety and health of CPR employees. Safety Framework, the Company s safety management process, involves more than 1,000 employees in planning and implementing safety-related activities. This safety management process, combined with a planning process that encompasses all operational functions, ensures a continuous and consistent focus on safety.

In 2004, FRA personal injuries per 200,000 employee hours (100 employee years in 2004) were 2.7, down 13% from 2003 and down 25% since 2002. FRA reportable train accidents per million train miles were 2.1 in 2004. This was a 17% increase compared to the previous two years, but was the same as the frequency achieved in 2001.

Competition

CPR s primary competitors for freight transportation in Canada and the U.S. include other railways and trucking companies. CPR is subject to competition for freight traffic from other Class 1 railways, particularly BNSF, CN, NS, CSX and UP. Competition is based mainly on price, service and accessibility to markets. Competition with the trucking industry is generally focused on freight rates, flexibility of service and transit time performance.

Border Security

In 2002, CPR became the first railway in North America to be approved under a new Canada Border Services Agency (CBSA) program to streamline clearance at the border for imports from the U.S. Under the Customs Self-Assessment (CSA) program, goods and shippers approved as low risk have a virtual fast lane into Canada on CPR. Eligible goods include finished vehicles, parts for vehicles, food products and other common items frequently imported from the U.S.

The CSA program reduces the cost of compliance with Canada s import regulations. Under the program, approved importers can file monthly summary customs reports on their shipments instead of a report on each shipment. Approved importers also benefit from improved efficiencies, as their goods can be delivered directly to their facilities without stopping for inspection at the border or waiting for customs clearance. CPR benefits from improved freight car velocity, as shipments for customers approved under CSA can move more easily across the U.S. border.

CPR is also a certified carrier with the U.S. Customs and Border Protection s (CBP) Customs Trade Partnership Against Terrorism (C-TPAT) program and the CBSA s Partners in Protection (PIP) program. C-TPAT and PIP are partnership programs that seek to strengthen overall supply chain and border security.

Under the joint Declaration of Principles signed in April 2003, CPR committed to work with the CBSA and CBP to install Vehicle and Cargo Inspection Systems (VACIS) at five of CPR s border crossings. Rail VACIS systems use non-intrusive gamma ray technology to scan U.S.-bound rail shipments. Four of the VACIS systems are now fully operational and CPR is currently working with CBP and CBSA on the fifth installation in Windsor, Ontario, which is expected to be complete by third-quarter 2005. The joint government-industry initiative to enhance the security of U.S.-bound rail shipments ensures trade continues to flow between the two countries. These discussions were part of the larger process of implementing the Smart Border Declaration adopted by Canada and the U.S. in December 2001.

Labour Relations

As at December 31, 2004, approximately 79% of CPR s workforce is unionized, with approximately 80% of CPR s workforce located in Canada. Unionized employees are represented by a total of 36 bargaining agents. Seven bargaining agents represent CPR employees in Canada and the remaining 29 represent employees in CPR s U.S. operations.

Labour Relations Canada

Agreements are currently in place with four of the seven bargaining units in Canada. Of the collective agreements currently in effect, the two agreements with the Rail Canada Traffic Controllers (RCTC) and the Canadian Pacific Police Association (CPPA) expire at the end of 2005, and the two agreements with the United Steel Workers of America (USWA) and the Teamsters Canada Rail Conference Running Trade Employees (TCRC-RTE) expire at the end of 2006.

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DESCRIPTION OF THE BUSINESS

A three-year collective agreement was ratified in January 2004 by members of the USWA. The agreement with the USWA, which represents clerical employees of CPR, extends to the end of 2006 and allows for wage increases for 2004, 2005 and 2006 of 3%, 2% and 2%, respectively.

Train crew employees have elected the TCRC-RTE as their bargaining agent, replacing the Canadian Council of Railway Operating Unions (CCROU). In January 2005, the TCRC-RTE ratified a four-year agreement in effect until the end of 2006. The agreement allows for wage increases for 2003, 2004, 2005 and 2006 of 2%, 3%, 2.5%, and 3% respectively. It includes benefit plan, pension and work-rule changes designed to contain costs and maximize value for employees.

Track maintenance employees have elected the Teamsters Canada Rail Conference Maintenance of Way Division (TCRC-MWD) as their bargaining agent, replacing the Brotherhood of Maintenance of Way Employees (BMWE). CPR s collective agreement with the BMWE expired on December 31, 2003. A Memorandum of Settlement secured on January 14, 2005 is currently being voted upon by employees.

CPR s collective agreement with the Canadian Auto Workers (CAW), which represent employees who maintain and repair locomotives and freight cars, expired on December 31, 2004. A Memorandum of Settlement for a three-year collective agreement extending to the end of 2007 was achieved on February 11, 2005, and is being voted upon by employees.

Negotiations commenced in September 2004 with the International Brotherhood of Electrical Workers (IBEW), which represents signal maintainers. CPR s collective agreement with the IBEW expired at the end of 2004. Negotiations are continuing.

The Company is preparing for negotiations with the Rail Canada Traffic Controllers and the Canadian Pacific Police Association that are scheduled to commence in September 2005.

Labour Relations U.S.

CPR is party to collective agreements with 29 bargaining units in the U.S., including 15 bargaining units representing employees of CPR s Soo Line and 14 bargaining units representing employees on CPR s D&H.

The U.S. Class 1 railroads negotiate collectively on a national basis and in the most recent bargaining round that began in December 1999, three of the 13 unions have not yet settled. As of December 31, 2004, a new round of bargaining opened for all 13 unions. Even though Soo Line and D&H elect to negotiate independent of the national bargaining, the content and duration of the national negotiations impact settlements on Soo Line and to a lesser extent on D&H.

Soo Line

Soo Line has renewed agreements with seven unions representing track maintainers, freight car repair employees, clerks, train dispatchers, signal repair employees, machinists and conductors. Tentative settlements have been reached with two other bargaining units, which represent electricians and communication workers, and yard supervisors. Negotiations are continuing with the six remaining bargaining units, which represent locomotive and car foremen, mechanical labourers, blacksmiths and boilermakers, sheet metal workers, police, and locomotive engineers. Negotiations with the Teamsters, representing locomotive engineers, are being assisted through mediation.

D&H

D&H has renewed agreements with five unions representing freight car repair employees, clerks, locomotive engineers, signal repair employees and mechanical supervisors. Negotiations are continuing with the remaining nine bargaining units, which represent track maintainers, conductors and trainpersons, engineering supervisors, machinists, yard supervisors, electricians, labourers, police, and pipefitters.

Environmental Protection

CPR has implemented a comprehensive Environmental Management System (EMS), which uses the ISO 14001 standard five elements policy, planning, implementation and operation, checking and corrective action, and management review as described briefly below.

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DESCRIPTION OF THE BUSINESS

Policy

CPR has adopted an Environmental Protection Policy and continues to develop and implement policies and procedures to address specific issues and facilitate the reduction of environmental risk. Each policy is implemented with training for employees and a clear identification of roles and responsibilities.

CPR has been a Responsible CareÒ partner of the Canadian Chemical Producers Association since 1998. Responsible CareÒ is a chemical industry initiative that involves a public commitment to continually improve the industry s environmental, health and safety performance. CPR successfully completed its first Responsible CareÒ external verification in June 2002 and was granted Responsible CareÒ practice-in-place status. Re-verification is scheduled for 2005.

CPR has also been a partner of the American Chemistry Council since 1999. CPR is scheduled to be verified for the first time in the U.S. by 2006.

Planning

CPR prepares an annual Corporate Environmental Plan that details CPR s work plan for the coming year, including CPR s environmental goals and objectives, as well as high level strategies and tactics. Various departments throughout the Company use the plan to integrate key corporate environmental strategies into their own business plans.

Implementation and Operation

CPR has developed specific environmental programs to address areas such as air emissions, wastewater, management of vegetation, chemicals and waste, storage tanks and fuelling facilities, and environmental impact assessment. CPR environmental specialists and/or consultants lead these programs.

CPR continues to focus on preventing spills and other incidents that have a negative impact on the environment. As a precaution, the Company has established a Strategic Emergency Response Contractor network and located spill equipment kits across Canada and the U.S. to ensure a rapid and efficient response in the event of an environmental incident. In addition, CPR regularly updates and tests emergency preparedness and response plans.

CPR has taken a proactive position to the remediation of historically impacted sites. In 1995, CPR recorded a provision of $144 million, before tax, to cover anticipated expenditures on environmental remediation programs. The Company re-evaluated its environmental liability needs in 1999 and as a result it increased expected remediation costs by $50 million, before tax. In 2004, CPR recorded a $101 million charge to recognize environmental liabilities previously unknown. Currently, the environmental accrual has been extended to 2014.

Environmental Contamination

In the fourth quarter of 2004, the Company recorded a $91-million charge for costs associated with investigation, characterization, remediation and other applicable actions related to environmental contamination at a property in Minnesota, which includes areas previously leased to third parties. CPR is participating in the State of Minnesota s voluntary investigation and clean-up program at the east side of the property. The property is the subject of ongoing fieldwork being undertaken in conjunction with the appropriate State of Minnesota authorities to determine the extent and magnitude of the contamination and the appropriate remediation plan. CPR now has sufficient information to reasonably estimate clean-up and other applicable costs for the entire property. CPR expects to file with the State of

Minnesota in 2005 a response action plan for the east side of the property.

The charge was taken in the fourth quarter of 2004 because future liability increases for this property became probable and reasonably estimable, in accordance with applicable accounting standards, based on the present scientific and engineering knowledge about the property. The estimate may change as new information becomes available or new developments occur. The costs are expected to be incurred over approximately 10 years.

CPR has initiated litigation against two former lessees that it believes are responsible for a large portion of the contamination. Under applicable accounting rules, no recovery has been accrued since any recovery is dependent upon the outcome of the lawsuit, which is at present scheduled for trial in 2007.

DESCRIPTION OF THE BUSINESS

Checking and Corrective Action

CPR s environmental audit program comprehensively, systematically and regularly assesses CPR s facilities for compliance with legal requirements and conformance of CPR s policies to accepted industry standards. Audit scheduling is determined through risk assessment for each facility. Audits are led by third-party environmental audit specialists supported by CPR environmental staff.

Audits are followed by a formal Corrective Action Planning process to ensure that findings are addressed in a timely manner. Progress is monitored and reported quarterly to senior management against corporate targets for completion. In 2004, as in the past three years, CPR achieved these targets.

Management Review

CPR s Board of Directors has established an Environmental and Safety Committee that conducts a semi-annual comprehensive review of environmental issues. An Environmental Lead Team, which is comprised of senior leaders of Real Estate, Legal Services, Marketing and Sales, Finance, Operations, Supply Services and Environmental Services, meets quarterly to review environmental matters.

Expenditures

CPR spent approximately $37 million in 2004 for environmental management. Of this amount, $13 million was spent on ongoing operations, $2 million on capital program upgrades and $22 million under the remediation program. Disposal of significant derailment wastes amounted to an additional $1 million.

Regulation and Other Issues

CPR s rail operations in Canada are subject to regulation of service, rate setting, network rationalization and safety by the *Canada Transportation Act*, the *Railway Safety Act* and certain other statutes. The Company s U.S. rail operations are subject to regulations administered by the STB and the FRA.

Canadian Regulation

CPR s economic activities, including matters relating to rates, level of service obligations and line discontinuance, are subject to the provisions of the *Canada Transportation Act*.

The *Canada Transportation Act* contains shipper rate and service protections, including final-offer arbitration, competitive line rates, and compulsory interswitching (which allows a shipper to request a railway to move its traffic to the nearest competitive interchange point with another railway within a 30-kilometre radius for a regulated fee). However, to gain recourse to certain of these protections, shippers must establish that they would suffer substantial commercial harm if the relief sought were not granted. These shipper protections also extend to western Canadian grain transportation.

In 2000, the Minister of Transport (the Minister) initiated a review of the *Canada Transportation Act* to assess whether it provides Canadians with an efficient, flexible and affordable transportation system . The report of the panel appointed by the Minister to conduct the review was released on July 18, 2001. The report acknowledged there is a significant level of competition within the Canadian transportation industry, railways are entitled to adequate financial returns, and railways have improved their productivity and returned these improvements to customers. In addition, the panel recognized that the freight rail system works well for the vast majority of users in most markets.

On February 25, 2003, the federal government introduced a bill with miscellaneous changes to the *Canada Transportation Act*. The bill did not become legislation. It is not known whether the federal government will reintroduce the proposed changes in the current or any future Parliament.

Pursuant to the *Canada Transportation Act*, CPR is subject to prescribed limits on revenue from transporting western Canadian grain. Penalties may be imposed if these limits are exceeded. In 2004, CPR revenues for the movement of grain in western Canada exceeded the revenue cap by approximately $322,000 on revenues of approximately $310 million (or 0.1%). The penalty levied against CPR of approximately $16,000 has been paid to a grain research foundation for the benefit of the western grain industry.

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DESCRIPTION OF THE BUSINESS

Canada s federally-regulated railways are also subject to the *Railway Safety Act*, which governs safety and operational aspects of the industry, as well as the *Canadian Transportation Accident Investigation and Safety Board Act*. CPR is also subject to legislation relating to the environment and the transportation of hazardous materials. Amendments to the Transportation of Dangerous Goods regulations were enacted in August 2002.

U.S. Regulation

There have been efforts in recent years to re-regulate certain aspects of the U.S. rail industry previously deregulated under the *Staggers Rail Act of 1980*. The rail industry opposes such re-regulation.

The STB regulates a variety of railway matters, including: service levels; certain freight car rental payments; certain rail traffic rates; the terms under which railways may gain access to each other s facilities and traffic; mergers or acquisitions of railways and the abandonment, sale, and discontinuance of operations on rail lines.

In June 2001, the STB issued new regulations governing mergers and consolidation of Class 1 railways in the U.S. CPR believes these new regulations require applicants to demonstrate that a proposed transaction would be in the public interest and would enhance competition where necessary to offset any negative effects.

The FRA governs all safety-related aspects of railway operations within the U.S. and, therefore, has jurisdiction over CPR operations conducted within the U.S. State and local regulatory agencies may also exercise jurisdiction over certain safety and operational matters of local significance.

Insurance

CPR maintains insurance policies to protect its assets and to protect against liabilities. CPR s insurance policies include, but are not limited to, liability insurance, directors and officers liability insurance, automobile insurance and property insurance. The property insurance program includes business interruption coverage which would respond in the event of catastrophic damage to CPR s infrastructure. CPR believes that it has adequate insurance in place to protect the Company from known and unknown liabilities.

Related-party Transactions

In 2004, CPR provided no rail services to related parties.

CPR entered into agreements with former affiliate CP Ships Ltd. (CP Ships), a related party of CPR prior to completion of the Arrangement, for the transportation of CP Ships container rail traffic through the ports of Montreal and Vancouver. The agreements provide for the use of CPR rail services for all of CP Ships container rail traffic on specified routes to and from certain cities in Canada and the U.S. The agreements with CP Ships were to expire on January 31, 2004. However, the parties have entered into a new long-term agreement extending the arrangement to 2014. The terms of the new agreement do not differ materially from those contained in the agreements entered into prior to the completion of the Arrangement.

CPR has entered into an agreement with former affiliate Fording Inc. (Fording), a related party of CPR prior to completion of the Arrangement, for the transportation of all of the coal processed at Fording s mines in B.C. to the Port of Vancouver. The term of the Fording agreement expires on March 31, 2007.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table presents selected financial and operating information for CPR for the years ended December 31, 2000 through 2004.

Summary Financial Data	2004	2003(2)	2002(2)	2001(2)	2000(2)
INCOME STATEMENT DATA:	(in millions, except per share data)				
Revenues	**$ 3,902.9**	$ 3,660.7	$ 3,665.6	$ 3,698.6	$ 3,655.1
Operating expenses, before other specified items(1)	**3,114.4**	2,931.1	2,821.6	2,870.5	2,820.4
Operating income, before other specified items(1)	**788.5**	729.6	844.0	828.1	834.7
Other charges, before spin-off bridge financing fees(1)	**36.1**	33.5	21.8	26.4	21.0
Interest expense	**218.6**	218.7	242.2	209.6	167.0
Income tax expense, before FX on LTD, income tax recovery and income tax on other specified items(1)(3)	**172.4**	147.3	181.2	223.3	242.4
Income, before other specified items and FX on LTD(1)	**$ 361.4**	$ 330.1	$ 398.8	$ 368.8	$ 404.3
Foreign exchange gains (losses) on long-term debt (FX on LTD(3)) (net of tax)	**94.4**	224.4	16.7	(48.2)	(39.2)
Other specified items:					
Loss on transfer of assets to outsourcing firm		(28.9)			
Restructuring, asset impairment and/or environmental charges	**(71.9)**	(215.1)			
Spin-off related and incentive compensation charges				(24.5)	
Bridge financing fees related to spin-off				(17.2)	
Revaluation of future income taxes		59.3			
Tax rate change effect on future income tax liability		(52.7)			
Income tax recovery			72.0	64.0	131.7
Income tax on other specified items	**29.1**	84.2		18.1	
Net income(3)	**$ 413.0**	$ 401.3	$ 487.5	$ 361.0	$ 496.8
Basic earnings per share, before other specified items and FX on LTD(1)(2)(3)	**$ 2.28**	$ 2.08	$ 2.52	$ 2.33	$ 2.55
Diluted earnings per share, before other specified items and FX on LTD(1)(2)(3)	**$ 2.27**	$ 2.07	$ 2.50	$ 2.32	$ 2.55
Basic earnings per share(3)	**$ 2.60**	$ 2.53	$ 3.08	$ 2.28	$ 3.14
Diluted earnings per share(3)	**$ 2.60**	$ 2.52	$ 3.06	$ 2.27	$ 3.13

Notes:

(1) Excludes other specified items which are described under the heading Other Specified Items in CPR s 2004 Management s Discussion and Analysis. It should be noted that CPR s operating results, before FX on LTD and other specified items, as described in this AIF, have no standardized meanings prescribed by Canadian generally accepted accounting principles (GAAP) and, therefore, are unlikely to be comparable to similar measures presented by other companies.

(2) Certain expenses for the years 2000 to 2003 were restated to reflect the implementation of a new accounting standard under Canadian GAAP for Asset Retirement Obligations. Earnings per share figures were also restated for these years to conform to this new accounting standard.

(3) Effective January 1, 2002, CPR was required to adopt retroactively, with restatement, the new Canadian Institute of Chartered Accountants accounting standard for the treatment of FX on LTD. Figures for 2001 and 2000 were restated to conform to this standard.

(4) Return on capital employed (after taxes) is calculated as income, before other specified items and FX on LTD, less interest expense, divided by average net-debt-plus-equity, and multiplied by one minus CPRC s normalized tax rate for each respective period.

(5) Net-debt to net-debt-plus-equity has been calculated by dividing total debt (being long-term debt, including long-term debt maturing within one year, plus advances from affiliates) by total capitalization (being total debt plus total shareholders equity).

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Summary Financial Data	2004	2003(2)	2002(2)	2001(2)	2000(2)
BALANCE SHEET DATA:					
Total assets(3)	**$ 10,499.8**	$ 9,956.7	$ 9,664.3	$ 9,675.5	$ 8,681.9
Long-term debt, before current portion	**$ 3,075.3**	$ 3,348.9	$ 2,922.1	$ 3,709.0	$ 2,276.3
Shareholders equity	**$ 3,982.4**	$ 3,654.6	$ 3,368.3	$ 2,962.8	$ 3,436.3
FINANCIAL RATIOS:					
Operating ratio, before other specified items(1)(2)	**79.8%**	80.1%	77.0%	77.6%	77.2%
Annual return on capital employed (after taxes), before other specified items and FX on LTD(4)	**7.3%**	7.2%	9.0%	8.5%	9.4%
Net-debt to net-debt-plus-equity(5)	**42.9%**	46.9%	47.4%	51.8%	39.1%

Notes:

(1) Excludes other specified items which are described under the heading Other Specified Items in CPR s 2004 Management s Discussion and Analysis. It should be noted that CPR s operating results, before FX on LTD and other specified items, as described in this AIF, have no standardized meanings prescribed by Canadian generally accepted accounting principles (GAAP) and, therefore, are unlikely to be comparable to similar measures presented by other companies.

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(4) Return on capital employed (after taxes) is calculated as income, before other specified items and FX on LTD, less interest expense, divided by average net-debt-plus-equity, and multiplied by one minus CPRC s normalized tax rate for each respective period.

(5) Net-debt to net-debt-plus-equity has been calculated by dividing total debt (being long-term debt, including long-term debt maturing within one year, plus advances from affiliates) by total capitalization (being total debt plus total shareholders equity).

Reference is made to the factors affecting the comparability of the foregoing financial data under the headings Summary of significant accounting policies and New accounting policies in Notes 1 and 2, respectively, in the Notes to Consolidated Financial Statements included in the Company s 2004 Annual Report.

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DIVIDENDS

Declared Dividends and Dividend Policy

The details of dividends declared by the Board of Directors since the initial listing of CPR s Common Shares on the Toronto and New York stock exchanges in October 2001 are as follows:

Dividend Amount	Record Date	Payment Date
$0.1275	December 27, 2001	January 28, 2002
$0.1275	March 27, 2002	April 29, 2002
$0.1275	June 27, 2002	July 29, 2002
$0.1275	September 27, 2002	October 28, 2002
$0.1275	December 27, 2002	January 27, 2003
$0.1275	March 28, 2003	April 28, 2003
$0.1275	June 27, 2003	July 28, 2003
$0.1275	September 26, 2003	October 27, 2003
$0.1275	December 24, 2003	January 26, 2004
$0.1275	March 26, 2004	April 26, 2004
$0.1275	June 25, 2004	July 26, 2004
$0.1325	September 24, 2004	October 25, 2004
$0.1325	December 31, 2004	January 31, 2005
$0.1325	March 25, 2005	April 25, 2005

The Board of Directors will give consideration on a quarterly basis to the payment of future dividends. The amount of any future quarterly dividends will be determined based on a number of factors that may include the results of operations, financial condition, cash requirements and future prospects of the Company. The Company is, however, under no obligation to declare dividends and the declaration of dividends is wholly within the Board of Directors discretion. Further, the Board of Directors may cease declaring dividends or may declare dividends in amounts that are different from those previously declared. Lastly, restrictions in the credit or financing agreements entered into by the Company or the provisions of applicable law may preclude the payment of dividends in certain circumstances.

CAPITAL STRUCTURE

Description of Capital Structure

The Company is authorized to issue an unlimited number of Common Shares, an unlimited number of First Preferred Shares and an unlimited number of Second Preferred Shares.

1). The rights, privileges, restrictions and conditions attaching to the Common Shares are as follows:

a). **Payment of Dividends**: The holders of the Common Shares will be entitled to receive dividends if, as and when declared by CPR s Board of Directors out of the assets of the Company properly applicable to the payment of dividends in such amounts and payable in such manner as the Board may from time to time determine. Subject to the rights of the holders of any other class of shares of the Company entitled to receive dividends in priority to or rateably with the holders of the Common Shares, the Board may in its sole discretion declare dividends of the Common Shares to the exclusion of any other class of shares of the Company.

b). **Participation upon Liquidation, Dissolution or Winding Up**: In the event of the liquidation, dissolution or winding up of the Company or other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the Common Shares will, subject to the rights of the holders of any other class of shares of the Company entitled to receive the assets of the Company upon such a distribution in priority to or rateably with the holders of the Common Shares, be entitled to participate rateably in any distribution of the assets of the Company.

c). **Voting rights**: The holders of the Common Shares will be entitled to receive notice of and to attend all annual and special meetings of the shareholders of the Company and to one (1) vote in respect of each Common Share held at all such meetings, except at separate meetings of or on separate votes by the holders of another class or series of shares of the Company.

2). The rights, privileges, restrictions and conditions attaching to the First Preferred Shares are as follows:

a). **Authority to Issue in One or More Series**: The First Preferred Shares may at any time or from time to time be issued in one (1) or more series. Subject to the following provisions, the Board may by resolution fix from time to time before the issue thereof the number of shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to the shares of, each series of First Preferred Shares.

b). **Voting Rights**: The holders of the First Preferred Shares will not be entitled to receive notice of or to attend meeting of the shareholders of the Company and will not be entitled to vote at any such meeting, except as may be required by law.

c). **Limitation on Issue**: The Board may not issue any First Preferred Shares if by so doing the aggregate amount payable to holders of First Preferred Shares as a return of capital in the event of the liquidation, dissolution or winding up of the Company or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs would exceed $500,000,000.

d). **Ranking of First Preferred Shares**: The First Preferred Shares will be entitled to priority over the Second Preferred Shares and the Common Shares of the Company and over any other shares ranking junior to the First Preferred Shares with respect to the payment of dividends and the distributions of assets of the Company in the event of any liquidation, dissolution or winding up of the Company or other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs.

e). **Dividends Preferential**: Except with the consent in writing of the holders of all outstanding First Preferred Shares, no dividend may be declared and paid on or set apart for payment on the Second Preferred Shares or the Common Shares or on any other shares ranking junior to the First Preferred Shares unless and until all dividends (if any) up to and including any dividend payable for the last completed period for

which such dividend is payable
on each series of First Preferred
Shares outstanding has been
declared and paid or set apart for
payment.

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CAPITAL STRUCTURE

3). The rights, privileges, restrictions and conditions attaching to the Second Preferred Shares are as following:

a). **Authority to Issue in One or More Series**: The Second Preferred Shares may at any time or from time to time be issued in one (1) or more series. Subject to the following provisions, the Board may by resolution fix from time to time before the issue thereof the number of shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to the shares of, each series of Second Preferred Shares.

b). **Voting Rights**: The holders of the Second Preferred Shares will not be entitled to receive notice of or to attend any meetings of the shareholders of the Company and will not be entitled to vote at any such meeting, except as may be required by law.

c). **Limitation on Issue**: The Board may not issue any second Preferred Shares if by so doing the aggregate amount payable to holders of Second Preferred Shares as a return of capital in the event of the liquidation, dissolution or winding up of the Company or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs would exceed $500,000,000.

d). **Ranking of Second Preferred Share**: The Second Preferred Shares will be entitled to priority over the Common Shares of the Company and over any other shares ranking junior to the Second Preferred Shares with respect to the payment of dividends and the distribution of assets of the Company in the event of the liquidation, dissolution or winding up of the Company or any other distribution of the assets of the Company among its shareholders for the purpose of winding up of its affairs.

e). **Dividend Preferential**: Except with the consent in writing of the holders of all outstanding Second Preferred Shares, no dividend may be declared and paid on or set apart for payment on the Common Shares or on any other shares ranking junior to the Second Preferred Shares unless and until all dividends (if any) up to and including any dividend payable for the last completed period for which such dividend is payable on each series of Second Preferred Shares outstanding has been declared and paid or set apart for payment.

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CAPITAL STRUCTURE

Security Ratings

The Company s debt securities are rated annually by three approved rating organizations Moody s Investors Service, Standard & Poor s and Dominion Bond Rating Service Limited. Currently CPR s securities are rated as Investment Grade, as shown in the chart below:

Approved Rating Organization	Long Term Debt
Moody s Investors Service	Baa2
Standard & Poor s	BBB
Dominion Bond Rating Service	BBB

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities and are indicators of the likelihood of payment and of the capacity and willingness of a company to meet its financial commitment on an obligation in accordance with the terms of the obligation. A description of the rating categories of each of the rating agencies in the table above is set out below.

Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor and may be subject to revision or withdrawal at any time by the rating agencies. Credit ratings may not reflect the potential impact of all risks on the value of securities. In addition, real or anticipated changes in the rating assigned to a security will generally affect the market value of that security. There can be no assurance that a rating will remain in effect for any given period of time or that a rating will not be revised or withdrawn entirely by a rating agency in the future.

MARKET FOR SECURITIES

Stock Exchange Listings

The common shares of CPR are listed on the Toronto Stock Exchange and the New York Stock Exchange under the symbol CP.

Trading Price and Volume

The following chart provides the monthly trading information for CPR common shares on the Toronto Stock Exchange during 2004.

Month	Opening Price per Share ($)	High Price per Share ($)	Low Price per Share ($)	Closing Price per Share ($)	Number of Trades Performed	Volume of Shares Traded
January	36.59	37.55	34.30	34.33	15,648	10,985,473
February	34.79	35.22	30.77	31.50	22,091	15,210,160
March	31.55	33.36	30.32	31.50	26,895	14,821,995
April	31.86	32.95	30.41	30.50	23,444	14,312,109
May	30.70	31.25	29.36	30.69	17,271	11,302,984
June	30.50	33.10	30.11	32.75	19,510	15,047,047
July	32.51	34.22	31.70	33.70	15,161	9,391,682
August	34.15	34.19	31.60	33.37	13,339	6,565,897
September	33.20	33.84	31.71	32.69	13,413	10,508,698
October	32.45	34.80	32.45	34.41	15,490	13,840,085
November	34.31	39.00	34.02	38.85	27,436	20,189,207
December	39.05	41.55	36.76	41.10	28,708	20,577,814

The following chart provides the monthly trading information for CPR common shares on the New York Stock Exchange during 2004.

Month	Opening Price per Share ($)	High Price per Share ($)	Low Price per Share ($)	Closing Price per Share ($)	Number of Trades Performed	Volume of Shares Traded
January	28.30	29.13	25.82	25.95	4,488	1,478,700
February	25.90	26.55	23.10	23.51	5,858	2,187,800
March	23.73	25.23	22.65	24.18	6,707	2,449,500

April	24.19	25.17	22.14	22.22	6,540	2,719,500
May	22.25	22.85	21.40	22.39	6,206	2,463,100
June	22.25	24.64	22.04	24.63	7,206	3,019,800
July	24.64	25.81	24.25	25.47	7,073	2,662,500
August	25.47	26.05	23.83	25.45	6,300	1,895,900
September	25.40	26.25	24.67	25.78	4,505	1,185,200
October	25.85	28.51	25.58	28.25	5,802	2,145,400
November	28.15	32.85	28.05	32.74	7,437	2,883,900
December	33.05	34.50	29.77	34.41	11,837	4,731,100

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DIRECTORS AND OFFICERS

The following are the names and municipalities of residence of the directors and officers of the Company, their positions and principal occupations within the past five years, the period during which each director has served as director of the Company, and the date on which each director s term of office expires.

Directors

Name and municipality of residence	Position held and principal occupation within the preceding five years[1]	Year of annual meeting at which term of office expires (Director since)
S.E. Bachand [2][3][5] Ponte Vedra Beach, Florida, U.S.A.	Retired President and Chief Executive Officer, Canadian Tire Corporation, Limited (hard goods retailer specializing in automotive, sports and leisure and home products)	2005 (2001)
J.E. Cleghorn, O.C., F.C.A. [2][3][6] Toronto, Ontario, Canada	Chairman, SNC-Lavalin Group Inc., (international engineering and construction firm)	2005 (2001)
T.W. Faithfull [3][4][5] Oxford, England	Retired President and Chief Executive Officer Shell Canada Limited (oil and gas company)	2005 (2003)
J.E. Newall, O.C. [3] Calgary, Alberta, Canada	Chairman, Canadian Pacific Railway Limited, and NOVA Chemicals Corporation (chemicals company producing styrenics, olefins and polyolefin products)	2005 (2001)
Dr. J.R. Nininger [3][4][5] Ottawa, Ontario, Canada	Retired President and Chief Executive Officer, The Conference Board of Canada (private not-for-profit research group)	2005 (2001)
M. Paquin [2][3][4] Montreal, Quebec, Canada	President and Chief Executive Officer, Logistec Corporation (international cargo-handling company)	2005 (2001)
M.E.J. Phelps, O.C. [3][4][5] West Vancouver, B.C., Canada	Chairman, Dornoch Capital Inc. (private investment company)	2005 (2001)
R. Phillips, O.C. [2][3][6] Regina, Saskatchewan, Canada	Retired President and Chief Executive Officer, IPSCO Inc. (steel manufacturing company)	2005 (2001)
R.J. Ritchie Calgary, Alberta, Canada	President and Chief Executive Officer, Canadian Pacific Railway Limited	2005 (2001)

M. W. Wright [2][3][5] Longboat Key, Florida, U.S.A.	Retired Chairman of the Board, SUPERVALU INC. (food distributor and grocery retailer)	2005 (2001)

Notes:

(1) S.E. Bachand was President and Chief Executive Officer of Canadian Tire Corporation, Limited from March 1993 to August 2000. J.E. Cleghorn was Chairman and Chief Executive Officer of the Royal Bank of Canada from January 1995 to July 2001. T.W. Faithfull was President and Chief Executive Officer of Shell Canada Limited from April 1999 until July 2003. Dr. J.R. Nininger was President and Chief Executive Officer of The Conference Board of Canada from September 1978 to August 2001. M.E.J. Phelps was Chairman and Chief Executive Officer of Westcoast Energy Inc. from June 1988 until March 2002. R. Phillips was President and Chief Executive Officer of IPSCO, Inc. from 1982 until December 2001. R.J Ritchie became President of Canadian Pacific Railway Company in July 1996 and continues to hold that position. M.W. Wright was Chairman and Chief Executive Officer of SUPERVALU INC. from June 1981 until June 2001 and Chairman until June 2002.

(2) Member of the Audit, Finance and Risk Management Committee.

(3) Member of the Corporate Governance and Nominating Committee.

(4) Member of the Environmental and Safety Committee.

(5) Member of the Management Resources and Compensation Committee.

(6) Member of the Pension Trust Fund Committee.

DIRECTORS AND OFFICERS

Cease Trade Orders

S.E. Bachand was a director of Krystal Bond Inc. when it was subject to a cease trade order on April 12, 2002 for failure to file financial statements. It has since ceased to operate as a going concern. J.E. Cleghorn, a director of Nortel Networks Corporation and Nortel Networks Limited is subject to a cease trade order issued in May 2004, for failure to file certain financial statements, by the Ontario Securities Commission against directors, officers and certain other current and former employees of Nortel Networks prohibiting trading in Nortel Networks securities.

Senior Officers

As at February 21, 2005, the following were executive officers of CPR:

Name and municipality of residence	Position held	Principal occupation within the preceding five years
J.E. Newall, O.C. Calgary, Alberta, Canada	Chairman	Chairman, NOVA Chemicals Corporation (chemicals company producing styrenics, olefins and polyolefin products)
R.J. Ritchie Calgary, Alberta, Canada	President and Chief Executive Officer	President and Chief Executive Officer, Canadian Pacific Railway Company
M.T. Waites Municipal District of Rockyview Alberta, Canada	Executive Vice-President and Chief Financial Officer	Executive Vice-President and Chief Financial Officer, Chief Executive Officer, U.S. Network, Canadian Pacific Railway Company; Executive Vice-President and Chief Financial Officer, Canadian Pacific Railway Company; Vice-President and Comptroller, Canadian Pacific Railway Company
F. Green Calgary, Alberta, Canada	Executive Vice-President and Chief Operating Officer	Executive Vice President and Chief Operating Officer, Canadian Pacific Railway Company; Executive Vice-President, Marketing and Operations, Canadian Pacific Railway Company; Senior Vice-President, Marketing, Canadian Pacific Railway Company; Vice-President, Marketing, Canadian Pacific Railway Company
W.P. Bell Calgary, Alberta, Canada	Vice-President, Investor Relations	Vice-President, Investor Relations, Canadian Pacific Railway Company; Vice-President, E-Business, Canadian Pacific Railway

		Company; Vice-President, Logistics Systems, Canadian Pacific Railway Company
P. Clark Calgary, Alberta, Canada	Vice-President, Communications and Public Affairs	Vice-President, Communications and Public Affairs, Canadian Pacific Railway Company
J.J. Doolan Municipal District of Rockyview Alberta, Canada	Vice-President and Treasurer	Vice-President and Treasurer, Canadian Pacific Railway Company; Assistant Treasurer, Canadian Pacific Railway Limited and Canadian Pacific Railway Company; President, River Ridge Financial Management Ltd. (financial consulting and management company)
B. Grassby Calgary, Alberta, Canada	Vice-President and Comptroller	Vice-President and Comptroller, Canadian Pacific Rail