

CANADIAN PACIFIC RAILWAY LTD/CN

Form 40-F

March 12, 2013

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

.. **REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**
OR

x **ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

CANADIAN PACIFIC RAILWAY LIMITED

(Commission File No. 1-01342)

CANADIAN PACIFIC RAILWAY COMPANY

(Commission File No. 1-15272)

(Exact name of Registrant as specified in its charter)

98-0355078

(Canadian Pacific Railway Limited)

98-0001377

(Canadian Pacific Railway Company)

CANADA

4011

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(Province or other jurisdiction of incorporation or organization) (Primary Standard Industrial Classification Code Number) (I.R.S. Employer Identification Number)

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

(403) 319-7000

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

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

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, without par value, of Canadian Pacific Railway Limited	New York Stock Exchange
Common Share Purchase Rights of Canadian Pacific Railway Limited	New York Stock Exchange
Perpetual 4% Consolidated Debenture Stock of Canadian Pacific Railway Company	New York Stock Exchange

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

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

Table of Contents

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

Annual information form

Audited annual financial statements

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

At December 31, 2012, 173,939,795 Common Shares of Canadian Pacific Railway Limited (CPRL) were issued and outstanding. At December 31, 2012, 347,170,009 Ordinary Shares of Canadian Pacific Railway Company (CPRC) were issued and outstanding. All of the ordinary shares of CPRC are held by CPRL.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES NO

Table of Contents

PRIOR FILINGS MODIFIED AND SUPERSEDED

The Registrants' Annual Report on Form 40-F for the year ended December 31, 2012, at the time of filing with the Securities and Exchange Commission (the Commission), modifies and supersedes all prior documents filed pursuant to Sections 13 and 15(d) of the Exchange Act for purposes of any offers or sales of any securities after the date of such filing pursuant to any Registration Statement under the Securities Act of 1933 of either Registrant which incorporates by reference such Annual Report, including without limitation the following: Form S-8 No. 333-13962 (Canadian Pacific Railway Limited); Form S-8 No. 333-127943 (Canadian Pacific Railway Limited); Form S-8 No. 333-140955 (Canadian Pacific Railway Limited); Form S-8 No. 333-183891 (Canadian Pacific Railway Limited); Form S-8 No. 333-183892 (Canadian Pacific Railway Limited) and Form S-8 No. 333-183893 (Canadian Pacific Railway Limited).

In addition, this Annual Report on Form 40-F is incorporated by reference into or as an exhibit to, as applicable, the Registration Statement on Form F-9 No. 333-175032 (Canadian Pacific Railway Company), and the Registration Statement on Form F-10 No. 333-175033 (Canadian Pacific Railway Limited).

ANNUAL INFORMATION FORM, CONSOLIDATED AUDITED ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

A. Annual Information Form

For the Annual Information Form of CPRL for the year ended December 31, 2012, see pages 1 through 46 of CPRL's 2012 Annual Information Form incorporated by reference and included herein.

B. Audited Annual Financial Statements

For audited consolidated financial statements (U.S. GAAP), including the reports of the independent public accounting firms with respect thereto, see pages 81 through 122 of CPRL's 2012 Annual Report incorporated by reference and included herein.

C. Management's Discussion and Analysis

For management's discussion and analysis, see pages 26 through 80 of CPRL's 2012 Annual Report incorporated by reference and included herein.

For the purposes of this Annual Report on Form 40-F, only pages 26 through 122 of CPRL's 2012 Annual Report referred to above shall be deemed filed, and the balance of such 2012 Annual Report, except as it may be otherwise specifically incorporated by reference in CPRL's Annual Information Form, shall be deemed not filed with the Securities and Exchange Commission as part of this Annual Report on Form 40-F under the Exchange Act.

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2012, an evaluation was carried out under the supervision of and with the participation of the Registrants' management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Registrants' disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of December 31, 2012, to ensure that information required to be disclosed by the Registrants in reports that they file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Commission rules and forms and (ii) accumulated and communicated to the Registrants' management, including their Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

It should be noted that while the Registrants' Chief Executive Officer and Chief Financial Officer believe that the Registrants' disclosure controls and procedures and internal control over financial reporting provide a reasonable level of assurance that they are effective, they do not expect that the Registrants' disclosure controls

Table of Contents

and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

For management's report on internal control over financial reporting, see page 82 of the Registrant's 2012 Annual Report, incorporated by reference and included herein.

ATTESTATION REPORT OF THE INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

The effectiveness of the Registrant's internal control over financial reporting as of December 31, 2012 has been audited by Deloitte LLP, Independent Registered Chartered Accountants, as stated in their report on pages 83 through 85 of the Registrant's 2012 Annual Report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

NOTICES PURSUANT TO REGULATION BTR

None.

CODE OF ETHICS

The Registrant's Code of Business Ethics specifically addresses, among other things, conflicts of interest, protection and proper use of corporate assets and opportunities, confidentiality of corporate information, fair dealing with third parties, compliance with laws, rules and regulations and reporting of illegal or unethical behavior. The Code applies to all directors, officers and employees, both unionized and non-unionized, of the Registrant and their subsidiaries in Canada, the U.S. and elsewhere, and forms part of the terms and conditions of employment of all such individuals. All members of the board of directors of the Registrant have signed acknowledgements that they have read, understood and agree to comply with the Code, and they annually confirm compliance. Annually, officers and non-union employees are required to acknowledge that they have read, understood and agree to comply with the Code. Contractors engaged on behalf of the Registrant or their subsidiaries must undertake, as a condition of their engagement, to adhere to principles and standards of business conduct consistent with those set forth in the Code. The Code is available on the Registrant's web site at www.cpr.ca and in print to any shareholder who requests it. All amendments to the Code, and all waivers of the Code with respect to any director or executive officer of the Registrant, will be posted on the Registrant's web site and provided in print to any shareholder who requests them.

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

Table of Contents

CORPORATE GOVERNANCE PRINCIPLES AND GUIDELINES

The Registrants have adopted their Corporate Governance Principles and Guidelines which pertain to such matters as, but are not limited to: director qualification standards and responsibilities; election of directors; discretionary term limits for service as board or board committee chairs; access by directors to management and independent advisors; director compensation; director retirement age; director orientation and continuing education; management succession; and annual performance evaluations of the board, including its committees and individual directors, and of the Chief Executive Officer. The Corporate Governance Principles and Guidelines are available on the Registrants' web site at www.cpr.ca and in print to any shareholder who requests them.

COMMITTEE TERMS OF REFERENCE

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

DIRECTOR INDEPENDENCE

The boards of the Registrants have adopted standards for director independence: (a) prescribed by Section 10A(m)(3) of the Exchange Act and Rule 10A-3(b)(1) promulgated thereunder and National Instrument 52-110 for members of public company audit committees; and (b) set forth in the NYSE Listed Company Manual (the NYSE Standards), the Canadian corporate governance standards set forth in National Instrument 58-101 and National Instrument 52-110 in respect of public company directors. The boards also conducted a comprehensive assessment of each of their members as against these standards and determined that all current directors, except Mr. Harrison, have no material relationship with the Registrants and are independent. Mr. Harrison is not independent by virtue of the fact that he is the Chief Executive Officer of the Registrants.

EXECUTIVE SESSIONS OF NON-MANAGEMENT DIRECTORS

The independent directors met in executive sessions without management present at most of the regular and special meetings of the board of directors of CPRL and its standing committees in 2012. In fact, each regularly scheduled meeting's agenda included one or more such sessions (often at the beginning and end of the meeting).

Interested parties may communicate directly with Mr. P.G. Haggis, the chair of the boards of the Registrants, who presided at such executive sessions, by writing to him at the following address, and all communications received at this address will be forwarded to him:

Office of the Corporate Secretary

Canadian Pacific Railway

Suite 920, 401 Avenue S.W.

Calgary, Alberta

Canada, T2P 4Z4

Table of Contents

IDENTIFICATION OF AUDIT COMMITTEE AND AUDIT COMMITTEE FINANCIAL EXPERT

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

Gary F. Colter

Richard C. Kelly

John P. Manley

Linda J. Morgan

Hartley T. Richardson

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

FINANCIAL LITERACY OF AUDIT COMMITTEE MEMBERS

The boards of the Registrants have determined that all members of the Audit Committees have accounting or related financial management expertise within the meaning of the NYSE Standards. The boards have determined that all members of the Audit Committees are financially literate within the definition contained in, and as required by, National Instrument 52-110 and the NYSE Standards.

SERVICE ON OTHER PUBLIC COMPANY AUDIT COMMITTEES

Each Registrant's board has determined that no director who serves on more than two public company audit committees in addition to its own Audit Committee shall be eligible to serve as a member of the Audit Committee of that Registrant, unless that Registrant's board determines that such simultaneous service would not impair the ability of such member to effectively serve on that Registrant's Audit Committee. For purposes of calculating the aggregate number of public company audit committees on which a director serves, each Registrant is counted as a separate public company.

Two members of the Audit Committees of the Registrants serve on more than two public company audit committees in addition to the Audit Committee of each Registrant, namely Messrs. Colter and Manley. Each Registrant's board has determined that such simultaneous service does not impair the ability of Messrs. Colter and Manley to effectively serve on that Registrant's Audit Committee.

Table of Contents**PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Deloitte LLP (Deloitte), Independent Registered Chartered Accountants, was appointed as the Registrants' external auditors in May 2012. As detailed in the following table, fees payable to Deloitte for the year ended December 31, 2012 totaled \$2,166,100 and for the year ended December 31, 2011, from the date of appointment as the Registrants' external auditors, totaled \$2,213,600. Fees payable to PricewaterhouseCoopers LLP (PWC) (the Registrants' independent auditors prior to May 2011) totaled \$311,900 for the year ended December 31, 2011.

	Deloitte Year Ended December 31, 2012	Deloitte ⁽¹⁾ Year Ended December 31, 2011	PWC ⁽²⁾ Year Ended December 31, 2011	Total Year Ended December 31, 2011
Audit Fees	\$ 2,090,300	\$ 1,806,300	\$ 56,200	\$ 1,668,800
Audit-Related Fees	\$ 27,500	\$ 57,300	\$ 100,500	\$ 351,500
Tax Fees	\$ 48,300	\$ 50,000	\$ 155,200	\$ 205,200
All Other Fees		\$ 300,000		\$ 300,000
TOTAL	\$ 2,166,100	\$ 2,213,600	\$ 311,900	\$ 2,525,500

⁽¹⁾ Fees paid to Deloitte for the fiscal year ended December 31, 2011 beginning after the appointment of Deloitte as principal auditors in May 2011

⁽²⁾ Fees paid to PWC for the fiscal year ended December 31, 2011 up to the appointment of Deloitte as principal auditors in May 2011

The nature of the services provided by the current and former independent public accounting firms under each of the categories indicated in the table is described below.

Audit Fees

Audit fees were for professional services rendered for the audit and interim review of the Registrants' annual financial statements and services provided in connection with statutory and regulatory filings or engagements, including the attestation engagement for the report from the independent public accounting firms on the effectiveness of internal controls over financial reporting, the audit or interim review of financial statements of certain subsidiaries and of various pension and benefits plans of the Registrants; special attestation services as may be required by various government entities; access fees for technical accounting database resources; and general advice and assistance related to accounting and/or disclosure matters with respect to new and proposed U.S. and Canadian accounting standards, securities regulations, and/or laws.

Audit-Related Fees

Audit-related fees were for attestation and related services reasonably related to the performance of the audit or review of the annual financial statements, but which are not reported under Audit Fees above. These services consisted of audit work related to securities filings.

Tax Fees

Tax fees were for professional services related to tax compliance, tax planning and tax advice. These services consisted of: tax compliance including the review of tax returns; assistance with questions regarding corporate tax audits; tax planning and advisory services relating to common forms of domestic and international taxation (i.e. income tax, capital tax, goods and services tax, and value added tax); and access fees for taxation database resources.

All Other Fees

Fees disclosed under this category would be for products and services other than those described under Audit Fees, Audit-Related Fees and Tax Fees above. These services consisted of services in connection with our business interruption and property damage claim.

Table of Contents

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

INDEPENDENT PUBLIC ACCOUNTING FIRMS

The Audit Committee of each Registrant has adopted a written policy governing the pre-approval of audit and non-audit services to be provided to the Registrants by their independent public accounting firm. The policy is reviewed annually and the audit and non-audit services to be provided by their independent public accounting firm, as well as the budgeted amounts for such services, are pre-approved at that time, including by the board of directors of the Registrant in respect of fees for audit services. The Vice-President and Comptroller of the Registrants must submit to the Audit Committee at least quarterly a report of all services performed or to be performed by the independent public accounting firm pursuant to the policy. Any additional non-audit services to be provided by the independent public accounting firm either not included among the pre-approved services or exceeding the budgeted amount for such pre-approved services by more than 10% must be individually pre-approved by the Audit Committee or its Chairman, who must report all such additional pre-approvals to the Audit Committee at its next meeting following the granting thereof. The independent public accounting firm's annual audit services engagement terms are subject to the specific pre-approval of the Audit Committee, with the associated fees being subject to approval by the board of directors of the Registrant. In addition, prior to the granting of any pre-approval, the Audit Committee or its Chairman, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of the independent public accounting firm. The Chief Internal Auditor for the Registrants monitors compliance with this policy.

OFF-BALANCE SHEET ARRANGEMENTS

A description of the Registrants' off-balance sheet arrangements is set forth on page 65 of the Registrants' 2012 Annual Report incorporated by reference and included herein.

TABLE OF CONTRACTUAL COMMITMENTS

The table setting forth the Registrants' contractual commitments is set forth on page 66 of the Registrants' 2012 Annual Report incorporated by reference and included herein.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

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

B. Consent to Service of Process

Each Registrant has previously filed a Form F-X in connection with the class of securities to which the obligation to file this report arises. Any change to the name or address of the agent for service of process of either Registrant shall be communicated promptly to the Commission by an amendment to the Form F-X referencing the file number of such Registrant.

Table of Contents

SIGNATURES

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

CANADIAN PACIFIC RAILWAY LIMITED

CANADIAN PACIFIC RAILWAY COMPANY

(Registrants)

/s/ Paul A. Guthrie

Name: Paul A. Guthrie

Title: Corporate Secretary

Date: March 12, 2013

Table of Contents

EXHIBITS

- 99.1 Consent of Deloitte LLP, Independent Registered Chartered Accountants.
- 99.2 Consent of PricewaterhouseCoopers LLP, Independent Auditors.
- 99.3 Certification by the Chief Executive Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
- 99.4 Certification by Chief Financial Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
- 99.5 Certification by the Chief Executive Officer of the Registrants furnished pursuant to 18 U.S.C. Section 1350.
- 99.6 Certification by the Chief Financial Officer of the Registrants filed pursuant to 18 U.S.C. Section 1350.
- 101 Interactive Data File

Table of Contents

ANNUAL INFORMATION FORM 2012

Table of Contents

TABLE OF CONTENTS

<u>SECTION 1: CORPORATE STRUCTURE</u>	
<u>1.1 NAME, ADDRESS AND INCORPORATION INFORMATION</u>	2
<u>SECTION 2: INTERCORPORATE RELATIONSHIPS</u>	
<u>2.1 PRINCIPAL SUBSIDIARIES</u>	3
<u>SECTION 3: GENERAL DEVELOPMENTS OF THE BUSINESS</u>	
<u>3.1 RECENT DEVELOPMENTS</u>	4
<u>SECTION 4: DESCRIPTION OF THE BUSINESS</u>	
<u>4.1 OUR BACKGROUND AND NETWORK</u>	7
<u>4.2 STRATEGY</u>	7
<u>4.3 PARTNERSHIPS, ALLIANCES AND NETWORK EFFICIENCY</u>	8
<u>4.4 NETWORK AND RIGHT-OF-WAY</u>	9
<u>4.5 QUARTERLY TRENDS</u>	11
<u>4.6 BUSINESS CATEGORIES</u>	12
<u>4.7 REVENUES</u>	12
<u>4.8 RAILWAY PERFORMANCE</u>	15
<u>4.9 FRANCHISE INVESTMENT</u>	17
<u>4.10 OPERATING PLAN (OP)</u>	18
<u>4.11 INFORMATION SERVICES</u>	18
<u>4.12 BUSINESS RISKS AND ENTERPRISE RISK MANAGEMENT</u>	18
<u>4.13 INDEMNIFICATIONS</u>	18
<u>4.14 SAFETY</u>	19
<u>4.15 ENVIRONMENTAL PROTECTION</u>	19
<u>4.16 INSURANCE</u>	20
<u>4.17 COMPETITIVE CONDITIONS</u>	20
<u>SECTION 5: DIVIDENDS</u>	
<u>5.1 DECLARED DIVIDENDS AND DIVIDEND POLICY</u>	21
<u>SECTION 6: CAPITAL STRUCTURE</u>	
<u>6.1 DESCRIPTION OF CAPITAL STRUCTURE</u>	22
<u>6.2 SECURITY RATINGS</u>	23
<u>SECTION 7: MARKET FOR SECURITIES</u>	
<u>7.1 STOCK EXCHANGE LISTINGS</u>	25
<u>7.2 TRADING PRICE AND VOLUME</u>	25
<u>SECTION 8: DIRECTORS AND OFFICERS</u>	
<u>8.1 DIRECTORS</u>	26
<u>8.2 CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS</u>	27
<u>8.3 SENIOR OFFICERS</u>	29
<u>8.4 SHAREHOLDINGS OF DIRECTORS AND OFFICERS</u>	31
<u>SECTION 9: LEGAL PROCEEDINGS</u>	
<u>SECTION 10: TRANSFER AGENTS AND REGISTRARS</u>	
<u>10.1 TRANSFER AGENT</u>	33
<u>SECTION 11: INTERESTS OF EXPERTS</u>	
<u>SECTION 12: AUDIT COMMITTEE</u>	
<u>12.1 COMPOSITION OF THE AUDIT COMMITTEE AND RELEVANT EDUCATION AND EXPERIENCE</u>	35
<u>12.2 PRE-APPROVAL OF POLICIES AND PROCEDURES</u>	36
<u>12.3 AUDIT COMMITTEE CHARTER</u>	36
<u>12.4 AUDIT AND NON-AUDIT FEES AND SERVICES</u>	44
<u>SECTION 13: FORWARD LOOKING INFORMATION</u>	
	45

SECTION 14: ADDITIONAL INFORMATION

14.1 ADDITIONAL COMPANY INFORMATION

46

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

March 12, 2013

Canadian Pacific 2012 AIF

1

Table of Contents

SECTION 1: CORPORATE STRUCTURE

In this AIF, our , us , we , CP and the Company refer to Canadian Pacific Railway Limited (CPRL), CPRL and its subsidiaries, CPRL and more of its subsidiaries, or one or more of CPRL 's subsidiaries, as the context may require.

1.1 Name, Address and Incorporation Information

Canadian Pacific Railway Limited was incorporated on June 22, 2001, as 3913732 Canada Inc. pursuant to the *Canada Business Corporations Act* (the CBCA). On July 20, 2001, CP amended its Articles of Incorporation to change its name to Canadian Pacific Railway Limited. On October 1, 2001, Canadian Pacific Limited (CPL) completed an arrangement (the Arrangement) pursuant to section 192 of the CBCA whereby it distributed to its common shareholders all of the shares of newly formed corporations holding the assets of four of CPL 's five primary operating divisions. The transfer of Canadian Pacific Railway Company (CPRC), previously a wholly owned subsidiary of CPL, to CPRL was accomplished as part of a series of steps, pursuant to the terms of the Arrangement.

Our registered, executive and head office is located at Suite 500, 401 - 9th Avenue S.W., Calgary, Alberta T2P 4Z4.

Canadian Pacific 2012 AIF

Table of Contents**SECTION 2: INTERCORPORATE RELATIONSHIPS****2.1 Principal Subsidiaries**

The table below sets out our principal subsidiaries, including the jurisdiction of incorporation and the percentage of voting and non-voting securities we currently own directly or indirectly:

Principal Subsidiary ⁽¹⁾	Incorporated under the Laws of	Percentage of Voting Securities Held Directly or Indirectly	Percentage of Non - Voting Securities Beneficially Owned, or over which Control or Direction is Exercised
Canadian Pacific Railway Company	Canada	100%	Not applicable
Soo Line Corporation ⁽²⁾	Minnesota	100%	Not applicable
Soo Line Railroad Company ⁽³⁾	Minnesota	100%	Not applicable
Dakota, Minnesota & Eastern Railroad Corporation ⁽⁴⁾	Delaware	100%	Not applicable
Delaware and Hudson Railway Company, Inc. ⁽²⁾	Delaware	100%	Not applicable
Mount Stephen Properties Inc. ⁽⁵⁾	Canada	100%	Not applicable

⁽¹⁾ This table does not include all of our subsidiaries. The assets and revenues of unnamed subsidiaries did not exceed 10% of the total consolidated assets or total consolidated revenues of CP individually, or 20% of the total consolidated assets or total consolidated revenues of CP in aggregate.

⁽²⁾ Indirect wholly owned subsidiary of Canadian Pacific Railway Company.

⁽³⁾ Wholly owned subsidiary of Soo Line Corporation.

⁽⁴⁾ Indirect wholly owned subsidiary of the Soo Line Corporation.

⁽⁵⁾ Wholly owned subsidiary of Canadian Pacific Railway Company.

Canadian Pacific 2012 AIF

Table of Contents

SECTION 3: GENERAL DEVELOPMENTS OF THE BUSINESS

3.1 Recent Developments

During 2012, the Company experienced a number of noteworthy events summarized below:

Proxy Contest

In January 2012, Pershing Square Capital Management, L.P. (Pershing Square) launched a proxy contest in order to replace a minority of the Board of Directors of the Company (the Board) and to advocate for management change (the Proxy Contest). As a result of this contest, the Company incurred \$27 million in advisory costs (advisory costs associated with shareholder matters) in the first six months of 2012 with a further \$6 million incurred in the fourth quarter of 2011. The proxy contest was settled in May 2012 with changes described below in Change in Board of Directors and Management transition.

Change in Board of Directors

On May 17, 2012, following the Proxy Contest Messrs. John Cleghorn, Tim Faithfull, Fred Green, Edmond Harris, Michael Phelps and Roger Phillips advised the Company that they did not intend to stand for re-election to the Board.

At the Company's annual shareholders meeting held on May 17, 2012, seven new directors were elected to the Board, namely Messrs. William Ackman, Gary Colter, Paul Haggis and Paul Hilal, Ms. Rebecca MacDonald, and Messrs. Anthony Melman and Stephen Tobias. In addition, Mr. Richard George, Ms. Krystyna Hoeg, Messrs. Tony Ingram and Richard Kelly, the Hon. John Manley, Mesdames Linda Morgan and Madeleine Paquin, and Messrs. David Raisbeck and Hartley Richardson were all re-elected to the Board at the May 17, 2012 meeting. Following the meeting, the new Board selected Ms. Paquin to serve as acting Chair of the Company. On June 4, 2012, Mr. Haggis was appointed Chairman of the Company's Board.

Subsequent to the May 17, 2012 shareholders meeting, Messrs. Raisbeck, George and Ingram resigned from the Board on June 11, June 26 and July 5, 2012, respectively. In addition, effective July 6, 2012, Mr. E. Hunter Harrison was appointed to the Board.

As a result of the aforementioned changes to the composition of the Board, certain accelerated vesting provisions for certain grants under the Company's management stock option incentive plan, performance share unit plan and deferred share unit plan were triggered effective June 26, 2012. The effect of such accelerated vesting on the Company's second quarter financial statements was a credit to Compensation and benefits of \$8 million and the recognition of a related liability under the accelerated vesting provisions of these plans of \$31 million, which liability was settled in full in the third quarter of 2012.

Management transition

On May 17, 2012, following the Proxy Contest, Mr. Fred Green left his position as President and Chief Executive Officer of the Company. That same day, Mr. Stephen Tobias, a new Board member elected at the Company's annual shareholders meeting held on May 17, 2012, was appointed by the Board as Interim Chief Executive Officer and served in that role until June 28, 2012. On June 28, 2012, Mr. E. Hunter Harrison was appointed by the Board as President and Chief Executive Officer. As a result of the appointment of Mr. Harrison, the Company recorded a charge of \$38 million with respect to compensation and other transition costs, including \$2 million of associated costs, in the second quarter of 2012. This charge was recorded in the Company's financial statements in Compensation and benefits and Purchased services and other, in the amounts of \$16 million and \$22 million respectively.

Included in this charge were amounts totaling \$16 million in respect of deferred retirement compensation for Mr. Harrison and \$20 million to Pershing Square and related entities. Pershing Square and related entities own or control approximately 14% of the Company's outstanding shares and two Board members, Mr. William Ackman and Mr. Paul Hilal, are partners of Pershing Square. The amount paid to Pershing Square and related entities was to reimburse them, on behalf of Mr. Harrison, for certain amounts they had previously paid to, or incurred on behalf of, Mr. Harrison pursuant to an indemnity in favour of Mr. Harrison in connection with losses suffered in legal proceedings commenced against Mr. Harrison by his former employer. The terms of Pershing Square's indemnity required Mr. Harrison to return any funds advanced under the

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indemnity in the event he accepted employment at CP. As a result, Mr. Harrison made it a precondition of accepting the Company's offer of employment that CP assume the indemnity obligations and return the funds advanced by Pershing Square. As a result of the payment, the Company would have been entitled to enforce Mr. Harrison's rights in the aforementioned legal proceedings, allowing the Company to recover to the extent of Mr. Harrison's success in those proceedings; however, on February 3, 2013, the Company and Mr. Harrison settled the legal proceedings with Mr. Harrison's former employer, providing the Company with partial recovery (US\$9 million) of the amounts in dispute. The Company may receive repayment in other circumstances in the event of certain breaches by Mr. Harrison of his obligations under an employment agreement with the Company. In addition, the Company agreed to indemnify Mr. Harrison for certain other amounts sought for

Canadian Pacific 2012 AIF

4

Table of Contents

SECTION 3: GENERAL DEVELOPMENTS OF THE BUSINESS

repayment by Mr. Harrison's former employer, to a maximum of \$3 million plus legal fees, but as a result of the settlement of the aforementioned legal proceedings, such indemnity is no longer applicable.

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

On February 5, 2013, as part of its long-term succession plan, the Company appointed Mr. Keith Creel as President and Chief Operating Officer. In connection with this appointment, Mr. Harrison's title changed to Chief Executive Officer.

Strike

On May 23, 2012, the Teamsters Canada Rail Conference Running Trade Employees (TCRC-RTE) and the Rail Canada Traffic Controllers (TCRC-RCTC), representing 4,800 engineers, conductors and rail traffic controllers in Canada, commenced a strike that caused a nine-day Canadian work stoppage (the strike). Bill C-39, the Restoring Rail Service Act, was passed by the Parliament of Canada on May 31, 2012 and employees returned to work on June 1, 2012.

The strike caused a significant loss of revenue during the second quarter. Partly offsetting this revenue loss were cost savings in Compensation and benefits, Fuel, and Equipment rents. During the strike, we took the opportunity to advance track and other maintenance including mechanical and engineering work.

Once the unions returned to work the Company quickly re-established service and reset the network.

Investor Conference

At Canadian Pacific's Investor conference in New York on December 4-5, 2012, CP's Chief Executive Officer E. Hunter Harrison outlined the Company's plan for change to improve service, increase the railway's efficiency, lower cost and grow the business.

Under the leadership of new management, the second half of 2012 included a rapid change agenda where progress was made on this plan. Highlights of CP's evolution to a more competitive railway include:

a new executive leadership team in place, including a new Senior Operations lead team, with a mandate for centralized planning and decentralized execution, that eliminates bureaucracy to make service decisions faster and closer to the customer;

revamped intermodal and merchandise train services which provide faster transit times for customers, such as the new intermodal services connecting Vancouver to Chicago or Toronto;

the closure of hump-switching yards in Toronto, Winnipeg, Calgary and Chicago which provides significant cost savings and more efficient operating practices;

the closure of intermodal terminals in Milwaukee, Obico (Toronto), and Schiller Park (Chicago) which reduces CP's footprint and operating expenses while also facilitating efficient operating practices and reduced end-to-end transit times;

network design changes made after July 2012 allowed CP to reduce operating plan train miles by 39,000 per week, a 7 per cent improvement, and crew starts by approximately 30 per day, a 5 per cent improvement over previous designs from the first half of the year. Together, these design changes reduced annual operating costs, while increasing capacity; and