CANADIAN PACIFIC RAILWAY LTD/CN
Form 6-K
July 23, 2008

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 July, 2008
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 þ

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 þ

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

This Report furnished on Form 6-K shall be incorporated by reference into 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: July 22, 2008

By: Signed: Karen L. Fleming
Name: Karen L. Fleming
Title: Corporate Secretary

Release: Immediate, July 22nd, 2008

CANADIAN PACIFIC ANNOUNCES ITS SECOND-QUARTER RESULTS

CALGARY Canadian Pacific Railway Limited (TSX/NYSE: CP) announced its second-quarter results today. Net income in the second quarter was $155 million, a decrease of 40 per cent from $257 million in 2007, and diluted earnings per share was $1.00, a decrease from $1.64 in the second quarter of 2007.

SUMMARY OF SECOND-QUARTER 2008 COMPARED WITH SECOND-QUARTER 2007

- Total revenues were essentially flat at $1.22 billion
- Income before foreign exchange gains and losses on long-term debt and other specified items decreased to $150 million from $175 million
- Adjusted diluted earnings per share decreased to $0.97 from $1.12
- Operating ratio was 79.4 per cent compared with 74.7 per cent

This was a tough quarter with the unprecedented rise in fuel prices, the North American economic downturn, and prolonged flooding on our US mainline, said Fred Green, President and CEO. Combined, these had a significant impact on CP s earnings.

We see the current economic conditions continuing, and CP is taking aggressive steps which should position us well for 2009, continued Mr. Green. I have accelerated a rigorous process to improve our productivity, efficiency, and yield.

Freight revenues increased almost two per cent despite a decrease in traffic. This was mainly due to pricing, inclusive of fuel recoveries. CP experienced strong growth in industrial and consumer products of 17 per cent, intermodal of nine per cent and coal of six per cent. This was offset by decreases in forest products of 21 per cent, grain of nine per cent, sulphur and fertilizers of five per cent, and automotive of two per cent.

Operating expenses increased seven per cent with fuel up 34 per cent and purchased services and other, depreciation and amortization and materials up from two to nine per cent. This was offset by a decrease in equipment rents of 20 per cent and compensation and benefits of four per cent.

SUMMARY OF FIRST-HALF 2008 COMPARED WITH FIRST-HALF 2007

Net income for the first half of 2008 was $246 million compared with $385 million in 2007, a decrease of 36 per cent. Diluted earnings per share was $1.59 down from $2.46.

Freight revenues increased two per cent to $2.3 billion and operating expenses were up seven per cent to $1.9 billion.

EXCLUDING FOREIGN EXCHANGE GAINS AND LOSSES ON LONG-TERM DEBT AND OTHER SPECIFIED ITEMS

- Income decreased to $267 million from $297 million.
- Diluted earnings per share were $1.72 down from $1.90.
- Operating ratio deteriorated 400 basis points to 81.0 per cent from 77.0 per cent.

2008 OUTLOOK

We continue to focus on driving positive pricing gains and strengthening our fuel recovery and cost management programs, said Mike Lambert, Chief Financial Officer. However, these will not be enough to offset the challenges we are facing with the higher price of fuel and the slowing North American economy. We are updating our guidance to reflect our substantially higher fuel assumptions and the deteriorating economic conditions. We now expect our full-year adjusted diluted earnings per share to be in the range of $4.00 to $4.20, down from our previous guidance of $4.40 to $4.60.

The 2008 estimate assumes an average currency exchange rate of the U.S. dollar at par with the Canadian dollar. Crude oil prices are expected to average US $121 per barrel for the year (versus the previous assumption of US $98 per barrel) with the second half averaging roughly US $140 per barrel. Crack spreads are expected to average US $23 per barrel for the year (versus the previous assumption of US $20 per barrel) with the second half averaging US $27 per barrel. The estimated average all-in fuel price is expected to be between US $3.80 and $3.90 per U.S. gallon for the year.

CP strives to mitigate the impact of any changes in WTI and crack margins through fuel recovery programs. However, these programs do not completely offset the changes in expense caused by changes in WTI and crack margins.

The approximate net annual impact on EPS of changes in WTI and crack margins given CP s current portfolio of freight contracts is as follows:

A change in WTI of US $2 per barrel impacts EPS by $0.01

A change in crack margins of US $1 per barrel impacts EPS by $0.02

These sensitivities do not consider the impact of the lagged implementation of changes in fuel surcharges from the timing of actual expenses incurred. This lag is due to regulatory notice requirements for rail price adjustments.

CP expects to grow total revenue by six to eight per cent in 2008, up from previous guidance of four to six per cent due mostly to increased fuel recovery, offset somewhat by volume declines. Total operating expenses are expected to increase by 11 to 13 per cent, revised from the previous guidance of six to eight per cent due principally to higher fuel cost.

CP expects its normalized tax rate to be between 26 per cent and 27 per cent, excluding the impact of the Dakota Minnesota & Eastern Railroad (DM&E) equity pick-up, a change from the previous outlook of 27 per cent to 29 per cent as a result of decreasing Canadian provincial tax rates.

CP expects free cash to be approximately $150 million, adjusted downwards from the previous outlook of approximately $200 million in 2008, due to lower projected earnings.

The 2008 outlook includes the projected after tax earnings of the DM&E on an equity accounting basis for the full year.

FOREIGN EXCHANGE GAINS AND LOSSES ON LONG-TERM DEBT AND OTHER SPECIFIED ITEMS

CP had a foreign exchange gain on long-term debt of $7 million ($5 million after tax) in the second quarter of 2008, compared with a foreign exchange gain on long-term debt of $89 million ($65 million after tax) in the second quarter of 2007. There were no other specified items in the

second quarter of 2008. There was a future income tax benefit of $17 million in the second quarter of 2007 resulting from a reduction in the Canadian federal income tax rate.

For the first six months of 2008, CP had a foreign exchange loss on long-term debt of $10 million ($6 million after tax) compared with a foreign exchange gain of $97 million ($71 million after tax) in the first half of 2007.

At June 30, 2008 CP held investments in Canadian Non-Bank Asset Backed Commercial Paper (ABCP) with an original cost of approximately $144 million. In the third-quarter of 2007, CP adjusted the estimated fair value of the investment and took a charge of $21 million ($15 million after tax) and classified the investments as long-term investments. In the first quarter of 2008, in recognition of current market conditions impacting these investments, CP further adjusted the estimated fair value of the investments and took an additional charge of $21 million ($15 million after tax). The estimated fair value of the investments as at June 30, 2008 was unchanged from the estimated fair value at March 31, 2008.

Continuing uncertainties regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a material change in the value of the Company s investments in ABCP which would impact the Company s near-term earnings.

In the first quarter of 2008, the company recorded a $21 million ($15 million after tax) impairment of the company s investment in ABCP. Other than the future income tax benefit of $17 million mentioned above, there were no additional other specified items in the first half of 2007.

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 is calculated as cash provided by operating activities, less cash used in investing activities and dividends paid, adjusted for the acquisition of the DM&E, and now excluding changes in the accounts receivable securitization program, which was terminated in the second quarter. Free cash is adjusted for the DM&E acquisition, as it is not indicative of normal day-to-day investments in the Company s asset base. The securitization of accounts receivable is a financing-type transaction, which is excluded to clarify the nature of the use of free cash.

Earnings that exclude the 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.

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 North American and global economic and business conditions; risks in agricultural production such as weather conditions and insect populations; 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, including regulation of rates; changes in taxes and tax 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 and investments; 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.

Except as required by law, 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, remains committed to being the safest, 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 CPR 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.

Contacts:

Media	Investment Community
Leslie Pidcock	Janet Weiss, Assistant Vice-President Investor Relations
Tel.: (403) 319-6878	Tel.: (403) 319-3591
email: leslie_pidcock@cpr.ca	email: investor@cpr.ca

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

	For the three months ended June 30	
	2008	**2007**
	(unaudited)	
Revenues		
Freight	$ 1,193.1	$ 1,174.1
Other	27.2	41.4
	1,220.3	1,215.5
Operating expenses		
Compensation and benefits	315.5	329.8
Fuel	260.3	193.7
Materials	56.5	55.6
Equipment rents	46.1	57.3
Depreciation and amortization	124.7	119.1
Purchased services and other	166.1	152.3
	969.2	907.8
Revenues less operating expenses	**251.1**	**307.7**
Other charges *(Note 4)*	4.9	8.2
Equity income in Dakota, Minnesota & Eastern Railroad Corporation *(Note 10)*	(13.4)	
Foreign exchange gains on long-term debt	(6.8)	(88.6)
Interest expense *(Note 5)*	62.9	49.2
Income tax expense *(Note 6)*	48.6	82.2
Net income	**$ 154.9**	**$ 256.7**
Basic earnings per share *(Note 7)*	**$ 1.01**	**$ 1.66**
Diluted earnings per share *(Note 7)*	**$ 1.00**	**$ 1.64**

See notes to interim consolidated financial statements.

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

	For the six months ended June 30	
	2008	**2007**
	(unaudited)	
Revenues		
Freight	$ 2,317.5	$ 2,265.0
Other	49.7	66.4
	2,367.2	2,331.4
Operating expenses		
Compensation and benefits	643.8	662.3
Fuel	490.5	364.9
Materials	122.0	118.0
Equipment rents	92.0	112.8
Depreciation and amortization	244.6	237.7
Purchased services and other	325.0	298.7
	1,917.9	1,794.4
Revenues less operating expenses	**449.3**	**537.0**
Other charges *(Note 4)*	11.6	13.0
Equity income in Dakota, Minnesota & Eastern Railroad Corporation *(Note 10)*	(24.4)	
Change in estimated fair value of Canadian third party asset-backed commercial paper *(Note 10)*	21.3	
Foreign exchange losses (gains) on long-term debt	9.5	(97.2)
Interest expense *(Note 5)*	122.8	96.0
Income tax expense *(Note 6)*	62.8	139.9
Net income	**$ 245.7**	**$ 385.3**
Basic earnings per share *(Note 7)*	**$ 1.60**	**$ 2.49**
Diluted earnings per share *(Note 7)*	**$ 1.59**	**$ 2.46**

See notes to interim consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in millions of Canadian dollars)

	For the three months ended June 30	
	2008	**2007**
	(unaudited)	
Comprehensive income		
Net income	$ 154.9	$ 256.7
Other comprehensive income		
Net change in foreign currency translation adjustments, net of hedging activities	(1.1)	(2.9)
Net change in gains on derivatives designated as cash flow hedges	16.7	(9.8)
Other comprehensive income (loss) before income taxes	15.6	(12.7)
Income tax expense	(5.3)	(2.0)
Other comprehensive income (loss) (*Note 13*)	10.3	(14.7)
Comprehensive income	$ 165.2	$ 242.0

	For the six months ended June 30	
	2008	**2007**
	(unaudited)	
Comprehensive income		
Net income	$ 245.7	$ 385.3
Other comprehensive income		
Net change in foreign currency translation adjustments, net of hedging activities	2.2	(3.2)
Net change in gains on derivatives designated as cash flow hedges	7.9	(13.0)
Other comprehensive income (loss) before income taxes	10.1	(16.2)
Income tax recovery (expense)	2.7	(1.3)

Other comprehensive income (loss) (*Note 13*)	12.8	(17.5)
Comprehensive income	$ 258.5	$ 367.8

See notes to interim consolidated financial statements.

CONSOLIDATED BALANCE SHEET
(in millions of Canadian dollars)

	June 30 2008	December 31 2007
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	$ 80.9	$ 378.1
Accounts receivable and other current assets *(Note 9)*	681.3	542.8
Materials and supplies	199.5	179.5
Future income taxes	66.7	67.3
	1,028.4	1,167.7
Investments *(Note 10)*	1,717.6	1,668.6
Net properties	9,464.2	9,293.1
Other assets and deferred charges *(Note 15)*	1,468.0	1,235.6
Total assets	$ 13,678.2	$ 13,365.0
Liabilities and shareholders equity		
Current liabilities		
Short-term borrowing	$ 255.0	$ 229.7
Accounts payable and accrued liabilities	954.2	980.8
Income and other taxes payable	50.7	68.8
Dividends payable	38.1	34.5
Long-term debt maturing within one year	238.4	31.0
	1,536.4	1,344.8
Deferred liabilities	717.2	714.6
Long-term debt *(Note 11)*	4,016.8	4,146.2
Future income taxes	1,741.8	1,701.5
Shareholders equity		
Share capital *(Note 12)*	1,216.9	1,188.6
Contributed surplus	39.8	42.4
Accumulated other comprehensive income *(Note 13)*	52.4	39.6
Retained income	4,356.9	4,187.3

	5,666.0	5,457.9
Total liabilities and shareholders equity	$ 13,678.2	$ 13,365.0

Commitments and contingencies *(Note 19)*.
See notes to interim consolidated financial statements.

STATEMENT OF CONSOLIDATED CASH FLOWS
(in millions of Canadian dollars)

	For the three months ended June 30	
	2008	**2007**
	(unaudited)	
Operating activities		
Net income	$ 154.9	$ 256.7
Add (deduct) items not affecting cash:		
Depreciation and amortization	124.7	119.1
Future income taxes	32.4	57.7
Foreign exchange gains on long-term debt	(6.8)	(88.6)
Amortization of deferred charges	2.6	3.1
Equity income, net of cash received	(11.4)	
Restructuring and environmental remediation payments *(Note 8)*	(10.8)	(12.0)
Other operating activities, net	29.9	0.9
Change in non-cash working capital balances related to operations *(Note 9)*	(132.5)	27.6
Cash provided by operating activities	**183.0**	**364.5**
Investing activities		
Additions to properties	(237.3)	(158.4)
Additions to investments and other assets *(Note 15)*	(57.8)	(11.4)
Additions to investment in Dakota, Minnesota & Eastern Railroad Corporation (*Note 10)*	(1.2)	
Net (cost) proceeds from disposal of transportation properties	(0.1)	(0.4)
Cash used in investing activities	**(296.4)**	**(170.2)**
Financing activities		
Dividends paid	(38.0)	(34.7)
Issuance of CP Common Shares	4.8	15.0
Purchase of CP Common Shares		(212.0)
Net (decrease) increase in short-term borrowing	188.3	(77.7)
Issuance of long-term debt *(Note 11)*	1,068.7	485.1
Repayment of long-term debt	(1,069.9)	(3.5)
Settlement of treasury rate lock *(Note 14)*	(30.9)	
Cash provided by financing activities	**123.0**	**172.2**

Cash position		
Increase in cash and cash equivalents	9.6	366.5
Cash and cash equivalents at beginning of period	71.3	25.6
Cash and cash equivalents at end of period	$ 80.9	$ 392.1

See notes to interim consolidated financial statements.

STATEMENT OF CONSOLIDATED CASH FLOWS
(in millions of Canadian dollars)

	For the six months ended June 30	
	2008	**2007**
	(unaudited)	
Operating activities		
Net income	$ 245.7	$ 385.3
Add (deduct) items not affecting cash:		
Depreciation and amortization	244.6	237.7
Future income taxes	27.9	96.2
Change in estimated fair value of Canadian third party asset-backed commercial paper *(Note 10)*	21.3	
Foreign exchange losses (gains) on long-term debt	9.5	(97.2)
Amortization of deferred charges	5.1	6.2
Equity income, net of cash received	(20.8)	
Restructuring and environmental remediation payments *(Note 8)*	(24.5)	(25.2)
Other operating activities, net	4.4	(1.8)
Change in non-cash working capital balances related to operations *(Note 9)*	(170.2)	(9.0)
Cash provided by operating activities	**343.0**	**592.2**
Investing activities		
Additions to properties	(364.7)	(362.6)
Additions to investments and other assets *(Note 15)*	(192.5)	(11.7)
Additions to investment in Dakota, Minnesota & Eastern Railroad Corporation (*Note 10)*	(7.5)	
Net (cost) proceeds from disposal of transportation properties	(2.6)	8.5
Cash used in investing activities	**(567.3)**	**(365.8)**
Financing activities		
Dividends paid	(72.5)	(63.8)
Issuance of CP Common Shares	17.0	25.1
Purchase of CP Common Shares		(228.1)
Net (decrease) increase in short-term borrowing	25.3	
Issuance of long-term debt *(Note 11)*	1,068.7	485.1
Repayment of long-term debt	(1,080.5)	(176.9)
Settlement of treasury rate lock *(Note 14)*	(30.9)	
Cash (used in) provided by financing activities	**(72.9)**	**41.4**

Cash position		
Increase (decrease) in cash and cash equivalents	(297.2)	267.8
Cash and cash equivalents at beginning of period	378.1	124.3
Cash and cash equivalents at end of period	$ 80.9	$ 392.1

See notes to interim consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY
(in millions of Canadian dollars)

	For the three months ended June 30	
	2008	**2007**
	(unaudited)	
Share capital		
Balance, beginning of period	$ 1,210.4	$ 1,182.9
Shares issued under stock option plans	6.5	18.5
Shares purchased		(19.4)
Balance, end of period	1,216.9	1,182.0
Contributed surplus		
Balance, beginning of period	38.5	37.1
Stock compensation expense	2.3	2.1
Stock compensation expense related to shares issued under stock option plans	(1.0)	(0.5)
Balance, end of period	39.8	38.7
Accumulated other comprehensive income		
Balance, beginning of period	42.1	77.6
Other comprehensive income (loss) (*Note 13*)	10.3	(14.7)
Balance, end of period	52.4	62.9
Retained income		
Balance, beginning of period	4,240.1	3,641.7
Net income for the period	154.9	256.7

Shares purchased		(168.6)
Dividends	(38.1)	(34.9)
Balance, end of period	4,356.9	3,694.9
Total accumulated other comprehensive income and retained income	4,409.3	3,757.8
Shareholders equity, end of period	$ 5,666.0	$ 4,978.5

See notes to interim consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY
(in millions of Canadian dollars)

	For the six months ended June 30	
	2008	**2007**
	(unaudited)	
Share capital		
Balance, beginning of period	$ 1,188.6	$ 1,175.7
Shares issued under stock option plans	28.3	30.8
Shares purchased		(24.5)
Balance, end of period	1,216.9	1,182.0
Contributed surplus		
Balance, beginning of period	42.4	32.3
Stock compensation expense	6.8	7.4
Stock compensation expense related to shares issued under stock option plans	(9.4)	(1.0)
Balance, end of period	39.8	38.7
Accumulated other comprehensive income		
Balance, beginning of period	39.6	66.4
Adjustment for change in accounting policy		14.0
Adjusted balance, beginning of period	39.6	80.4
Other comprehensive income (loss) (*Note 13*)	12.8	(17.5)
Balance, end of period	52.4	62.9
Retained income		

Balance, beginning of period	4,187.3	3,582.1
Adjustment for change in accounting policy		4.0
Adjusted balance, beginning of period	4,187.3	3,586.1
Net income for the period	245.7	385.3
Shares purchased		(206.6)
Dividends	(76.1)	(69.9)
Balance, end of period	4,356.9	3,694.9
Total accumulated other comprehensive income and retained income	4,409.3	3,757.8
Shareholders equity, end of period	$ 5,666.0	$ 4,978.5

See notes to interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008
(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) 2007 annual consolidated financial statements, except as discussed below and in Note 2 for the adoption of new accounting standards. 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.

2 New accounting changes

Financial Instrument and Capital Disclosures

The CICA has issued the following accounting standards effective for fiscal years beginning on or after January 1, 2008: Section 3862 Financial Instruments Disclosures , Section 3863 Financial Instruments Presentation , and Section 1535 Capital Disclosures .

Section 3862 Financial Instruments Disclosures and Section 3863 Financial Instruments Presentation replace Section 3861 Financial Instruments Disclosure and Presentation , revising disclosures related to financial instruments, including hedging instruments, and carrying forward unchanged presentation requirements.

Section 1535 Capital Disclosures requires the Company to provide disclosures about the Company s capital and how it is managed.

The adoption of these new accounting standards did not impact the amounts reported in the Company s financial statements; however, it did result in expanded note disclosure (see Note 14 and Note 20).

Inventories

Effective January 1, 2008, the CICA has issued accounting standard Section 3031 Inventories . Section 3031 Inventories provides guidance on the method of determining the cost of the Company s materials and supplies. The new accounting standard specifies that inventories are to be valued at the lower of cost and net realizable value. The standard requires the reversal of previously recorded write downs to realizable value when there is clear evidence that net realizable value has increased. The adoption of Section 3031 Inventories did not impact the Company s financial statements.

3 Future accounting changes

In February 2008, the CICA issued accounting standard Section 3064 Goodwill and intangible assets , replacing accounting standard Section 3062 Goodwill and other intangible assets and accounting standard Section 3450 Research and development costs . The new Section will be applicable on a retrospective basis with restatement to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. Section 3064 establishes standards for the

recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008
(unaudited)

4 Other charges

(in millions)	For the three months ended June 30 2008	2007	For the six months ended June 30 2008	2007
Amortization of discount on accruals recorded at present value	$ 1.6	$ 2.2	$ 3.1	$ 4.2
Other exchange losses	0.6	2.5	1.9	2.0
Loss on sale of accounts receivable	1.1	1.4	2.7	2.7
Gains on non-hedging derivative instruments	(0.9)	(0.1)	(0.9)	(0.4)
Other	2.5	2.2	4.8	4.5
Total other charges	$ 4.9	$ 8.2	$ 11.6	$ 13.0

5 Interest expense

(in millions)	For the three months ended June 30 2008	2007	For the six months ended June 30 2008	2007
Interest expense	$ 64.8	$ 52.3	$ 129.5	$ 101.1
Interest income	(1.9)	(3.1)	(6.7)	(5.1)
Total interest expense	$ 62.9	$ 49.2	$ 122.8	$ 96.0

6 Income taxes

During the six months ended June 30, 2008, legislation was substantively enacted to reduce provincial income tax rates. As a result of these changes, the Company recorded a $15.7 million benefit in future tax liability and income tax expense for the six months ended June 30, 2008, related to the revaluation of its future income tax balances as at December 31, 2007. For the three months ended June 30, 2008, the Company recorded a $5.1 million benefit in future income tax liability and income tax expenses.

Cash taxes paid for the quarter ended June 30, 2008, was $13.2 million (three months ended June 30, 2007 cash taxes refunded was $1.1 million). Cash taxes paid in the six months ended June 30, 2008 was $57.9 million (six months ended June 30, 2007 $8.1 million).

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7 Earnings per share

At June 30, 2008, the number of shares outstanding was 153.8 million (June 30, 2007 153.1 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 June 30		**For the six months ended June 30**	
(in millions)	**2008**	**2007**	**2008**	**2007**
Weighted average shares outstanding	153.7	154.3	153.6	154.9
Dilutive effect of stock options	1.4	1.8	1.4	1.5
Weighted average diluted shares outstanding	155.1	156.1	155.0	156.4
(in dollars)				
Basic earnings per share	$ 1.01	$ 1.66	$ 1.60	$ 2.49
Diluted earnings per share	$ 1.00	$ 1.64	$ 1.59	$ 2.46

For the three and six months ended June 30, 2008, 613,933 and 617,825 options were excluded from the computation of diluted earnings per share because their effects were not dilutive (three and six months ended June 30, 2007 nil and 2,425).

8 Restructuring and environmental remediation

At June, 2008, the provision for restructuring and environmental remediation was $217.2 million (December 31, 2007 $234.0 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:

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8 Restructuring and environmental remediation (continued)

Three months ended June 30, 2008

(in millions)	**Opening Balance Apr. 1 2008**	**Accrued**	**Payments**	**Amortization of Discount**	**Foreign Exchange Impact**	**Closing Balance June 30 2008**
Labour liability for terminations and severances	$ 118.9	1.5	(8.3)	1.1	(0.3)	$ 112.9
Other non-labour liabilities for exit plans	0.6					0.6
Total restructuring liability	**119.5**	**1.5**	**(8.3)**	**1.1**	**(0.3)**	**113.5**
Environmental remediation program	105.5	1.0	(2.5)		(0.3)	103.7
Total restructuring and environmental remediation liability	**$ 225.0**	**2.5**	**(10.8)**	**1.1**	**(0.6)**	**$ 217.2**

Three months ended June 30, 2007

(in millions)	**Opening Balance April 1 2007**	**Accrued (reduced)**	**Payments**	**Amortization of Discount**	**Foreign Exchange Impact**	**Closing Balance June 30 2007**
Labour liability for terminations and severances	$ 176.1	(2.1)	(9.6)	1.7	(2.5)	$ 163.6
Other non-labour liabilities for exit plans	1.3				(0.2)	1.1
Total restructuring liability	**177.4**	**(2.1)**	**(9.6)**	**1.7**	**(2.7)**	**164.7**

Environmental remediation program	119.2	1.1	(2.4)		(5.2)	112.7
Total restructuring and environmental remediation liability	**$ 296.6**	**(1.0)**	**(12.0)**	**1.7**	**(7.9)**	**$ 277.4**

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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8 Restructuring and environmental remediation (continued)

Six months ended June 30, 2008

(in millions)	**Opening Balance Jan. 1 2008**	**Accrued**	**Payments**	**Amortization of Discount**	**Foreign Exchange Impact**	**Closing Balance June 30 2008**
Labour liability for terminations and severances	$ 129.2	1.5	(20.6)	2.2	0.6	$ 112.9
Other non-labour liabilities for exit plans	0.8		(0.2)			0.6
Total restructuring liability	**130.0**	**1.5**	**(20.8)**	**2.2**	**0.6**	**113.5**
Environmental remediation program	104.0	1.9	(3.7)		1.5	103.7
Total restructuring and environmental remediation liability	**$ 234.0**	**3.4**	**(24.5)**	**2.2**	**2.1**	**$ 217.2**

Six months ended June 30, 2007

(in millions)	**Opening Balance Jan. 1 2007**	**Accrued (reduced)**	**Payments**	**Amortization of Discount**	**Foreign Exchange Impact**	**Closing Balance June 30 2007**
Labour liability for terminations and severances	$ 187.4	(2.1)	(22.1)	3.2	(2.8)	$ 163.6
Other non-labour liabilities for exit plans	1.4		(0.1)		(0.2)	1.1
Total restructuring liability	**188.8**	**(2.1)**	**(22.2)**	**3.2**	**(3.0)**	**164.7**

Environmental remediation program	120.2	1.3	(3.0)		(5.8)	112.7
Total restructuring and environmental remediation liability	**$ 309.0**	**(0.8)**	**(25.2)**	**3.2**	**(8.8)**	**$ 277.4**

Amortization of Discount is charged to income as Other Charges , Compensation and Benefits and Purchased Services and Other as applicable. New accruals and adjustments to previous accruals are reflected in Compensation and Benefits and Purchased Services and Other as applicable.

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9 Accounts Receivable

As at March 31, 2008, the Company had an accounts receivable securitization program. Under the terms of the program, the Company sold an undivided co-ownership interest in $120.0 million of eligible freight receivables to an unrelated trust. In the second quarter of 2008, the Company s accounts receivable securitization program was terminated. As a result of this termination, in the Company s Consolidated balance sheet, Accounts receivable and other current assets increased by $120.0 million and in the Statement of consolidated cash flows the Change in non-cash working capital balances related to operations reflected an outflow of $120.0 million. As well, the related servicing asset and liability which had previously been recognized are no longer required to be maintained and were settled as part of the termination.

10 Investments

Dakota, Minnesota & Eastern Railroad Corporation (DM&E)

Effective October 4, 2007, the Company acquired all of the issued and outstanding shares of DM&E. The Company is currently accounting for the purchase by the equity method until such time as the acquisition has been approved by the United States Surface Transportation Board. The purchase price was $1.499 billion cash payment, including a $6 million post closing adjustment in the first quarter of 2008, and transaction costs of $22 million incurred to June 30, 2008. Future contingent payments of up to approximately US$1.05 billion may become payable up to December 31, 2025 upon achievement of certain milestones.

The equity income from the Company s investment in DM&E, which is recorded net of tax, was $13.4 million during the three months ended June 30, 2008 and $24.4 million during the six months ended June 30, 2008. The difference between cost and the underlying net book value of DM&E at the date of acquisition was US$983.5 million. For the three months ended June 30, 2008 the equity income from the Company s investment in DM&E was reduced by $3.4 million to recognize additional depreciation expense based on the assigned cost using fair values at that date of acquisition and $0.5 million to recognize amortization of the fair value of intangible assets acquired. For the six months ended June 30, 2008, the additional depreciation expense was $6.8 million and the amortization of intangible assets was $0.9 million.

Canadian Third Party Asset-backed Commercial Paper (ABCP)

At June 30, 2008, the Company held ABCP issued by a number of trusts with an original cost of $143.6 million. At the dates the Company acquired these investments they were rated R1 (High) by DBRS Limited (DBRS), the highest credit rating issued for commercial paper, and backed by R1 (High) rated assets and liquidity agreements. These investments matured during the third quarter of 2007 but, as a result of liquidity issues in the ABCP market, did not settle on maturity. As a result, the Company has classified its ABCP as long-term investments after initially classifying them as Cash and cash equivalents.

On August 16, 2007, an announcement was made by a group representing banks, asset providers and major investors on an agreement in principle to a long-term proposal and interim agreement to convert the ABCP into long-term floating rate notes maturing no earlier than the scheduled maturity of the underlying assets. On September 6, 2007, a pan-Canadian restructuring committee consisting of major investors was formed. The committee was created to propose a solution to the liquidity problem affecting the ABCP and has retained legal and financial advisors to oversee the proposed restructuring process.

The ABCP in which the Company has invested has not traded in an active market since mid-August 2007 and there are currently no market quotations available.

On March 17, 2008, a court order was obtained which commenced the process of restructuring the ABCP under the protection of the Companies Creditors Arrangement Act (CCAA). A vote of the holders of the ABCP approving the restructuring occurred on April 25, 2008, and on June 25, 2008 a court order sanctioning the restructuring of the ABCP was made pursuant to the CCAA. The sanction order remains subject to appeals by certain of the holders of ABCP, and the restructuring is not expected to be implemented until all appeals have been finally resolved.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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10 Investments (continued)

Canadian Third Party Asset-backed Commercial Paper (ABCP) (continued)

On March 20, 2008, the pan-Canadian restructuring committee issued an Information Statement containing details about the proposed restructuring. Based on this and other public information it is estimated that, of the $143.6 million of ABCP in which the Company has invested:

$12.5 million is represented by traditional securitized assets and the Company will, on restructuring, receive replacement TA Tracking long-term floating rate notes with a maturity of approximately eight and one half years. As the underlying assets are primarily comprised of cash and Canadian Lines of Credit which are subject to an offer to repurchase at par value, the Company has assumed that these notes will be repaid in full significantly in advance of maturity;

$117.7 million is represented by a combination of leveraged collateralized debt, synthetic assets and traditional securitized assets and the Company will, on restructuring, receive replacement senior Class A-1 and Class A-2 and subordinated Class B and Class C long-term floating rate notes with maturities of approximately eight years and nine months. The Company expects to receive replacement notes with par values as follows:

Class A-1: $59.7 million

Class A-2: $46.5 million

Class B: $8.0 million

Class C: $3.5 million

The replacement senior notes are expected to obtain a AA rating while the replacement subordinated notes are likely to be unrated; and

$13.4 million is represented by assets that have an exposure to US mortgages and sub-prime mortgages. On restructuring, the Company is likely to receive IA Tracking long-term floating rate notes with maturities of approximately between five years and three months and eight years and seven months. These notes may be rated, although at this time the pan-Canadian restructuring committee has provided no indication of the rating these notes may receive.

The valuation technique used by the Company to estimate the fair value of its investment in ABCP at June 30, 2008, incorporates probability weighted discounted cash flows considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. The assumptions used in determining the estimated fair value reflect the details included in the Information Statement issued by the pan-Canadian restructuring committee and the risks associated with the long-term floating rate notes. The interest rates and maturities of the various long-term floating rate notes, discount rates and credit losses modelled are:

Probability weighted average interest rate	3.2 per cent
Weighted average discount rate	7.4 per cent
Maturity of long-term floating rate notes	five to nine years
Credit losses	rated notes[1]: nil to 25 percent unrated notes[2]: 15 to 100 percent

(1)

TA Tracking, Class A-1 and Class A-2 senior notes and IA Tracking notes.

(2) Class B and Class C subordinated notes.

Interest rates and credit losses vary by each of the different replacement long-term floating rate notes to be issued as each has different credit ratings and risks. Interest rates and credit losses also vary by the different probable cash flow scenarios that have been modelled.

Discount rates vary dependent upon the credit rating of the replacement long-term floating rate notes. Discount rates have been estimated using Government of Canada benchmark rates plus expected spreads for similarly rated instruments with similar maturities and structure. An increase in the estimated discount rates of 1 percent would reduce the estimated fair value of the Company s investment in ABCP by approximately $5 million.

Maturities vary by different replacement long-term floating rate notes as a result of the expected maturity of the underlying assets.

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10 Investments (continued)

Canadian Third Party Asset-backed Commercial Paper (ABCP) (continued)

One of the cash flow scenarios modelled is a liquidation scenario whereby, if the restructuring is not successfully completed, recovery of the Company s investment is through the liquidation of the underlying assets of the ABCP trusts. In addition, while the likelihood is remote, there remains a possibility that a liquidation scenario may occur even with a successful approval of the restructuring plan.

In addition, assumptions have also been made as to the amount of restructuring costs that the Company will bear.

The probability weighted discounted cash flows resulted in an estimated fair value of the Company s ABCP of $100.8 million at June 30, 2008. This was unchanged from the estimated fair value at March 31, 2008. However, it represents a reduction from the estimated fair value at December 31, 2007 of $122.1 million. A charge to income of $21.3 million before tax ($15.0 million after tax) was recorded in the first quarter of 2008. This first quarter charge represents 15 percent of the original value, bringing the aggregate write-down to a total of approximately 30 percent of the original value. Sensitivity analysis is presented below for key assumptions:

(in millions)		**Change in fair value of ABCP**
Probability of successful restructuring		
1 percent increase	$	0.4
1 percent decrease	$	(0.4)
Interest rate		
50 basis point increase	$	2.9
50 basis point decrease	$	(2.9)
Discount rate		
50 basis point increase	$	(2.4)
50 basis point decrease	$	2.5

Continuing uncertainties regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a further material change in the value of the Company s investment in ABCP which could impact the Company s near term earnings.

11 Long-term debt

During the second quarter of 2008, the Company issued US$400 million 5.75% 5-year notes, US$300 million 6.50% 10-year notes and CDN$375 million 6.25% 10-year notes. Net proceeds from these offerings were CDN$1,068.7 million. The notes are unsecured, but carry a negative pledge. The proceeds from these offerings were used to partially repay the bridge financing.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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12 Shareholders equity

An analysis of Common Share balances is as follows:

(in millions)	**For the three months ended June 30**		**For the six months ended June 30**	
	2008	**2007**	**2008**	**2007**
Share capital, beginning of period	153.6	155.2	153.3	155.5
Shares issued under stock option plans	0.2	0.4	0.5	0.8
Shares purchased		(2.5)		(3.2)
Share capital, end of period	153.8	153.1	153.8	153.1

For the six months ended June 30, 2008, there were no shares purchased (2.5 million shares were purchased during the three months ended June 30, 2007 at an average price per share of $74.16 and for the six months ended June 30, 2007 3.2 million shares were purchased at an average price per share of $73.64).

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 retained earnings. When shares are purchased, 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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13 Other comprehensive income and accumulated other comprehensive income

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

	For the three months ended June 30 2008		
(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	$ 8.0	$ (1.1)	$ 6.9
Unrealized foreign exchange loss on translation of the net investment in U.S. subsidiaries	(9.1)		(9.1)
Realized gain on cash flow hedges settled in the period	(6.0)	1.9	(4.1)
Decrease in unrealized holding losses on cash flow hedges	21.0	(6.6)	14.4
Realized loss on cash flow hedges settled in prior periods	1.7	0.5	2.2
Other comprehensive income (loss)	$ 15.6	$ (5.3)	$ 10.3

	For the three months ended June 30 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	$ 33.8	$ (5.2)	$ 28.6
Unrealized foreign exchange loss on translation of the net investment in U.S. subsidiaries	(36.7)		(36.7)
Realized gain on cash flow hedges settled in the period	(4.8)	1.5	(3.3)

Decrease in unrealized holding gains on cash flow hedges	(6.6)	2.2	(4.4)
Realized loss on cash flow hedges settled in prior periods	1.6	(0.5)	1.1
Other comprehensive loss	$ (12.7)	$ (2.0)	$ (14.7)

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008
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13 Other comprehensive income and accumulated other comprehensive income (continued)

	For the six months ended June 30 2008		
(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	$ (35.0)	$ 4.7	$ (30.3)
Unrealized foreign exchange gain on translation of the net investment in U.S. subsidiaries	37.2		37.2
Realized gain on cash flow hedges settled in the period	(8.9)	3.6	(5.3)
Decrease in unrealized holding losses on cash flow hedges	15.2	(6.1)	9.1
Realized loss on cash flow hedges settled in prior periods	1.6	0.5	2.1
Other comprehensive income	$ 10.1	$ 2.7	$ 12.8

	For the six months ended June 30 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	$ 37.7	$ (5.8)	$ 31.9
Unrealized foreign exchange loss on translation of the net investment in U.S. subsidiaries	(40.9)		(40.9)
Realized gain on cash flow hedges settled in the period	(8.1)	2.8	(5.3)
Decrease in unrealized holding gains on cash flow hedges	(6.5)	2.2	(4.3)

Realized loss on cash flow hedges settled in prior periods	1.6	(0.5)	1.1
Other comprehensive loss	$ (16.2)	$ (1.3)	$ (17.5)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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(unaudited)
13 Other comprehensive income and accumulated other comprehensive income (continued)

Changes in the balances of each classification within Accumulated other comprehensive income are as follows:

Three months ended June 30, 2008

(in millions)	**Opening Balance, Apr. 1, 2008**	**Period change**	**Closing Balance, June 30, 2008**
Foreign exchange gain on U.S. dollar debt designated as a hedge of the net investment in U.S. subsidiaries	$ 259.4	$ 6.9	$ 266.3
Foreign exchange loss on net investment in U.S. subsidiaries	(200.6)	(9.1)	(209.7)
Unrealized effective losses on cash flow hedges	(12.7)	10.3	(2.4)
Deferred loss on settled hedge instruments	(4.0)	2.2	(1.8)
Accumulated other comprehensive income	$ 42.1	$ 10.3	$ 52.4

Three months ended June 30, 2007

(in millions)	**Opening Balance, Apr. 1, 2007**	**Period change**	**Closing Balance, June 30, 2007**
Foreign exchange gain on U.S. dollar debt designated as a hedge of the net investment in U.S. subsidiaries	$ 238.6	$ 28.6	$ 267.2
Foreign exchange loss on net investment in U.S. subsidiaries	(172.7)	(36.7)	(209.4)
Unrealized effective gains on cash flow hedges	17.0	(7.7)	9.3
Deferred loss on settled hedge instruments	(5.3)	1.1	(4.2)
Accumulated other comprehensive income	$ 77.6	$ (14.7)	$ 62.9

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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13 Other comprehensive income and accumulated other comprehensive income (continued)

Six months ended June 30, 2008

(in millions)	**Opening Balance, Jan. 1, 2008**	**Period change**	**Closing Balance, June 30, 2008**
Foreign exchange gain on U.S. dollar debt designated as a hedge of the net investment in U.S. subsidiaries	$ 296.6	$ (30.3)	$ 266.3
Foreign exchange loss on net investment in U.S. subsidiaries	(246.9)	37.2	(209.7)
Unrealized effective losses on cash flow hedges	(6.2)	3.8	(2.4)
Deferred loss on settled hedge instruments	(3.9)	2.1	(1.8)
Accumulated other comprehensive income	$ 39.6	$ 12.8	$ 52.4

Six months ended June 30, 2007

(in millions)	**Opening Balance, Jan. 1, 2007**	**Adjustment for change in accounting policy**	**Adjusted Opening Balance, Jan. 1, 2007**	**Period change**	**Closing Balance, June 30, 2007**
Foreign exchange gain on U.S. dollar debt designated as a hedge of the net investment in U.S. subsidiaries	$ 234.9	$ 0.4	$ 235.3	$ 31.9	$ 267.2
Foreign exchange loss on net investment in U.S. subsidiaries	(168.5)		(168.5)	(40.9)	(209.4)
Unrealized effective gains of cash flow hedges		18.9	18.9	(9.6)	9.3
Deferred loss on settled hedge instruments		(5.3)	(5.3)	1.1	(4.2)
Accumulated other comprehensive income	$ 66.4	$ 14.0	$ 80.4	$ (17.5)	$ 62.9

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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13 Other comprehensive income and accumulated other comprehensive income (continued)

During the next twelve months, the Company expects $15.9 million of unrealized holding gains on derivative instruments to be realized and recognized in the Statement of Consolidated Income. Existing derivative instruments designated as cash flow hedges will be fully matured by December 31, 2009.

14 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 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 as determined at the time using discounted cash flow analysis and observable market based inputs.

Financial liabilities
Accounts payable and accrued liabilities, short-term borrowings, and deferred liabilities The carrying amounts 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 as determined at the time using the quoted market prices for the same or similar debt instruments.

Available for sale
Investments Certain equity investments which are recorded on a cost basis have a carrying value that equals cost as fair value cannot be reliably established as there are no quoted prices in an active market for these investments.

Held for trading
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 similar instruments and changes in fair values of such derivatives are recognized in net income as they arise.

Cash and cash equivalents The carrying amounts approximate fair value because of the short maturity of these instruments.

Investments Canadian third party asset-backed commercial paper (ABCP) is carried at fair value, which has been determined using valuation techniques that incorporate probability weighted discounted future cash flows reflecting market conditions and other factors that a market participant would consider (see Note 10).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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14 Financial instruments (continued)

The table below reconciles carrying value positions of the Company s financial instruments with Consolidated Balance Sheet categories:

	June 30, 2008			December 31, 2007		
(in millions)	**Carrying Value of Financial Assets / Liabilities**	**Carrying Value of Other Assets / Liabilities**	**Balance Sheet Amount**	**Carrying Value of Financial Assets / Liabilities**	**Carrying Value of Other Assets / Liabilities**	**Balance Sheet Amount**
Assets						
Cash and cash equivalents	$ 80.9	$	$ 80.9	$ 378.1	$	$ 378.1
Accounts receivable and other current assets						
Accounts receivable	603.5			483.0		
Current portion of crude oil swaps	17.5			12.9		
Current portion of interest rate swaps	2.6					
Total return swap	2.3					
Other		55.4			46.9	
	625.9	55.4	681.3	495.9	46.9	542.8
Investments						
Equity investments at cost	1.2			1.3		
Long-term receivables at amortized cost	11.3			17.5		
ABCP	100.8			122.1		
Other		1,604.3			1,527.7	
	113.3	1,604.3	1,717.6	140.9	1,527.7	1,668.6
Other assets and deferred charges						
Long-term portion of crude oil swaps	9.0			8.5		
Long-term portion of interest rate swaps	3.5					
Other		1,455.5			1,227.1	
	12.5	1,455.5	1,468.0	8.5	1,227.1	1,235.6

Liabilities						
Short-term borrowings	255.0		255.0	229.7		229.7
Accounts payable and accrued liabilities						
Accounts payable and accrued liabilities	782.9			750.6		
Current portion of foreign exchange contracts on fuel	1.3			2.1		
Current portion of treasury rate lock				30.6		
Current portion of interest rate swaps				(1.0)		
Other		170.0			198.5	
	784.2	170.0	954.2	782.3	198.5	980.8

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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14 Financial instruments (continued)

	June 30, 2008			December 31, 2007		
(in millions)	**Carrying Value of Financial Assets / Liabilities**	**Carrying Value of Other Assets / Liabilities**	**Balance Sheet Amount**	**Carrying Value of Financial Assets / Liabilities**	**Carrying Value of Other Assets / Liabilities**	**Balance Sheet Amount**
Liabilities						
Long-term debt maturing within one year	$ 238.4	$	$ 238.4	$ 31.0	$	$ 31.0
Deferred liabilities						
Long-term portion of foreign exchange contracts on fuel	0.7			1.5		
Long-term portion of currency forward	11.5			15.7		
Long-term portion of interest rate swaps				(4.5)		
Total return swap				3.8		
Long-term portion of Accounts payable and accrued liabilities	42.6			41.9		
Other		662.4			656.2	
	54.8	662.4	717.2	58.4	656.2	714.6
Long-term debt	4,016.8		4,016.8	4,146.2		4,146.2

<u>Carrying value and fair value of financial instruments</u>

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 $4,255.2 million (December 31, 2007 $4,177.2 million) and a fair value of approximately $4,240.0 million at June 30, 2008 (December 31, 2007 $4,302.6 million). The fair value of publicly traded long-term debt is determined based on market prices at June 30, 2008 and December 31, 2007, respectively. The fair value of other long-term debt is estimated based on rates currently available to the Company for long-term borrowings, with terms and conditions similar to those borrowings in place at the applicable Consolidated Balance Sheet date.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008
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14 Financial instruments (continued)

Financial risk management

In the normal course of operations, the Company is exposed to various market risks such as foreign exchange risk, interest rate risk, other price risk, as well as credit risk and liquidity risk. To manage these risks, the Company utilizes a Financial Risk Management (FRM) framework. The FRM goals and strategy are outlined below:

FRM objectives:

Maintaining sound financial condition as an ongoing entity;

Optimizing earnings per share and cash flow;

Financing operations of the group of CP companies at the optimal cost of capital; and

Ensuring liquidity to all Canadian and U.S. operations.

In order to satisfy the objectives above, the Company has adopted the following strategies:

Prepare multi-year planning and budget documents at prevailing market rates to ensure clear, corporate alignment to performance management and achievement of targets;

Measure the extent of operating risk within the business;

Identify the magnitude of the impact of market risk factors on the overall risk of the business and take advantage of natural risk reductions that arise from these relationships; and

Utilize financial instruments, including derivatives to manage the remaining residual risk to levels that fall within the risk tolerance of the Company.

Under the governance structure established by the Company and approved by the Audit, Finance and Financial Risk Management Committee (Audit Committee), the Board of Directors has the authority to approve the Financial Risk Management Policies of the Company. The Board has delegated to the Audit Committee the accountability for ensuring a structure is in place to ensure compliance with the individual Corporate Risk Management Policies across the Company s operations.

The policy objective with respect to the utilization of derivative financial instruments is to selectively mitigate the impact of fluctuations in foreign exchange (FX) rates, interest rates, fuel price, and share price. The use of any derivative instruments is carried out in accordance with approved trading limits and authorized counterparties as specified in the policy and/or mandate. It is not the Company s intent to use financial derivatives or commodity instruments for trading or speculative purposes.

Risk factors

The following is a discussion of market, credit and liquidity risks and related mitigation strategies that have been identified through the FRM framework. This is not an exhaustive list of all risks, nor will the mitigation strategies

eliminate all risks listed. Risks related to the Company s investment in ABCP are discussed in more detail in Note 10.

Foreign exchange risk

This risk refers to the fluctuation of financial commitments, assets, liabilities, income or cash flows due to changes in FX rates. The Company conducts business transactions and owns assets in both Canada and the United States; as a result, revenues and expenses are incurred in both Canadian dollars and U.S. dollars. The Company s income is exposed to FX risk largely in the following ways:

Translation of U.S. dollar denominated revenues and expenses into Canadian dollars When the Canadian dollar changes relative to the U.S. dollar, income reported in Canadian dollars will change. The impact of a strengthening Canadian dollar on U.S. dollar revenues and expenses will reduce net income because the Company has more U.S. dollar revenues than expenses. This impact is excluded from the sensitivity in the table below; and

Translation of U.S. dollar denominated debt and other monetary items A strengthening Canadian dollar will reduce the Company s U.S. dollar denominated debt in Canadian dollar terms and generate a FX gain on long-term debt, which is recorded in income. The Company calculates FX on long-term debt using the difference in FX rates at the beginning and at the end of each reporting period. Other U.S. dollar denominated monetary items will also be impacted by changes in FX rates.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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14 Financial instruments (continued)

Foreign exchange management

In terms of net income, excluding FX on long-term debt, mitigation of U.S. dollar FX exposure is provided primarily through offsets created by revenues and expenses incurred in the same currency. Where appropriate the Company negotiates with U.S. customers and suppliers to reduce the net exposure. The Company may from time to time reduce residual exposure by hedging revenues through FX forward contracts. The Company had no revenue forward sales of U.S. dollars outstanding at June 30, 2008.

The FX gains and losses on long-term debt are mainly unrealized and can only be realized when U.S. dollar denominated long-term debt matures or is settled. The Company also has long term FX exposure on its investment in U.S. affiliates. A portion of the Company s U.S. dollar denominated long-term debt has been designated as a hedge of the net investment in self-sustaining foreign subsidiaries. This designation has the effect of mitigating volatility on net income by offsetting long-term FX gains and losses on long-term debt. In addition, for long-term debt denominated in U.S. dollars in Canada, the Company may enter into currency forwards to hedge debt that is denominated in U.S. dollars.

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

The table below depicts the quarterly impact to net income and other comprehensive income of long-term debt had the exchange rate increased or decreased by one cent. The impact on other U.S. dollar denominated monetary items is not considered to be material.

	Three months ended June 30, 2008	
(in millions)	Impact to Net income	Impact to Other comprehensive income
1 cent strengthening in Canadian dollar	$ (1.1)	$ (2.1)
1 cent weakening in Canadian dollar	1.1	2.1

Note: All variables excluding FX are held constant. Impact to net income would be decreased by $10.9 million and to other comprehensive income would be increased by $10.9 million if the net investment hedge was not included in the above table.

Foreign exchange forward contracts

In June 2007, the Company entered into a currency forward to fix the exchange rate on US$400 million 6.250% Notes due 2011. This derivative guarantees the amount of Canadian dollars that the Company will repay when its US$400 million 6.25% note matures in October 2011. During the three months

ended June 30, 2008, the Company recorded a loss of $9.7 million and a gain of $4.2 million for the first half of 2008 to Foreign exchange (gain) loss on long-term debt . For the same periods in 2007, the Company recorded a loss of $2.0 million. At June 30, 2008, the unrealized loss on the forward was $11.5 million (December 31, 2007 $15.7 million).

Interest rate risk

This refers to the risk that the fair value or income and future cash flows of a financial instrument will vary as a result of changes in market interest rates.

In order to manage funding needs or capital structure goals, the Company enters into debt or capital lease agreements that are subject to either fixed market interest rates set at the time of issue or floating rates determined by on-going market conditions. Debt subject to variable interest rates exposes the Company to variability in interest expense, while debt subject to fixed interest rates exposes the Company to variability in the fair value of the debt.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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14 Financial instruments (continued)

The table below depicts the floating and fixed maturities for all financial assets and liabilities:

	June 30, 2008	
(in millions)	At floating interest rates	At fixed interest rates
Financial assets		
Cash and short-term investments	$ 80.9	$
ABCP	100.8	
Financial liabilities		
Short-term borrowings	255.0	
Long-term debt[1]	553.9	3,701.3

(1) Includes impact of interest rate swaps

Interest rate management

To manage interest rate exposure, the Company accesses diverse sources of financing and manages borrowings in line with a targeted range of capital structure, debt ratings, liquidity needs, maturity schedule, and currency and interest rate profiles. In anticipation of future debt issuance, the Company may enter into forward rate agreements such as treasury rate locks, bond forwards or forward starting swaps to substantially lock in all or a portion of the effective future interest expense. The Company may also enter into swap agreements to manage the mix of fixed and floating rate debt.

The table below depicts the quarterly impact to net income and other comprehensive income had interest rates increased or decreased by 50 basis points. Typically, as rates increase, net income decreases.

(in millions)	Three months ended June 30, 2008 Impact to Net income
50 basis point increase in rates	$ (0.5)
50 basis point decrease in rates	0.5

Note: All variables excluding interest rates are held constant.

At June 30, 2008, the Company had outstanding interest rate swap agreements, classified as a fair value hedge, for a notional amount of US$200 million or $203.9 million. The swap agreements convert a portion of the Company s fixed-interest-rate liability into a variable-rate liability for the 6.250% Notes. During the three months ended June 30, 2008, the Company recorded a gain of $0.9 million (three months ended June 30, 2007 losses of $0.3 million) to Interest expense . For the six months ended June 30, 2008 this gain was $1.1 million (six months ended June 30, 2007 losses of $0.8 million). At June 30, 2008, the unrealized gain, derived from the fair value of the swap, was $6.1 million (December 31, 2007 $5.5 million).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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14 Financial instruments (continued)

The following table discloses the terms of the swap agreements at June 30, 2008:

Expiration	October 15, 2011
Notional amount of principal (in CDN$ millions)	$ 203.9
Fixed receiving rate	6.250%
Variable paying rate YTD	4.859%

Based on U.S. three-month LIBOR.

During 2007, the Company entered into derivative agreements, which were designated as cash flow hedges, that established the benchmark rate on $350.0 million of 30 year debt that was expected to be issued. These hedges were de-designated on May 13, 2008 when it was no longer probable that the Company would issue 30 year debt. On May 23, 2008, the fair value of these instruments was a loss of $30.9 million at the time of the issuance of the debt and the settlement of the derivative instrument. A gain of $1.3 million from the date of de-designation to the date of settlement of the derivative instrument was recorded in net income. Losses of $0.2 and $1.1 million due to some ineffectiveness were recognized and recorded in net income during the 3 months and six months ended June 30, 2008, respectively. Effective hedge losses of $28.7 million will be deferred in accumulated other comprehensive income and will be amortized in earnings as an adjustment to interest expense.

Stock-based compensation risk

This risk refers to the probability of increased compensation expense due to the increase in the Company s share price.

The Company s compensation expense is subject to volatility due to the movement of share price and its impact on the value of certain management and director stock-based compensation programs. These programs, as described in the management proxy circular, include deferred share units, restricted share units, performance share units and share appreciation rights. As the share price appreciates, these instruments are marked to market increasing compensation expense.

Stock-based compensation expense management

To minimize the volatility to compensation expense created by changes in share price, the Company entered into a Total Return Swap (TRS) to reduce the volatility and total cost to the Company over time of the four types of stock-based compensation programs noted above. These are derivatives that provide price appreciation and dividends, in return for a charge by the counterparty. The swaps minimize volatility to compensation expense by providing a gain to substantially offset increased compensation expense as the share price increases and a loss to offset reduced compensation expense when the share price falls. If stock-based compensation share units fall out of the money after entering the program, the loss associated with the swap would no longer be offset by any compensation expense reductions.

The table below depicts the quarterly impact to net income as a result of the TRS had the share price increased or decreased $1 from the closing share price on June 30, 2008.

(in millions)		**Three months ended June 30, 2008 Impact to Net income**
$1 increase in share price	$	1.7
$1 decrease in share price		(1.7)

Note: All variables excluding share price are held constant.

During the three months ended June 30, 2008, Compensation and benefits expense decreased by $3.3 million (three months ended June 30, 2007 $16.5 million) and $6.0 million for the six months ended June 30, 2008 (six months ended June 30, 2007 $22.8 million) due to unrealized gains for these swaps. At June 30, 2008, the unrealized gain on the swap was $2.3 million (December 31, 2007 unrealized loss of $3.8 million).

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14 Financial instruments (continued)

Commodity risk

The Company is exposed to commodity risk related to purchases of diesel fuel and the potential reduction in net income due to increases in the price of diesel. Because fuel expense constitutes a large portion of the Company s operating costs, volatility in diesel fuel prices can have a significant impact on the Company s income. Items affecting volatility in diesel prices include, but are not limited to, fluctuations in world markets for crude oil and distillate fuels, which can be affected by supply disruptions and geopolitical events.

Fuel price management

The impact of variable fuel expense is mitigated substantially through fuel recovery programs which apportion incremental changes in fuel prices to shippers through price indices, tariffs, and, by contract, within agreed upon guidelines. While these programs provide effective and meaningful coverage, residual exposure remains as the fuel expense risk cannot be completely recovered from shippers due to timing and volatility in the market. The Company continually monitors residual exposure, and where appropriate, may enter into derivative instruments.

Derivative instruments used by the Company to manage fuel expense risk may include, but are not limited to, swaps and options for crude oil and diesel. In addition, the Company may combine FX forward contracts with fuel derivatives to effectively hedge the risk associated with FX variability on fuel purchases and commodity hedges.

The table below depicts the quarterly impact to net income (excluding recoveries through pricing mechanisms) and other comprehensive income as a result of our crude forward contracts had the price of West Texas Intermediate (WTI) changed by $1 for the three months ended June 30, 2008:

	Three months ended June 30, 2008	
(in millions)	**Impact to Net income**	**Impact to Other Comprehensive income**
$1 increase in price per barrel	$ 0.1	$ 0.2
$1 decrease in price per barrel	(0.1)	(0.2)

Note: All variables excluding WTI per barrel are held constant.

At June 30, 2008, the Company had crude forwards contracts, which are accounted for as cash flow hedges, to purchase approximately 258,000 barrels over the 2008-2009 period at average quarterly prices ranging from US$35.17 to US$38.19 per barrel. This represents approximately 2% of estimated fuel purchases in 2008 and 2009. At June 30, 2008, the unrealized gain on these forward contracts was $26.6 million (December 31, 2007 $21.4 million).

At June 30, 2008, the Company had FX forward contracts (in conjunction with the crude purchases above), which are accounted for as cash flow hedges, totalling US$9.4 million over the 2008-2009 period at exchange rates ranging from 1.2276 to 1.2611. At June 30, 2008, the unrealized loss on these forward contracts was $1.9 million (December 31, 2007 $3.5 million).

For the three months ended June 30, 2008, fuel expense was reduced by $5.2 million (three months ended June 30, 2007 $4.8 million) as a result of $5.8 million in realized gains (three months ended June 30, 2007 $5.6 million) arising from settled swaps, partially offset by $0.7 million in realized losses (three months ended June 30, 2007 $0.8 million) arising from the settled FX forward contracts. For the six months ended June 30, 2008, fuel expense was reduced by $8.8 million (six months ended June 30, 2007 $9.4 million) as a result of $10.1 million in realized gains (six months ended June 30, 2007 $10.5 million) arising from settled swaps, partially offset by $1.3 million in realized losses (six months ended June 30, 2007 $1.1 million) arising from settled FX forward contracts.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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14 Financial instruments (continued)

Credit risk

Credit risk refers to the possibility that a customer or counterparty will fail to fulfil its obligations under a contract and as a result, create a financial loss for the Company. The Company s credit risk regarding its investment in ABCP are discussed in more detail in Note 10.

Credit risk management

The railway industry services predominantly financially established customers and the Company has experienced limited financial loss with respect to credit risk. The credit worthiness of customers is assessed using credit scores supplied by a third party, and through direct monitoring of their financial well-being on a continual basis. The Company establishes guidelines for customer credit limits and should thresholds in these areas be reached, appropriate precautions are taken to improve collectibility. Pursuant to their respective terms, accounts receivable are aged as follows at June 30, 2008:

(in millions)	
Up to date	$ 463.7
Under 30 days past due	81.0
30-60 days past due	22.3
61-90 days past due	8.6
Over 91 days past due	27.9
	$ 603.5

Counterparties to financial instruments expose the Company to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. With exception of ABCP, the Company does not anticipate non-performance that would materially impact the Company s financial statements.

With the exception of ABCP, the Company believes there are no significant concentrations of credit risk. The maximum exposure to credit risk can be taken from our financial assets values reported in the table reconciling the carrying value positions of the Company s financial instruments with Consolidated Balance Sheet categories and as discussed in Note 19 under guarantees.

Liquidity risk

The Company monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements.

Liquidity risk management

The Company has long-term debt ratings of Baa3, BBB, and BBB from Moody s Investors Service, Inc. (Moody s), Standard and Poor s Corporation (S&P), and DBRS respectively. The S&P rating has a negative outlook, while the ratings of Moody s and DBRS have a stable outlook. The Company intends to manage its capital structure and

liquidity at levels that sustain an investment grade rating.

The Company has a five year revolving credit facility of $945 million, with an accordion feature to $1.15 billion, of which $351 million was available on June 30, 2008.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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14 Financial instruments (continued)

This facility is arranged with a core group of highly rated international financial institutions and they incorporate pre-agreed pricing. The revolving credit facility is available on next day terms.

The Company plans to access both Canadian and U.S. capital markets to secure long term financing for the temporary credit facility. Market conditions allowing, the Company will access debt capital markets in various maturities periodically prior to the expiry of the temporary credit facility in order to minimize risk and optimize pricing. It is the Company s intention to manage its long term financing structure to maintain its investment grade rating. The Company may decide to enter certain derivative instruments to reduce interest rate and foreign exchange exposure in advance of these issuances.

Surplus cash is invested into a range of short dated money market instruments meeting or exceeding the parameters of the Company s investment policy.

The table below reflects the contractual maturity of the Company s undiscounted cash flows for its financial liabilities and derivatives:

(in millions)		**As at June 30, 2008**		
	2008	**2009 2011**	**2012+**	**Total**
Financial liabilities				
Short-term borrowings	$ 255.0	$	$	$ 255.0
Accounts payable and accrued liabilities	782.9	42.6		825.5
Foreign exchange contracts on fuel	0.7	1.3		2.0
Currency forward		13.0		13.0
Long-term debt	32.5	1,193.9	3,642.4	4,868.8

15 Additions to investments and other assets

Additions to investment and other assets includes the acquisition of locomotives and freight car assets of $57.4 million and $192.1 million for the three and six months ended June 30, 2008, respectively, (three and six months ended June 30, 2007 $12.0 million). These assets were purchased in anticipation of a sale and lease back arrangement with a financial institution.

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16 Stock-based compensation

In 2008, under CP s stock option plans, the Company issued 1,360,400 options to purchase Common Shares at the weighted average price of $71.59 per share, based on the closing price on the grant date. In tandem with these options, 425,650 stock appreciation rights were issued at the weighted average exercise price of $71.54.

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 June 30 (including options granted under the Directors Stock Option Plan, which was suspended in 2003):

	2008		**2007**		
	Number of options	**Weighted average exercise price**	**Number of options**		**Weighted average exercise price**
Outstanding, January 1	6,981,108	43.97	6,815,494	$	38.50
New options granted	1,360,400	71.59	1,302,700		62.59
Exercised	(493,460)	34.40	(811,856)		31.78
Forfeited/cancelled	(85,050)	47.09	(111,725)		39.38
Outstanding, June 30	7,762,998	49.39	7,194,613	$	43.61
Options exercisable at June 30	4,637,348	38.33	4,239,713	$	34.01

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.

Under the fair value method, the fair value of options at the grant date was $14.1 million for options issued in the first six months of 2008 (first six months of 2007 $11.3 million). The weighted average fair value assumptions were approximately:

	For the six months ended June 30	
	2008	**2007**
Expected option life (years)	4.39	4.00

Risk-free interest rate	3.54%	3.90%
Expected stock price volatility	22%	22%
Expected annual dividends per share	$ 0.99	$ 0.90
Weighted average fair value of options granted during the year	$ 15.12	$ 12.96

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17 Pensions and other benefits

The total benefit cost for the Company s defined benefit pension plans and post-retirement benefits for the three months ended June 30, 2008, was $19.9 million (three months ended June 30, 2007 $27.1 million) and for the six months ended June 30, 2008, was $39.0 million (six months ended June 30, 2007 $54.5 million).

18 Significant customers

During the first six months of 2008, one customer comprised 12.3% of total revenue (first six months of 2007 11.7%). At June 30, 2008, that same customer represented 5.4% of total accounts receivable (June 30, 2007 5.2%).

19 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 June 30, 2008, 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.

During the quarter ended March 31, 2008, the Canadian Transportation Agency announced a Decision directing a downward adjustment of the railway maximum revenue entitlement for movement of regulated grain under the Canada Transportation Act, for the period from August 1, 2007 to July 31, 2008. The Company has applied to the Federal Court of Appeal for leave to appeal the decision. A provision considered adequate by management is maintained for the prospective adjustment. The retroactive component of the adjustment, which is estimated to be $23 million, is not considered to be legally supportable and as such a provision has not been made.

Capital commitments

At June 30, 2008, the Company had multi-year capital commitments of $566.5 million, mainly for locomotive overhaul agreements, in the form of signed contracts. Payments for these commitments are due in 2008 through 2022.

Operating lease commitments

At June 30, 2008, minimum payments under operating leases were estimated at $707.7 million in aggregate, with annual payments in each of the next five years of: 2008 $71.1 million; 2009 $114.5 million; 2010 $92.6 million; 2011 $81.9 million; 2012 $76.8 million.

Guarantees

At June 30, 2008, the Company had residual value guarantees on operating lease commitments of $246.9 million and certain guarantees related to the Company s investment in the DM&E, which include minimum lease payments of $58.5 million, residual value guarantees of $11.6 million, and a line of credit of US$25 million. 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 June 30, 2008, these accruals amounted to $6.0 million.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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20 Capital disclosures

The Company s objectives when managing its capital are:

- to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk while providing an appropriate return to its shareholders;
- to manage capital in a manner which balances the interests of equity and debt holders;
- to manage capital in a manner that will maintain compliance with its financial covenants;
- to manage its long term financing structure to maintain its investment grade rating; and
- to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company defines its capital as follows:

- shareholders equity;
- long-term debt, including the current portion; and
- short-term borrowing.

The Company manages its capital structure and makes adjustments to it in accordance with the aforementioned objectives, as well as in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, and/or issue new debt to replace existing debt with different characteristics.

The Company monitors capital using a number of key financial metrics, including:

- net-debt to net-debt-plus-equity; and
- interest coverage ratio: earnings before interest and taxes (EBIT) to interest expense.

Both of these metrics have no standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures of other companies.

The calculations for the aforementioned key financial metrics are as follows:

Net-debt to net-debt-plus-equity

Net debt, which is a non-GAAP measure, 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.

Interest coverage ratio

EBIT, which is a non-GAAP measure that is calculated, on a twelve month rolling basis, as revenues less operating expenses, less change in estimated fair value of ABCP, other income and charges, and equity income in DM&E, divided by interest expense.

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20 Capital disclosures (continued)

The following table illustrates the financial metrics and their corresponding guidelines currently in place:

(in millions)	Guidelines	June 30, 2008	June 30, 2007
Long-term debt		$ 4,016.8	$3,046.6
Long-term debt maturing within one year		238.4	30.6
Short-term borrowing		255.0	
Less:			
Cash and cash equivalents		(80.9)	(392.1)
Net Debt[1]		**$ 4,429.3**	**$2,685.1**
Shareholders equity		$ 5,666.0	$4,978.5
Net debt		4,429.3	2,685.1
Net Debt plus Equity[1]		**$10,095.3**	**$7,663.6**
Revenues less operating expenses		$ 1,076.5	$1,156.2
Less:			
ABCP		(42.8)	
Other income and charges		(28.2)	(26.3)
Equity income in DM&E		36.7	
EBIT[1][2]		**$ 1,042.2**	**$1,129.9**
Net debt		$ 4,429.3	$2,685.1
Net debt plus equity		$10,095.3	$7,663.6
Net-debt to Net-debt-plus-equity[1]	**No more than 50.0%**	**43.9%**	**35.0%**
EBIT		$ 1,042.2	$1,129.9
Interest expense		$ 231.1	$ 194.6
Interest Coverage Ratio[1][2]	**No less than 4.0**	**4.5**	**5.8**

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

therefore, are unlikely to be comparable to similar measures of other companies.

(2) The balance is calculated on a rolling twelve month basis.

The Company s financial objectives and strategy as described above have remained substantially unchanged over the last two fiscal years. The objectives are reviewed on an annual basis and financial metrics and their guidelines are monitored on a quarterly basis. The Company believes that adherence to these guidelines increases its ability to access to capital at a reasonable cost and maintain credit ratings of an investment grade. The Company believes that these ratios are within reasonable limits, in light of the relative size of the Company and its capital management objectives. The Company is also subject to financial covenants in the bridge financing agreement obtained for the acquisition of DM&E and revolver loan agreements. Net-debt to net-debt-plus-equity and interest coverage ratio are two financial metrics that provide indicators as to whether the Company will be in compliance with its financial covenants. The Company is in compliance with all financial covenants.

Summary of Rail Data

Second Quarter 2008	Second Quarter 2007	Variance	%		Year-to-date 2008	Year-to-date 2007	Variance	%
				Financial (millions, except per share data and ratios)				
				Revenues				
$ 1,193.1	$ 1,174.1	$ 19.0	1.6	Freight revenue	$ 2,317.5	$ 2,265.0	$ 52.5	2.3
27.2	41.4	(14.2)	(34.3)	Other revenue	49.7	66.4	(16.7)	(25.2)
1,220.3	1,215.5	4.8	0.4		2,367.2	2,331.4	35.8	1.5
				Operating Expenses				
315.5	329.8	(14.3)	(4.3)	Compensation and benefits	643.8	662.3	(18.5)	(2.8)
260.3	193.7	66.6	34.4	Fuel	490.5	364.9	125.6	34.4
56.5	55.6	0.9	1.6	Materials	122.0	118.0	4.0	3.4
46.1	57.3	(11.2)	(19.5)	Equipment rents	92.0	112.8	(20.8)	(18.4)
124.7	119.1	5.6	4.7	Depreciation and amortization	244.6	237.7	6.9	2.9
166.1	152.3	13.8	9.1	Purchased services and other	325.0	298.7	26.3	8.8
969.2	907.8	61.4	6.8		1,917.9	1,794.4	123.5	6.9
251.1	307.7	(56.6)	(18.4)	Operating income	449.3	537.0	(87.7)	(16.3)
(13.4)		(13.4)		Equity income (net of tax) in Dakota, Minnesota & Eastern Railroad Corporation (DM&E)	(24.4)		(24.4)	
4.9	8.2	(3.3)	(40.2)	Other charges	11.6	13.0	(1.4)	(10.8)
62.9	49.2	13.7	27.8	Interest expense	122.8	96.0	26.8	27.9
46.3	75.5	(29.2)	(38.7)	Income tax expense before foreign exchange (gains) losses on long-term debt and other specified items [1]	72.5	130.6	(58.1)	(44.5)
150.4	174.8	(24.4)	(14.0)	Income before foreign exchange (gains) losses on long-term debt and other specified items [1]	266.8	297.4	(30.6)	(10.3)
				Foreign exchange (gains) losses on long-term debt (FX on LTD)				
(6.8)	(88.6)	81.8		FX on LTD	9.5	(97.2)	106.7	
2.3	23.8	(21.5)		Income tax on FX on LTD [2]	(3.4)	26.4	(29.8)	
(4.5)	(64.8)	60.3		FX on LTD (net of tax)	6.1	(70.8)	76.9	
				Other specified items				
				Change in estimated fair value of Canadian third party	21.3		21.3	

							asset-backed commercial paper (ABCP)								
							Income tax on special charges		(6.3)				(6.3)		
							Change in estimated fair value of ABCP (net of tax)		15.0				15.0		
			(17.1)		17.1		Income tax benefits due to rate reductions on opening future income tax balances				(17.1)		17.1		
$	154.9	$	256.7	$	(101.8)	(39.7)	Net income	$	245.7	$	385.3	$	(139.6)	(36.2)
							Earnings per share (EPS)							
$	1.01	$	1.66	$	(0.65)	(39.2)	Basic earnings per share	$	1.60	$	2.49	$	(0.89)	(35.7)
$	1.00	$	1.64	$	(0.64)	(39.0)	Diluted earnings per share	$	1.59	$	2.46	$	(0.87)	(35.4)
							EPS before FX on LTD and other specified items [1]							
$	0.98	$	1.13	$	(0.15)	(13.3)	Basic earnings per share	$	1.74	$	1.92	$	(0.18)	(9.4)
$	0.97	$	1.12	$	(0.15)	(13.4)	Diluted earnings per share	$	1.72	$	1.90	$	(0.18)	(9.5)
	153.7		154.3		(0.6)	(0.4)	Weighted average (avg)number of shares outstanding (millions)		153.6		154.9		(1.3)	(0.8)
	155.1		156.1		(1.0)	(0.6)	Weighted avg number of diluted shares outstanding (millions)		155.0		156.4		(1.4)	(0.9)
	79.4		74.7		4.7		Operating ratio[1] [3](%)		81.0		77.0		4.0	
	9.2		10.3		(1.1)		ROCE before FX on LTD and other specified items (after tax)[1] [3](%)		9.2		10.3		(1.1)	
	43.9		35.0		8.9		Net debt to net debt plus equity (%)		43.9		35.0		8.9	
$	259.6	$	299.5	$	(39.9)	(13.3)	EBIT before FX on LTD and other specified items [1] [3] (millions)	$	462.1	$	524.0	$	(61.9)	(11.8)
$	384.3	$	418.6	$	(34.3)	(8.2)	EBITDA before FX on LTD and other specified items [1] [3] (millions)	$	706.7	$	761.7	$	(55.0)	(7.2)

(1) These earnings measures have no standardized meanings prescribed by GAAP and may not be comparable to similar measures of other companies. See note on non-GAAP

earnings measures attached to commentary.

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

(3) 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)

Second Quarter 2008	Second Quarter 2007	Variance	%		Year-to-date 2008	Year-to-date 2007	Variance	%
				Commodity Data				
				Freight Revenues (millions)				
$ 203.0	$ 224.0	$ (21.0)	(9.4)	- Grain	$ 435.4	$ 443.6	$ (8.2)	(1.8)
172.4	162.4	10.0	6.2	- Coal	312.5	293.7	18.8	6.4
137.9	144.5	(6.6)	(4.6)	- Sulphur and fertilizers	268.6	266.9	1.7	0.6
58.4	74.3	(15.9)	(21.4)	- Forest products	116.4	146.3	(29.9)	(20.4)
185.3	158.8	26.5	16.7	- Industrial and consumer products	352.7	310.7	42.0	13.5
86.7	88.5	(1.8)	(2.0)	- Automotive	158.8	170.6	(11.8)	(6.9)
349.4	321.6	27.8	8.6	- Intermodal	673.1	633.2	39.9	6.3
$ 1,193.1	$ 1,174.1	$ 19.0	1.6	Total Freight Revenues	$ 2,317.5	$ 2,265.0	$ 52.5	2.3
				Millions of Revenue Ton-Miles (RTM)				
6,775	7,309	(534)	(7.3)	- Grain	14,273	14,793	(520)	(3.5)
6,118	5,834	284	4.9	- Coal	11,204	10,417	787	7.6
5,552	6,106	(554)	(9.1)	- Sulphur and fertilizers	10,982	11,090	(108)	(1.0)
1,438	2,019	(581)	(28.8)	- Forest products	2,963	4,019	(1,056)	(26.3)
4,655	4,177	478	11.4	- Industrial and consumer products	9,142	8,310	832	10.0
645	659	(14)	(2.1)	- Automotive	1,193	1,284	(91)	(7.1)
7,296	7,424	(128)	(1.7)	- Intermodal	14,264	14,350	(86)	(0.6)
32,479	33,528	(1,049)	(3.1)	Total RTMs	64,021	64,263	(242)	(0.4)
				Freight Revenue per RTM (cents)				
3.00	3.06	(0.06)	(2.0)	- Grain	3.05	3.00	0.05	1.7
2.82	2.78	0.04	1.4	- Coal	2.79	2.82	(0.03)	(1.1)
2.48	2.37	0.11	4.6	- Sulphur and fertilizers	2.45	2.41	0.04	1.7
4.06	3.68	0.38	10.3	- Forest products	3.93	3.64	0.29	8.0
3.98	3.80	0.18	4.7	- Industrial and consumer products	3.86	3.74	0.12	3.2
13.44	13.43	0.01	0.1	- Automotive	13.31	13.29	0.02	0.2

4.79	4.33	0.46	10.6	- Intermodal	4.72	4.41	0.31	7.0
3.67	3.50	0.17	4.9	Freight Revenue per RTM	3.62	3.52	0.10	2.8
				Carloads (thousands)				
87.7	91.2	(3.5)	(3.8)	- Grain	180.0	180.5	(0.5)	(0.3)
77.2	75.0	2.2	2.9	- Coal	142.0	133.5	8.5	6.4
53.4	61.3	(7.9)	(12.9)	- Sulphur and fertilizers	105.7	111.5	(5.8)	(5.2)
23.1	29.9	(6.8)	(22.7)	- Forest products	47.6	60.0	(12.4)	(20.7)
86.4	79.2	7.2	9.1	- Industrial and consumer products	167.3	154.9	12.4	8.0
40.1	45.7	(5.6)	(12.3)	- Automotive	76.4	88.1	(11.7)	(13.3)
315.1	311.9	3.2	1.0	- Intermodal	611.8	599.5	12.3	2.1
683.0	694.2	(11.2)	(1.6)	Total Carloads	1,330.8	1,328.0	2.8	0.2
				Freight Revenue per Carload				
$ 2,315	$ 2,456	$ (141)	(5.7)	- Grain	$ 2,419	$ 2,458	$ (39)	(1.6)
2,233	2,165	68	3.1	- Coal	2,201	2,200	1	
2,582	2,357	225	9.5	- Sulphur and fertilizers	2,541	2,394	147	6.1
2,528	2,485	43	1.7	- Forest products	2,445	2,438	7	0.3
2,145	2,005	140	7.0	- Industrial and consumer products	2,108	2,006	102	5.1
2,162	1,937	225	11.6	- Automotive	2,079	1,936	143	7.4
1,109	1,031	78	7.6	- Intermodal	1,100	1,056	44	4.2
$ 1,747	$ 1,691	$ 56	3.3	Freight Revenue per Carload	$ 1,741	$ 1,706	$ 35	2.1

Summary of Rail Data (Page 3)

Second Quarter					Year-to-date			
2008	**2007**	**Variance**	**%**		**2008**	**2007**	**Variance**	**%**
				Operations and Productivity				
62,397	64,481	(2,084)	(3.2)	Freight gross ton-miles (GTM) (millions)	122,258	122,041	217	0.2
32,479	33,528	(1,049)	(3.1)	Revenue ton-miles (RTM) (millions)	64,021	64,263	(242)	(0.4)
16,223	15,878	345	2.2	Average number of active employees	15,648	15,381	267	1.7
16,407	15,720	687	4.4	Number of employees at end of period	16,407	15,720	687	4.4
1.11	2.09	(0.98)	(46.9)	FRA personal injuries per 200,000 employee-hours [(1)]	1.25	1.95	(0.70)	(35.9)
1.11	2.11	(1.00)	(47.4)	FRA train accidents per million train-miles [(1)]	1.65	2.06	(0.41)	(19.9)
2.98	2.71	0.27	10.0	Total operating expenses per RTM (cents)	3.00	2.79	0.21	7.5
1.55	1.41	0.14	9.9	Total operating expenses per GTM (cents)	1.57	1.47	0.10	6.8
0.51	0.51			Compensation and benefits expense per GTM (cents)	0.53	0.54	(0.01)	(1.9)
3,846	4,061	(215)	(5.3)	GTMs per average active employee (000)	7,813	7,935	(122)	(1.5)
13,199	13,260	(61)	(0.5)	Miles of road operated at end of period [(2)]	13,199	13,260	(61)	(0.5)
24.1	23.5	0.6	2.6	Average train speed AAR definition (mph)	23.7	23.3	0.4	1.7
21.6	21.7	(0.1)	(0.5)	Terminal dwell time AAR definition (hours)	22.8	22.8		
147.3	147.5	(0.2)	(0.1)	Car miles per car day	142.7	141.0	1.7	1.2
83.7	81.5	2.2	2.7	Average daily total cars on-line AAR definition (000)	83.2	81.4	1.8	2.2
55.7	59.0	(3.3)	(5.6)	Average daily active cars on-line (000)	56.4	59.0	(2.6)	(4.4)
1.19	1.19			U.S. gallons of locomotive fuel per 1,000	1.24	1.22	0.02	1.6

				GTMs freight & yard				
73.6	76.8	(3.2)	(4.2)	U.S. gallons of locomotive fuel consumed total (millions)[3]	149.9	149.1	0.8	0.5
0.991	0.901	0.090	10.0	Average foreign exchange rate (US$/Canadian$)	0.999	0.877	0.122	13.9
1.009	1.111	(0.102)	(9.2)	Average foreign exchange rate (Canadian$/US$)	1.001	1.141	(0.140)	(12.3)

(1) Certain prior period figures have been revised to conform with current presentation or have been updated to reflect new information.

(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.