CANADIAN PACIFIC RAILWAY LTD/CN
Form 6-K
April 24, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 6-K

Report of Foreign Issuer

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

the Securities Exchange Act of 1934

For the month of April, 2007

CANADIAN PACIFIC RAILWAY LIMITED
(Commission File No. 1-01342)
CANADIAN PACIFIC RAILWAY COMPANY
(Commission File No. 1-15272)
(translation of each Registrant s name into English)

Suite 500, Gulf Canada Square, 401 9th Avenue, S.W., Calgary, Alberta, Canada, T2P 4Z4
(address of principal executive offices)

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

Form 20-F o Form 40-F x

Indicate by check mark whether the registrants by furnishing 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.

Yes o No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-________

The interim financial statements and Management s Discussion & Analysis included in this Report furnished on Form 6-K shall be incorporated by reference into, or as an exhibit to, as applicable, each of the following Registration Statements under the Securities Act of 1933 of the registrant: Form S-8 No. 333-140955 (Canadian Pacific Railway Limited), Form S-8 No. 333-127943 (Canadian Pacific Railway Limited), and Form S-8 No. 333-13962 (Canadian Pacific Railway Limited).

SIGNATURES

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

CANADIAN PACIFIC RAILWAY LIMITED
CANADIAN PACIFIC RAILWAY COMPANY
(Registrants)

Date: April 24, 2007		Signed:	Donald F. Barnhardt
	By:	Name:	Donald F. Barnhardt
		Title:	Corporate Secretary

Release: Immediate, April 24, 2007

CANADIAN PACIFIC S FIRST-QUARTER RESULTS SOLID DESPITE TOUGH WINTER CONDITIONS

CALGARY Canadian Pacific Railway Limited (TSX/NYSE: CP) reported net income growth of 18 per cent to $129 million in the first-quarter of 2007 when compared with the same quarter 2006. Diluted earnings per share improved 21 per cent to $0.82.

SUMMARY OF FIRST-QUARTER 2007 COMPARED WITH FIRST-QUARTER 2006

Excluding foreign exchange gains and losses on long-term debt, diluted earnings per share increased 8 per cent to $0.78 from $0.72.

Operating ratio improved to 79.5 per cent from 79.6 per cent.

Freight revenue of $1.09 billion increased 2.2 per cent from $1.07 billion.

Operating expenses at $887 million, up just 0.3 per cent from $884 million.

CP s team delivered adjusted diluted EPS growth of 8 per cent in the face of extremely difficult, weather-related operating conditions that challenged the entire transportation chain, said Fred Green, CP s President and CEO. Our disciplined execution of the integrated operating plan, in addition to the investments in network capacity we ve made in our Western corridor, paid major dividends for us this quarter. We were able to recover from each event as it occurred and keep our customers shipments moving.

Mr. Green added, Our operational focus on network fluidity has increased our resilience and allowed our operations to rebound effectively. With the recent return to more normal operating conditions, we expect to move freight volumes with increasing efficiency and improved service levels through the balance of the year.

Revenues in sulphur and fertilizers increased 31 per cent over first-quarter 2006 and intermodal and automotive were also up, with growth of 6 per cent and 5 per cent respectively. Softness in forest products offset some of the revenue growth, decreasing $11 million from the same period in 2006. Winter disruptions and the CN strike increased network congestion which resulted in reduced shipments in coal and other commodities. Other revenue declined $18 million in 2007 reflecting a significant land sale that took place in first-quarter 2006.

Operating expenses were essentially flat at $887 million, up 0.3 per cent from 2006, despite the challenging winter operating conditions. Fuel, inflation and winter related expense increases were partially offset by a drop in compensation and benefits expense.

2007 OUTLOOK

CP is on track to deliver solid performance in 2007, said Mike Lambert, Chief Financial Officer. A reduction in our cash pension funding requirement to approximately $100 million, down from our original $150 million estimate given in the Fall of 2006, has improved our free cash outlook to more than $300 million in 2007, up from $250 million estimated previously. Our diverse commodity portfolio, a strong yield program and continued vigilance around cost containment will drive our projected EPS growth of 9 to 13 per cent.

CP s outlook for diluted earnings per share excluding foreign exchange gains and losses on long-term debt and other specified items remains in the range of $4.30 to $4.45 for 2007, compared with 2006 diluted EPS which was $3.95. CP expects to grow revenue in the range of 4 per cent to 6 per cent in 2007. Capital investment is anticipated to be between $885 million and $895 million and free cash, after dividends, is now expected to exceed $300 million in 2007. This outlook assumes oil prices averaging US$58 per barrel and an average currency exchange rate of $1.15 per U.S. dollar (US$0.87).

NORMAL COURSE ISSUER BID ANNOUNCEMENT

CP also announces that its Board of Directors has authorized the acquisition of up to 15.5 million Common Shares of CP for cancellation in 2007, and if not completed in 2007, in 2008. This represents approximately 10 per cent of the public float of its Common Shares outstanding at March 15, 2007. CP currently has in place a normal course issuer bid under which it is permitted to purchase up to 4.975 million Common Shares during the 12 month period ending March 27, 2008. CP has purchased 674,990 shares in 2007. Subject to regulatory approval, CP intends to amend the existing bid to enable it to purchase up to 15.5 million shares during 2007.

We can increase the share repurchase plan because of our increasing generation of free cash flow and our strong balance sheet. This reflects our confidence not only in the short term outlook for CP, but also in the longer term prospects of our Franchise, said Mr. Lambert.

FOREIGN EXCHANGE GAINS AND LOSSES ON LONG-TERM DEBT

CP had a foreign exchange gain on long-term debt of $9 million ($6 million after tax) in the first quarter of 2007, compared with a foreign exchange loss on long-term debt of $6 million ($7 million after tax) in the first quarter of 2006.

RESTATEMENT OF FIRST-QUARTER 2006 FINANCIAL STATEMENTS

As a result of the adoption of EIC162 Stock-based Compensation for Employees Eligible to Retire Before the Vesting Date in December 2006, the comparative financial statements for the three months ended March 31, 2006 have been restated with an increase in Compensation and benefit expense of $2.3 million, a reduction in Net income of $2.2 million and a reduction in basic and diluted earnings per share of $0.01. Basic and diluted earnings per share excluding foreign exchange gains and losses on long-term debt was reduced by $0.02.

Presentation of non-GAAP earnings

CP presents non-GAAP earnings in this news release to provide a basis for evaluating underlying earnings and liquidity trends in its business that can be compared with prior periods results of operations. These non-GAAP earnings exclude foreign currency translation impacts on long-term debt, which can be volatile and short term, and other specified items, which are not among CP s normal ongoing revenues and operating expenses. The impact of volatile short-term rate fluctuations on foreign-denominated debt is only realized when long-term debt matures or is settled. A reconciliation of income, excluding foreign exchange gains and losses on long-term debt and other specified items, to net income as presented in the financial statements is detailed in the attached Summary of Rail Data. Diluted EPS, excluding foreign exchange gains and losses on long-term debt and other specified items is also referred to in this news release as (adjusted diluted EPS).

Free cash after dividends is calculated as cash provided by operating activities, less cash used in investing activities and dividends.

Earnings that exclude foreign exchange currency translation impact on long-term debt and other specified items, and free cash after dividends, as described in this news release, have no standardized meanings and are not defined by Canadian generally accepted accounting principles and, therefore, are unlikely to be comparable to similar measures presented by other companies.

Other specified items are material transactions that may include, but are not limited to, restructuring and asset impairment charges, gains and losses on non-routine sales of assets, unusual income tax adjustments, and other items that do not typify normal business activities. There were no other specified items in the first quarters of 2007 and 2006.

Note on forward looking-information

This news release contains certain forward-looking statements relating but not limited to our operations, anticipated financial performance and business prospects. Undue reliance should not be placed on forward-looking information as actual results may differ materially.

By its nature, CP s forward-looking information involves numerous assumptions, inherent risks and uncertainties, including but not limited to the following factors: changes in business strategies; general global economic and business conditions; risks in agricultural production such as weather conditions and insect populations; fluctuations in the value of the Canadian dollar relative to the U.S. dollar; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demand; changes in laws and regulations; changes in taxes and tax rates; potential increases in maintenance and operating costs; uncertainties of litigation; labour disputes; timing of completion of capital and maintenance projects; interest rate fluctuations; effects of changes in market conditions on the financial position of pension plans; and various events that could disrupt operations, including severe weather conditions, security threats and governmental response to them, and technological changes.

There are factors that could cause actual results to differ from those described in the forward-looking statements contained in this news release. These more specific factors are identified and discussed in the Outlook section and elsewhere in this news release with the particular forward-looking statement in question.

CP undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

Canadian Pacific, through the ingenuity of its employees located across Canada and in the United States, intends to be the safest, and most fluid railway in North America. Our people are the key to delivering innovative transportation solutions to our customers and to ensuring the safe operation of our trains through the more than 900 communities where we operate. Our combined ingenuity makes Canadian Pacific a better place to work, rail a better way to ship, and North America a better place to live. Come and visit us at www.cpr.ca to see how we can put our ingenuity to work for you. Canadian Pacific is proud to be the official rail freight services provider for the Vancouver 2010 Olympic and Paralympic Winter Games.

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Contacts:

Media
Leslie Pidcock
Tel.: (403) 319-6878
e-mail: leslie_pidcock@cpr.ca

Investment Community
Janet Weiss, Assistant Vice-President Investor Relations
Tel.: (403) 319-3591
e-mail: investor@cpr.ca

STATEMENT OF CONSOLIDATED INCOME
(in millions, except per share data)

	For the three months ended March 31	
	2007	**2006** Restated (see Note 2)
	(unaudited)	
Revenues		
Freight	$ 1,090.9	$ 1,067.2
Other	25.0	43.3
	1,115.9	1,110.5
Operating expenses		
Compensation and benefits	332.5	352.2
Fuel	171.2	157.9
Materials	62.4	57.6
Equipment rents	55.5	44.6
Depreciation and amortization	118.6	114.8
Purchased services and other	146.4	156.6
	886.6	883.7
Operating income	**229.3**	**226.8**
Other charges *(Note 4)*	4.8	6.8
Foreign exchange (gains) losses on long-term debt	(8.6)	6.4
Interest expense *(Note 5)*	46.8	47.3
Income tax expense	57.7	57.5
Net income	**$ 128.6**	**$ 108.8**
Basic earnings per share *(Note 8)*	**$ 0.83**	**$ 0.69**
Diluted earnings per share *(Note 8)*	**$ 0.82**	**$ 0.68**

See notes to interim consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in millions)

	For the three months ended March 31	
	2007	**2006**
		Restated (see Note 2)
	(unaudited)	
Comprehensive income		
Net income	$ 128.6	$ 108.8
Other comprehensive income		
Net change in foreign currency translation adjustments, net of hedging activities	(0.3)	1.5
Net change in gains on derivatives designated as cash flow hedges	(3.2)	
Other comprehensive (loss) income before income taxes	(3.5)	1.5
Income tax recovery	0.7	0.2
Other comprehensive (loss) income (*Note 10*)	(2.8)	1.7
Comprehensive income	$ 125.8	$ 110.5

See notes to interim consolidated financial statements.

CONSOLIDATED BALANCE SHEET
(in millions)

	March 31 2007	December 31 2006 Restated (see Note 2)
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	$ 25.6	$ 124.3
Accounts receivable and other current assets	608.0	615.7
Materials and supplies	162.2	158.6
Future income taxes	109.7	106.3
	905.5	1,004.9
Investments	65.8	64.9
Net properties	9,195.9	9,122.9
Other assets and deferred charges	1,208.0	1,223.2
Total assets	$ 11,375.2	$ 11,415.9
Liabilities and shareholders equity		
Current liabilities		
Short-term borrowing	$ 77.7	$
Accounts payable and accrued liabilities	999.8	1,002.6
Income and other taxes payable	15.2	16.0
Dividends payable	35.0	29.1
Long-term debt maturing within one year	31.5	191.3
	1,159.2	1,239.0
Deferred liabilities	697.6	725.7
Long-term debt	2,747.8	2,813.5
Future income taxes	1,831.3	1,781.2
Shareholders equity		
Share capital (*Note 9*)	1,182.9	1,175.7
Contributed surplus	37.1	32.3

Accumulated other comprehensive income	77.6	66.4
Retained income	3,641.7	3,582.1
	4,939.3	4,856.5
Total liabilities and shareholders equity	$ 11,375.2	$ 11,415.9

Commitments and contingencies *(Note 15)*.
See notes to interim consolidated financial statements.

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STATEMENT OF CONSOLIDATED CASH FLOWS
(in millions)

	For the three months ended March 31	
	2007	**2006**
		Restated (see Note 2)
	(unaudited)	
Operating activities		
Net income	$ 128.6	$ 108.8
Add items not affecting cash:		
Depreciation and amortization	118.6	114.8
Future income taxes	38.5	44.2
Foreign exchange (gains) losses on long-term debt	(8.6)	6.4
Amortization of deferred charges	3.1	4.3
Restructuring payments	(13.2)	(27.8)
Other operating activities, net	(2.7)	4.1
Change in non-cash working capital balances related to operations	(36.6)	(80.5)
Cash provided by operating activities	**227.7**	**174.3**
Investing activities		
Additions to properties	(204.2)	(191.7)
Decrease in investments and other assets	(0.3)	(19.7)
Net proceeds from disposal of transportation properties	8.9	4.3
Cash used in investing activities	**(195.6)**	**(207.1)**
Financing activities		
Dividends paid	(29.1)	(23.7)
Issuance of CP Common Shares	10.1	38.5
Purchase of CP Common Shares	(16.1)	(45.6)
Increase in short-term borrowing	77.7	
Repayment of long-term debt	(173.4)	(10.7)
Cash used in financing activities	**(130.8)**	**(41.5)**
Cash position		
Decrease in net cash and cash equivalents	(98.7)	(74.3)
Net cash and cash equivalents at beginning of period	124.3	121.8

Net cash and cash equivalents at end of period	$ 25.6	$ 47.5

See notes to interim consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY
(in millions)

	For the three months ended March 31	
	2007	**2006**
		Restated (see Note 2)
	(unaudited)	
Share capital		
Balance, beginning of period	$ 1,175.7	$ 1,141.5
Shares issued under stock option plans	12.3	40.2
Shares repurchased	(5.1)	(6.6)
Balance, end of period	1,182.9	1,175.1
Contributed surplus		
Balance, beginning of period	32.3	245.1
Stock-based compensation expense related to stock option plans	4.8	4.1
Shares repurchased		(45.0)
Balance, end of period	37.1	204.2
Accumulated other comprehensive income		
Balance, beginning of period	66.4	67.5
Adjustment for change in accounting policy	14.0	
Adjusted balance, beginning of period	80.4	67.5
Other comprehensive (loss) income (*Note 10*)	(2.8)	1.7
Balance, end of period	77.6	69.2

Retained earnings		
Balance, beginning of period	3,582.1	2,930.0
Adjustment for change in accounting policy	4.0	
Adjusted balance, beginning of period	3,586.1	2,930.0
Net income for the period	128.6	108.8
Shares repurchased	(38.0)	
Dividends	(35.0)	(29.9)
Balance, end of period	3,641.7	3,008.9
Total accumulated other comprehensive income and retained earnings	3,719.3	3,078.1
Shareholders equity, end of period	$ 4,939.3	$ 4,457.4

See notes to interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(unaudited)
1 Basis of presentation

These unaudited interim consolidated financial statements and notes have been prepared using accounting policies that are consistent with the policies used in preparing Canadian Pacific Railway Limited s (CP , the Company or Canadian Pacific Railway) 2006 annual consolidated financial statements, except as discussed below and in Note 2 for the adoption of new accounting standards for financial instruments, hedges and comprehensive income. They do not include all disclosures required under Generally Accepted Accounting Principles for annual financial statements and should be read in conjunction with the annual consolidated financial statements.

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

Financial Instruments

From January 1, 2007, certain financial instruments, including those classified as loans and receivables, available for sale, held for trading and financial liabilities, are initially measured at fair value and subsequently measured at fair value or amortized cost. Amortization is calculated using the effective interest rate for the instrument. Financial instruments that will be realized within the normal operating cycle are measured at their carrying amount as this approximates fair value.

Transaction costs related to the issuance of long-term debt are added to the fair value of the related instrument on issue and are amortized to income in conjunction with the amortization of the instrument using the effective interest rate method.

Derivative financial and commodity instruments

Derivative financial and commodity instruments may be used from time to time by the Company to manage its exposure to price risks relating to foreign currency exchange rates, stock-based compensation, interest rates and fuel prices. Since January 1, 2004, when CP utilizes derivative instruments in hedging relationships, CP identifies, designates and documents those hedging transactions and regularly tests the transactions to demonstrate effectiveness in order to continue hedge accounting.

Commencing from January 1, 2007 all derivative instruments are recorded at their fair value. They are classified on the Consolidated Balance Sheet in Other assets and deferred charges , Deferred liabilities , Accounts receivable and other current assets or Accounts payable and accrued liabilities as applicable. Prior to 2007, only derivative instruments that did not qualify as hedges or were not designated as hedges were carried at fair value on the Consolidated Balance Sheet in Other assets and deferred charges or Deferred liabilities . In the Statement of Consolidated Cash Flows, cash flows relating to derivative instruments designated as hedges are included in the same line as the related item. Gains and losses arising from derivative instruments will affect the following income statements lines: Revenues , Compensation and benefits , Fuel , Other charges , Foreign exchange (gains) losses o long-term debt and Interest expense .

For fair value hedges, the periodic change in value is recognized in income, where the changes in values of the hedged items are also recorded. For a cash flow hedge, the change in value of the effective portion is recognized in Other comprehensive income . Any ineffectiveness within an effective cash flow hedge is recognized in income as it arises in the same income account as the hedged item when realized. Should the hedging of a cash flow hedge

relationship become ineffective, previously unrealized gains and losses remain within Accumulated other comprehensive income until the hedged item is settled and, prospectively, future changes in value of the derivative are recognized in income. The change in value of the effective portion of a cash flow hedge remains in Accumulated other comprehensive income until the related hedged item settles, at which time amounts recognized in Accumulated other comprehensive income are reclassified to the same income or balance sheet account that records the hedged item. Prior to January 1, 2007, the periodic change in the fair value of an effective hedging instrument was not recognized in the financial statements.

The transitional date for the assessment of embedded derivatives was January 1, 2001.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(unaudited)
2 New accounting policies

Financial instruments, hedging and comprehensive income

On January 1, 2007 the Company adopted the following accounting standards: Section 3855 Financial Instruments Recognition and Measurement , Section 3861 Financial Instruments - Disclosure and Presentation , Section 3865 Hedges and Section 1530 Comprehensive Income . These sections require certain financial instruments and hedge positions to be recorded at their fair value. They also introduce the concept of comprehensive income and accumulated other comprehensive income. Adoption of these standards was on a prospective basis without retroactive restatement of prior periods, except for the restatement of equity balances to reflect the reclassification of Foreign currency translation adjustments to Accumulated other comprehensive income .

The impact of the adoption of these standards on January 1, 2007 was an increase in net assets of $18.0 million, a reduction in Foreign currency translation adjustments of $66.4 million, an increase in Retained earnings of $4.0 million, and the recognition of Accumulated other comprehensive income of $80.4 million.

The fair value of hedging instruments at January 1, 2007 was $31.7 million reflected in Other assets and deferred charges and Accounts receivable and other current assets and $4.8 million reflected in Deferred liabilities and Accounts payable and accrued liabilities . The inclusion of transaction costs within Long-term debt at amortized cost reduced Long-term debt by $33.4 million with an associated reduction in Other assets and deferred charges of $26.9 million. Deferred gains and losses on previously settled hedges were reclassified to Accumulated other comprehensive income and Retained earnings with a resultant decrease in Other assets and deferred charges of $4.8 million. The recognition of certain other financial instruments at fair value or amortized cost resulted in reductions in Long-term debt of $2.8 million, Investments of $1.5 million and Other assets and deferred charges of $0.4 million. The adoption of these standards increased the liability for Future income taxes by $11.6 million. Accumulated other comprehensive income is comprised of foreign currency gains and losses on the net investment in self-sustaining foreign subsidiaries, foreign currency gains and losses related to long-term debt designated as a hedge of the net investment in self-sustaining foreign subsidiaries , effective portions of gains and losses resulting from changes in the fair value of cash flow hedging instruments, and the reclassification of cumulative foreign currency translation adjustments. The adjustment to opening retained earnings reflects the change in measurement basis, from original cost to fair value or amortized cost, of certain financial assets, financial liabilities, transaction costs associated with the Company s long term debt and previously deferred gains and losses on derivative instruments that were settled in prior years and which, had they currently existed, did not meet the criteria for hedge accounting under Accounting Standard Section 3865. The amounts recorded on the adoption of these standards differed from the estimated amounts disclosed in Note 3 to the 2006 annual financial statement as a result of the refinement of certain estimates used at the year end.

Stock-based compensation for employees eligible to retire before the vesting date

As a result of the adoption of EIC 162 Stock-based Compensation for Employees Eligible to Retire Before the Vesting Date in December 2006, the comparative financial statements for the three months ended March 31, 2006 have been restated with an increase in Compensation and benefits expense of $2.3 million, a reduction of Net income of $2.2 million and a reduction in basic and diluted earnings per share of $0.01.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(unaudited)

3 Future accounting changes

The CICA has issued the following accounting standards which will be effective for the Company from January 1, 2008: Section 3862 Financial Instruments Disclosures , Section 3863 Financial Instruments Presentation and Section 1535 Capital Disclosures .

These new accounting standards will require the Company to provide additional disclosures relating to its financial instruments, including hedging instruments, and about the Company s capital. In addition, Section 3863 does not change the presentation guidance provided in Section 3861 Financial Instruments Disclosure and Presentation which it replaces. It is not anticipated that the adoption of these new accounting standards will impact the amounts reported in the Company s financial statements as they primarily relate to disclosure.

4 Other charges

	For the three months ended March 31	
(in millions)	**2007**	**2006**
Amortization of discount on accruals recorded at present value	$ 2.0	$ 2.5
Other exchange (gains) losses	(0.5)	0.1
Loss on sale of accounts receivable	1.3	1.1
(Gain) loss on non-hedging derivative instruments	(0.3)	0.8
Other	2.3	2.3
Total other charges	$ 4.8	$ 6.8

5 Interest expense

	For the three months ended March 31	
(in millions)	**2007**	**2006**
Interest expense	$ 48.8	$ 49.0
Interest income	(2.0)	(1.7)
Net interest expense	$ 46.8	$ 47.3

6 Income taxes

Cash taxes paid for the three months ended March 31, 2007 were $9.2 million (2006 $5.8 million).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(unaudited)
7 Restructuring and environmental remediation

At March 31, 2007, the provision for restructuring and environmental remediation was $296.6 million (December 31, 2006 $309.0 million). This provision primarily includes labour liabilities for restructuring plans. Payments are expected to continue in diminishing amounts until 2025. The environmental remediation liability includes the cost of a multi-year soil remediation program.

Set out below is a reconciliation of CP s liabilities associated with restructuring and environmental remediation programs:

Three months ended March 31, 2007

(in millions)	**Opening Balance Jan. 1 2007**	**Accrued**	**Payments**	**Amortization of Discount**	**Foreign Exchange Impact**	**Closing Balance Mar. 31 2007**
Labour liability for terminations and severances	$ 187.4		(12.5)	1.5	(0.3)	$ 176.1
Other non-labour liabilities for exit plans	1.4		(0.1)			1.3
Total restructuring liability	**188.8**		**(12.6)**	**1.5**	**(0.3)**	**177.4**
Environmental remediation program	120.2	0.2	(0.6)		(0.6)	119.2
Total restructuring and environmental remediation liability	**$ 309.0**	**0.2**	**(13.2)**	**1.5**	**(0.9)**	**$ 296.6**

Three months ended March 31, 2006

(in millions)	**Opening Balance Jan. 1 2006**	**Accrued (Reduced)**	**Payments**	**Amortization of Discount**	**Foreign Exchange Impact**	**Closing Balance Mar. 31 2006**
Labour liability for terminations and severances	$ 263.6	(1.1)	(24.8)	2.6	0.2	$ 240.5

Other non-labour liabilities for exit plans	5.8		(1.1)			4.7
Total restructuring liability	**269.4**	**(1.1)**	**(25.9)**	**2.6**	**0.2**	**245.2**
Environmental remediation program	129.4	1.1	(1.9)		0.3	128.9
Total restructuring and environmental remediation liability	**$ 398.8**		**(27.8)**	**2.6**	**0.5**	**$ 374.1**

Amortization of Discount is charged to income as Other Charges , Compensation and Benefits and Purchased Services and Other , as applicable.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(unaudited)

8 Earnings per share

At March 31, 2007, the number of shares outstanding was 155.2 million (March 31, 2006 158.6 million).

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

Diluted earnings per share have been calculated using the treasury stock method, which gives effect to the dilutive value of outstanding options.

The number of shares used in earnings per share calculations is reconciled as follows:

	For the three months ended March 31	
(in millions)	**2007**	**2006**
Weighted average shares outstanding	155.5	158.5
Dilutive effect of stock options	1.9	1.7
Weighted average diluted shares outstanding	157.4	160.2
(in dollars)		
Basic earnings per share	$ 0.83	$ 0.69(1)
Diluted earnings per share	$ 0.82	$ 0.68(1)

(1) Restated

9 Shareholders equity

An analysis of shares outstanding is as follows:

	For the three months ended March 31	
(in millions)	**2007**	**2006**
Shares outstanding, January 1	155.5	158.2
Shares issued under stock option plans	0.4	1.3
Shares repurchased	(0.7)	(0.9)
Shares outstanding, March 31	155.2	158.6

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(unaudited)
9 Shareholders equity (continued)

In June 2006, the Company completed the acquisition of Common Shares under the previous normal course issuer bid and filed a new normal course issuer bid to purchase, for cancellation, up to 3.9 million of its outstanding Common Shares. Under this filing, share purchases may be made during the 12-month period beginning June 6, 2006, and ending June 5, 2007. Of the 3.9 million shares authorized for repurchase under this filing, 3.4 million were repurchased in 2006 at an average price per share of $56.66 and 0.2 million shares were purchased in the first quarter of 2007 at an average price per share of $64.11.

In March 2007, the Company completed the filing for a new normal course issuer bid (2007 NCIB) to cover the period of March 28, 2007 to March 27, 2008 to purchase, for cancellation, up to 5.0 million of its outstanding Common Shares. Of the 5.0 million shares authorized under the 2007 NCIB, 0.2 million shares were purchased in the first quarter of 2007 at an average price per share of $64.76.

In addition to the 0.2 million shares purchased through the 2007 NCIB, pursuant to a notice of intention to make an exempt issuer bid filed on March 23, 2007, the Company purchased, for cancellation, 0.3 million shares through a private agreement with an arm s length third party on March 29, 2007 at an average price of $63.12.

In April 2007, the Company received approval from its Board of Directors to amend its 2007 NCIB to purchase, for cancellation, up to 15.5 million of its outstanding Common Shares during 2007, and if not completed in 2007, in 2008. This amendment is subject to regulatory approval.

The purchases are made at the market price on the day of purchase, with consideration allocated to share capital up to the average carrying amount of the shares, and any excess allocated to contributed surplus and retained earnings. When shares are repurchased, it takes three days before the transaction is settled and the shares are cancelled. The cost of shares purchased in a given month and settled in the following month is accrued in the month of purchase. During the three months ended March 31, 2007, 0.7 million shares were repurchased at an average price of $63.85 (three months ended March 31, 2006, 0.9 million shares were repurchased at an average price of $57.81).

10 Other comprehensive income

Components of other comprehensive income and the related tax effects are as follows:

	For the three months ended March 31 2007		
(in millions)	**Before tax amount**	**Income tax (expense) recovery**	**Net of tax amount**
Unrealized foreign exchange gain on translation of U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	$ 3.9	$ (0.6)	$ 3.3
Unrealized foreign exchange loss on translation of the net investment in U.S. subsidiaries	(4.2)		(4.2)

Realized gain on settled cash flow hedges	(3.3)	1.3	(2.0)
Increase in unrealized holding gains on cash flow hedges	0.1		0.1
Other comprehensive loss	$ (3.5)	$ 0.7	$ (2.8)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(unaudited)
10 Other comprehensive income (continued)

	For the three months ended March 31 2006		
(in millions)	**Before tax amount**	**Income tax (expense) recovery**	**Net of tax amount**
Unrealized foreign exchange loss on translation of U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries	$ (0.9)	$ 0.2	$ (0.7)
Unrealized foreign exchange gain on translation of the net investment in U.S. subsidiaries	2.4		2.4
Other comprehensive income	$ 1.5	$ 0.2	$ 1.7

Changes in the balances of each classification within Accumulated other comprehensive income are as follows:
Three months ended March 31, 2007

(in millions)	**Opening Balance, Jan. 1, 2007**	**Adjustment for change in accounting policy**	**Adjusted Opening Balance, Jan. 1, 2007**	**Period change**	**Closing Balance, Mar. 31, 2007**
Foreign exchange on U.S. dollar debt designated as a hedge of the net investment in U.S. subsidiaries	$ 234.9	$ 0.4	$ 235.3	$ 3.3	$ 238.6
Foreign exchange on net investment in U.S. subsidiaries	(168.5)		(168.5)	(4.2)	(172.7)
Increase (decrease) in unrealized effective gains of cash flow hedges		18.9	18.9	(1.9)	17.0
Unrealized loss on settled hedge instruments		(5.3)	(5.3)		(5.3)

Accumulated other comprehensive income	$ 66.4	$ 14.0	$ 80.4	$ (2.8)	$ 77.6

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(unaudited)
10 Other comprehensive income (continued)

Three months ended March 31, 2006

(in millions)	**Opening Balance, Jan. 1, 2006**	**Period change**	**Closing Balance, Mar. 31, 2006**
Foreign exchange on U.S. dollar debt designated as a hedge of the net investment in U.S. subsidiaries	$ 238.1	$ (0.7)	$ 237.4
Foreign exchange on net investment in U.S. subsidiaries	(170.6)	2.4	(168.2)
Accumulated other comprehensive income	$ 67.5	$ 1.7	$ 69.2

During the next twelve months, the Company expects $12.3 million of unrealized holding gains on derivative instruments to be realized and recognized in the Statement of Consolidated Income. Derivative instruments designated as cash flow hedges will mature during the period ending December 2009.

11 Fair value of financial instruments

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm s length transaction between willing parties. The Company uses the following methods and assumptions to estimate fair value of each class of financial instruments for which carrying amounts are included in the Consolidated Balance Sheet as follows:

Loans and receivables
Accounts receivable and other current assets The carrying amounts included in the Consolidated Balance Sheet approximate fair value because of the short maturity of these instruments.

Investments Long-term receivable balances are carried at amortized cost based on an initial fair value determined using discounted cash flow analysis using observable market based inputs.

Financial liabilities
Accounts payable and accrued liabilities and short-term borrowings The carrying amounts included in the Consolidated Balance Sheet approximate fair value because of the short maturity of these instruments.

Long-term debt The carrying amount of long-term debt is at amortized cost based on an initial fair value determined using the quoted market prices for the same or similar debt instruments.

Available for sale
Investments The Company s equity investments recorded on a cost basis have a carrying value that equals cost as fair value cannot be reliably established. These investments are not traded on a liquid market.

Held for trading

Other assets and deferred charges and Deferred liabilities   Derivative instruments that are designated as hedging instruments are measured at fair value determined using the quoted market prices for the same or similar instruments. Derivative instruments that are not designated in hedging relationships are classified as held for trading and measured at fair value determined by using quoted market prices for the same or similar instruments and changes in the fair values of such derivative instruments are recognized in net income as they arise.

Cash and cash equivalents   The carrying amounts included in the Consolidated Balance Sheet approximate fair value because of the short maturity of these instruments.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(unaudited)
11 Fair value of financial instruments (continued)

Carrying value and fair value of financial instruments

The carrying values of financial instruments equal or approximate their fair values with the exception of long-term debt which has a carrying value of approximately $2,779 million and a fair value of approximately $3,068 million at March 31, 2007.

12 Stock-based compensation

In the first quarter of 2007, under CP s stock option plans, the Company issued 1,299,800 options to purchase Common Shares at the price of $62.57 per share, based on the closing price on the day prior to the grant date. In tandem with these options, 432,050 stock appreciation rights were issued at the exercise price of $62.57. Also, all 30,000 unvested Restricted Share Units, issued in 2005, were cancelled in the first quarter of 2006.

Pursuant to the employee plan, options may be exercised upon vesting, which is between 24 months and 36 months after the grant date, and will expire after 10 years. Some options vest after 48 months, unless certain performance targets are achieved, in which case vesting is accelerated. These options expire five years after the grant date. Other options only vest if certain performance targets are achieved and expire approximately five years after the grant date.

The following is a summary of the Company s fixed stock option plans as of March 31 (including options granted under the Directors Stock Option Plan, which was suspended in 2003):

	2007		**2006**		
	Number of options	**Weighted average exercise price**	**Number of options**		**Weighted average exercise price**
Outstanding, January 1	6,815,494	38.50	7,971,917	$	32.07
New options granted	1,299,800	62.57	1,376,500		57.70
Exercised	(356,491)	29.82	(1,349,300)		28.48
Forfeited/cancelled	(51,175)	35.48	(195,530)		39.69
Outstanding, March 31	7,707,628	42.98	7,803,587	$	37.02
Options exercisable at March 31	4,713,928	33.89	3,919,337	$	29.38

Compensation expense is recognized over the vesting period for stock options issued since January 1, 2003, based on their estimated fair values on the date of grants, as determined by the Black-Scholes option pricing model. Had CP used the fair value method for options granted between January 1, 2002, and December 31, 2002, CP s pro forma basis net income and earnings per share would have been as follows:

		For the three months ended March 31	
		2007	**2006 Restated**
Net income (in millions)	As reported	$ 128.6	$ 108.8
	Pro forma	$ 128.6	$ 108.6

Pro forma basic and diluted earnings per share are unchanged from the amounts disclosed in the Statement of Consolidated Income.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(unaudited)
12 Stock-based compensation (continued)

Under the fair value method, the fair value of options at the grant date is $11.2 million for options issued in the first quarter of 2007 (first quarter of 2006 $11.7 million). The weighted average fair value assumptions were approximately:

	For the three months ended March 31	
	2007	**2006**
Expected option life (years)	4.00	4.50
Risk-free interest rate	3.89%	4.06%
Expected stock price volatility	23%	22%
Expected annual dividends per share	$ 0.90	$ 0.75
Weighted average fair value of options granted during the year	$ 12.96	$ 12.97

13 Pensions and other benefits

The total benefit cost for the Company s defined benefit pension plans, defined contribution pension plans and post-retirement benefits for the quarter ended March 31, 2007, was $27.4 million (quarter ended March 31, 2006 $30.9 million).

14 Significant customers

During the first quarter of 2007, one customer comprised 11.1% of total revenue (first quarter of 2006 13.0%). At March 31, 2007, one customer represented 4.2% of total accounts receivable (March 31, 2006 6.1%).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(unaudited)
15 Commitments and contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damages to property. The Company maintains provisions it considers to be adequate for such actions. While the final outcome with respect to actions outstanding or pending at March 31, 2007, cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company s financial position or results of operations.

Capital commitments

At March 31, 2007, CP had multi-year capital commitments of $609.4 million, mainly for locomotive overhaul agreements, in the form of signed contracts or letters of intent. Payments for these commitments are due in 2007 through 2016.

Operating lease commitments

At March 31, 2007, minimum payments under operating leases were estimated at $605.4 million in aggregate, with annual payments in each of the next 5 years of: remainder of 2007 $100.7 million; 2008 $100.2 million; 2009 $72.1 million; 2010 $56.5 million; 2011 $51.2 million.

Guarantees

The Company has residual value guarantees on operating lease commitments of $363.9 million at March 31, 2007. The maximum amount that could be payable under these and all of the Company s other guarantees cannot be reasonably estimated due to the nature of certain of the guarantees. All or a portion of amounts paid under certain guarantees could be recoverable from other parties or through insurance. The Company has accrued for all guarantees that it expects to pay. At March 31, 2007, these accruals, which do not include any amounts for residual value guarantees, amounted to $7.5 million.

Summary of Rail Data

	First Quarter			
	2007	**2006 (1)**	**Variance**	**%**
Financial (millions, except per share data)				
Revenues				
Freight revenue	$ 1,090.9	$ 1,067.2	$ 23.7	2.2
Other revenue	25.0	43.3	(18.3)	(42.3)
	1,115.9	1,110.5	5.4	0.5
Operating expenses				
Compensation and benefits	332.5	352.2	(19.7)	(5.6)
Fuel	171.2	157.9	13.3	8.4
Materials	62.4	57.6	4.8	8.3
Equipment rents	55.5	44.6	10.9	24.4
Depreciation and amortization	118.6	114.8	3.8	3.3
Purchased services and other	146.4	156.6	(10.2)	(6.5)
	886.6	883.7	2.9	0.3
Operating income	229.3	226.8	2.5	1.1
Other charges	4.8	6.8	(2.0)	(29.4)
Interest expense	46.8	47.3	(0.5)	(1.1)
Income tax expense before foreign exchange (gains)/losses on long-term debt (2)	55.1	56.6	(1.5)	(2.7)
Income before foreign exchange (gains)/losses on long-term debt (2)	122.6	116.1	6.5	5.6
Foreign exchange (gains)/losses on long-term debt (FX on LTD)				
FX on LTD	(8.6)	6.4	(15.0)	
Income tax on FX on LTD (3)	2.6	0.9	1.7	
FX on LTD (net of tax)	(6.0)	7.3	(13.3)	
Net income	$ 128.6	$ 108.8	$ 19.8	18.2
Earnings per share (EPS)				
Basic earnings per share	$ 0.83	$ 0.69	$ 0.14	20.3
Diluted earnings per share	$ 0.82	$ 0.68	$ 0.14	20.6
EPS before FX on LTD (2)				

Basic earnings per share	$	0.79	$	0.73	$	0.06	8.2
Diluted earnings per share	$	0.78	$	0.72	$	0.06	8.3
Weighted average number of shares outstanding (millions)		155.5		158.5		(3.0)	(1.9)
Operating ratio [2] [4] (%)		79.5		79.6		(0.1)	
ROCE before FX on LTD (after tax) [2] [4] (%)		10.1		9.6		0.5	
Net debt to net debt plus equity (%)		36.4		39.9		(3.5)	
EBIT before FX on LTD [2] [4] (millions)	$	224.5	$	220.0	$	4.5	2.0
EBITDA before FX on LTD [2] [4] (millions)	$	343.1	$	334.8	$	8.3	2.5

(1) Certain comparative period figures have been restated for retroactive application of a new accounting standard adopted in 2006 related to stock-based compensation for employees eligible to retire before the vesting date.

(2) These are earnings measures that are not in accordance with GAAP and may not be comparable to similar measures of other companies. See note on non-GAAP earnings measures attached to commentary.

(3)

Income tax on FX on LTD is discussed in the current MD&A in the Other Income Statement Items section Income Taxes .

(4) EBIT: Earnings before interest and taxes.
EBITDA: Earnings before interest, taxes, and depreciation and amortization.
ROCE (after tax): Return on capital employed (after tax) = earnings before after-tax interest expense (last 12 months) divided by average net debt plus equity.
Operating ratio: Operating expenses divided by revenues.

Summary of Rail Data (Page 2)

	First Quarter			
	2007	2006	Variance	%
Commodity Data				
Freight Revenues (millions)				
- Grain	$ 219.6	$ 211.3	$ 8.3	3.9
- Coal	131.3	160.2	(28.9)	(18.0)
- Sulphur and fertilizers	122.4	93.1	29.3	31.5
- Forest products	72.0	83.4	(11.4)	(13.7)
- Industrial and consumer products	151.9	148.3	3.6	2.4
- Automotive	82.1	78.3	3.8	4.9
- Intermodal	311.6	292.6	19.0	6.5
Total Freight Revenues	$ 1,090.9	$ 1,067.2	$ 23.7	2.2
Millions of Revenue Ton-Miles (RTM)				
- Grain	7,484	7,474	10	0.1
- Coal	4,583	5,054	(471)	(9.3)
- Sulphur and fertilizers	4,984	3,455	1,529	44.3
- Forest products	2,000	2,434	(434)	(17.8)
- Industrial and consumer products	4,133	4,341	(208)	(4.8)
- Automotive	625	603	22	3.6
- Intermodal	6,926	6,727	199	3.0
Total RTMs	30,735	30,088	647	2.2
Freight Revenue per RTM (cents)				
- Grain	2.93	2.83	0.10	3.5
- Coal	2.86	3.17	(0.31)	(9.8)
- Sulphur and fertilizers	2.46	2.69	(0.23)	(8.6)
- Forest products	3.60	3.43	0.17	5.0
- Industrial and consumer products	3.68	3.42	0.26	7.6
- Automotive	13.14	12.99	0.15	1.2
- Intermodal	4.50	4.35	0.15	3.4
Freight Revenue per RTM	3.55	3.55		
Carloads (thousands)				
- Grain	89.3	92.4	(3.1)	(3.4)
- Coal	58.5	78.7	(20.2)	(25.7)
- Sulphur and fertilizers	50.2	39.0	11.2	28.7
- Forest products	30.1	37.6	(7.5)	(19.9)

- Industrial and consumer products	75.7	79.7	(4.0)	(5.0)
- Automotive	42.4	42.3	0.1	0.2
- Intermodal	287.6	281.8	5.8	2.1
Total Carloads	633.8	651.5	(17.7)	(2.7)
Freight Revenue per Carload				
- Grain	$ 2,459	$ 2,287	$ 172	7.5
- Coal	2,244	2,036	208	10.2
- Sulphur and fertilizers	2,438	2,387	51	2.1
- Forest products	2,392	2,218	174	7.8
- Industrial and consumer products	2,007	1,861	146	7.8
- Automotive	1,936	1,851	85	4.6
- Intermodal	1,083	1,038	45	4.3
Freight Revenue per Carload	$ 1,721	$ 1,638	$ 83	5.1

Summary of Rail Data (Page 3)

	First Quarter			
	2007	**2006** [1]	**Variance**	**%**
Operations and Productivity				
Freight gross ton-miles (GTM) (millions)	57,560	57,014	546	1.0
Revenue ton-miles (RTM) (millions)	30,735	30,088	647	2.2
Average number of active employees	14,884	15,267	(383)	(2.5)
Number of active employees at end of period	15,048	15,394	(346)	(2.2)
FRA personal injuries per 200,000 employee-hours	1.9	2.1	(0.2)	(9.5)
FRA train accidents per million train-miles	1.8	1.2	0.6	50.0
Total operating expenses per RTM (cents)	2.88	2.94	(0.06)	(2.0)
Total operating expenses per GTM (cents)	1.54	1.55	(0.01)	(0.6)
Compensation and benefits expense per GTM (cents)	0.58	0.62	(0.04)	(6.5)
GTMs per average active employee (000)	3,867	3,734	133	3.6
Miles of road operated at end of period [2]	13,260	13,693	(433)	(3.2)
Average train speed AAR definition (mph)	23.2	25.3	(2.1)	(8.3)
Terminal dwell time AAR definition (hours)	24.0	21.3	2.7	12.7
Car miles per car day	134.6	132.1	2.5	1.9
Average daily total cars on-line AAR definition (000)	81.3	80.9	0.4	0.5
U.S. gallons of locomotive fuel per 1,000 GTMs freight & yard	1.26	1.24	0.02	1.6
U.S. gallons of locomotive fuel consumed total (millions) [3]	72.4	71.1	1.3	1.8
Average foreign exchange rate (US$/Canadian$)	0.854	0.873	(0.019)	(2.2)
Average foreign exchange rate (Canadian$/US$)	1.171	1.146	0.025	2.2

[1] Certain comparative period figures have been restated for retroactive application of a new accounting standard adopted in 2006 related to stock-based compensation for employees

eligible to retire before the vesting date.

(2) Excludes track on which CP has haulage rights.

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

Canadian Pacific
Management s Discussion and Analysis
for the three months ended March 31, 2007

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This Management s Discussion and Analysis (MD&A) supplements the Consolidated Financial Statements and related notes for the three months ended March 31, 2007. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars. All information has been prepared in accordance with Canadian generally accepted accounting principles (GAAP), except as described in the Non-GAAP Earnings section of this MD&A.

April 22, 2007

In this MD&A, our , us , we , CP and the Company refer to Canadian Pacific Railway Limited (CPRL), CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL s subsidiaries, as the context may require. Other terms not defined in the body of this MD&A are defined in the Glossary of Terms.

BUSINESS PROFILE

Canadian Pacific Railway Limited, through its subsidiaries, operates a transcontinental railway in Canada and the United States and provides logistics and supply chain expertise. Through our subsidiaries, we provide rail and intermodal transportation services over a network of approximately 13,300 miles, serving the principal business centres of Canada from Montreal, Quebec, to Vancouver, British Columbia, and the U.S. Northeast and Midwest regions. Our railway feeds directly into the U.S. heartland from the East and West coasts. Agreements with other carriers extend our market reach east of Montreal in Canada, throughout the U.S. and into Mexico. Through our subsidiaries, we transport bulk commodities, merchandise freight and intermodal traffic. Bulk commodities include grain, coal, sulphur and fertilizers. Merchandise freight consists of finished vehicles and automotive parts, as well as forest and industrial and consumer products. Intermodal traffic consists largely of high-value, time-sensitive retail goods in overseas containers that can be transported by train, ship and truck, and in domestic containers and trailers that can be moved by train and truck.

STRATEGY

Our vision is to become the safest and most fluid railway in North America. Through the ingenuity of our people, it is our objective to create long-term value for customers, shareholders and employees by profitably growing within the reach of our rail franchise. We seek to accomplish this objective through the following three-part strategy:

- generating quality revenue growth by realizing the benefits of demand growth in our bulk, intermodal and merchandise business lines with targeted infrastructure capacity investments linked to global trade opportunities;

- improving productivity by leveraging strategic marketing and operating partnerships, executing a scheduled railway through our Integrated Operating Plan (IOP) and driving more value from existing assets and resources by improving fluidity ; and

- continuing to develop a dedicated, professional and knowledgeable workforce that is committed to safety and sustainable financial performance through steady improvement in profitability, increased free cash flow and a competitive return on investment.

ADDITIONAL INFORMATION

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

Highlights summary	**For the three months ended March 31**	
(in millions, except percentages and per-share data)	**2007**	**2006**[1]
Revenues	**$ 1,115.9**	$ 1,110.5
Operating income	**229.3**	226.8
Income, before FX on LTD[2]	**122.6**	116.1
Net income	**$ 128.6**	$ 108.8
Operating ratio[2]	**79.5%**	79.6%
Basic earnings per share	**$ 0.83**	$ 0.69
Diluted earnings per share, before FX on LTD[2]	**$ 0.78**	$ 0.72
Diluted earnings per share	**$ 0.82**	$ 0.68
Dividends declared per share	**$ 0.2250**	$ 0.1875
Free cash[2]	**$ 3.0**	$ (56.5)
Return on capital employed[2]	**10.1%**	9.6%
Total assets as at March 31	**$11,375.2**	$10,948.9
Total long-term financial liabilities as at March 31	**$ 5,276.7**	$ 5,291.7

(1) Certain comparative period figures have been restated to reflect the retroactive application of a new accounting standard adopted in 2006 related to stock-based compensation for employees eligible to retire before the vesting date of stock-based awards.

(2) These earnings measures have no standardized meanings prescribed by Canadian GAAP and, therefore, are unlikely to be

comparable to similar measures of other companies. These earnings measures are described in the section Non-GAAP Earnings . A reconciliation of income and diluted EPS, before FX on LTD and other specified items, to net income and diluted EPS, as presented in the financial statements is provided in the section Non-GAAP Earnings . A reconciliation of free cash to GAAP cash position is provided in the section Liquidity and Capital Resources under the sub-heading Free Cash . This information is in Canadian dollars.

OPERATING RESULTS

Income

Operating results in first-quarter 2007 were adversely impacted by harsh winter operating conditions in our western network which were more disruptive than the milder 2006 winter conditions. A heavy snow pack and elevated rainfall in our western corridor resulted in avalanches, mud slides and wash-outs that interrupted the operational fluidity of the railway in first-quarter 2007. As well, impacts at the Port of Vancouver related to the strike at Canadian National Railway (CN) caused a slowing of transit times for CP traffic that originated from, or terminated at, CN-served facilities. Despite these operating conditions, operating income for the first quarter of 2007 was $229.3 million, an increase of $2.5 million, or 1.1%, from $226.8 million for the same period in 2006.

The increase in operating income was due to:

- freight revenue growth in sulphur and fertilizer and intermodal market segments;

- higher revenues resulting from increased freight rates; and
- a reduction in stock-based compensation expense (discussed further in the section Operating Expenses under the sub-heading Compensation and Benefits).

The increase in operating income was partially offset by:

- expenses incurred to manage the impacts of the harsh winter operating conditions in first-quarter 2007;
- decrease in revenues as a result of increased network congestion due to winter weather disruptions and the CN strike;
- higher fuel expense as higher refining charges and reduced hedge benefits more than offset the impact of lower crude oil prices; and
- a decrease in other revenue reflecting a large land sale that took place in first-quarter 2006.

Fuel prices remain volatile. During 2007 we continued to take steps to mitigate the impact of high prices with fuel surcharges and hedging (discussed further in the section Financial Instruments under the sub-heading Crude Oil Swaps).

Net income for the three months ended March 31, 2007, was $128.6 million, up $19.8 million, or 18.2%, from $108.8 million for the same period in 2006. Net income in first-quarter 2007, compared with first-quarter 2006, increased due to higher operating income and foreign exchange gains on long-term debt whereas there was a foreign exchange loss on long-term debt in the prior year.

Diluted Earnings per Share

Diluted earnings per share (EPS) was $0.82 in the first quarter of 2007, an increase of $0.14 from $0.68 in the same period of 2006. Diluted EPS excluding foreign exchange gains and losses on long-term debt (FX on LTD) of $0.78 for the first quarter of 2007 was $0.06 higher compared to a diluted EPS excluding FX on LTD of $0.72 in the first quarter of 2006. Diluted EPS is calculated by dividing net income by the weighted average number of shares outstanding, adjusted for the dilutive effect of outstanding stock options, as calculated using the Treasury Stock Method. This method assumes options that have an exercise price below the market price of the shares are exercised and the proceeds are used to purchase common shares at the average market price during the period. A reduction in the number of shares outstanding due to our share repurchase plan (discussed further in the section Balance Sheet under the sub-heading Share Capital) also had a positive impact on diluted EPS in the first quarter of 2007.

Operating Ratio

Our operating ratio was 79.5% in the first quarter of 2007, compared with 79.6% in the same period of 2006. The operating ratio, provides the percentage of revenues used to operate the railway. A lower percentage normally indicates higher efficiency.

Return on Capital Employed

Return on capital employed (ROCE) reported in the first quarter of 2007 was 10.1%, up 0.5% from 9.6% in the same period of 2006. The improvement reflected higher profitability of investments in the railway over the four quarters ended March 31, 2007, compared to the four quarters ended March 31, 2006, primarily driven by higher revenues and improved operating ratio.

Impact of Foreign Exchange on Earnings

Favourable (unfavourable) impact on earnings due to the change in Foreign Exchange		**For the three months ended March 31 2007 vs. 2006**
(in millions, except foreign exchange rate)		
(unaudited)		
Average quarterly foreign exchange rates		$1.17 vs. $1.15
Freight revenues		
Grain	**$**	**2**
Coal		**1**
Sulphur and fertilizers		**1**
Forest products		**1**
Industrial and consumer products		**2**
Automotive		**1**
Intermodal		**1**
Other revenues		
Total effect	**$**	**9**
Operating expenses		
Compensation and benefits		**(2)**
Fuel		**(2)**
Materials		
Equipment rents		**(1)**
Depreciation and amortization		
Purchased services and other		**(1)**
Total effect		**(6)**
Effect on operating income	**$**	**3**
Other expenses		
Other charges		
Interest expense		**(1)**
Income tax expense, before FX on LTD [1]		**(1)**
Effect on income, before FX on LTD [1]	**$**	**1**

(1) These earnings measures have no standardized meanings prescribed by

Canadian GAAP and, therefore, are unlikely to be comparable to similar measures of other companies. These earnings measures are described in the section Non-GAAP Earnings .

The Canadian dollar weakened against the U.S. dollar by approximately 2% in the first quarter of 2007, compared with the same period in 2006. The average foreign exchange rate for converting U.S. dollars to Canadian dollars increased to $1.17 in first-quarter 2007 from $1.15 in the first quarter of 2006. The adjoining table shows the approximate impact of the change in Foreign Exchange on our revenues and expenses, and income before FX on LTD in 2007 and 2006. This analysis does not include the impact of the change in Foreign Exchange on balance sheet accounts or of foreign exchange hedging activity.

On average, a $0.01 weakening (or strengthening) of the Canadian dollar increases (or reduces) annual operating income by approximately $3 million to $5 million. Foreign Exchange fluctuations increased operating income by $3 million in first-quarter 2007, compared with the same period of 2006, as illustrated in the adjoining table. From time to time, we use foreign exchange forward contracts to partially hedge the impact on our business of Foreign Exchange transaction gains and losses and other economic factors. In addition, we have designated a portion of our U.S. dollar-denominated long-term debt as a hedge of our net investment in self-sustaining foreign subsidiaries. Our hedging instruments are discussed further in the section Financial Instruments .

NON-GAAP EARNINGS

Summarized statement of consolidated income (reconciliation of non-GAAP earnings to GAAP earnings) (in millions, except diluted EPS and operating ratio) (unaudited)	For the three months ended March 31 2007	2006[1]
Revenues	**$ 1,115.9**	$ 1,110.5
Operating expenses	**886.6**	883.7
Operating income	**229.3**	226.8
Other charges	**4.8**	6.8
Interest expense	**46.8**	47.3
Income tax expense, before income tax on FX on LTD[2]	**55.1**	56.6
Income, before FX on LTD[2]	**122.6**	116.1
Foreign exchange (gains) losses on long-term debt		
FX on LTD (gains) losses	**(8.6)**	6.4
Income tax on FX on LTD	**2.6**	0.9
FX on LTD, net of tax (gains) losses	**(6.0)**	7.3
Net income	**$ 128.6**	$ 108.8
Diluted EPS, before FX on LTD[2]	**$ 0.78**	$ 0.72
Diluted EPS, related to FX on LTD, net of tax[2]	**0.04**	(0.04)
Diluted EPS, as determined by GAAP	**$ 0.82**	$ 0.68

(1) Certain comparative period figures have been restated to reflect the retroactive application of a new accounting standard adopted in 2006 related to stock-based compensation for employees eligible to retire before the

vesting date of stock-based awards.

(2) These earnings measures have no standardized meanings prescribed by Canadian GAAP and, therefore, are unlikely to be comparable to similar measures of other companies. These earnings measures and other specified items are described in this section of the MD&A.

We present non-GAAP earnings and cash flow information in this MD&A to provide a basis for evaluating underlying earnings and liquidity trends in our business that can be compared with results of our operations in prior periods. These non-GAAP earnings exclude foreign currency translation effects on long-term debt, which can be volatile and short term. The adjoining table details a reconciliation of income, before FX on LTD, to net income, as presented in the financial statements. Free cash is calculated as cash provided by operating activities, less cash used in investing activities and dividends. Free cash is discussed further and is reconciled to the increase in cash as presented in the financial statements in the Liquidity and Capital Resources section. Earnings that exclude FX on LTD and free cash as described in this MD&A have no standardized meanings and are not defined by Canadian GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies. ROCE reported quarterly represents the return over the current quarter and the previous three quarters. The measure is used by management to assess profitability of investments in the railway. ROCE is measured as income before FX on LTD and other specified items plus after-tax interest expense divided by average net debt plus equity. It does not have a comparable GAAP measure to which it can be reconciled.

Foreign Exchange Gains and Losses on Long-Term Debt

Foreign exchange gains and losses on long-term debt arise mainly as a result of translating U.S. dollar-denominated debt into Canadian dollars. We calculate FX on LTD using the difference in foreign exchange rates at the beginning and at the end of each reporting period. They are mainly unrealized and can only be realized when net U.S. dollar-denominated long-term debt matures or is settled. Income, before FX on LTD and other specified items, is disclosed in the table above and excludes FX on LTD from our earnings in order to eliminate the impact of volatile short-term exchange rate fluctuations. For every $0.01 the Canadian dollar strengthens (or weakens) relative to the U.S. dollar, the conversion of U.S. dollar-denominated long-term debt to Canadian dollars creates a pre-tax foreign exchange gain (or loss) of approximately $9 million, net of hedging.

The Company recorded foreign exchange gains on long-term debt in the first quarter of 2007 as the Canadian dollar exchange rate strengthened to $1.16 relative to the U.S. dollar on March 31, 2007, compared with $1.17 on December 31, 2006. Foreign exchange gains on long-term debt were $8.6 million before tax in first-quarter 2007 whereas the foreign exchange losses on long-term debt were $6.4 million before tax in the same period of 2006.

Income tax expense (or benefit) related to FX on LTD capital gains is discussed further in the section Other Income Statement Items under the sub-heading Income Taxes .

Other Specified Items

Other specified items are material transactions that may include, but are not limited to, restructuring and asset impairment charges, gains and losses on non-routine sales of assets, unusual income tax adjustments, and other items that do not typify normal business activities. There were no other specified items in the first quarter of 2007 or 2006.

LINES OF BUSINESS
Volumes

Volumes (unaudited)	**For the three months ended March 31** 2007	2006
Carloads (in thousands)		
Grain	**89.3**	92.4
Coal	**58.5**	78.7
Sulphur and fertilizers	**50.2**	39.0
Forest products	**30.1**	37.6
Industrial and consumer products	**75.7**	79.7
Automotive	**42.4**	42.3
Intermodal	**287.6**	281.8
Total carloads	**633.8**	651.5
Revenue ton-miles (in millions)		
Grain	**7,484**	7,474
Coal	**4,583**	5,054
Sulphur and fertilizers	**4,984**	3,455
Forest products	**2,000**	2,434
Industrial and consumer products	**4,133**	4,341
Automotive	**625**	603
Intermodal	**6,926**	6,727
Total revenue ton-miles	**30,735**	30,088

Changes in freight volumes generally contribute to a corresponding change in freight revenues and certain variable expenses, such as fuel, equipment rents and crew costs.
Volumes in the first quarter of 2007 as measured by total carloads, decreased by 17,700, or 2.7%, and total revenue ton-miles (RTM) increased by 647 million, or 2.2%, compared with the same period in 2006. RTMs increased despite the decreased carloads due to a longer average length of haul.
The decline in carloads was largely due to the sale of our Latta subdivision in the second quarter of 2006, which reduced our carloads by 13,500 in first-quarter 2007.
Strong global economic demand for bulk products resulted in increased shipments during much of first-quarter 2007. This growth in shipments, however, was curtailed due to harsh winter operating conditions and the impact of the CN strike. We expect to transport the majority of delayed bulk shipments in the remainder of 2007.
The increase in RTMs reflected a strong recovery of potash shipments and intermodal growth, which was partially offset by lower RTMs in forest products and coal.
Revenues
Our revenues are derived primarily from transporting freight. Other revenues are generated mainly from leasing of certain assets, switching fees, land sales and income from business partnerships.
One customer comprised 11.1% of total revenues for the three months ended March 31, 2007 and 4.2% of total accounts receivable at March 31, 2007. The same customer comprised 13.0% of total revenues for the three months ended March 31, 2006 and 6.1% of total accounts receivable at March 31, 2006.

Revenues (in millions)	**For the three months ended March 31**

(unaudited)	2007	2006
Grain	**$ 219.6**	$ 211.3
Coal	**131.3**	160.2
Sulphur and fertilizers	**122.4**	93.1
Forest products	**72.0**	83.4
Industrial and consumer products	**151.9**	148.3
Automotive	**82.1**	78.3
Intermodal	**311.6**	292.6
Total freight revenues	**$ 1,090.9**	$ 1,067.2
Other revenues	**25.0**	43.3
Total revenues	**$ 1,115.9**	$ 1,110.5

Freight Revenues

Freight revenues are earned from transporting bulk, merchandise and intermodal goods, and include fuel surcharges billed to our customers. Freight revenues were $1,090.9 million in the first quarter of 2007, an increase of $23.7 million, or 2.2%, from first-quarter 2006.

Freight revenues in first-quarter 2007, compared with first-quarter 2006, increased mainly due to higher freight rates and strong growth in potash shipments. The change in Foreign Exchange also had a positive impact on freight revenues.

Grain

Grain revenues for the first quarter of 2007 were $219.6 million, an increase of $8.3 million, or 3.9%, from $211.3 million for the same period of 2006. The increase was due to:

- a strong Canadian grain crop reflecting improved quality;
- a large carryover from the first half of the 2006/07 crop year;
- strong exports; and
- higher freight rates.

Increases in grain revenues were partially offset by the impact of poor weather in our western network, which delayed the movement of traffic.

Coal

Coal revenues in first-quarter 2007 were $131.3 million, a decrease of $28.9 million, or 18.0%, from $160.2 million for the same period of 2006. The decline in coal revenues in the first quarter of 2007 was due to a reduction in our coal volumes in the U.S., primarily due to the sale of the Latta subdivision in second-quarter 2006 and delayed shipments to the Port of Vancouver caused by poor weather conditions in western Canada.

Sulphur and Fertilizers

Sulphur and fertilizers revenues were $122.4 million in the first quarter of 2007, an increase of $29.3 million, or 31.5%, from $93.1 million in the same period of 2006. The increase was the result of the return to normal export potash shipments which were significantly depressed in first-quarter 2006 due to protracted global potash price negotiations.

Forest Products

Forest products revenues for first-quarter 2007 were $72.0 million, a decrease of $11.4 million from $83.4 million, or 13.7%, in first-quarter 2006. The decrease was a result of continued soft demand for lumber and panel products caused by a decrease in U.S. and Canadian housing starts, as well as difficult market conditions for our forest product customers caused by softwood lumber trade negotiations which have led to reduced volumes and extended plant shut downs. The decrease was partially offset by price increases which softened the impact from the volume decline.

Industrial and Consumer Products

Industrial and consumer products revenues for the first quarter of 2007 were $151.9 million, an increase of $3.6 million, or 2.4%, from $148.3 million in the same period of 2006. The increase was due to increased freight rates.

Automotive

Automotive revenues for first-quarter 2007 were $82.1 million, an increase of $3.8 million, or 4.9%, from $78.3 million in first-quarter 2006. The increase was due primarily to higher freight rates and increased volumes of imported vehicles.

Intermodal

Intermodal revenues for the first quarter of 2007 were $311.6 million, an increase of $19.0 million, or 6.5%, from $292.6 million first-quarter 2006. The increase in international intermodal revenues was largely due to higher freight rates and the strong growth of import and export container shipments from the ports of Vancouver and Montreal.

Other Revenues

Other revenues for the first quarter of 2007 were $25.0 million, a decrease of $18.3 million from $43.3 million for first-quarter 2006. The decrease was primarily due to the sale of a property to a university in Montreal in first-quarter 2006.

Freight Revenue per Carload

Freight revenue per carload	**For the three months ended March 31**	
($) (unaudited)	**2007**	**2006**
Total freight revenue per carload	**$ 1,721**	$ 1,638
Grain	**2,459**	2,287
Coal	**2,244**	2,036
Sulphur and fertilizers	**2,438**	2,387
Forest products	**2,392**	2,218
Industrial and consumer products	**2,007**	1,861
Automotive	**1,936**	1,851
Intermodal	**1,083**	1,038

Total freight revenue per carload increased $83, or 5.1%, to $1,721 in the first quarter of 2007 from $1,638 in the same period of 2006. The increase was due to higher freight rates, changes in traffic mix, and the positive impact of the change in Foreign Exchange.

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PERFORMANCE INDICATORS

The indicators listed in this table are key measures of our operating performance. Definitions of these performance indicators are provided in the Glossary of Terms at the end of this MD&A.

Performance indicators	**For the three months ended March 31**	
(unaudited)	**2007**	2006[(1)]
Safety indicators		
FRA personal injuries per 200,000 employee-hours	**1.9**	2.1
FRA train accidents per million train-miles	**1.8**	1.2
Efficiency and other indicators		
Gross ton-miles (GTM) of freight (millions)	**57,560**	57,014
Car miles per car day	**134.6**	132.1
U.S. gallons of locomotive fuel consumed per 1,000 GTMs freight and yard	**1.26**	1.24
Terminal dwell (hours)	**24.0**	21.3
Average train speed (miles per hour)	**23.2**	25.3
Number of active employees end of period	**15,048**	15,394
Freight revenue per RTM (cents)	**3.55**	3.55

(1) Certain comparative period figures have been restated to reflect the retroactive application of a new accounting standard adopted in 2006 related to stock-based compensation for employees eligible to retire before the vesting date of stock-based awards.

Safety Indicators

Safety is a key priority for our management and Board of Directors. Our two main safety indicators personal injuries and train accidents follow strict U.S. Federal Railroad Administration (FRA) reporting guidelines.

The FRA personal injury rate per 200,000 employee-hours was 1.9 in the first quarter of 2007, compared with 2.1 in the same period of 2006.

The FRA train accident rate was 1.8 accidents per million train-miles for the first quarter of 2007, compared with 1.2 in the same period of 2006.

Efficiency and Other Indicators

Efficiency and other indicators were adversely impacted by harsh winter operating conditions as well as the CN strike which caused a slowing of transit times for CP traffic that originated from, or terminated at, CN-served facilities.

GTMs increased 1.0% in first-quarter 2007, compared with the same period of 2006, mainly due to higher potash volumes partially offset by lower coal and sulphur volumes. Fluctuations in GTMs normally drive fluctuations in certain variable costs, such as fuel and crew costs.

Car miles per car day increased 1.9% in first-quarter 2007, compared with the same period in 2006, due to better processes within our yards, which mitigated the impact of harsh winter conditions.

U.S. gallons of locomotive fuel consumed per 1,000 GTMs in both freight and yard activity increased 1.6% in the first quarter of 2007, compared with the same period in 2006. The impact of harsh winter conditions was partially offset by utilization of fuel-efficient AC locomotives, execution of our IOP and fuel-conservation efforts.

Terminal dwell, the average time a freight car resides in a terminal, increased 12.7% in the first quarter of 2007, compared with the same period in 2006, due primarily to weather related issues.

Average train speed decreased 8.3% in the first quarter of 2007, compared with the same period in 2006. Network disruptions resulted in trains being held until such time as the lines could be cleared which negatively impacted our train speed metric.

The number of active employees at March 31, 2007 decreased by 346, or 2.2% compared with the number at March 31, 2006. The decrease was due mainly to job reductions made under restructuring initiatives (discussed under the sub-heading Restructuring in the section Future Trends, Commitments and Risks). Approximately 6% of employees were assigned to capital projects at March 31, 2007, unchanged from March 31, 2006.

OPERATING EXPENSES

	For the three months ended March 31			
Operating expenses	**2007**		2006	
(in millions) (unaudited)	**Expense**	**% of revenue**	Expense	% of revenue
Compensation and benefits[1]	**$ 332.5**	**29.8**	$ 352.2	31.7
Fuel	**171.2**	**15.4**	157.9	14.2
Materials	**62.4**	**5.6**	57.6	5.2
Equipment rents	**55.5**	**5.0**	44.6	4.0
Depreciation and amortization	**118.6**	**10.6**	114.8	10.4
Purchased services and other	**146.4**	**13.1**	156.6	14.1
Total	**$ 886.6**	**79.5**	$ 883.7	79.6

(1) Certain comparative period figures have been restated to reflect the retroactive application of a new accounting standard adopted in 2006 related to stock-based compensation for employees eligible to retire before the vesting date of stock-based awards.

Operating expenses were $886.6 million in the first quarter of 2007, up $2.9 million from $883.7 million in the same period of 2006.

Harsh winter operating conditions as well as higher fuel prices driven by higher refining charges led to increased operating expenses. The weakening of the Canadian dollar also had a negative impact on operating expenses. The increase in operating expenses were largely offset by lower stock-based compensation expense and the cost of a land donation in first-quarter 2006.

Compensation and Benefits

Compensation and benefits expense was $332.5 million in first-quarter 2007, a decrease of $19.7 million from $352.2 million in the same period of 2006. The decrease was due to:

- lower costs associated with employee incentive compensation due largely to a greater share appreciation in first-quarter 2006, compared with the same period in 2007 and the beneficial effect from the implementation of our Total Return Swap (TRS) in second-quarter 2006 (discussed further in the section Financial Instruments under the sub-heading Stock-based Compensation Expense Management);

- reduced administrative costs as a result of restructuring initiatives (discussed further in the section Future Trends, Commitments and Risks under the sub-heading Restructuring); and
- lower pension expenses.

These decreases were partially offset by the negative impact of inflation.

Fuel

Fuel expense was $171.2 million in the first quarter of 2007, an increase of $13.3 million from $157.9 million in first-quarter 2006. The increase was due largely to higher refining charges and reduced hedge benefits, which was partially offset by lower crude oil prices.

Materials

Materials expense was $62.4 million in the first quarter of 2007, an increase of $4.8 million from $57.6 million in the same period of 2006. The increase was due mainly to the higher cost of materials for freight car repairs, primarily driven by price increases of replacement wheel sets and increase in the number of wheel sets replaced as a result of the harsh winter operating conditions.

Equipment Rents

Equipment rents expense was $55.5 million in first-quarter 2007, an increase of $10.9 million from $44.6 million in the first quarter of 2006. The increase was due mainly to:

- higher lease rates paid to equipment leasing companies;
- payments to Canadian Wheat Board for the use of their cars in regulated grain movements effective August 1, 2006;
- additional locomotives and freight cars required to operate under harsh winter conditions; and
- the timing of interline settlements.

Depreciation and Amortization

Depreciation and amortization expense was $118.6 million in the first quarter of 2007, an increase of $3.8 million from $114.8 million in the same period of 2006. The increase was due largely to additions to capital assets for track and locomotives, which was partially offset by asset retirements.

Purchased Services and Other

Purchased services and other expense was $146.4 million in the first quarter of 2007, a decrease of $10.2 million from $156.6 million in the same period of 2006. The decrease was due largely to reduced casualty expenses and transaction costs associated with a donation of CP land made to a non-profit organization in first-quarter 2006.

OTHER INCOME STATEMENT ITEMS

Other Charges

Other charges were $4.8 million in the first quarter of 2007, a decrease of $2.0 million from $6.8 million in the same period of 2006. The decrease was due mainly to the positive impact of the change in Foreign Exchange on working capital balances in 2007 and realized gains on non-hedge derivative instruments.

Interest Expense

Interest expense was $46.8 million in the first quarter of 2007, a decrease of $0.5 million from $47.3 million in the same period of 2006. Interest expense decreased largely due to the repayment of a $143.0 million secured equipment loan in February 2007. The decrease was partially offset by the negative impact of the change in Foreign Exchange and higher interest charges on variable-interest rate debt tied to the London Interbank Offered Rate (LIBOR), which increased relative to the comparable period.

Income Taxes

Income tax expense was $57.7 million in the first quarter of 2007, an increase of $0.2 million from $57.5 million in the same period of 2006. The increase was mainly due to a higher income in the first quarter of 2007, compared with the same period in 2006.

The effective income tax rate for first-quarter 2007 was 31.0%, compared with 34.6% for first-quarter 2006. The normalized rates (income tax rate based on income adjusted for FX on LTD and other specified items) was 31.0% for first-quarter 2007, compared with 32.7% for the same period of 2006. The reduction in our estimated effective income tax rate for 2007 is due to changes in Canadian federal and provincial corporate income tax rates and tax planning initiatives.

We expect a normalized 2007 income tax rate of between 30% and 32%.

In recent years, we have utilized non-capital tax loss carryforwards to offset current taxable income. We anticipate that these non-capital tax loss carryforwards will be exhausted during 2007 and we will have an increase in our cash tax payments in future years.

Beginning in the fourth quarter of 2005, certain capital losses were no longer available to offset capital gains arising from FX on LTD and other capital transactions. Following a review of impending transactions during third-quarter 2005, we concluded that our remaining unrecognized capital loss carryforwards for tax would more than likely be utilized. Consequently, we recorded a future tax asset for all previously unrecognized capital loss carryforwards. As a result, any future capital gains recorded, including FX on LTD, will be taxable, where historically they had resulted in no net tax expense. The reclassification moves previously recognized capital losses that historically were allocated to unrealized FX on LTD gains and includes them in the calculation of income tax for other realized capital transactions, which are included in income tax expense before income tax on FX on LTD. With the reclassification, the tax benefit of these losses is matched to the transactions that utilize them. As a result of this review, the income tax associated with FX on LTD, which is a non-GAAP measure, increased by $0.4 million in first-quarter 2007 (first-quarter 2006 $2.5 million). The income tax expense, before income tax on FX on LTD, which is a non-GAAP measure (discussed further in the section Non-GAAP Earnings), was reduced in first-quarter 2007 by the same amount.

QUARTERLY FINANCIAL DATA

Quarterly financial data	**For the quarter ended**							
(in millions, except per share data)	**2007**	2006				2005		
(unaudited)	**Mar. 31**	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30
Total revenue	**$ 1,115.9**	$ 1,190.4	$ 1,151.3	$ 1,131.0	$ 1,110.5	$ 1,166.9	$ 1,104.7	$ 1,105.9
Operating income	**229.3**	320.1	299.1	282.6	226.8	260.0	283.2	272.3
Net income	**128.6**	145.6	163.8	378.1	108.8	137.1	203.8	124.1
Operating income, before other specified items[(1)]	**229.3**	320.1	299.1	282.6	226.8	304.2	249.3	272.3
Income, before FX on LTD and other specified items[(1)]	**122.6**	181.0	169.7	160.7	116.1	170.5	135.1	140.9
Basic earnings per share	**$ 0.83**	$ 0.93	$ 1.05	$ 2.39	$ 0.69	$ 0.87	$ 1.29	$ 0.79
Diluted earnings per share	**0.82**	0.92	1.04	2.37	0.68	0.86	1.27	0.78
Diluted earnings per share, before FX on LTD and other specified items[(1)]	**0.78**	1.15	1.07	1.00	0.72	1.07	0.84	0.88

(1) These earnings measures have no standardized meanings prescribed by Canadian GAAP and, therefore, are unlikely to be comparable to similar measures of other companies. These earnings measures and other specified items are described in the section Non-GAAP Earnings . A reconciliation of income and diluted EPS, before FX on LTD and other specified items, to net income

and diluted EPS, as presented in the financial statements is provided in the section Non-GAAP Earnings . This information is in Canadian dollars.

Quarterly Trends

Volumes of and, therefore, revenues from certain goods are stronger during different periods of the year. First-quarter revenues can be lower mainly due to winter weather conditions, closure of the Great Lakes ports and reduced transportation of retail goods. Second- and third-quarter revenues generally improve over the first quarter as fertilizer volumes are typically highest during the second quarter and demand for construction-related goods is generally highest in the third quarter. Revenues are typically strongest in the fourth quarter, primarily as a result of the transportation of grain after the harvest, fall fertilizer programs and increased demand for retail goods moved by rail. Operating income is also affected by seasonal fluctuations. Operating income is typically lowest in the first quarter due to higher operating costs associated with winter conditions.

The extreme weather in first-quarter 2007 resulted in delays to bulk and intermodal traffic in our western corridor. We expect most of this backlogged traffic to be transported in the remainder of the year.

Mild weather in the first quarter of 2006 helped to reduce the negative impact of winter conditions on both revenues and expenses. Protracted global trade negotiations delayed the shipment of potash volumes until early in the third quarter of 2006.

Net income is also influenced by seasonal fluctuations in customer demand and weather-related issues.

CHANGES IN ACCOUNTING POLICY

2007 Accounting Changes

Financial instruments, hedging and comprehensive income

On January 1, 2007, the Company adopted the following accounting standards: Accounting Standard Section 3855 Financial Instruments Recognition and Measurement , Accounting Standard Section 3861 Financial Instruments Disclosure and Presentation , Accounting Standard Section 3865 Hedges and Accounting Standard Section 1530 Comprehensive Income . These sections require certain financial instruments and hedge positions to be recorded at their fair value. They also introduce the concept of comprehensive income and accumulated other comprehensive income. Adoption of these standards was on a prospective basis without retroactive restatement of prior periods, except for the restatement of equity balances to reflect the reclassification of foreign currency translation adjustments to Accumulated Other Comprehensive Income.

The impact of the adoption of these standards on January 1, 2007 was an increase in net assets of $18.0 million, a reduction in Foreign currency translation adjustments of $66.4 million, an increase in Retained earnings of $4.0 million, and the recognition of Accumulated other comprehensive income of $80.4 million.

The fair value of hedging instruments at January 1, 2007 was $31.7 million reflected in Other assets and deferred charges and Accounts receivable and other current assets and $4.8 million reflected in Deferred liabilities and Accounts payable and accrued liabilities . The inclusion of transaction costs within Long-term debt at amortized cost reduced Long-term debt by $33.4 million

with an associated reduction in Other assets and deferred charges of $26.9 million. Deferred gains and losses on previously settled hedges were reclassified to Accumulated other comprehensive income and Retained earnings with a resultant decrease in Other assets and deferred charges of $4.8 million. The recognition of certain other financial instruments at fair value or amortized cost resulted in reductions in Long-term debt of $2.8 million, Investments of $1.5 million and Other assets and deferred charges of $0.4 million. The adoption of these standards increased the liability for Future income taxes by $11.6 million. Accumulated other comprehensive income is comprised of foreign currency gains and losses on the net investment in self-sustaining foreign subsidiaries, foreign currency gains and losses related to long-term debt designated as a hedge of the net investment in self-sustaining foreign subsidiaries, effective portions of gains and losses resulting from changes in the fair value of cash flow hedging instruments, and the reclassification of cumulative foreign currency translation adjustments. The adjustment to opening retained earnings reflects the change in measurement basis, from original cost to fair value or amortized cost, of certain financial assets, financial liabilities, transaction costs associated with the Company s long term debt and previously deferred gains and losses on derivative instruments that were settled in prior years and which, had they currently existed, did not meet the criteria for hedge accounting under Accounting Standard Section 3865. The amounts recorded on the adoption of these standards differed from the estimated amounts disclosed in Note 3 to the 2006 annual financial statement as a result of the refinement of certain estimates used at the year end.

Future accounting changes

The CICA has issued the following accounting standards which will be effective for the Company from January 1, 2008: Accounting Standard Section 3862 Financial Instruments Disclosures , Accounting Standard Section 3863 Financial Instruments Presentation and Accounting Standard Section 1535 Capital Disclosures .

These new accounting standards will require the Company to provide additional disclosures relating to its financial instruments, including hedging instruments, and about the Company s capital. In addition, Accounting Standard Section 3863 does not change the presentation guidance provided in Accounting Standard Section 3861 Financial Instruments Disclosure and Presentation which it replaces. It is not anticipated that the adoption of these new accounting standards will impact the amounts reported in the Company s financial statements as they primarily relate to disclosure.

LIQUIDITY AND CAPITAL RESOURCES

We believe adequate amounts of cash and cash equivalents are available in the normal course of business to provide for ongoing operations, including the obligations identified in the tables in the section Contractual Commitments and in the section Future Trends, Commitments and Risks under the sub-heading Financial Commitments . We are not aware of any trends or expected fluctuations in our liquidity that would create any deficiencies. The following discussion of operating, investing and financing activities describes our indicators of liquidity and capital resources.

Operating Activities

Cash provided by operating activities was $227.7 million in the first quarter of 2007, an increase of $53.4 million from $174.3 million in the same period of 2006. The increase in cash provided by operating activities was mainly due to higher net cash generated through operations and lower restructuring payments.

There are no specific or unusual requirements relating to our working capital. In addition, there are no unusual restrictions on any subsidiary s ability to transfer funds to CPRL.

Investing Activities

Cash used in investing activities was $195.6 million in the first quarter of 2007, a decrease of $11.5 million from $207.1 million in the same period of 2006. The decrease reflected the purchase of freight cars that were being held for sale in first-quarter 2006, which was partially offset by an increase in capital spending in first-quarter 2007.

Capital spending in 2007 is projected to be between $885 million and $895 million. Our 2007 capital spending outlook assumes an increase in basic right-of-way and asset renewal to help maintain the reliability and safety of our infrastructure, land acquisitions and rail capacity improvements for future development in strategic locations across the network, locomotive acquisitions and upgrades to increase our fuel-efficient hauling capacity, investments in information technology to improve the systems that manage railway operations and customer shipments, and investments planned to increase capacity in automotive and intermodal terminals to support continued market growth. Our capital spending outlook is based on certain assumptions about events and developments that may not materialize

or that may be offset entirely or partially by other events and developments (see the Forward-Looking Information section for a discussion of these assumptions and other factors affecting our expectations for 2007).

We intend to finance capital expenditures with cash from operations but may partially finance these expenditures with new debt, if deemed advisable. Our decision whether to acquire equipment through the use of capital and debt or through operating leases will be influenced by such factors as the need to keep our capital structure within debt covenants and to maintain a net-debt to net-debt-plus- equity ratio (discussed below under the sub-heading Financing Activities) that would preserve our investment grade standing, as well as the amount of cash flow we believe can be generated from operations and the prevailing interest rate environment.

Financing Activities

Cash used in financing activities was $130.8 million in the first quarter of 2007, an increase of $89.3 million, compared with $41.5 million in the same period of 2006. The increase in cash used in financing activities was due to the repayment of two debt instruments, a $143.0 million secured equipment loan and a $19 million obligation under capital lease, partially offset by cash received through short-term borrowing.

We have available, as sources of financing, unused credit facilities of up to $517 million, as well as an uncommitted amount of US$15 million. Our unsecured long-term debt securities are rated Baa2 , BBB and BBB(high) by Moody s Investors Service, Inc., Standard and Poor s Corporation and Dominion Bond Rating Service, respectively.

At March 31, 2007, our net-debt to net-debt-plus-equity ratio improved to 36.4%, compared with 39.9% at March 31, 2006. The improvement was due primarily to an increase in equity driven by earnings partially offset by the Company s share repurchase program which reduced equity. Net debt is the sum of long-term debt, long-term debt maturing within one year and short-term borrowing, less cash and short-term investments. This sum is divided by total net debt plus total shareholders equity as presented on our Consolidated Balance Sheet.

Management is committed to maintaining its net-debt to net-debt-plus-equity ratio at an acceptable level.

Calculation of free cash (reconciliation of free cash to GAAP cash position) (in millions) (unaudited)	**For the three months ended March 31**	
	2007	2006
Cash provided by operating activities	**$ 227.7**	$ 174.3
Cash used in investing activities	**(195.6)**	(207.1)
Dividends paid	**(29.1)**	(23.7)
Free cash[(1)]	**3.0**	(56.5)
Cash used in financing activities, excluding dividend payment	**(101.7)**	(17.8)
Decrease in cash, as shown on the Statement of Consolidated Cash Flows	**(98.7)**	(74.3)
Net cash at beginning of period	**124.3**	121.8
Net cash at end of period	**$ 25.6**	$ 47.5

(1) These measures have no standardized meanings prescribed by Canadian GAAP and, therefore, are unlikely to be comparable to similar measures of other companies.

Free Cash

Free cash is a non-GAAP measure that management considers to be an indicator of liquidity. Free cash is calculated as cash provided by operating activities, less cash used in investing activities and dividends.

We generated positive free cash of $3.0 million in the first quarter of 2007 compared with negative free cash of $56.5 million in the same period of 2006. The improvement was due largely to the increase in cash generated by operating activities (as discussed in this section under the sub-heading Operating Activities), partially offset by increased capital spending and a higher dividend payment.

We expect to generate a higher amount of free cash in 2007, compared with 2006, achieved mainly through the generation of higher cash from operating activities, partially offset by increased capital spending and dividend payments and reduced land sales. Our free cash outlook is based on certain assumptions about events and developments that may not materialize or that may be offset entirely or partially by other events and developments (see the section Forward-Looking Information for a discussion of these assumptions and other factors affecting our expectations for 2007). Our free cash outlook relies on the assumptions established for earnings and capital expenditures, which are discussed under the sub-heading Revenues in the section Lines of Business , and in the sections Operating Expenses , Liquidity and Capital Resources and Other Income Statement Items .

BALANCE SHEET

Assets

Assets totalled $11,375.2 million at March 31, 2007, compared with $11,415.9 million at December 31, 2006. The decrease in assets was mainly due to a reduction in cash balances as a result of repayment of long-term debt and the reclassification of transaction costs associated with the issue of long-term debt in first-quarter 2007 due to the implementation of a new accounting policy. The decrease was partially offset by an increase in net properties due to capital additions during the first quarter of 2007.

Total Liabilities

Our combined short-term and long-term liabilities were $6,435.9 million at March 31, 2007, compared with $6,559.4 million at December 31, 2006. The decrease in total liabilities was due mainly to a reduction in long-term debt resulting from:

- the repayment of a $143.0 million secured equipment loan in the first quarter of 2007;
- foreign exchange gains on long-term debt; and

the reclassification to long-term debt of transaction costs associated with the issue of long-term debt in first-quarter 2007 to conform with changes in accounting policy.

The decrease was partially offset by an increase in short-term borrowing and dividends payable.

Accumulated Other Comprehensive Income

Effective January 1, 2007, new GAAP accounting standards were introduced affecting how CP accounts for certain unrealized gains and losses by creating a new category of equity called Accumulated other comprehensive income (AOCI). Amounts previously reported as Foreign currency translation adjustment were reclassified to AOCI retroactively. Unrealized gains and losses on hedges net of related future income taxes were transferred to AOCI prospectively (discussed further in the section Changes in Accounting Policy).

Equity

At March 31, 2007, our Consolidated Balance Sheet reflected $4,939.3 million in equity, compared with equity balances of $4,856.5 million at December 31, 2006. The increase was due primarily to:

growth in retained income driven by net income;

the issuance of Common Shares for stock options exercised; and

the increase in AOCI as a result of the adoption of new accounting standards (discussed further in the section Changes in Accounting Policy).

The increase was partially offset by shares repurchased under normal course issuer bids and dividends.

Share Capital

At March 31, 2007, 155,613,338 Common Shares and no Preferred Shares were issued and outstanding.

At March 31, 2007, 7.7 million options were outstanding under our Management Stock Option Incentive Plan and Directors Stock Option Plan, and 3.5 million Common Shares have been reserved for issuance of future options. Each option granted can be exercised for one Common Share.

We believe the Company s purchase of its own Common Shares for cancellation is an attractive and appropriate use of corporate funds. Purchases are typically made through the facilities of the Toronto Stock Exchange and the New York Stock Exchange. The prices that we pay for any shares will be the market price at the time of purchase.

On June 1, 2006, we completed the filings for a new normal course issuer bid (the 2006 NCIB) to enable us, during June 6, 2006 to June 5, 2007, to purchase for cancellation up to 3,936,000, or 2.5% of our 158,321,252 Common Shares outstanding as of May 31, 2006. The filing was necessary to effect the repurchase of up to 5,500,000 Common Shares in the calendar year 2006, as authorized by our Board of Directors on February 21, 2006 (representing 3.5% of our Common Shares outstanding as of December 31, 2005). Of the 3,936,000 shares authorized under the 2006 NCIB, 3,435,992 shares were purchased in 2006 at an average price per share of $56.66 and 249,990 shares were purchased in the first quarter of 2007 at an average price per share of $64.11.

On March 1, 2007, we announced our intention, subject to regulatory approval, to purchase up to 5,500,000 shares during 2007, by way of normal course issuer bid purchases or private agreement purchases.

On March 26, 2007, we completed the filings for a new normal course issuer bid (the 2007 NCIB) to enable us, during March 28, 2007 to March 27, 2008, to purchase for cancellation up to 4,975,000, or 3.2% of our 155,534,263 Common Shares outstanding as of March 15, 2007. Of the 4,975,000 shares authorized under the 2007 NCIB, 150,000 shares were purchased in the first quarter of 2007 at an average price per share of $64.76.

In addition to the 150,000 shares purchased through the 2007 NCIB, CP purchased 275,000 shares privately for cancellation on March 29, 2007 at an average price of $63.12 pursuant to a notice of intention to make an exempt issuer bid filed on March 23, 2007. To date, a total of 674,990 shares have been purchased in 2007 at an average price of $63.85.

In April 2007, we received approval from our Board of Directors, subject to regulatory approval, to amend our existing 2007 NCIB to permit the purchase for cancellation of up to 15,500,000 of our outstanding Common shares during 2007, and if not completed in 2007, in 2008. This represents approximately 10% of the public float of our Common Shares outstanding at March 15, 2007.

Shareholders may obtain, without charge, a copy of our Notice of Intention to Make a Normal Course Issuer Bid by writing to The Office of the Corporate Secretary, Canadian Pacific Railway Limited, Suite 920, Gulf Canada Square, 401 9th Avenue S.W., Calgary, Alberta, T2P 4Z4, by telephone at (403) 319-7165 or 1-866-861-4289, by fax at (403) 319-6770, or by e-mail at Shareholder@cpr.ca.

Dividends

On March 1, 2007, our Board of Directors declared a quarterly dividend of $0.225 per share (2006 - $0.1875 per share) on the outstanding Common Shares. The dividend is payable on April 30, 2007 to holders of record at the close of business on March 30, 2007.

FINANCIAL INSTRUMENTS

From January 1, 2007, certain financial instruments, including those classified as loans and receivables, available for sale, held for trading and financial liabilities, are initially measured at fair value and subsequently measured at fair value or amortized cost. Financial instruments that will be realized within the normal operating cycle are measured at their carrying amount as this approximates fair value.

Fair Value of Non-derivative Financial Instruments

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm s length transaction between willing parties. We use the following methods and assumptions to estimate fair value of each class of financial instruments for which carrying amounts are included in the Consolidated Balance Sheet as follows:

Loans and receivables

Accounts receivable and other current assets - The carrying amounts included in the Consolidated Balance Sheet approximate fair value because of the short maturity of these instruments.

Investments - Long-term receivable balances are carried at amortized cost based on an initial fair value determined using discounted cash flow analysis using observable market-based inputs.

Financial liabilities

Accounts payable and accrued liabilities and short-term borrowing - The carrying amounts included in the Consolidated Balance Sheet approximate fair value because of the short maturity of these instruments.

Long-term debt - The carrying amount of long-term debt is at amortized cost based on an initial fair value determined using the quoted market prices for the same or similar debt instruments.

Available for sale

Investments - Our equity investments have a carrying value that equals cost as fair value cannot be reliably established.

Held for trading

Other assets and deferred charges and Deferred liabilities - Derivative instruments that are designated as hedging instruments are measured at fair value determined using the quoted market prices for the same or similar instruments. Derivative instruments that are not designated in hedging relationships are classified as held for trading and measured at fair value determined using quoted market prices for the same or similar instruments and changes in the fair values of such derivative instruments are recognized in net income as they arise.

Cash and cash equivalents - The carrying amounts included in the Consolidated Balance Sheet approximate fair value because of the short maturity of these instruments.

Derivative Financial Instruments

Commencing January 1, 2007 all derivative instruments are recorded on the Consolidated Balance Sheet in Other assets and deferred charges , Accounts receivable and other current assets , Deferred liabilities , or Accounts payable and accrued liabilities at their fair value. Prior to 2007, only derivative instruments that did not qualify as hedges or were not designated as hedges were carried at fair value on the Consolidated Balance Sheet in Other assets and deferred charges or Deferred liabilities . In the Statement of Consolidated Cash Flows, cash flows relating to derivative instruments designated as hedges are included in the same line as the related item.

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

Prior to January 1, 2007, the periodic change in the fair value of an effective hedging instrument was not recognized in the financial statements.

Prior to January 1, 2007, if a derivative was not an effective hedge, its book value was adjusted to its market value each quarter and the associated gains or losses were included in Other charges on our Statement of Consolidated Income.

Our policy with respect to using derivative financial instruments is to selectively reduce volatility associated with fluctuations in interest and foreign exchange rates and in the price of fuel. We document the relationship between the hedging instruments and their

associated hedged items, as well as the risk management objective and strategy for the use of the hedging instruments. This documentation includes linking the derivatives that are designated as fair value or cash flow hedges to specific assets or liabilities on our Balance Sheet, commitments or forecasted transactions. At the time a derivative contract is entered into, and at least quarterly, we assess whether the derivative item is effective in offsetting the changes in fair value or cash flows of the hedged items. The derivative qualifies for hedge accounting treatment if it is effective in substantially mitigating the risk it was designed to address.

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

Credit Risk

We are exposed to counterparty credit risk in the event of non-performance by counterparties. In order to mitigate this risk, limits are set by our Board of Directors for counterparty transactions and we conduct regular monitoring of the credit standing of the counterparties or their guarantors. We do not anticipate any losses with respect to counterparty credit risk.

Interest Rate Management

Interest Rate Swaps

In 2003 and 2004, we entered into fixed-to-floating interest rate swap agreements totalling US$200 million to convert a portion of our US$400-million 6.25% Notes to floating-rate debt. We pay an average floating rate that fluctuates quarterly based on LIBOR. These swaps expire in 2011 and are accounted for as a fair value hedge. Accounting for these notes at the floating interest rate increased Interest expense on the Statement of Consolidated Income by $0.4 million in the first quarter of 2007 compared with a $0.1 million reduction in interest expense in first-quarter 2006. At March 31, 2007, the fair value of this swap was $1.9 million and was reflected in Accounts payable and accrued liabilities and Deferred liabilities . The fair value was calculated utilizing swap, currency and basis-spread curves from Reuters. From January 1, 2007, the change in fair value of the swap is reflected in Interest expense in the Statement of Consolidated Income, however, as the swaps has no ineffectiveness the net impact was nil. Previously any change in the fair value of the swap was not recognized in income.

Interest and Treasury Rate Locks

At March 31, 2007, Accumulated other comprehensive income on the Consolidated Balance Sheet included $5.3 million in unamortized gains and losses for previously settled interest and treasury rate locks. These gains and losses are being amortized to income as interest is paid for the related debt. Amortization of the gains and losses resulted in a reduction in interest expense of $0.1 million in first-quarter 2007 with no associated after-tax change in Other comprehensive income , compared with an increase in interest expense of $0.8 million in first-quarter 2006.

Foreign Exchange Management

Foreign Exchange Forward Contracts

From time to time we hedge a portion of our U.S. dollar-denominated freight revenues earned in Canada by selling forward U.S. dollars. At March 31, 2007, we had no forward sales of U.S. dollars outstanding (March 31, 2006 US$33.4 million) and no unrealized gains or losses. The unrealized gain on forward contracts as of March 31, 2006, calculated using the trading value of the U.S. dollar from the Bank of Canada, was $1.2 million. This unrealized gain was not included in our financial statements at March 31, 2006. Freight revenues on our Statement of Consolidated Income did not include any gain or loss for the first quarter of 2007 as no forward hedges settled, compared with realized gains of $1.5 million in first-quarter 2006.

Fuel Price Management

Swaps and fuel surcharges, together with fuel conservation practices, are the key elements of our program to manage the risk arising from fuel price volatility.

Crude Oil Swaps

We may enter into crude oil or heating oil swap contracts to help mitigate future price increases related to the purchase of fuel. We generally enter into commodity swap purchase contracts, and unrealized gains or losses related to the effective portion of these swaps are deferred in Accumulated other comprehensive income until the related fuel purchases are realized.

At March 31, 2007, an unrealized gain of $28.2 million was calculated based on the fair value of our swaps, which was derived from the WTI price, as quoted by recognized dealers or as developed based upon the present value of

expected future cash flows discounted at the applicable U.S. Treasury Rate, LIBOR or swap spread. The fair value of these swaps of $28.2 million is recognized in Accounts receivable and other current assets and Other assets and deferred charges while the unrealized gain, net of tax, is recognized in Accumulated other comprehensive income on our Consolidated Balance Sheet. The change in the unrealized gain of $3.5 million before tax was recognized as a decrease to Other comprehensive income .

Fuel purchases and commodity swap contracts have an element of foreign exchange variability. From time to time, we use foreign exchange forward contracts to manage this element of fuel-price risk. We enter into purchase contracts of U.S. dollars because the Canadian dollar cost of fuel increases if the U.S. dollar appreciates relative to the Canadian dollar. Gains and losses on the crude oil swaps, coupled with foreign exchange forward contracts, offset increases and decreases in the cash cost of fuel.

The fair value of the forward purchases of U.S. dollars (which were coupled with the crude oil swaps) at March 31, 2007 was $2.8 million and is recognized in Accounts receivable and other current assets and Deferred liabilities . The unrealized loss, net of tax, is recognized in Accumulated other comprehensive income . The change in the unrealized loss of $0.3 million before tax was recognized as an increase to Other Comprehensive Income . These forwards will settle between 2007 and 2009.

Fuel expense was reduced by $4.6 million in the first quarter of 2007 (first quarter of 2006 $6.6 million) as a result of $4.9 million in realized gains (first quarter of 2006 $7.6 million) arising from settled swaps, including $1.4 million of realized gains relating to settled derivatives that were not designated as hedges, partially offset by $0.3 million (first quarter of 2006 $1.0 million) in realized losses arising from the settled foreign exchange forward contracts.

For every US$1.00 increase in the price of WTI, fuel expense before hedging will increase by approximately $8 million, assuming current foreign exchange rates and fuel consumption levels. As at March 31, 2007 we had fuel hedges for approximately 6% of our estimated fuel purchases in 2007, 3% in 2008 and 2% in 2009, with no hedges in place for purchases beyond this time. We have a fuel risk mitigation program to moderate the impact of increases in fuel prices, which includes these swaps and fuel surcharges.

Stock-Based Compensation Expense Management

Total Return Swap

We entered into a TRS, effective in May 2006, in order to reduce the volatility and total cost to the Company over time of two stock-based compensation programs: SAR and deferred share units (DSU) (discussed further in the section Future Trends, Risks and Commitments under the sub-heading Stock Price). The value of the TRS derivative is linked to the market value of our stock. Unrealized gains and losses on the TRS substantially offset the costs and benefits recognized in the SAR and DSU stock-based compensation programs due to fluctuations in share price during the period the TRS was in place. Compensation and Benefits expense on our Statement of Consolidated Income included an unrealized gain on these swaps of $6.3 million in the first quarter of 2007.

OFF-BALANCE SHEET ARRANGEMENTS

The information on off-balance sheet arrangements disclosed in our MD&A documents for the year ended December 31, 2006 remains substantially unchanged, except as updated as follows:

Sale of Accounts Receivable

At March 31, 2007, the outstanding undivided co-ownership interest held by an unrelated trust under our accounts receivable securitization program was $120.0 million (March 2006 $120.0 million). Losses of $1.3 million on the securitization program in first-quarter 2007 (first-quarter 2006 losses of $1.1 million) were included in Other Charges on our Statement of Consolidated Income.

We provide a credit enhancement amount to absorb all credit losses. The trust has no recourse to the co-ownership interest in receivables that we retain, other than in respect of the credit enhancement amount. This amount was recognized as a retained interest. At March 31, 2007, the fair value of the retained interest was approximately 22% of the receivables sold, or $26 million (March 31, 2006 fair value of approximately 18%, or $22 million) and was included in Accounts Receivable and Other Current Assets on our Consolidated Balance Sheet. The fair value of the retained interest approximated the carrying value as a result of the short collection cycle of the receivables and expected credit losses amounting to less than 0.05% of total receivables. Proceeds from collections reinvested in the accounts receivable securitization program were $377.1 million for the first quarter of 2007, compared with $367.1 million for the first quarter of 2006. We have complied with all termination tests during the program.

CONTRACTUAL COMMITMENTS

The accompanying table indicates our known obligations and commitments to make future payments for contracts, such as debt and capital lease and commercial arrangements.

Contractual commitments
at March 31, 2007

		Payments due by period			
(in millions)	**Total**	**< 1 year**	**1 3 years**	**3 5 years**	**After 5 years**
Long-term debt	**$ 2,503.7**	$ 18.6	$ 38.3	$ 865.7	$ 1,581.1
Capital lease obligations	**310.8**	0.9	18.6	32.0	259.3
Operating lease obligations(1)	**605.4**	100.7	172.3	107.7	224.7
Supplier purchase obligations	**691.4**	100.4	198.1	137.9	255.0
Other long-term liabilities reflected on our Consolidated Balance Sheet (2)	**894.2**	100.9	218.9	170.4	404.0
Total contractual obligations (3)	**$ 5,005.5**	**$ 321.5**	**$ 646.2**	**$ 1,313.7**	**$ 2,724.1**

(1) We have guaranteed residual values on certain leased equipment with a maximum exposure of $363.9 million, primarily in 2007 and beyond. Management estimates that we will have no net payments under these residual guarantees and, as such, has not included any amounts with respect to these guaranteed residual values in the minimum payments shown above.

(2) Includes expected cash payments for restructuring,

environmental remediation, asset retirement obligations, post-retirement benefits, workers compensation benefits, long-term disability benefits and pension benefit payments for our non-registered supplemental pension plans. Projected payments for post-retirement, workers compensation benefits and long-term disability benefits include the anticipated payments for years 2007 to 2016. Pension contributions for our registered pension plans are not included due to the volatility in calculating them. Pension payments are discussed further under the sub-heading Pension Plan Deficit in the section Future Trends, Commitments and Risks.

(3)

Excluded from this table is our contractual obligation under Short-term borrowing, which is reported in our Consolidated Balance Sheet

FUTURE TRENDS, COMMITMENTS AND RISKS

Change in Executive Officers and Chairman of the Board

On March 6, 2007, CP announced the retirement of Executive Vice-President, Operations, Neal Foot. Effective April 3, 2007, Brock Winter assumed the responsibilities of Mr. Foot.

Rail Network Capacity

Significant increases in rail traffic volumes have created capacity challenges for North American railways. In particular, a rapid surge in exports and imports has created pressure on railway systems to and from the Pacific Coast. In 2005, we completed a major expansion of our track network in western Canada between the prairies and the Port of Vancouver on the Pacific Coast. Any further expansion will be tied to ongoing market conditions and the continuation of a stable regulatory environment in Canada. We are also maximizing our freight handling capacity by acquiring new and more powerful locomotives and replacing older freight cars with more efficient and higher-capacity freight cars.

Integrated Operating Plan

We manage scheduled operations through our IOP. The key principles upon which our IOP is built include moving freight cars across the network with as few handlings as possible, creating balance in the directional flow of trains in our corridors by day of week, and minimizing the time that locomotives and freight cars are idle. During the first quarter of 2007, execution of our IOP generated productivity and efficiency improvements that reduced expenses in key areas, while improving service reliability to support rate increases and grow market share. Areas of expense reduction included labour, purchased services and equipment costs.

Canadian Government Covered Hopper Car Fleet

CP transports grain throughout North America in covered hopper cars. The overall covered hopper fleet consists of owned, leased and managed freight cars. The managed segment consists of cars provided by Canadian federal and provincial governments for the purpose of transporting regulated grain. In 2006, the Canadian Federal Conservative government announced its intention to retain ownership of its cars and negotiate new operating agreements with CP and CN. We view the federal government s decision as a positive development that allows for the negotiation of a progressive operating agreement geared towards ensuring an efficient, low-cost grain handling and transportation system. Currently, 6,300 of these cars operate on CP rail lines and our expectation is that this will continue to be the case.

Stock Price

The market value of our Common Shares increased $3.55 per share (from $61.40 to $64.95) on the Toronto Stock Exchange in the first quarter of 2007. The market value of our Common Shares increased $9.55 per share (from $48.71 to $58.26) on the Toronto Stock Exchange in the first quarter of 2006. These changes in share price caused corresponding increases in the value of our outstanding

SARs and DSUs in both years. Effective the second quarter of 2006, we put in place a TRS (discussed under the sub-heading Total Return Swap in the section Financial Instruments) to mitigate gains and losses associated with the effect of our share price on the SARs and DSUs. Excluding the impact of our TRS, the cost of our SARs and DSUs resulted in a decrease in compensation and benefits expense of $9.9 million in first-quarter 2007, compared with the same period in 2006.

Crude Oil Prices

Crude oil prices remain volatile due to strong world demand and geopolitical events, weather, and unscheduled refinery outages that disrupt and threaten to disrupt supply. We will continue to moderate the impact of increases in fuel prices through a fuel risk mitigation program, which includes fuel surcharges. We currently have hedges in place (discussed in the section Financial Instruments) that partially offset the effects of rising fuel prices. We are also reducing fuel costs by acquiring more fuel-efficient locomotives and employing fuel-efficiency initiatives through our IOP.

Border Security

We strive to ensure our customers have unlimited access to North American markets by working closely with Canadian and U.S. customs officials and other railways to facilitate the safe and secure movement of goods between Canada and the U.S. We also take all necessary precautions to prevent smuggling or other illegal activities. We have taken the following steps to reduce the risks associated with the cross-border transportation of goods:

We are a certified carrier with the U.S. Customs and Border Protection s (CBP) Customs-Trade Partnership Against Terrorism (C-TPAT) program and with the Canada Border Services Agency s (CBSA) Partners in Protection (PIP) program. C-TPAT and PIP are partnership programs that seek to strengthen overall supply chain and border security. We are also an approved carrier under CBSA s Customs Self-Assessment program.

We have implemented several regulatory security frameworks that focus on the provision of advanced electronic cargo information. We are fully automated with both CBSA and CBP and provide the requisite shipment information electronically well in advance of freight arrival at the border.

Based on a joint Declaration of Principles, a Vehicle and Cargo Inspection System (VACIS) has been installed at five of our border crossings under a co-operative program with CBSA and U.S. Customs and Border Protection. Rail VACIS systems use non-intrusive gamma ray technology to scan U.S.-bound rail shipments.

Labour Relations

Agreements are in place with five of seven bargaining units in Canada and 10 of 28 bargaining units in the U.S. The following is a negotiations status summary:

Canada

A settlement has not been reached with the Teamsters Canada Rail Conference (TCRC-MWED), which represents employees who maintain track infrastructure. Both CP and TCRC-MWED have followed the process set out in the Canada Labour Code (Code). The conciliation process ended on April 1, 2007. The parties are now in the 21 day cooling off period set out in the Code. Prior to a strike, the TCRC-MWED must provide a 72-hour written notice.

Negotiations continue with the Teamsters Canada Rail Conference (TCRC-RTE), which represents employees who operate trains. These negotiations commenced in September 2006.

Both of these contracts expired December 31, 2006.

U.S.

We are party to collective agreements with 15 bargaining units on our Soo Line Railroad (Soo Line) subsidiary and 13 on our Delaware and Hudson Railway (D&H) subsidiary.

On the Soo Line, negotiations have commenced with 14 bargaining units representing track maintainers, conductors, clerks, car repair employees, mechanical labourers, machinists, electricians, train dispatchers, signal repair employees, police, blacksmiths and boilermakers, sheet metal workers, locomotive engineers and mechanical supervisors. An agreement with the bargaining unit representing yard supervisors extends through 2009.

D&H has agreements in place with nine unions representing freight car repair employees, clerks, signal repair employees, mechanical supervisors, mechanical labourers, machinists, engineering supervisors, police and yard

supervisors. Negotiations are underway with the remaining four bargaining units, which represent locomotive engineers, electricians, track maintainers and conductors.

Environmental

We continue to be responsible for remediation work on portions of a property in the State of Minnesota and continue to retain liability accruals for remaining future expected costs. The costs are expected to be incurred over approximately 10 years. The state s voluntary investigation and remediation program will oversee the work to ensure it is completed in accordance with applicable standards.

Financial Commitments

In addition to the financial commitments mentioned previously in the sections Off-Balance Sheet Arrangements and Contractual Commitments , we are party to certain other financial commitments set forth in the adjacent table and discussed below.

Certain other financial commitments at March 31, 2007		**Amount of commitment per period**			
(in millions) (unaudited)	**Total**	**remainder of 2007**	**2008 & 2009**	**2010 & 2011**	**2012 & beyond**
Letters of credit	**$ 353.2**	$ 353.2	$	$	$
Capital commitments[(1)]	**609.4**	$ 240.3	$ 169.7	$ 55.2	$ 144.2
Offset financial liability	**182.1**	$ 182.1	$	$	$
Total commitments	**$ 1,144.7**	**$ 775.6**	**$ 169.7**	**$ 55.2**	**$ 144.2**

(1) The Company has several IT contracts outstanding with termination clauses with a variety of payment terms and termination dates. The termination payments per contract range from NIL to $17.6 million, and in total they provide a minimum exposure to CPR of $3.3 million and a maximum exposure of $41.4 million. The termination dates range from 2007 to 2013.

Letters of Credit

Our available line of credit is adjusted for the letters of credit contract amounts currently included within our revolving credit facility.

Capital Commitments

We are obligated to make various capital purchases related to track programs, locomotive acquisitions and overhauls, freight cars, and land. At March 31, 2007, we had multi-year capital commitments of $609.4 million in the form of signed contracts, largely for locomotive overhaul agreements. Payments for these commitments are due in 2007

through 2016. These expenditures are expected to be financed by cash generated from operations or by issuing new debt.

Offset Financial Liability

We entered into a bank loan to finance the acquisition of certain equipment. This loan is offset by a financial asset with the same institution. At March 31, 2007, the loan had a balance of $187.0 million, offset by a financial asset of $182.1 million. The remainder is included in Long-Term Debt on our Consolidated Balance Sheet.

Pension Plan Deficit

We estimate that every 1.0 percentage point increase (or decrease) in the discount rate can cause our defined benefit pension plans deficit to decrease (or increase) by approximately $600 million, reflecting the changes to both the pension obligations and the value of the pension fund s debt securities. Similarly, for every 1.0 percentage point the actual return on assets varies above (or below) the estimated return for the year, the deficit would decrease (or increase) by approximately $75 million. Adverse experience with respect to these factors could eventually increase funding and pension expense significantly, while favourable experience with respect to these factors could eventually decrease funding and pension expense significantly.

Between 51% and 57% of the plans assets are invested in equity securities. As a result, stock market performance is the key driver in determining the pension fund s asset performance. Most of the plans remaining assets are invested in debt securities, which, as mentioned above, provide a partial offset to the increase (or decrease) in our pension deficit caused by decreases (or increases) in the discount rate.

The deficit will fluctuate according to future market conditions and funding will be revised as necessary to reflect such fluctuations. We will continue to make contributions towards this deficit that, as a minimum, meet requirements as prescribed by Canadian pension supervisory authorities.

We made contributions of $20.4 million to the defined benefit pension plans in the first quarter of 2007, compared with $17.5 million in the same period of 2006.

The minimum contribution requirement for our main pension plan is set out in an updated actuarial valuation as at January 1, 2007 (finalized in April 2007). We expect our pension contribution in 2007 to be approximately $100 million. Future pension contributions will be highly dependent on our actual experience with such variables as investment returns, interest rate fluctuations, and demographic changes. If long Canada bond yields at December 31, 2007 remain at or above their levels on December 31, 2006 and our pension fund achieves an 8% investment return in 2007, we project our pension contributions to be approximately $100 million in 2008.

Restructuring

Restructuring initiatives were announced in 2003 and 2005 to improve efficiency in our administrative areas by eliminating 1,220 management and administrative positions. The total targeted reductions for these initiatives were successfully achieved by the end of the third quarter of 2006. We will continue to hire selectively in specific areas of the business, as required by growth or changes in traffic patterns.

Cash payments related to severance under all restructuring initiatives and to our environmental remediation program (described under the sub-heading Critical Accounting Estimates) totalled $13.2 million in the first quarter of 2007, compared with $27.8 million in the same period of 2006. Payments in the first quarter of 2007 relating to the labour liabilities were $12.5 million, compared with $24.8 million in first-quarter 2006.

Cash payments for restructuring and environmental initiatives are estimated to be $62 million for the remainder of 2007, $63 million in 2008, $46 million in 2009, and a total of $132 million over the remaining years through 2025, which will be paid in decreasing amounts. All payments will be funded from general operations. Of these amounts, cash payments related only to the restructuring initiatives are expected to be $42 million for the remainder of 2007, $44 million in 2008, $31 million in 2009, and a total of $67 million over the remaining years through 2025. These amounts include residual payments to protected employees for previous restructuring plans that are substantially complete.

CRITICAL ACCOUNTING ESTIMATES

The development, selection and disclosure of these estimates, and this MD&A, have been reviewed by the Board of Directors Audit, Finance and Risk Management Committee, which is comprised entirely of independent directors.

Environmental Liabilities

At March 31, 2007, the accrual for environmental remediation on our Consolidated Balance Sheet amounted to $119.2 million, of which the long-term portion amounting to $97.9 million was included in Deferred liabilities and the short-term portion amounting to $21.3 million was included in Accounts payable and accrued liabilities . Total payments were $0.6 million in the first quarter of 2007 and $1.9 million in the same period of 2006. The U.S. dollar-denominated portion of the liability was affected by the change in Foreign Exchange, resulting in a decrease in environmental liabilities of $0.6 million in first-quarter 2007 and $0.3 million in first-quarter 2006.

Pensions and Other Benefits

Other assets and deferred charges on our March 31, 2007 Consolidated Balance Sheet included prepaid pension costs of $1,086.5 million. Our Consolidated Balance Sheet also included $0.3 million in Accounts payable and accrued liabilities and $1.2 million in Deferred liabilities for pension obligations.

We included post-retirement benefits accruals of $197.7 million in Deferred liabilities and post-retirement benefits accruals of $19.0 million in Accounts payable and accrued liabilities on our March 31, 2007 Consolidated Balance Sheet.

Pension and post-retirement benefits expenses (excluding workers compensation benefits) were included in Compensation and benefits on our March 31, 2007, Statement of Consolidated Income. Combined pension and post-retirement benefits expenses were $27.4 million in the first quarter of 2007, compared with $30.9 million in the same period of 2006.

Pension expense consists of defined benefit pension expense plus defined contribution pension expense (equal to contributions). Pension expense was $16.2 million in first-quarter 2007, compared with $20.0 million in the same period of 2006. Defined benefit pension expense was $15.1 million in the first quarter of 2007, compared with $18.9 million in the same period of 2006. Post-retirement benefits expense in the first quarter of 2007 was $11.2 million, compared with $10.9 million in the same period of 2006.

Property, Plant and Equipment

At March 31, 2007, accumulated depreciation was $5,115.4 million. Depreciation expense relating to properties amounted to $118.6 million in the first quarter of 2007, compared with $114.8 million in the same period of 2006. Revisions to the estimated useful lives and net salvage projections for properties constitute a change in accounting estimate and we deal with these prospectively by amending depreciation rates. It is anticipated that there will be changes in the estimates of weighted average useful lives and net salvage for each property group as assets are acquired, used and retired. Substantial changes in either the useful lives of properties or the salvage assumptions could result in significant changes to depreciation expense. For example, if the estimated average life of road locomotives, our largest asset group, increased (or decreased) by 5%, annual depreciation expense would decrease (or increase) by approximately $3 million.

We review the carrying amounts of our properties when circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows. When such properties are determined to be impaired, recorded asset values are revised to the fair value and an impairment loss is recognized.

In the first quarter of 2007, depreciation expense increased $3.8 million from the same period in 2006 due primarily to capital additions to locomotives and track investment.

Future Income Taxes

Future income tax expense totalling $38.5 million was included in income tax for the first quarter of 2007, compared with $44.3 million for the first quarter of 2006. At March 31, 2007, future income tax liabilities of $1,831.3 million were recorded as a long-term liability and comprised largely of temporary differences related to accounting for properties. Future income tax benefits of $109.7 million realizable within one year were recorded as a current asset. We believe that our future income tax provisions are adequate.

Legal and Personal Injury Liabilities

Provisions for incidents, claims and litigation charged to income, which are included in Purchased services and other on our Statement of Consolidated Income, amounted to $13.5 million in the first quarter of 2007, compared with $16.3 million in the same period of 2006.

Accruals for incidents, claims and litigation, including WCB accruals, totalled $158.4 million, net of insurance recoveries, at March 31, 2007. The total accrual included $97.9 million in Deferred liabilities and $100.2 million in Accounts payable and accrued liabilities , offset by $5.7 million in Other assets and deferred charges and $34.0 million in Accounts receivable .

SYSTEMS, PROCEDURES AND CONTROLS

The Company s Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the U.S. *Securities Exchange Act of 1934* (as amended)) to ensure that material information relating to the Company is made known to them. The Chief Executive Officer and Chief Financial Officer have a process to evaluate these disclosure controls and are satisfied that they are adequate for ensuring that such material information is made known to them.

FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking statements within the meaning of the *Private Securities Litigation Reform Act of 1995* (United States) and other relevant securities litigation relating but not limited to our operations, anticipated financial performance, business prospects and strategies. Forward-looking information typically contains statements with words such as anticipate , believe , expect , plan or similar words suggesting future outcomes. Readers are cautioned to not place undue reliance on forward-looking information because it is possible that we will not achieve predictions, forecasts, projections and other forms of forward-looking information. In addition, we undertake no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise except as required by law.

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

The performance of the North American and global economies remains uncertain. Grain production and yield in Canada were stable in the last crop year and are expected to remain so in the current crop year. However, factors over which we have no control, such as weather conditions and insect populations, affect crop production and yield in the grain collection areas we serve. Fuel prices also remain uncertain, as they are influenced by many factors, including, without limitation, worldwide oil demand, international politics, severe weather, labour and political instability in major oil-producing countries and the ability of these countries to comply with agreed-upon production quotas. We intend to continue our fuel cost mitigation program to attempt to offset the effects of high crude oil prices.

In Canada, *Bill C-11*, legislation amending the *Canada Transportation Act* (CTA), was introduced in Parliament in spring 2006. *Bill C-11* contains some of the amendments that had been included in *Bill C-44*, which was introduced in 2005 but was terminated when Parliament was dissolved on November 29, 2005. *Bill C-11* includes, among other things, amendments concerning the grain revenue cap, commuter and passenger access, and railway noise. Amendments concerning Final Offer Arbitration (FOA) and other shipper remedies are not included in *Bill C-11*, which passed Second Reading in the House of Commons (the House) and was sent to the standing Committee on Transport and Infrastructure (Committee). It was reported by the Committee with some amendments on issues including noise in December, 2006. *Bill C-11* passed third reading in the House on February 28, 2007 and is now currently in the Senate process. It is anticipated that, unless Parliament is dismissed, *Bill C-11* will come into force in 2007. There may be additional changes to the CTA in respect of FOA and other matters that had been dealt with in *Bill C-44*. No assurance can be given as to the effect on CP of the provisions of *Bill C-11* or as to the content, timing

or effect on CP of any anticipated additional legislation.

CP s railway operations in the United States are subject to regulation by the STB. The STB has undertaken an independent review of a number of commercial matters including the methodology used by railways to assess fuel surcharges, the commercial relationship between large railways and shortlines, the rates charged by railways to grain shippers and a review of the methodology for determining the railway industry s cost of capital. The STB has also promulgated proposed new rules for the handling of disputes by small and

medium shippers. It is too early to assess the possible impact on CP if any new regulation is forthcoming as a result of these hearings and proposed rules.

The sustainability of recent increases in the value of the Canadian dollar relative to the U.S. dollar is unpredictable, as the value of the Canadian dollar is affected by a number of domestic and international factors, including, without limitation, economic performance, Canadian and international monetary policies and U.S. debt levels.

There is also continuing uncertainty with respect to security issues involving the transportation of goods in populous areas of the U.S. and Canada and the protection of North America s rail infrastructure, including the movement of goods across the Canada-U.S. border.

There are more specific factors that could cause actual results to differ from those described in the forward-looking statements contained in this MD&A. These more specific factors are identified and discussed in the section Future Trends, Commitments and Risks and elsewhere in this MD&A with the particular forward-looking statement in question.

GLOSSARY OF TERMS

Average train speed	the average speed attained as a train travels between terminals, calculated by dividing the total train miles traveled by the total hours operated. This calculation does not include the travel time or the distance traveled by: i) trains used in or around CP s yards; ii) passenger trains; and iii) trains used for repairing track. The calculation also does not include the time trains spend waiting in terminals.
Car miles per car day	the total car-miles for a period divided by the total number of active cars. Total car-miles includes the distance travelled by every car on a revenue-producing train and a train used in or around our yards. A car-day is assumed to equal one active car. An active car is a revenue-producing car that is generating costs to CP on an hourly or mileage basis. Excluded from this count are i) cars that are not on the track or are being stored; ii) cars that are in need of repair; iii) cars that are used to carry materials for track repair; iv) cars owned by customers that are on the customer s tracks; and v) cars that are idle and waiting to be reclaimed by CP.
Carloads	revenue-generating shipments of containers, trailers and freight cars.
CICA	Canadian Institute of Chartered Accountants.
Class 1 railway	a railway earning a minimum of US$319.3 million in revenues annually.
CPRL	Canadian Pacific Railway Limited.
CP , the Company	CPRL, CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one of more of CPRL s subsidiaries.
Co-production initiatives	Co-production initiatives refers to commercial agreements with other railways, made for the purpose of operating convenience, which are for: (i) the sharing of track where two railways operate trains over each other s track; (ii) the provision of trackage rights where one railway permits another railway to operate trains over its track; or (iii) the provision of haulage or switching services under which one railway moves the trains or cars of another railway over its track.
Diluted EPS, before FX on LTD	a variation of the calculation of diluted EPS, which is calculated by dividing income, before FX on LTD, by the weighted average number of shares outstanding, adjusted for outstanding stock options using the Treasury Stock Method, as described on page 4.
D&H	Delaware and Hudson Railway Company, Inc., a wholly owned indirect U.S. subsidiary of CPRL.

EPS	earnings per share.
Fluidity	obtaining more value from our existing assets and resources.
Foreign Exchange	the net impact of a change in the value of the Canadian dollar relative to the U.S. dollar (exclusive of any impact on market demand).
FRA	U.S. Federal Railroad Administration, a regulatory agency whose purpose is to promulgate and enforce rail safety regulations; administer railroad assistance programs; conduct research and development in support of improved railroad safety and national rail transportation policy; provide for the rehabilitation of Northeast Corridor rail passenger service; and consolidate government support of rail transportation activities.

FRA personal injuries per 200,000 employee-hours	the number of personal injuries, multiplied by 200,000 and divided by total employee-hours. Personal injuries are defined as injuries that require employees to lose time away from work, modify their normal duties or obtain medical treatment beyond minor first aid. Employee-hours are the total hours worked, excluding vacation and sick time, by all employees, excluding contractors.
FRA train accidents per million train-miles	the number of train accidents, multiplied by 1,000,000 and divided by total train-miles. Train accidents included in this metric meet or exceed the FRA reporting threshold of US$8,200 in damage.
Freight revenue per carload	the amount of freight revenue earned for every carload moved, calculated by dividing the freight revenue for a commodity by the number of carloads of the commodity transported in the period.
Freight revenue per RTM	the amount of freight revenue earned for every RTM moved, calculated by dividing the total freight revenue by the total RTMs in the period.
FX on LTD	foreign exchange gains and losses on long-term debt.
GAAP	Canadian generally accepted accounting principles.
GTMs or gross ton-miles	the movement of total train weight over a distance of one mile. Total train weight is comprised of the weight of the freight cars, their contents and any inactive locomotives. An increase in GTMs indicates additional productivity.
IOP	Integrated Operating Plan, the foundation for our scheduled railway operations.
LIBOR	London Interbank Offered Rate.
MD&A	Management s Discussion and Analysis.
Number of active employees end of period	the number of actively employed workers during the last month of the period. This 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 us but are not currently working.
Operating ratio	the ratio of total operating expenses to total revenues. A lower percentage normally indicates higher efficiency.
Return on capital employed	income before FX on LTD and other specified items plus after-tax interest expense divided by average net debt plus equity.
RTMs or revenue ton-miles	the movement of one revenue-producing ton of freight over a distance of one mile.

Soo Line	Soo Line Railroad Company, a wholly owned indirect U.S. subsidiary of CPRL.
STB	U.S. Surface Transportation Board, a regulatory agency with jurisdiction over railway rate and service issues and rail restructuring, including mergers and sales.

Terminal dwell	the average time a freight car resides at a specified terminal location. The timing starts with a train arriving in the terminal, a customer releasing the car to us, or a car arriving that is to be transferred to another railway. The timing ends when the train leaves, a customer receives the car from us or the freight car is transferred to another railway. Freight cars are excluded if: i) a train is moving through the terminal without stopping; ii) they are being stored at the terminal; iii) they are in need of repair; or iv) they are used in track repairs.
U.S. gallons of locomotive fuel per 1,000 GTMs consumed freight and yard	the total fuel consumed in freight and yard operations for every 1,000 GTMs traveled. This is calculated by dividing the total amount of fuel issued to our locomotives, excluding commuter and non-freight activities, by the total freight-related GTMs. The result indicates how efficiently we are using fuel.
WCB	Workers Compensation Board, a mutual insurance corporation providing workplace liability and disability insurance in Canada.
WTI	West Texas Intermediate, a commonly used index for the price of a barrel of crude oil.

FORM 52-109F2
CERTIFICATION OF INTERIM FILINGS

I, F. J. Green, Chief Executive Officer of Canadian Pacific Railway Limited, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers Annual and Interim Filings*) of Canadian Pacific Railway Limited (the issuer) for the interim period ending March 31, 2007;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly represent in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
   (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared; and

   (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer s GAAP; and
5. I have caused the issuer to disclose in the interim MD&A any change in the issuer s internal control over financial reporting that occurred during the issuer s most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer s internal control over financial reporting.

Date: April 24, 2007

Signed: F. J. Green
F. J. Green
Chief Executive Officer

FORM 52-109F2

CERTIFICATION OF INTERIM FILINGS

I, M. R. Lambert, Chief Financial Officer of Canadian Pacific Railway Limited, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers Annual and Interim Filings*) of Canadian Pacific Railway Limited (the issuer) for the interim period ending March 31, 2007;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly represent in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
   (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared; and

   (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer s GAAP; and
5. I have caused the issuer to disclose in the interim MD&A any change in the issuer s internal control over financial reporting that occurred during the issuer s most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer s internal control over financial reporting.

Date: April 24, 2007

Signed: M. R. Lambert
M. R. Lambert
Chief Financial Officer