The Nominees for Management Change

February 6, 2012

PERSHING SQUARE **Pershing Square Capital Management, L.P.**

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Pershing Square has filed an information circular dated January 24, 2012 (the "Pershing Square Circular") containing the information in respect of its proposed nominees. The Pershing Square Circular is available on CP's company profile on SEDAR at http://www.sedar.com and at www.cprising.ca.

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A registered holder of common shares of CP that gives a proxy may revoke it: (a) by completing and signing a valid proxy bearing a later date and returning it in accordance with the instructions contained in the form of proxy to be provided by Pershing Square, or as otherwise provided in the proxy circular, once made available to shareholders; (b) by depositing an instrument in writing executed by the shareholder or his or her authorized attorney: (i) at the registered office of CP at any time up to and including the last business day preceding the shareholders meeting, or (ii) with the chairman of the meeting prior to its commencement; or (c) in any other manner permitted by law.

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Introduction to Pershing Square

- **Pershing Square manages approximately $11 billion in capital**
  - We are a concentrated, research-intensive, value fund
  - We seek to invest in high-quality businesses, often with a catalyst to unlock value
  - Our holding period for our "active" investments averages about 4 years (which is approximately half of our eight-year history)
- **Canadian Pacific is our second largest investment**
  - We currently own 14.2% of the company, representing ~16% of our funds

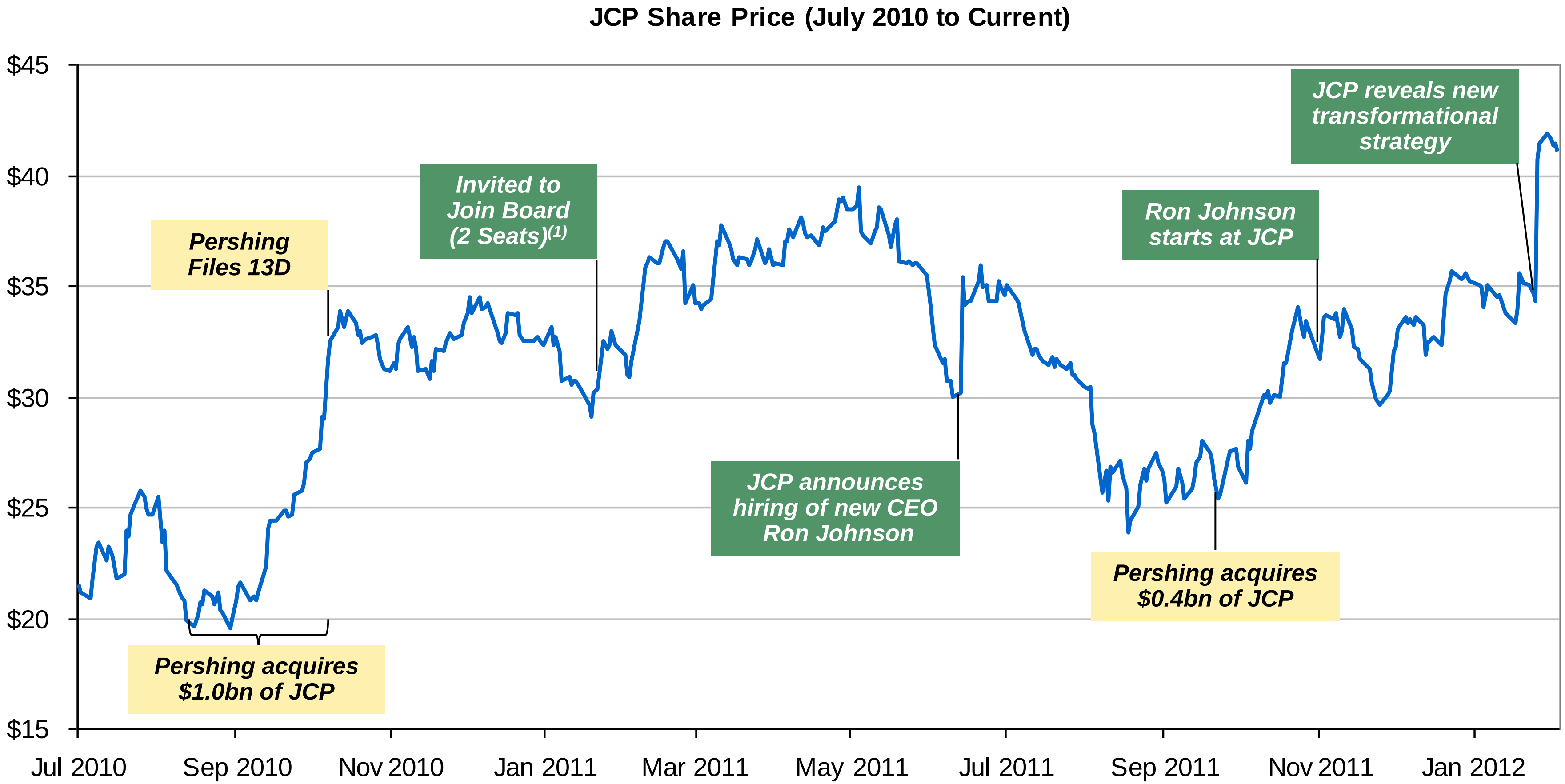
We are Long-term Shareholders Seeking Better Management and Governance at CP

- **We are not seeking:**
  - A sale or change of control or a financial engineering transaction

- **We are seeking Board and management change to enhance the long-term performance and competitive position of the company**

- **Pershing Square has a track record of active, long-term value creation**

J.C. Penney – Case Study



(1) J.C. Penney offered Board seats to Bill Ackman of Pershing Square and Steve Roth of Vornado Realty Trust; Pershing Square and Vornado acted in concert in acquiring this position.

What is This Proxy Contest Really About?

If CP had no CEO, and it could hire any executive to run the company, whom would you choose?

Fred Green

- 30 year CP veteran
- First time CEO

Hunter Harrison

- CEO of the Year
- Railroader of the Year
- Railroad legend

What is This Proxy Contest Really About?

Who is more likely to lead CP to its maximum potential (whatever that potential may be)?

The Questions to Ask are:

Are you satisfied with CP's performance over the last 5½ years of Fred Green's leadership?

Are you satisfied with the Board's stewardship of CP over the last ten years?

What Can Shareholders Do About This?

If you prefer Hunter Harrison and a Board with fresh perspectives

Vote for the Nominees for Management Change (“NMC”)

The Nominees for Management Change

Three independent Canadian business leaders[1]

- **Gary F. Colter (66)**
  - Founder of CRS (corporate restructuring, strategic and management consulting firm), former Vice Chair of KPMG Canada, director of CIBC, Owens Illinois, Core-Mark, former director of Viterra
  - Restructuring / accounting background, relevant Board experience

- **Rebecca MacDonald (58)**
  - Founder and Executive Chairman of Just Energy Group Inc. (independent marketer of deregulated gas and electricity), previously founded Energy Marketing
  - Entrepreneur, owner-manager, shareholder-value orientation

- **Dr. Anthony R. Melman (64)**
  - Chairman and CEO of Nevele Inc., provider of strategic business and financial services, former Managing Director of Onex Corporation
  - Strategic transformation, financial acumen

(1) Independent of Canadian Pacific and Pershing Square Capital Management.

The Nominees for Management Change (continued)

Proportionate shareholder representation for Pershing Square

- **Bill Ackman (45)**
  - Founder and CEO of Pershing Square Capital Management, director of J. C. Penney (NYSE: JCP), Chairman of the Board of Howard Hughes (NYSE: HHC), director of Justice Holdings (LSE: JUSH)
  - Largest shareholder, shareholder value orientation, investment management expertise

- **Paul Hilal (45)**
  - Partner at Pershing Square Capital Management, former Chairman of the Board and Interim Chief Executive Officer of Worldtalk Communications Corporation, former director of Ceridian Corporation
  - Pershing Square's railroad industry expert, largest shareholder, shareholder value orientation, investment management expertise, investment banking / M&A expertise

What Does a Vote for the NMC Mean?

- **What does a vote for the NMC mean?**
  - Support for management change
  - Valuable skills and new perspectives for the Board
  - Three independent Canadian directors and Board representation for a major shareholder

- **What a vote for the NMC does NOT mean:**
  - Not a change of control; NMC will be five of 13 or 15 directors
  - Pershing Square would have two of 13 or 15 Board seats (proportionate to ownership)
  - The entire, refreshed Board will make the CEO hiring decision

We are confident that with a shareholder mandate, the Board will make the right CEO decision

What is the economic opportunity?

70% the Railroad, 40% the Market Value

Canadian Pacific is 70% the size of Canadian National, yet has an enterprise value 40% as large, due to its inferior profitability and asset utilization

	Canadian Pacific		Canadian National	
	As of Sept. 22, 2011	As of Feb. 3, 2012	As of Feb. 3, 2012	
Market Capitalization	$7.9bn	$12.5bn	$35.8bn	
Enterprise Value[(1)]	**$13.0bn**	**$18.3bn**	**$42.2bn**	→ **EV: ~40%**
Summary Financials (2011)				
Miles of Road (as of 2010)	**14,785**	**14,785**	**20,560**	**Size: ~70%**
Revenue Ton Miles	**129,059**	**129,059**	**187,753**	
Revenues	$5.2bn	$5.2bn	$9.0bn	
EBIT	$1.0bn	$1.0bn	$3.3bn	
% Margin	*19%*	*19%*	*37%*	
Net Income	$0.6bn	$0.6bn	$2.5bn	
% Margin	*11%*	*11%*	*27%*	

70% of Size → 40% of Enterprise Value → Large Value Creation Opportunity

Source: Company filings. Bloomberg. Market Capitalization and Enterprise Value for CP shown as of September 22, 2011 (prior to Pershing Square's accumulation) and February 3, 2012 (current).
(1) Enterprise Value includes 12/31/10 pension liability balances. Current pension deficits have likely grown materially for both CP and CN given changes in interest rates.

How Does One Choose Between the NMC or the Current Board?

Compare the track record, background and experience of Fred Green and the current Board…

…with the track record of Hunter Harrison and the potential contribution of the NMC

Fred Green's Track Record

CP's Stock Price Performance has been Poor

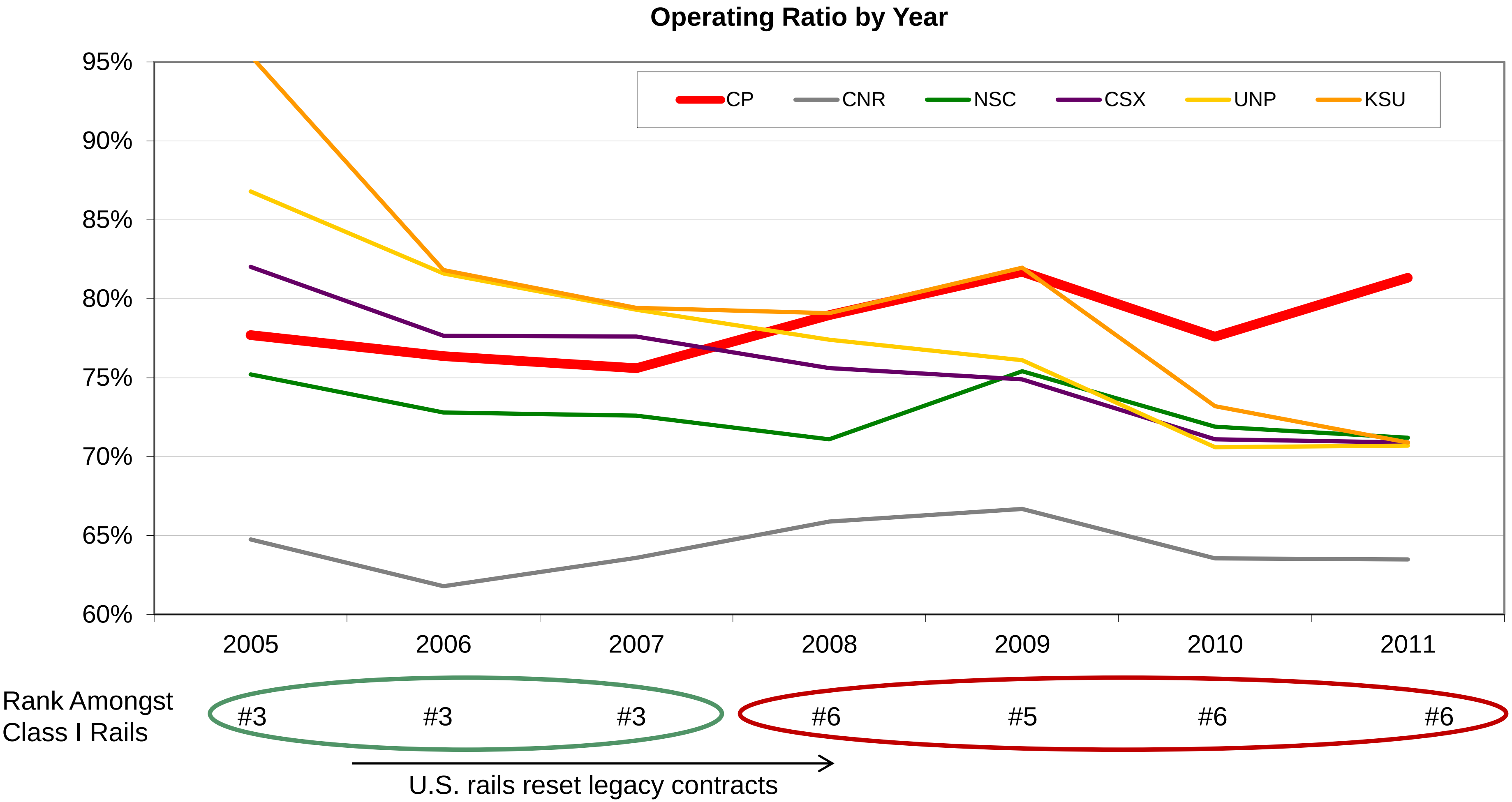
Under Fred Green's stewardship, CP's total return to shareholders (including dividends) has been negative 18% while peers generated strong returns

	CP	NSC	CNR	CSX	KSU	UNP
Total Shareholder Return	-18%	22%	37%	65%	77%	93%

Source: Bloomberg. All data from May 5, 2006 (date upon which Fred Green became CP's CEO) through September 22, 2011 (prior to Pershing Square's accumulation). Total return assumes dividends reinvested. Does not normalize exchange rate movements; impact is negligible.

CP's Operating Ratio Remains Stubbornly High

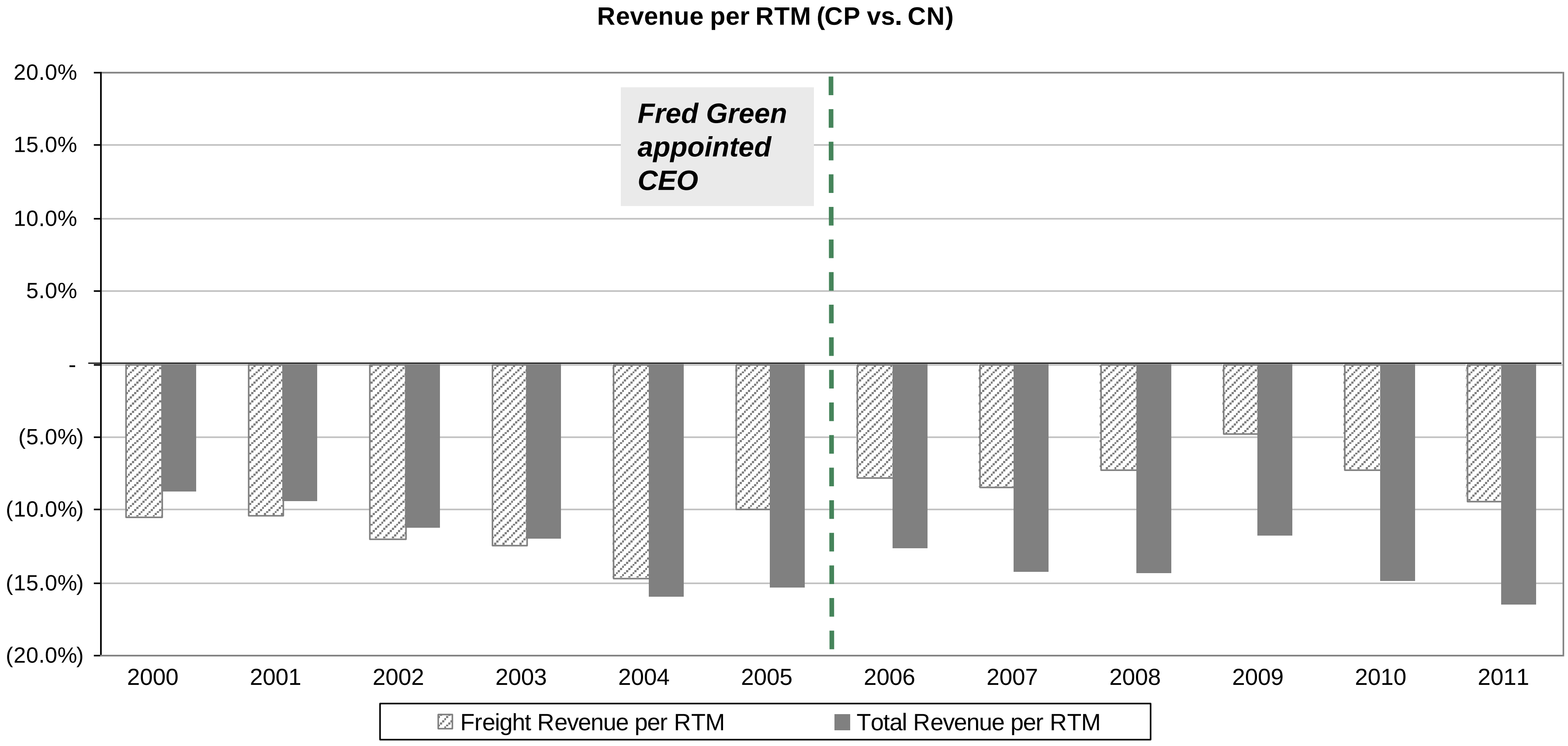
CP has the worst OR in the industry; its closest comp has the best



Source: Company filings.

The Pricing Myth: CP Commands Lower Pricing…

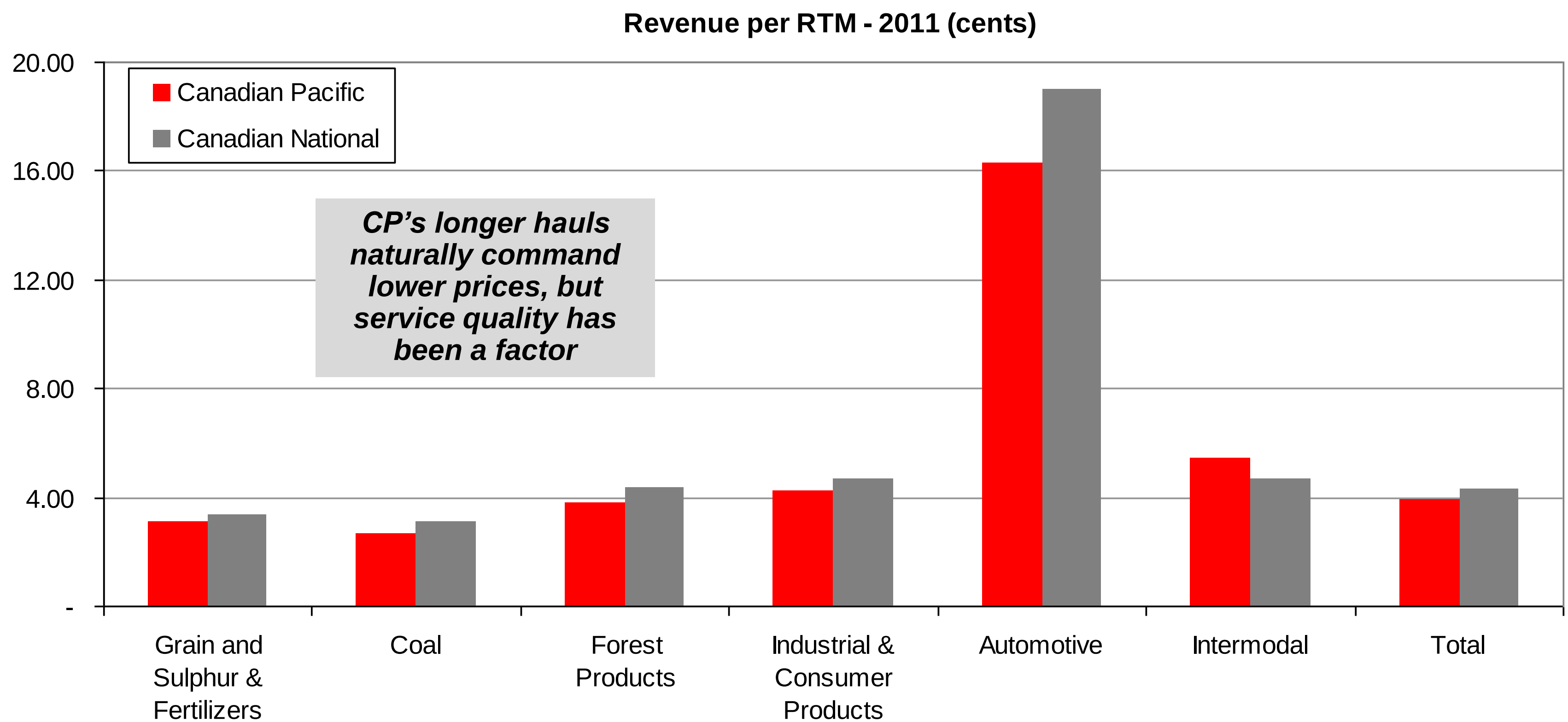
CP's pricing deficit vs. CN has persisted and remains substantial



Source: Company filings.

...Across Nearly All Freight Types...

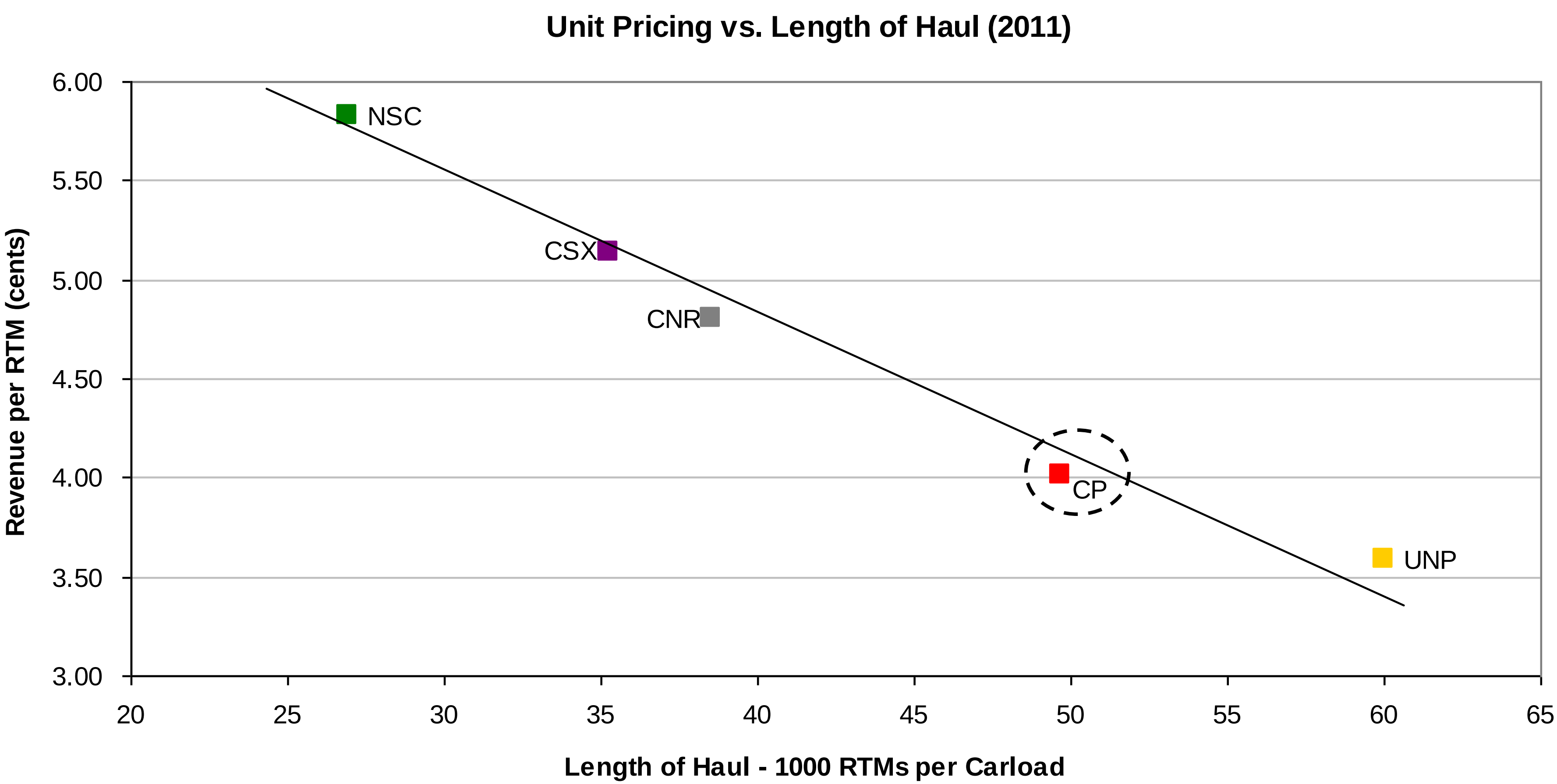
CP's pricing is lower than CN's for most freight types, suggesting a less compelling freight offering



	Grain and Sulphur & Fertilizers	Coal	Forest Products	Industrial & Consumer Products	Automotive	Intermodal	Total
Price Differential	-7%	-15%	-12%	-10%	-15%	+17%	-9%
% of Total RTMs	*41%*	*16%*	*4%*	*19%*	*2%*	*19%*	

Source: Company filings.

...But Haul-Adjusted, the Deficit is Modest

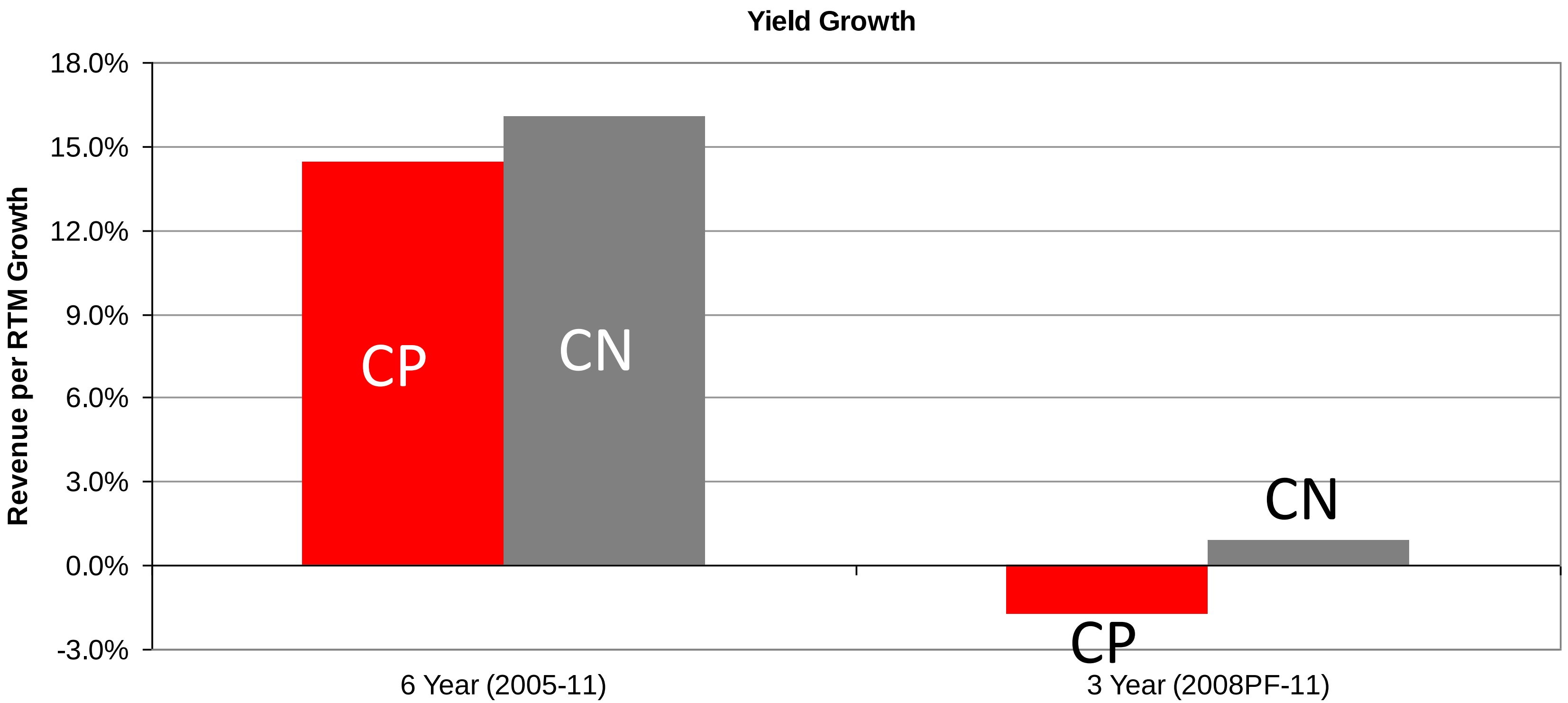


The problem is not principally pricing

Source: Company filings. Excludes Kansas City Southern due to the short-haul nature of its traffic mix.

Issue #1: Poor Yield Growth is Troubling…

CP's revenue yield lags CN's given its inferior service levels

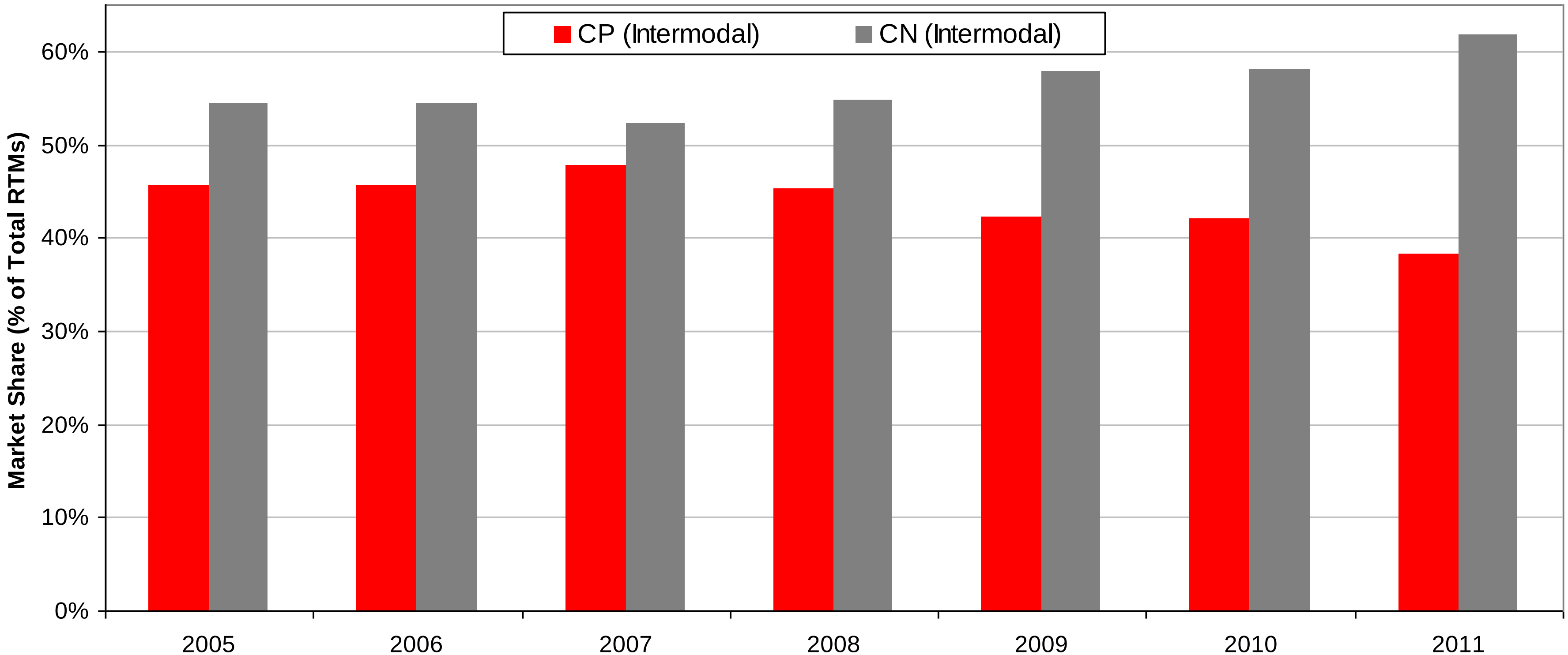


Efficient & Disciplined Operations → Improved Service → Volume / Pricing

Source: Company filings.

Issue #2: …as is Continued Share Loss

CP has lost market share to CN, particularly in service sensitive and transient Intermodal, due to inferior service and operational issues



	2005	2006	2007	2008	2009	2010	2011
CP's Total Market Share	**41.1%**	**39.8%**	**41.3%**	**42.4%**	**40.4%**	**41.4%**	**40.7%**
Est. Excl. DM&E(1)				**40.9%**	**38.6%**	**39.8%**	**39.2%**

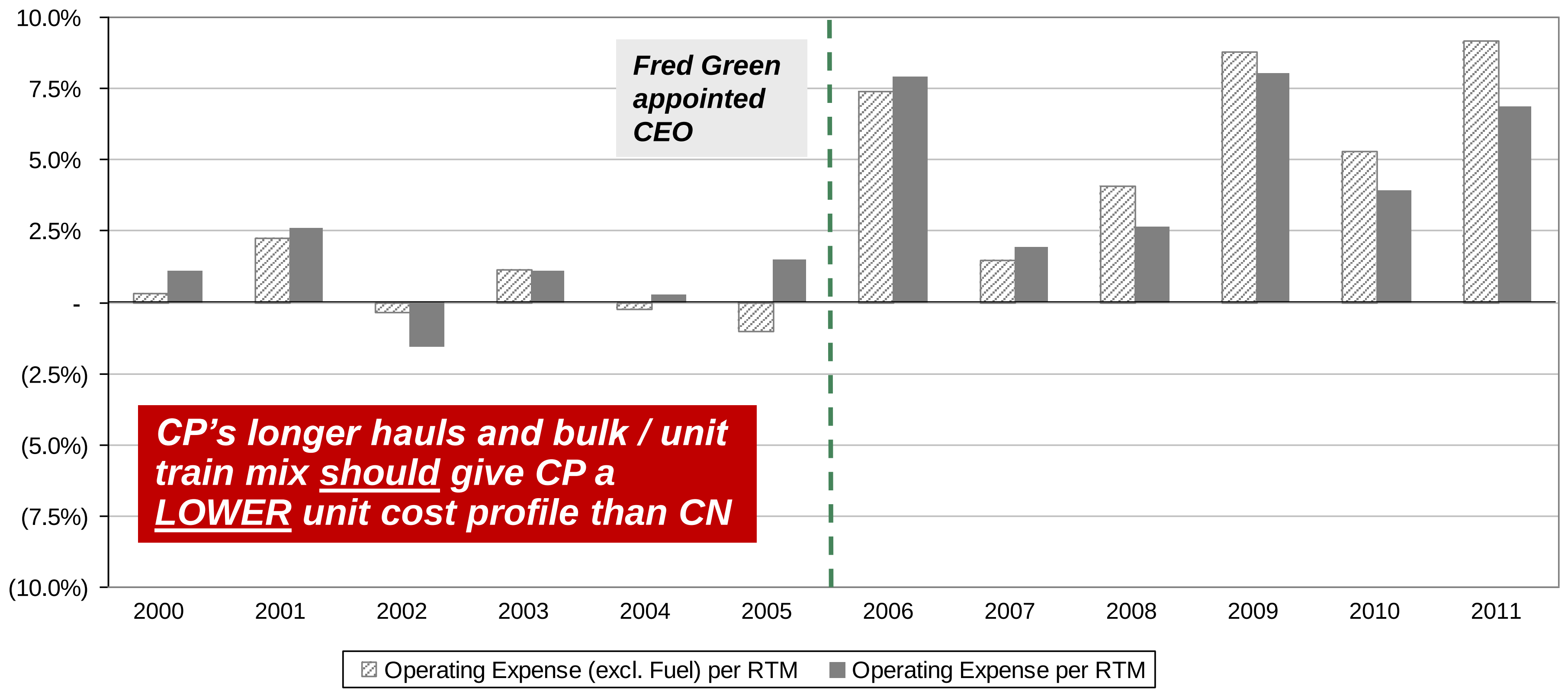
CP has lost ~200bps to CN (excl. DM&E)

Source: Company filings.
(1) Excludes DM&E RTMs as of 2008. DM&E RTMs, largely concentrated in grain and industrial products / energy, have likely grown; this *may* understate CP's share loss excluding DM&E.

Issue #3: CP's Unit OpEx Disadvantage has Grown

CP's unit costs are substantially higher than CN's, despite longer average hauls and a greater bulk / unit train mix

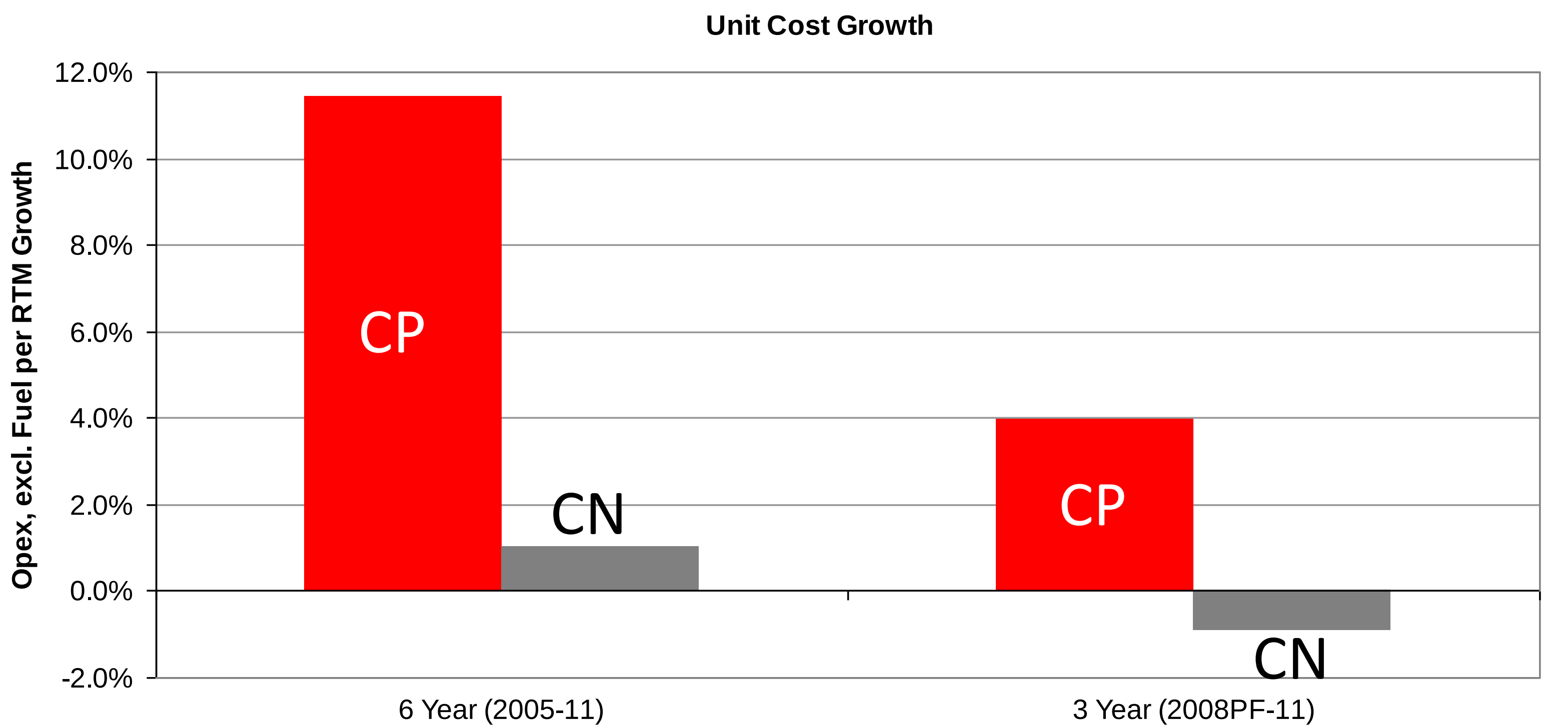
Operating Expenses per RTM (CP vs. CN)



Source: Company filings.

CP's Unit Costs have Grown Far More Rapidly

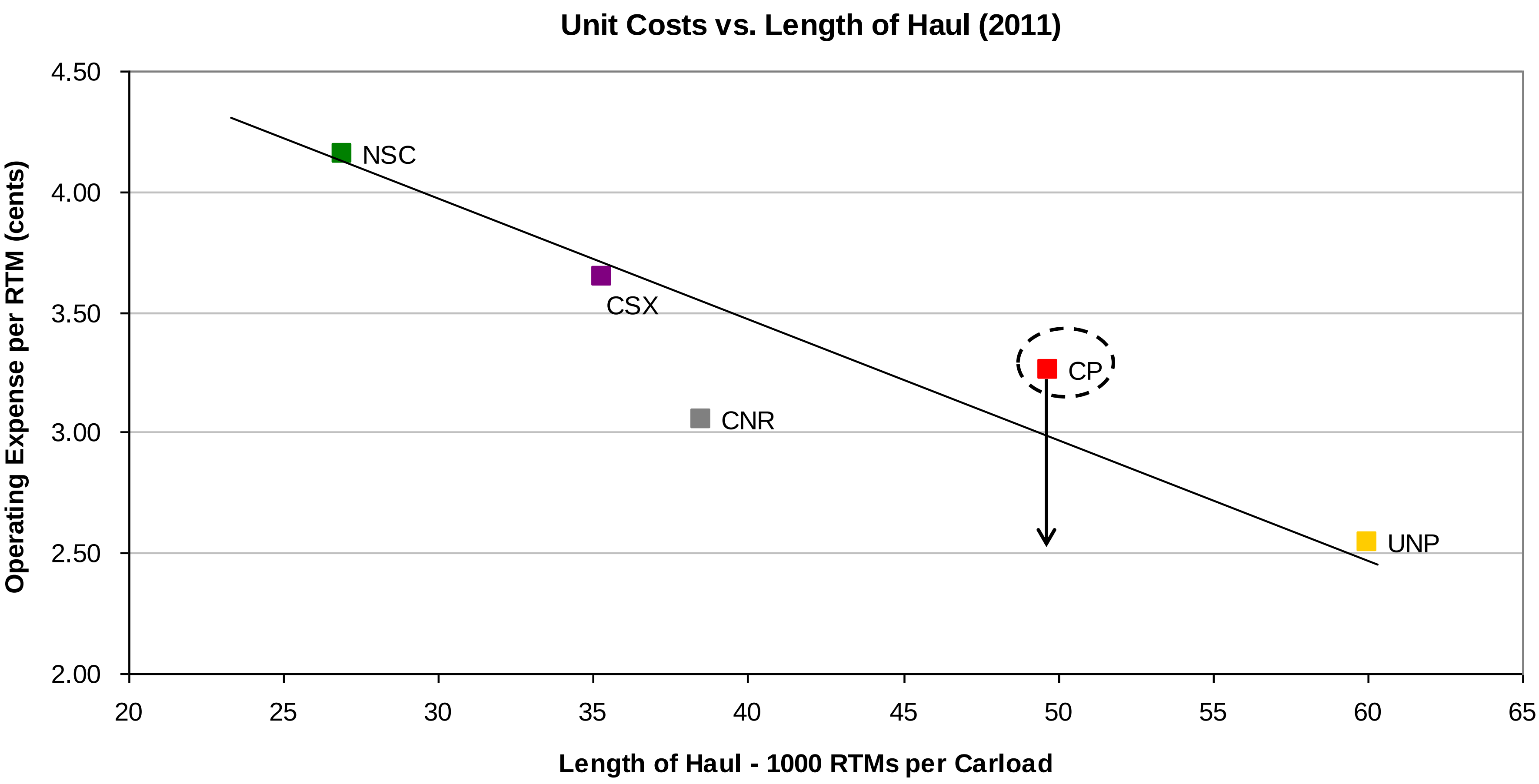
CP's efficiency & cost control dramatically lag its already best-in-class competitor



"Many stakeholders commented that CN was generally more aggressive than CP in pursuing financial objectives, including cost cutting and other efficiency measures" – Rail Freight Service Review, January 2011

Source: Company filings.

Yet Longer Hauls Should Confer a Cost Advantage to CP



CP's longer hauls and bulk / unit train mix should give CP a much lower unit cost profile than current levels

Source: Company filings. Excludes Kansas City Southern due to the short-haul nature of its traffic mix.

Issue #4: Asset Utilization is Poor…

	2005 CP / CN	2010 CP / CN	
GTMs	71%	71%	→ 71% of the volumes
			But,
Freight Cars	55%	80%	→ 80% of the freight cars
Locomotives	81%	93%	→ 93% of the locomotives

→ Asset utilization deteriorating vs. best-in-class peer

Poor asset utilization → unnecessary capex & increased opex

Source: Company filings.

...and Management is Making the Problem Worse

<u>Poor Asset Utilization:</u>

Locomotive utilization 23% lower than CN's as of 2010

"[CP] doesn't need more locomotives. [CP] already has one of the best fleets that I've ever seen in my travels whether as a consultant or a prior executive."

- Ed Harris, June 2010

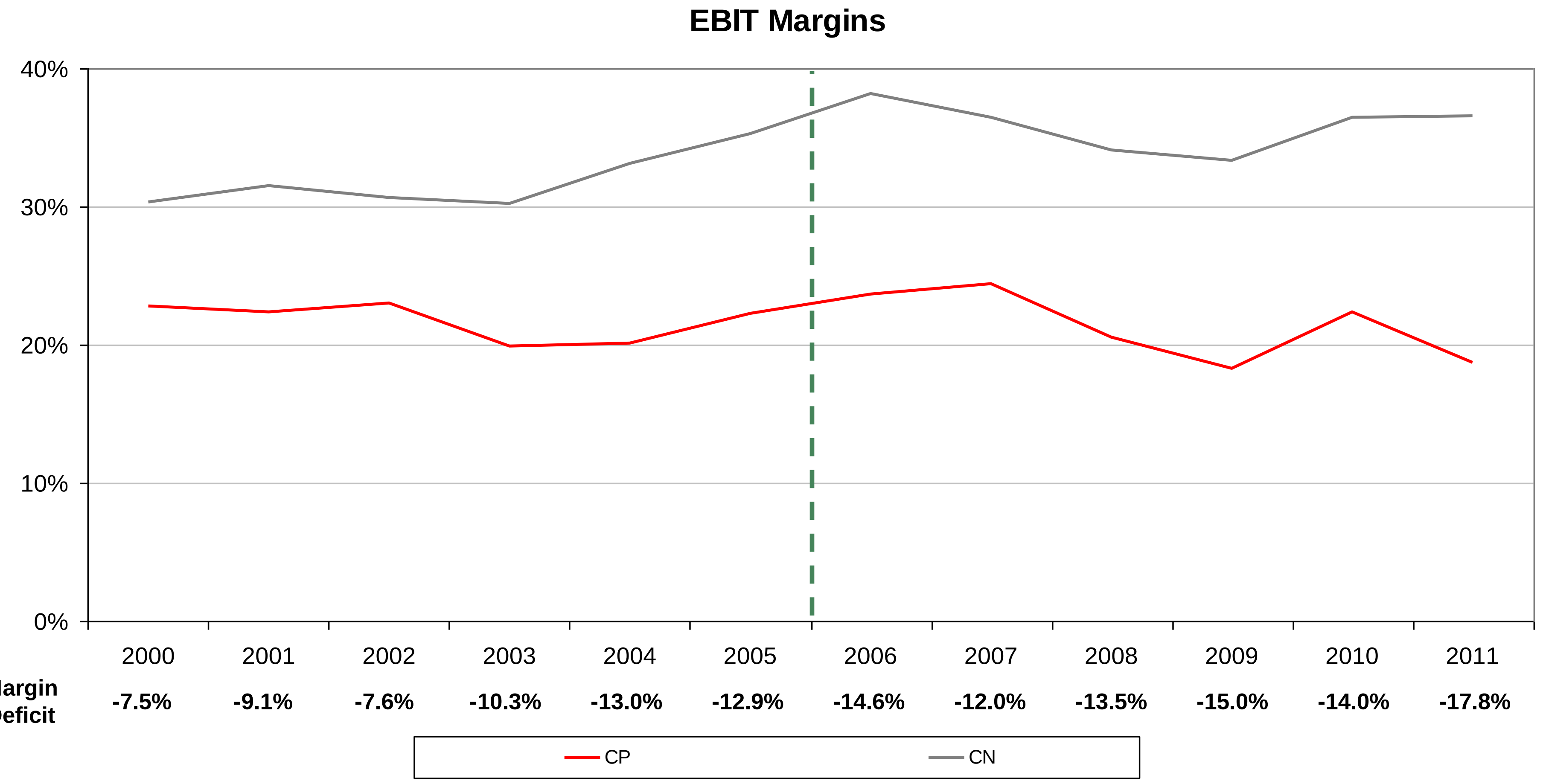
<u>CP's MYP includes</u>:

- 91 new locomotives in 2011 / Q1 2012

- $500mm of capex for new and remanufact-ured locomotives from 2011-14

The Result: CP's EBIT Margin Deficit Persists

Cost control and asset utilization differences have led to a large and growing margin deficit

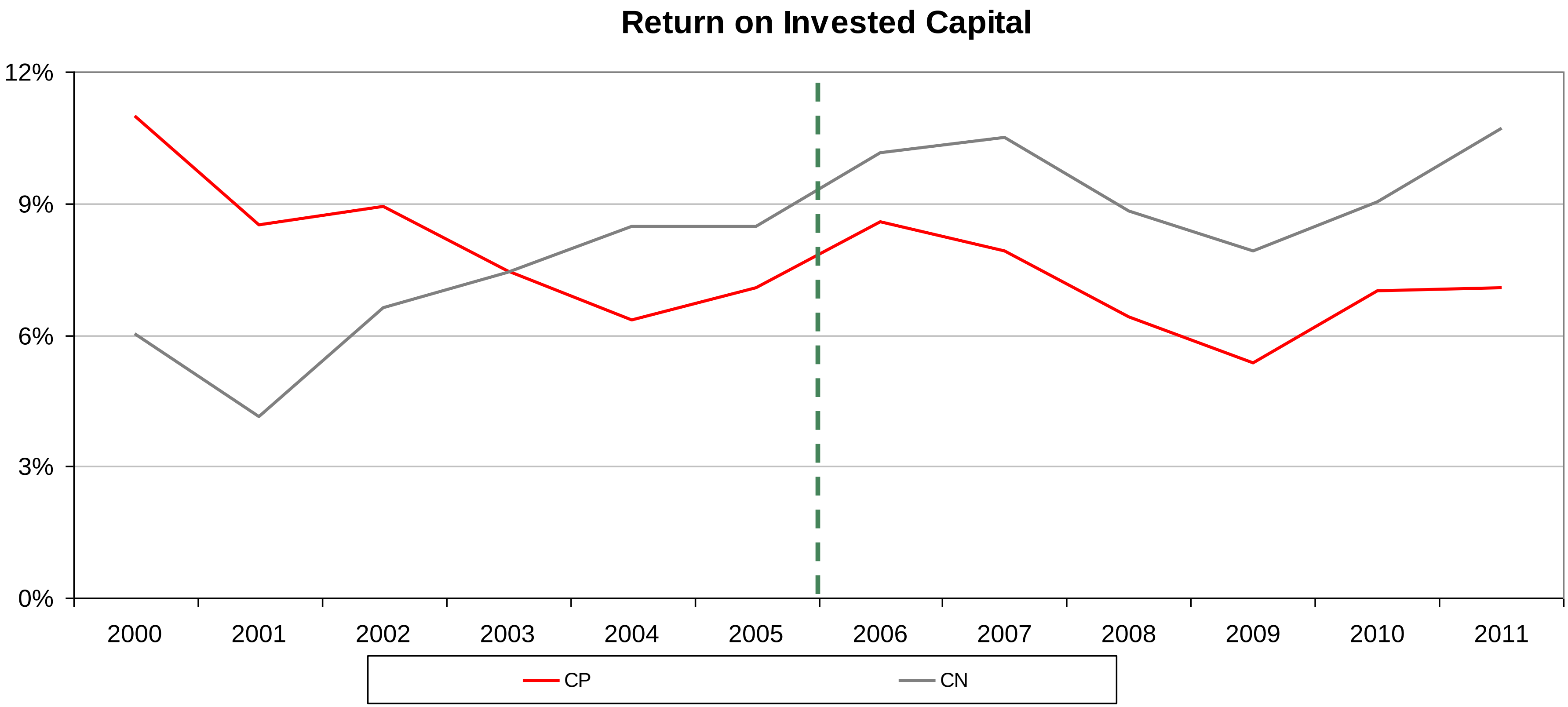


	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Margin Deficit	**-7.5%**	**-9.1%**	**-7.6%**	**-10.3%**	**-13.0%**	**-12.9%**	**-14.6%**	**-12.0%**	**-13.5%**	**-15.0%**	**-14.0%**	**-17.8%**

Source: Company filings.

CP's ROIC is Low and Lags CN's

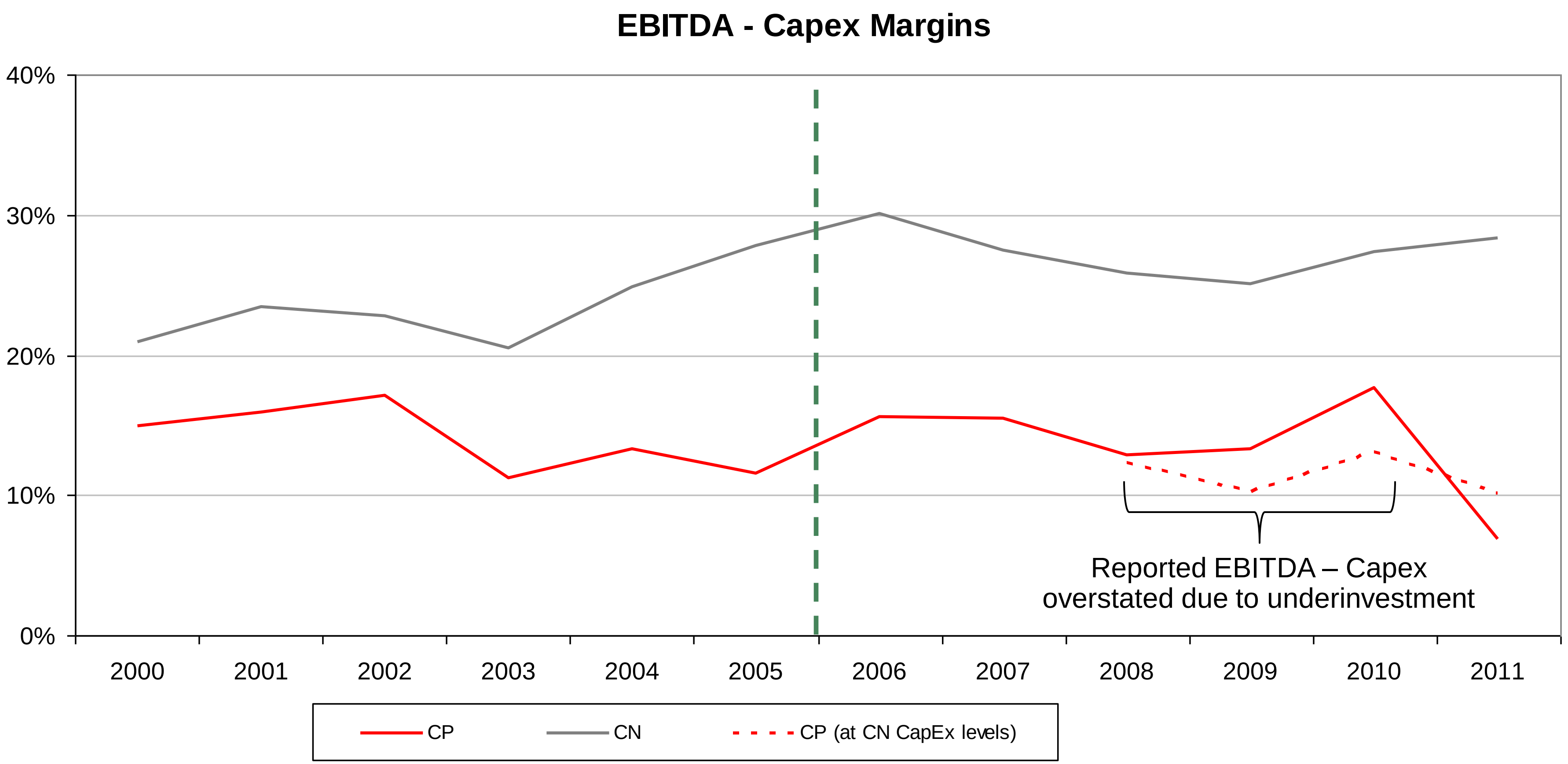
CP's low profitability and poor asset utilization result in low returns on invested capital



Source: Bloomberg.

CP's Cash Margin is Low and Dramatically Lags CN's

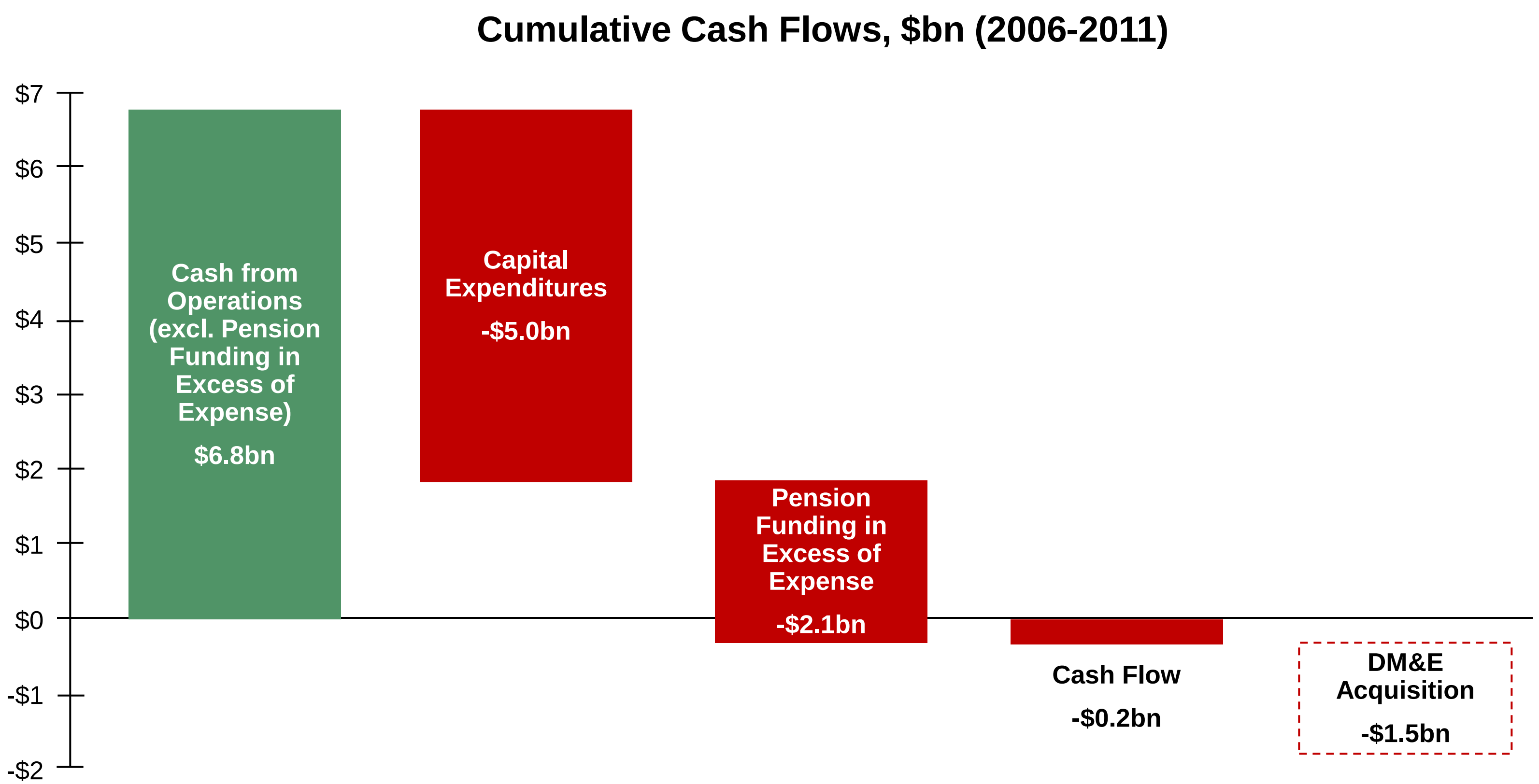
CP's inferior operating margins lead to lower cash flows and underinvestment in CapEx, driving long-term share loss



Source: Company filings.

CP has Generated NO Net Cash Over 6 Years

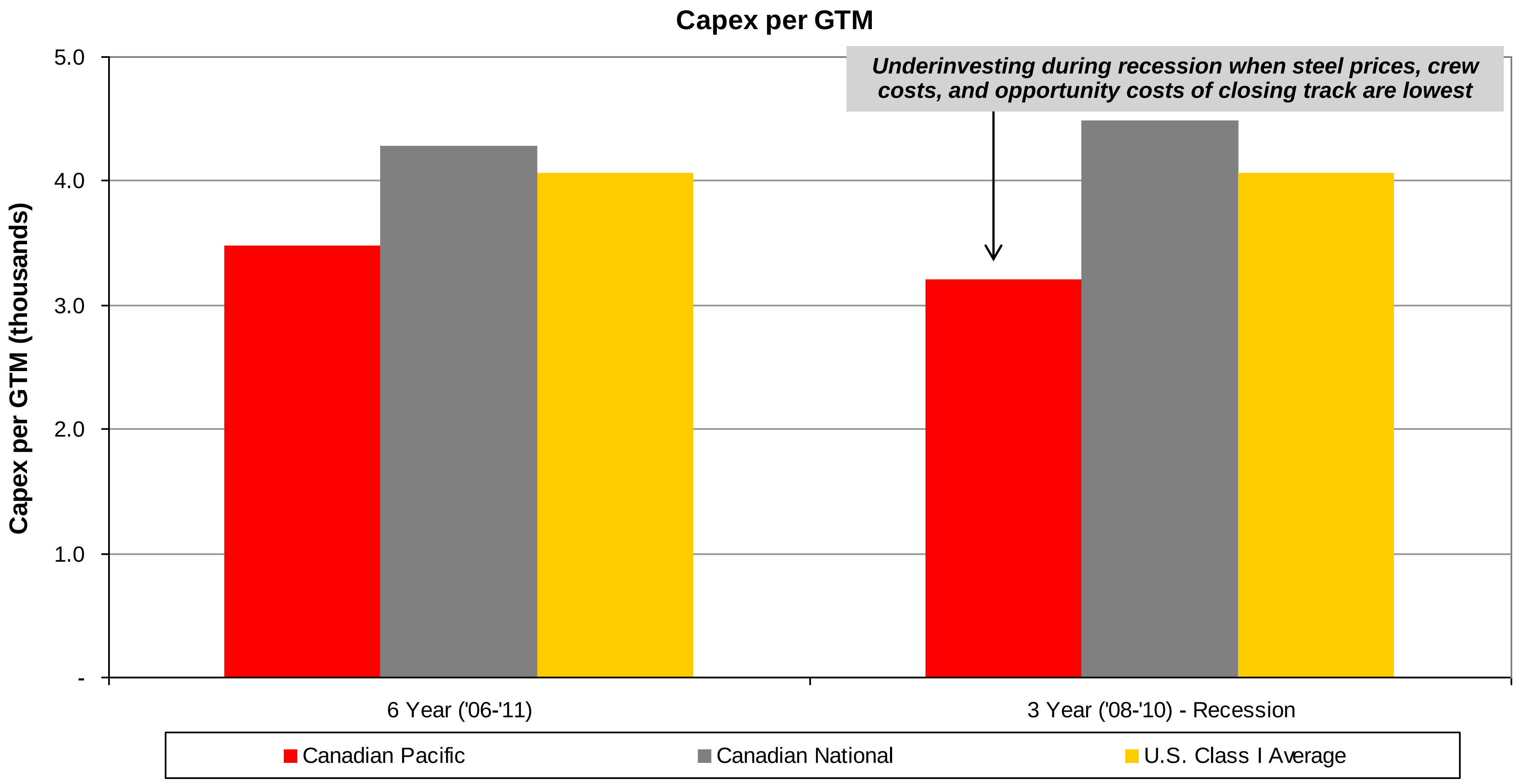
Poor operating margins and pension mismanagement have led to negative cash flow over the last 6 years



Source: Company filings.

Underinvestment Further Erodes Prospects

Lower profitability limits CP's capital investment, particularly during recessions, further eroding efficiency and its competitive position



Source: Company filings.

DM&E Acquisition was a Mistake

- **High valuation**
  - $1.5bn + $300mm of capex deficiency = 18x EBIT of ~$100mm
  - What was the return to shareholders on this capital?

- **No compelling strategic rationale**
  - Extremely expensive option to be the 3rd rail carrier in PRB

- **Irresponsible financing**
  - Excess leverage forced equity raise at market bottom

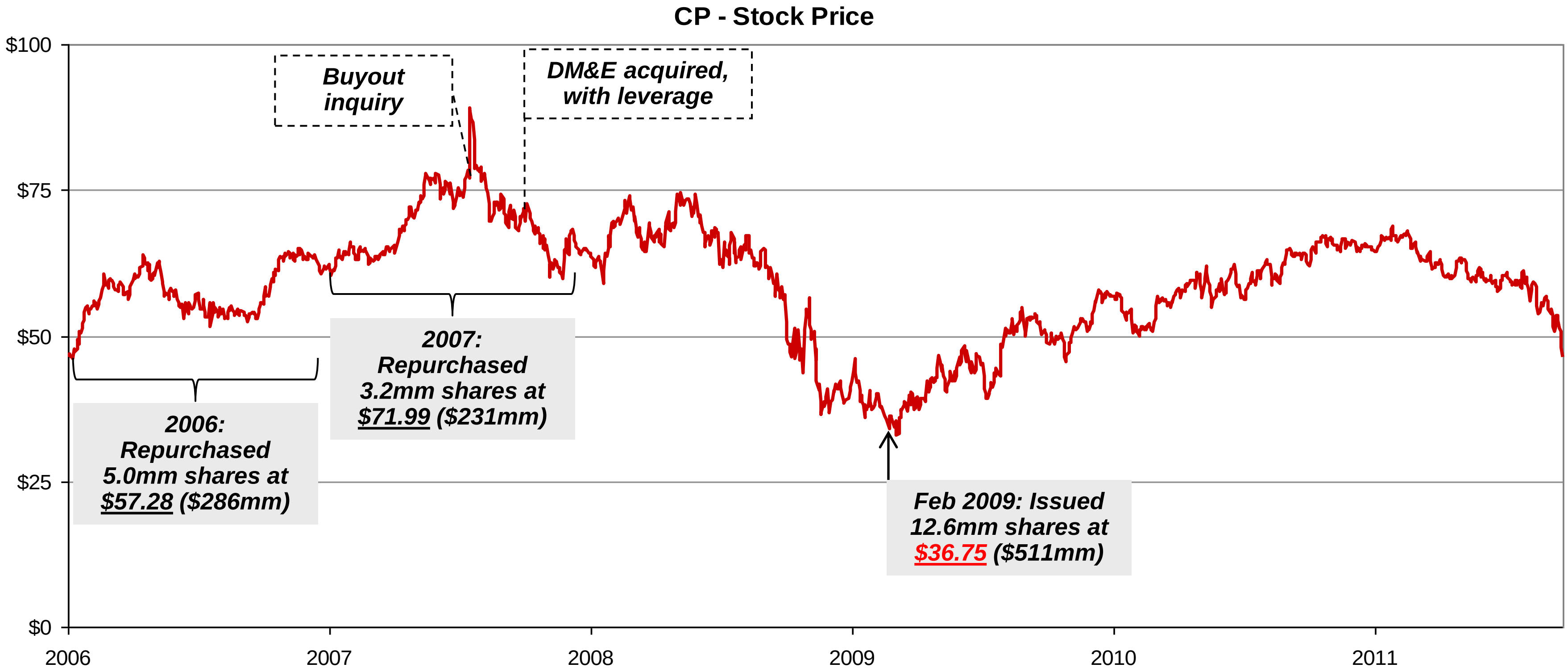
- **Diverted capital and management focus away from core franchise and necessary operational improvements**

- **Reputedly a "poison pill" to fend off financial and strategic acquirers**

- **OR at time of acquisition was ~70%; *should have* been margin accretive**

Buy High, Sell Low

Low Profitability & Cash Flow + **Excess Leverage & Pension Mismanagement** → **Shareholder Dilution**



Total repurchases of $517mm for 8.2mm shares at $63.03
Total issuances of $511mm or 12.6mm shares at $36.75

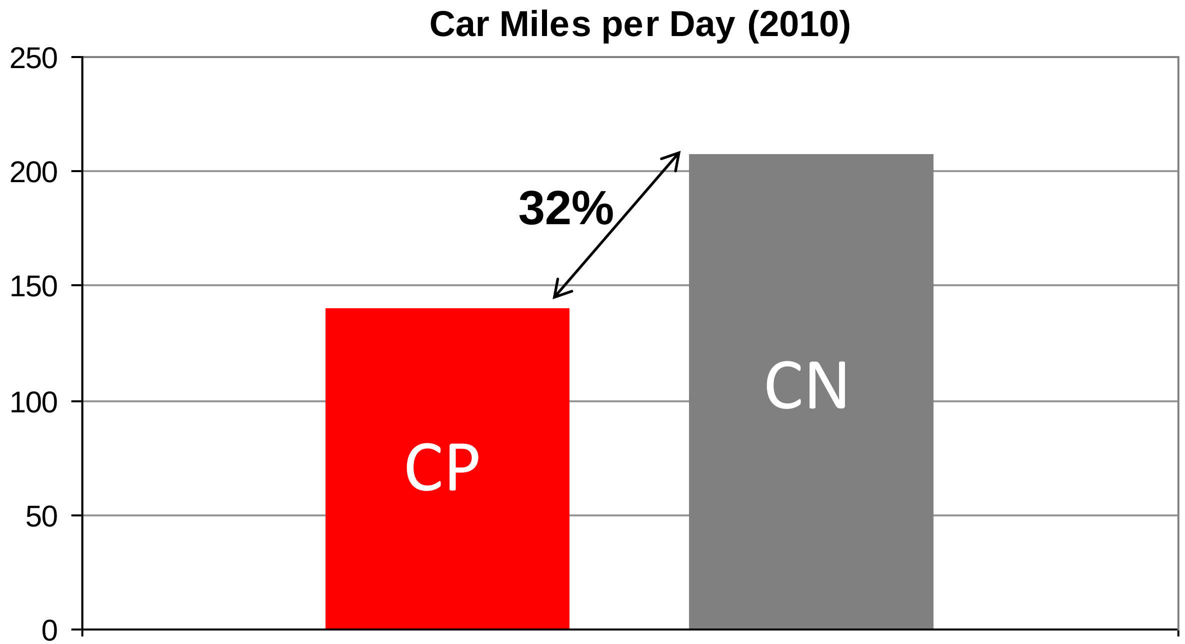
While CP issued shares during the recession, responsible capital management allowed other rails to opportunistically repurchase shares at depressed prices

Performance Summary: Poor

- **Poor operating performance**
  - Worst operating margins in industry; closest comp has the best
  - Revenue lagging, continued market share losses
  - Cost inefficiency substantial
  - Poor asset utilization
  - No cash flow generation
- **Poor strategic decisions**
  - DM&E acquisition: expensive, poorly financed, diverted capital and attention from core franchise, poison pill
- **Balance sheet mismanagement**
  - Excess leverage and pension mismanagement
  - Share buybacks / issuances dilutive

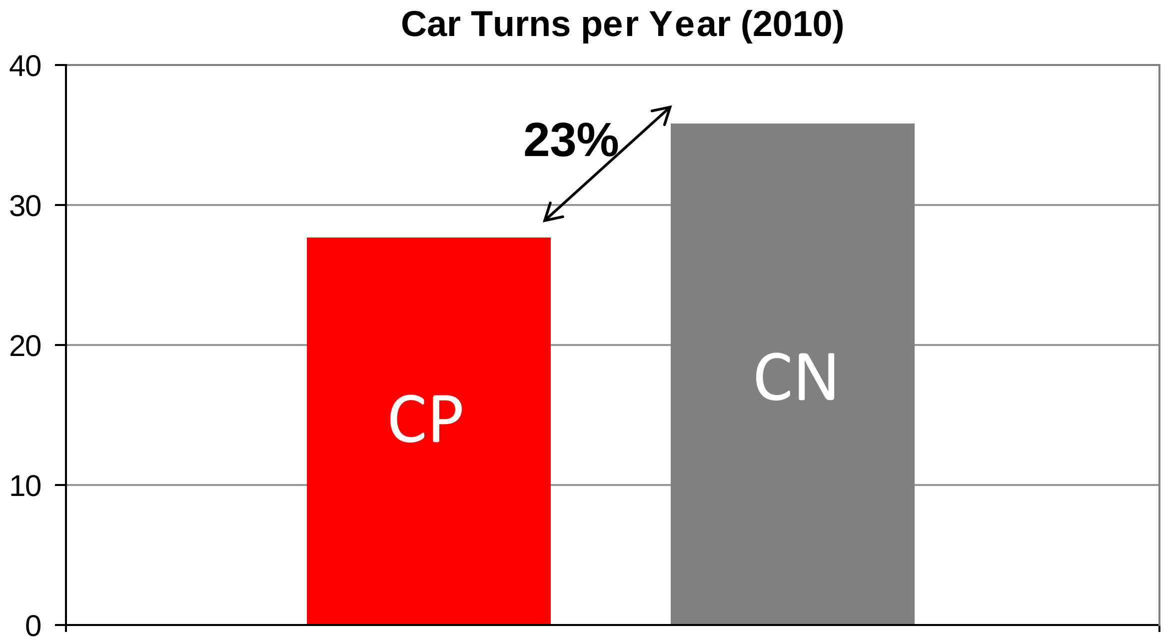
Underlying Drivers

Poor Asset Utilization: Lower Car Utilization



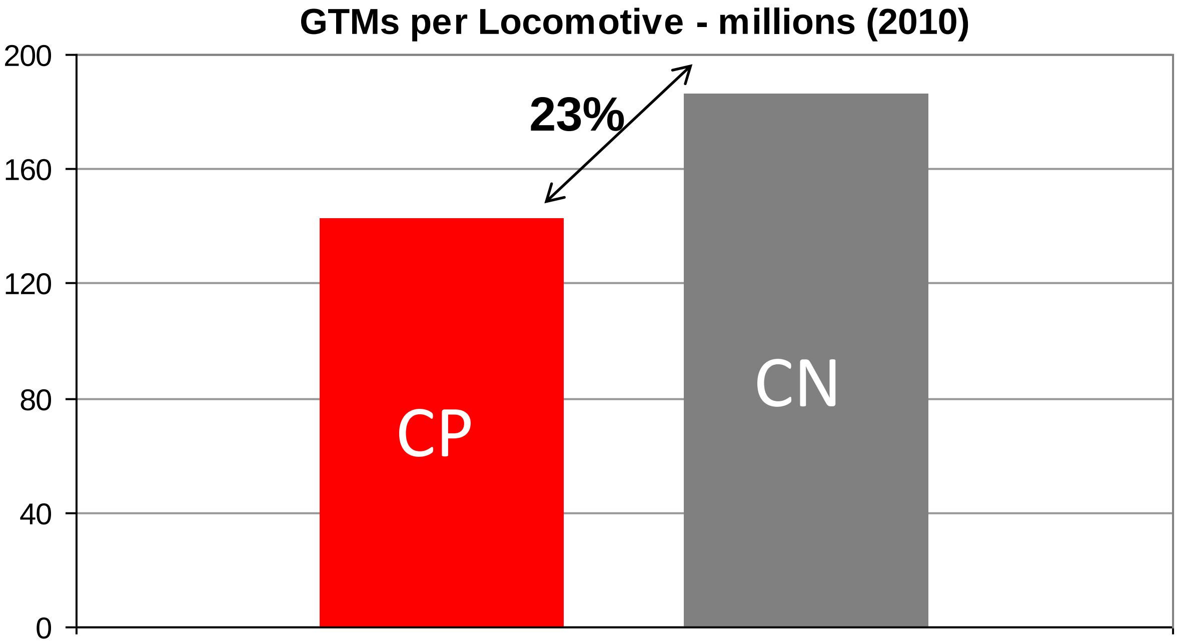
Source: 2010 company filings.

Lower Car Utilization



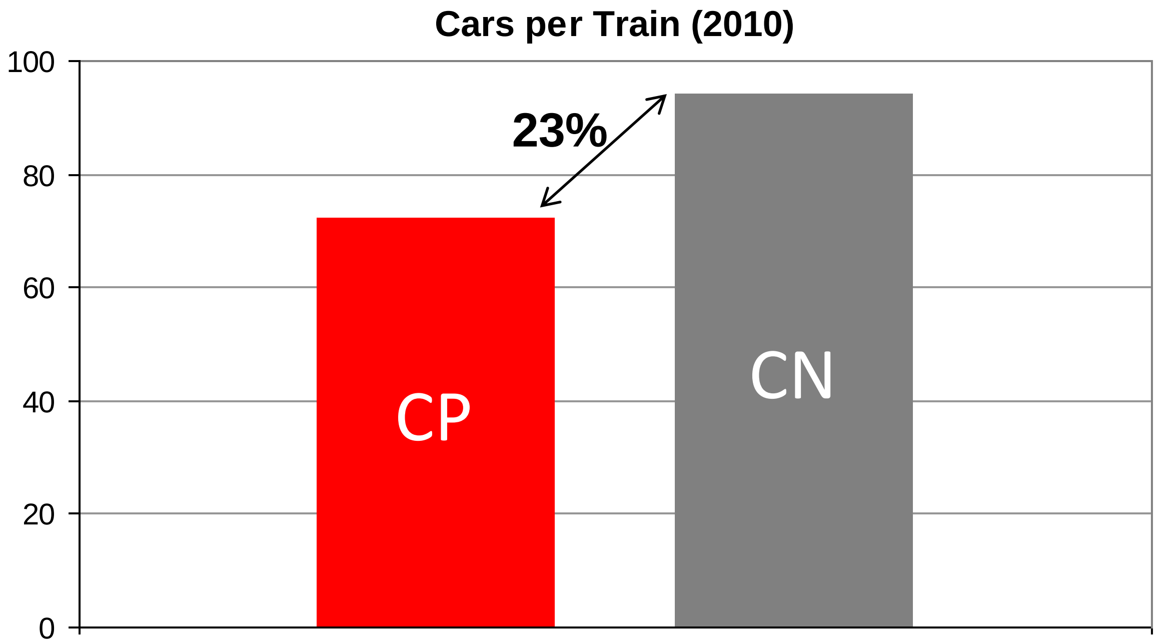
Source: 2010 company filings.

Lower Locomotive Utilization



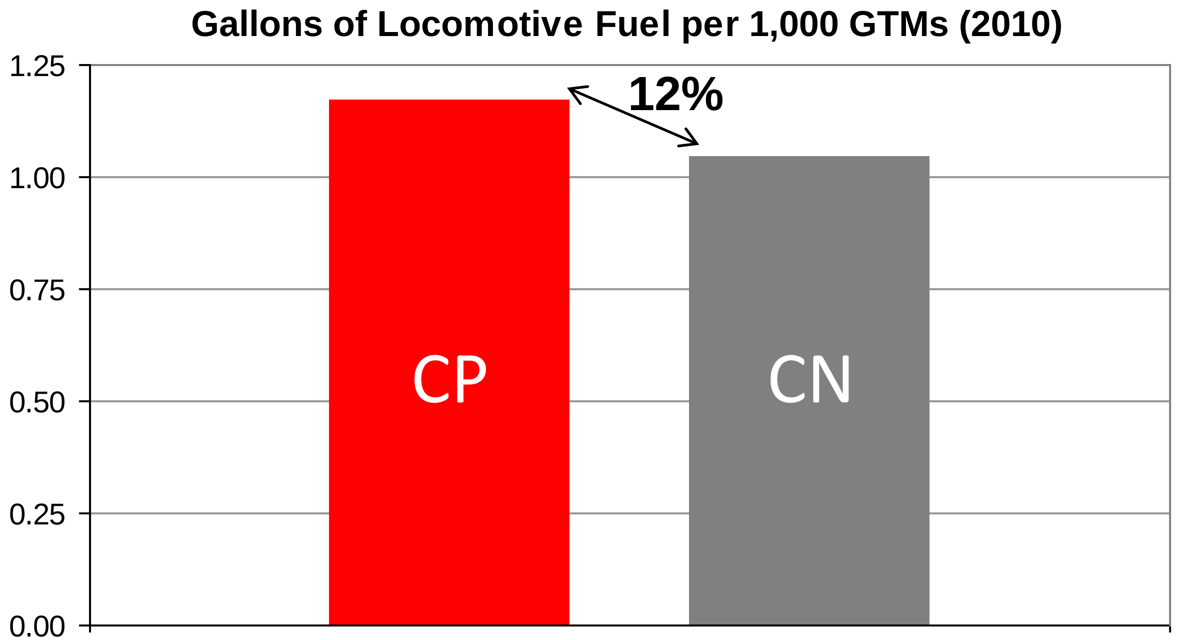
Source: 2010 company filings.

Shorter Trains



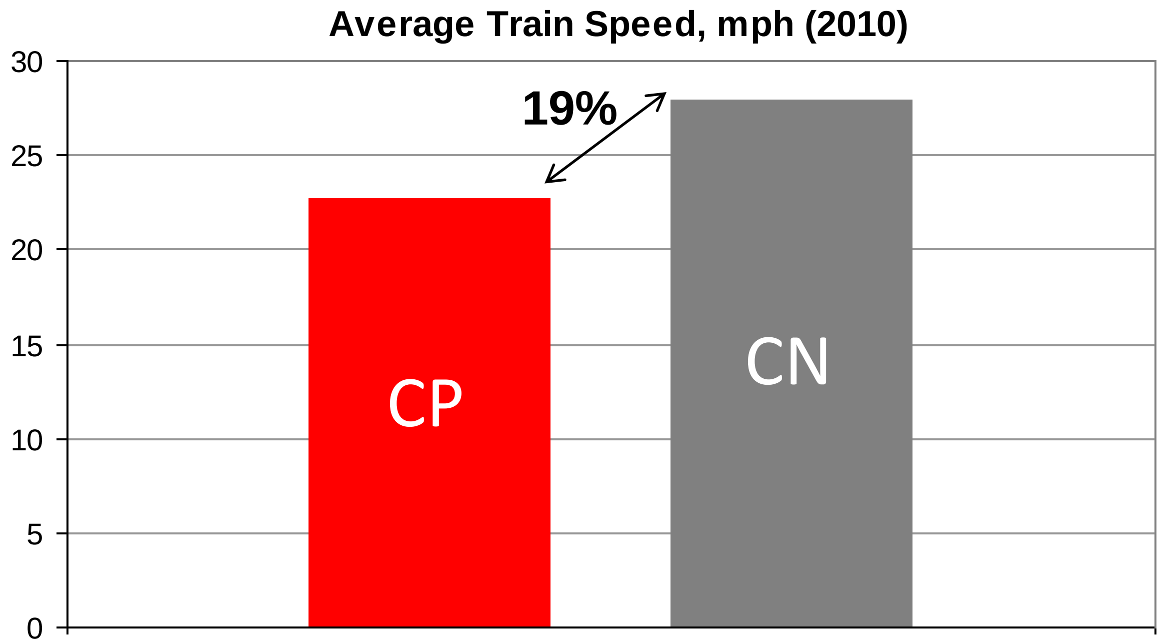
Source: 2010 company filings.

Higher Fuel Consumption



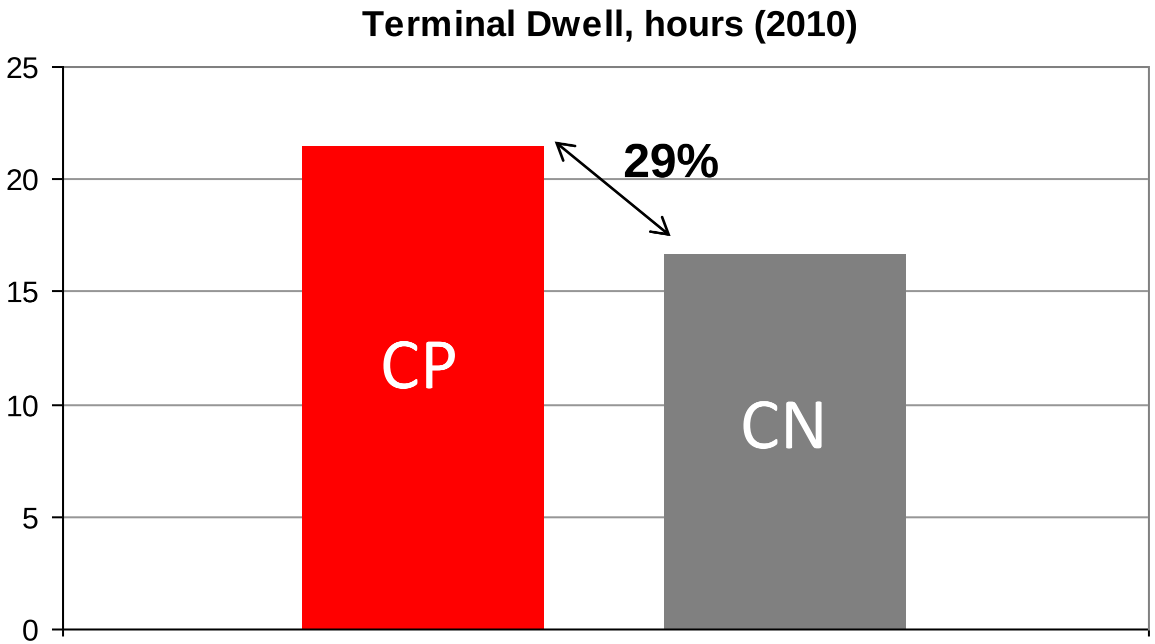
Source: 2010 company filings.

Poor Fluidity: Slower Trains



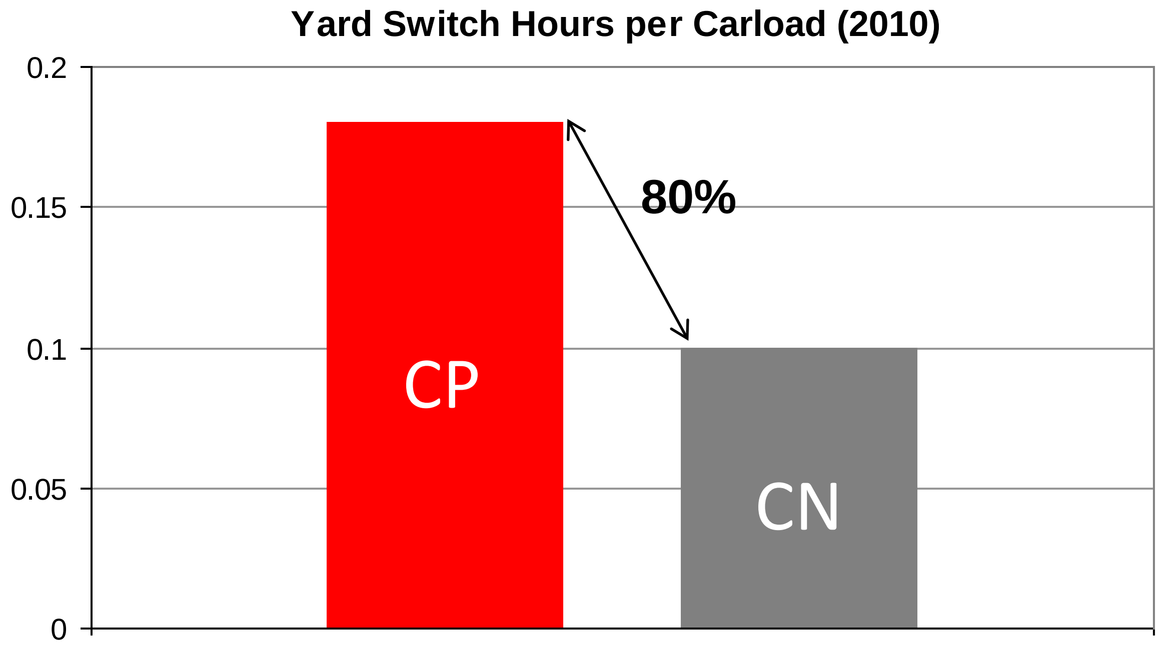
Source: 2010 company filings.

Less Efficient Yard Operations



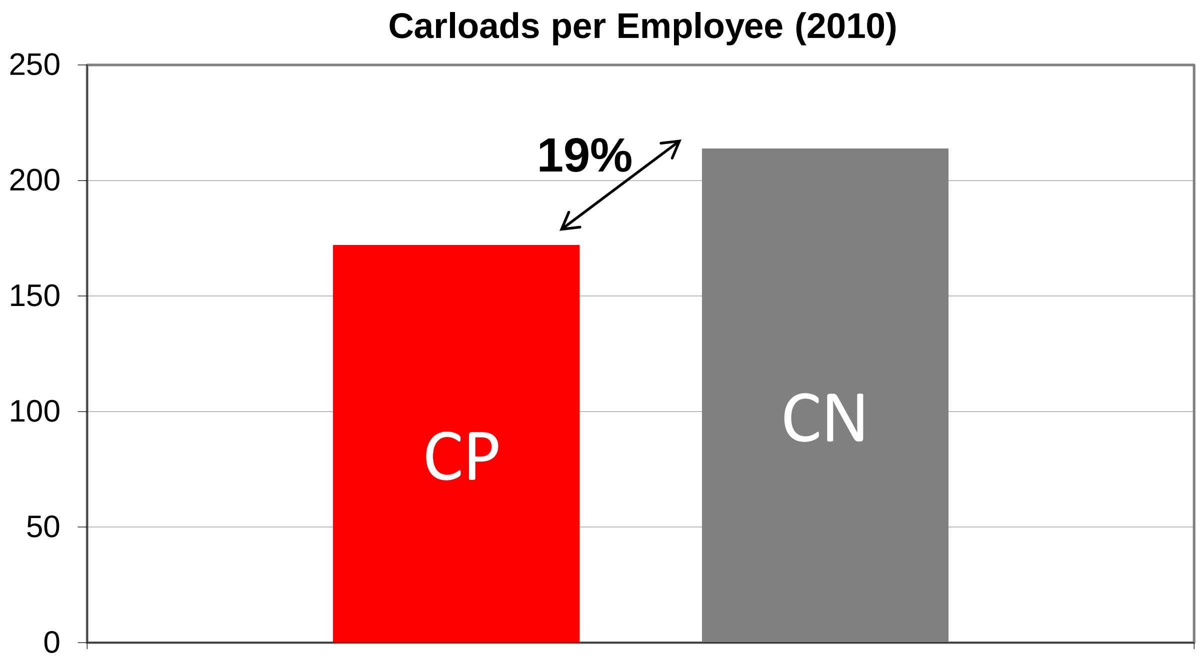
Source: 2010 company filings.

Less Efficient Yard Operations



Source: 2010 company filings.

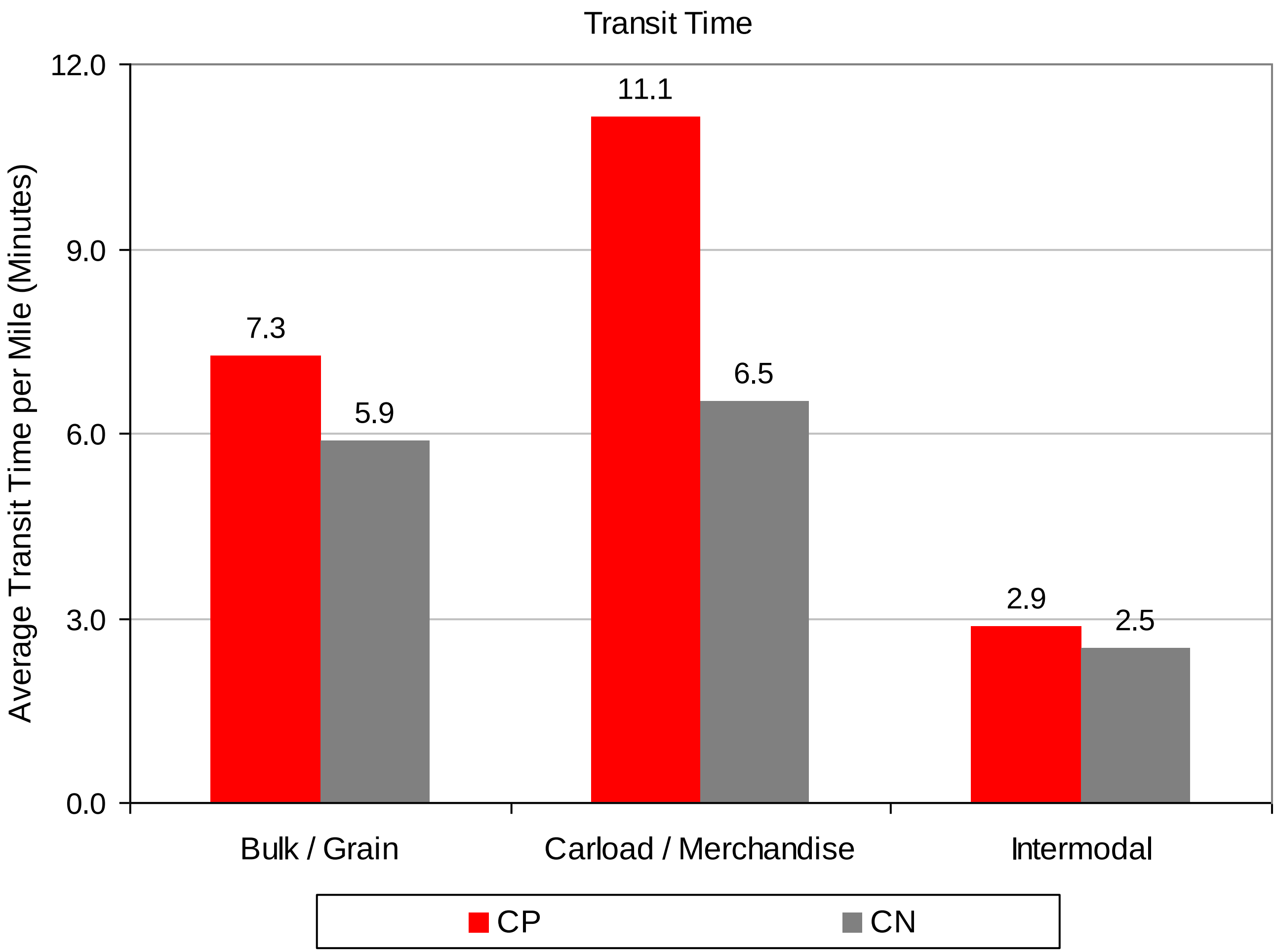
Labour Mismanagement: Lower Employee Productivity



Source: 2010 company filings. For comparability, based on “Average Number of Active Employees – Total” for CP and “Employees (Average for the Period)” for CN.

Poor Service Quality: Longer Transit Times

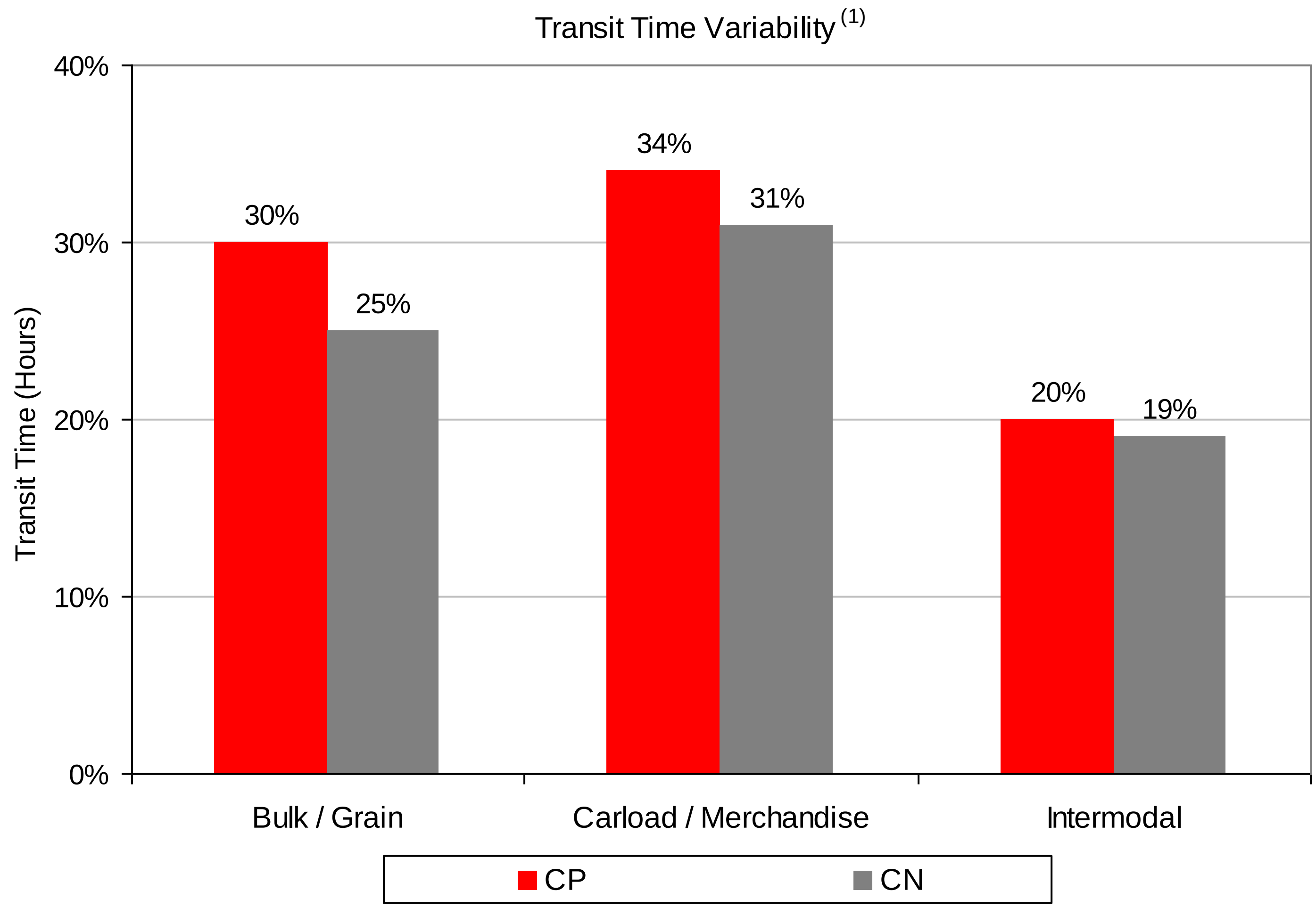
CP's freight service is less timely than CN's



Source: *Analysis of Railway Fulfillment of Shipper Demand and Transit Times*, QGI Consulting, March 2010.

Less Reliable Transit Times

CP's freight service is less reliable than CN's

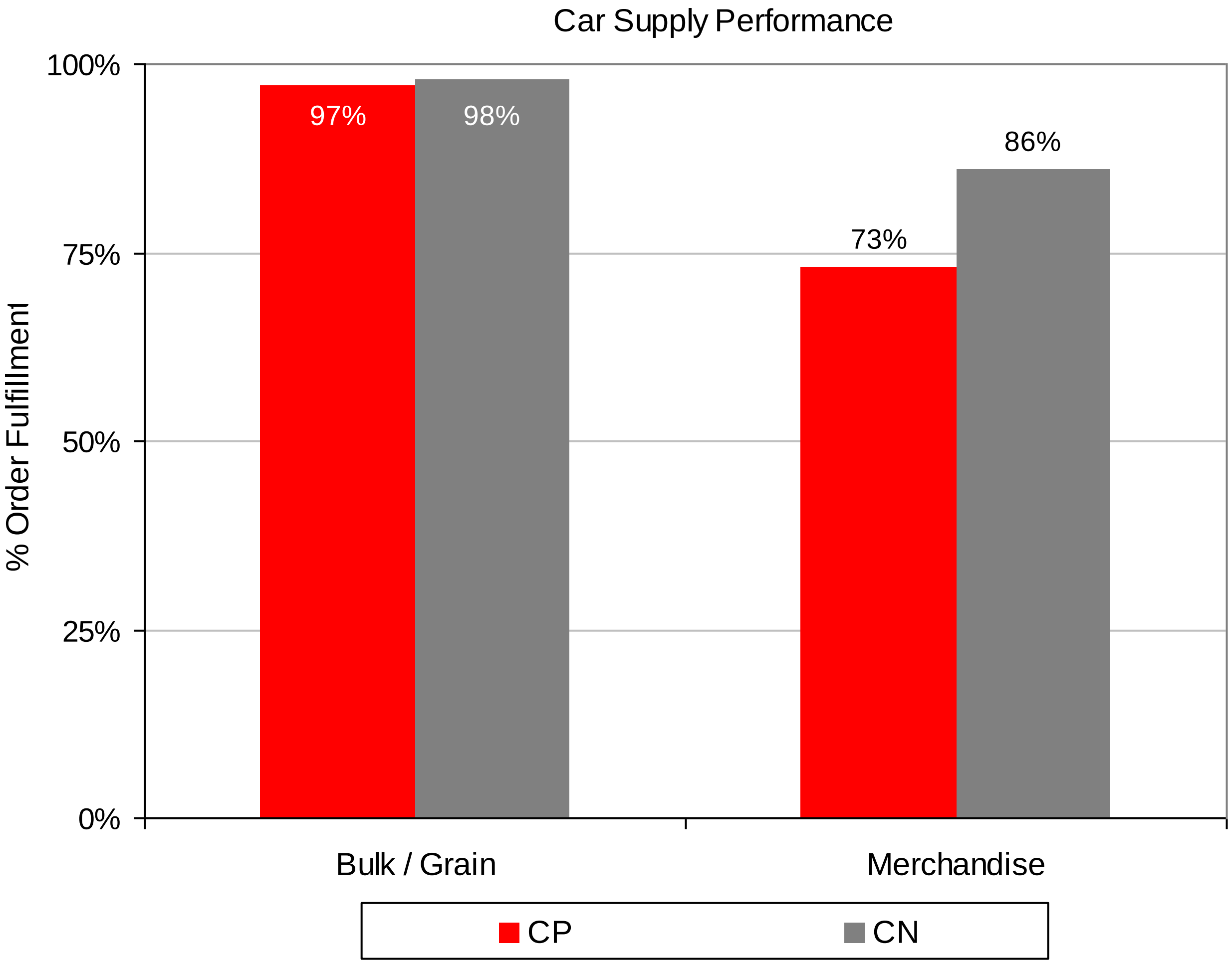


Source: *Analysis of Railway Fulfillment of Shipper Demand and Transit Times*, QGI Consulting, March 2010.

(1) See pages 16 and 17 of the QGI report for an explanation of the measurement framework. For example, if transit time was 100 hours and the standard deviation was 20 hours, the coefficient of variation would be 20 percent. A lower coefficient of variation reflects a more consistent transit time.

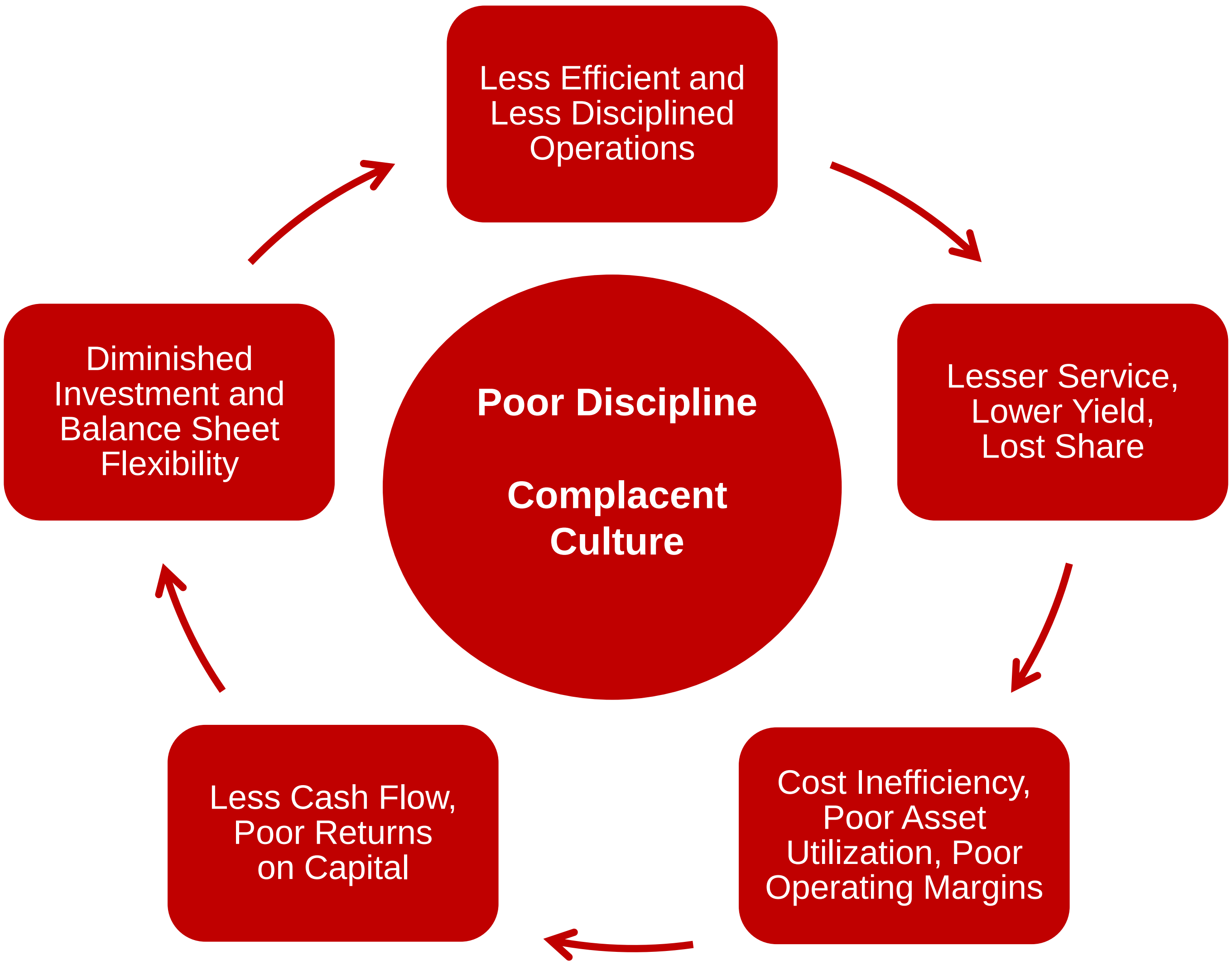
Car Supply is Less Reliable

CP’s car supply fulfillment is less reliable than CN’s



Source: *Analysis of Railway Fulfillment of Shipper Demand and Transit Times*, QGI Consulting, March 2010.

CP Suffers from Vicious Cycle



What is CP's "Detailed Plan"?

What is CP's "Detailed Plan"...

- Current Multi-Year Plan ("MYP") is not Fred Green's first plan
- CP has had at least 10 distinct plans / initiatives during Green's tenure
- Many aspects of the current "Detailed Plan" are previous initiatives rebranded as MYP
- Green's most recent MYP projections (as of 1/30/2012) are driven by substantially increased volume expectations

...That Depends on When You Ask

June 2011 "Detailed Plan"	Current "Detailed Plan"
▪ Driven by various productivity and efficiency initiatives ▪ Assumed 2-3% volume growth ▪ *"Three big initiatives of asset velocity, structural costs and the long train principles; I would say those are the three great building blocks that capture some pretty substantial course of what we're doing."*	▪ New forecast; now driven by materially above-consensus volume expectations ▪ Assumes ~5% volume growth ▪ Volume growth drives ~3/4 of expected net OR improvement ▪ *"Revenue growth is integral to achieving lower OR and is dependent on maintaining strong personal relationships with customers."*

The June 2011 "Detailed Plan"

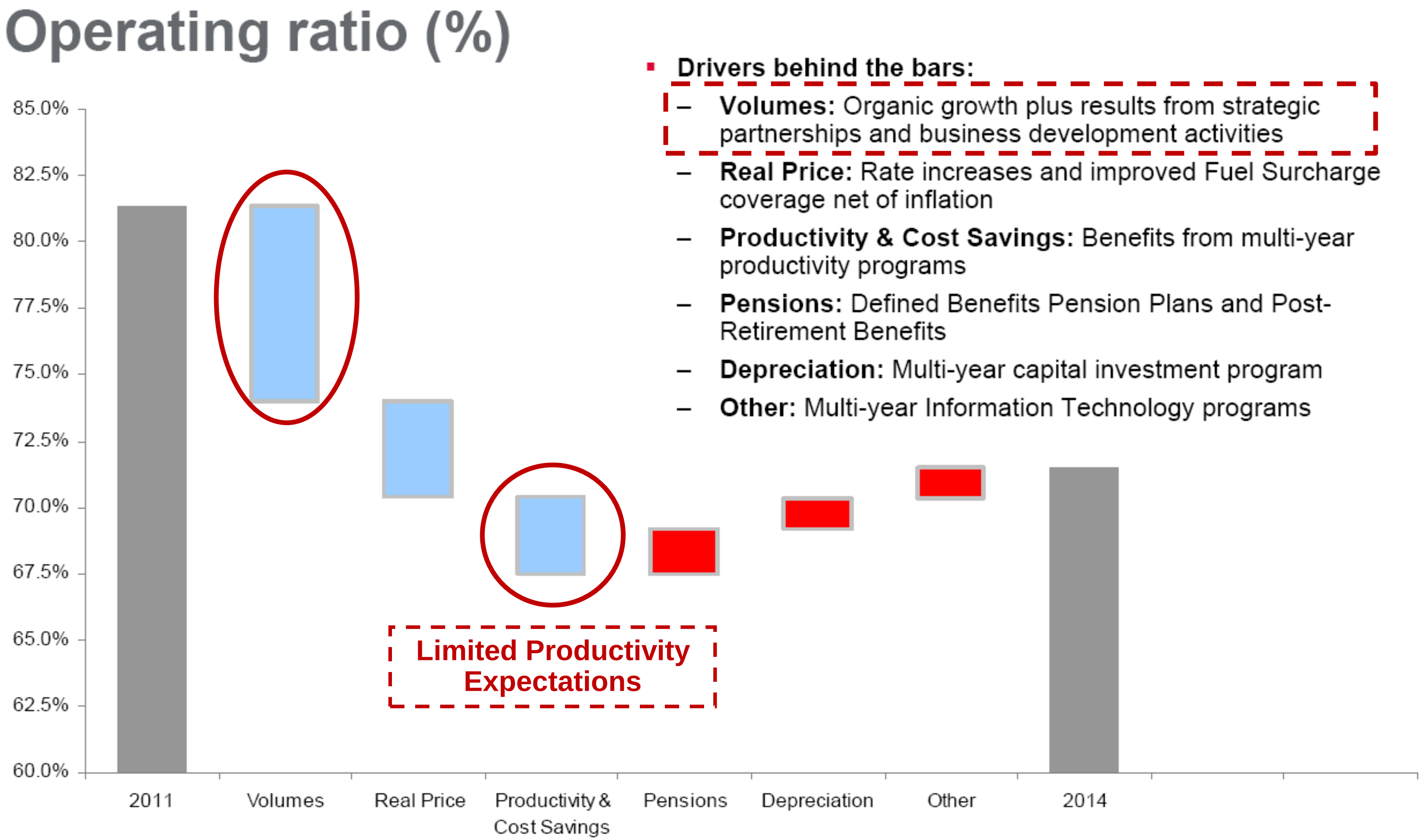
Financial Projections for CP's June 2011 "Detailed Plan"

	2010	3 to 4 year targets
Revenue growth	$4,982 million	2 to 3% RTM CAGR and inflation plus pricing
Compensation & benefits	1.10 cents/RTM, excluding pension	~1.05 cents/RTM, assuming wage inflation at ~3%
Pension expense	$36 million	Estimated to peak in 2013 at $125 million then average $80 to $100 million after
Fuel consumption	1.17 US gallons/ 000 GTM	1 to 2% annual improvement WTI estimated at $100/barrel
Depreciation	0.39 cents/RTM	0.46 to 0.45 cents/RTM
All other	0.96 cents/RTM	0.98 to 0.93 cents/RTM, assuming inflation at 2%

Source: CP Analyst Day, June 2011.

Last Week's "Detailed Plan"

Financial Projections for CP's Current "Detailed Plan"



- **Drivers behind the bars:**
  - **Volumes:** Organic growth plus results from strategic partnerships and business development activities
  - **Real Price:** Rate increases and improved Fuel Surcharge coverage net of inflation
  - **Productivity & Cost Savings:** Benefits from multi-year productivity programs
  - **Pensions:** Defined Benefits Pension Plans and Post-Retirement Benefits
  - **Depreciation:** Multi-year capital investment program
  - **Other:** Multi-year Information Technology programs

Source: Fred Green's Update to Employees, January 30, 2012.

Another “Detailed Plan” – Will the Results Differ?

Canadian Pacific – Operating Ratio

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
78%	**77%**	**78%**	**77%**	**80%**	**80%**	**78%**	**76%**	**76%**	**79%**	**82%**	**78%**	**81%**

Integrated Operating Plan (“IOP”), Scheduled Railroad (May 1999 - Current)

Numerous IT Initiatives (MultiRail, Service Excellence Suite, TYES, TRIEX, SAP, Shipment Suite, Engineering Excellence, TrAM, Others)

Western Capacity Exp. (‘04-’05+)

Execution Excellence (“EE”) (‘05-’07)

Execution Excellence for Efficiency (“E3”) (‘08-’10)

“Long Train Strategy” (Pre-2008+)

Grouped IOP and Yield teams into “Strategy & Yield” (2008+)

“Railway of the Future” (’08-‘09)

Restructured commercial org. Marketing, Sales, Customer Services (‘09+)

“Driving the Digital Railway” (2010+)

Organizational reorg., fewer layers / oper. regions (‘10+)

Reducing structural costs: offices, loco / freight repair (‘10+)

“First Mile Last Mile” (2010+)

Multi-Year Plan (“MYP”) (2011+)

Many former initiatives rebranded as “MYP”

- Lots of plans and initiatives
- No results

Source: Annual reports, CP investor books.

Five Years of Promises and Claims of Progress

November 2005

"I expect our team to gain traction on expense reduction and drive <u>step-change productivity</u> improvements across the property…

…I believe this <u>franchise has more to deliver</u>. I'm <u>not satisfied</u> with our operating ratio [2006 target was ~75% OR], and I'm <u>raising the bar</u> on Execution Excellence as a vehicle to <u>drive accelerated improvements</u>."

- Fred Green, Analyst Day

<u>November 2006</u>*

"It all brings me back to my key message; through Execution Excellence we are transforming this railway into a <u>highly efficient business</u>. The <u>more we do</u>, the <u>more we learn</u>, and the <u>more potential we are seeing</u>."

- Fred Green, Analyst Day

November 2006

"I told you we had a value creation strategy that works. It's delivering results, and we expect our success to continue."

- Fred Green, Analyst Day

April 2007

"Our focus on network fluidity and Execution Excellence have transformed CP into a more resilient railway, better able to manage through and recover from uncontrollable events."

\- Fred Green, Q1 2007 Earnings Call

November 2008*

"We have a series of Vice Presidents who have sat right in front of Kathryn and I and stared us in the eyeballs and told us how they're going to deliver the types of improvements that Brock referred to.

And because of that level of attack, level of effort, and that level of commitment, we're able to sit here today and say that we've got a program [Execution Excellence for Efficiency or "E3"] that over the next couple of years, is another C$100 million."

- Fred Green, Analyst Day

October 2009

“Our <u>long-train strategy</u> continues to support our cost management efforts and our success is being reflected in key metrics.”

- Fred Green, Q3 2009 Earnings Call

October 2009

"We said we'd do $100 million in variable costs, and we are clearly going to do that. We also said we were going to attack the structural costs. We didn't know exactly how big it was, but that we thought it was probably at least as big as the variable cost component, but it would take a couple of years to deliver that…directionally, everything is consistent with our expectations in that regard."

- Fred Green, Q3 2009 Earnings Call

January 2010*

"Looking at 2010, you can expect more of the same from CP, emphasis on cost management, productivity and the realization of longer-term structural savings."

\- Fred Green, Q4 2009 Earnings Call

<u>June 2010</u>

"I would anticipate that we are going to find one or two a year [required sidings to lengthen], where the next bottleneck arises and that's just normal stuff…for the most part, the <u>good news is we've done a lot of the stuff in the expensive mountain siding expansions</u>."

- Fred Green, Analyst Day

The Results?

Fred Green's Results (2006 – 2011)

- EBIT down 1%
- Excluding DM&E, EBIT down ~10%
- Operating Ratio up 360bps
- Total return to shareholders including dividends: negative 18%[(1)]

(1) Represents total return to shareholders, assuming dividends reinvested. Returns from May 5, 2006 (date upon which Fred Green became CP's CEO) through September 22, 2011 (prior to Pershing Square's accumulation).

“Detailed Plans”, Claims of Progress, No Results

- **CP has had at least 10 distinct plans / initiatives during Green’s tenure**
- **Green has promised hundreds of millions in efficiency gains, variable cost reductions, and fixed / structural cost reductions**
- **Green has cited “substantial progress” on these initiatives…**
- **…and yet there has been no evidence of any improvement**

The Board’s Track Record

What are the Board's Primary Responsibilities?

1. **Hire the best CEO and executive management team**

2. **Set proper performance targets and incentives and compensate appropriately**

3. **Monitor and review performance and strategy**

4. **Hold management accountable for execution**

The Board Chose the Wrong CEO and Will Not Consider Alternatives

Worst performing railroad

Board is "unanimous" in its support of current CEO

Board wouldn't even meet Hunter Harrison

Has the Board Successfully Managed Executive Ranks?

<u>Head of Operations *(COO or Equivalent)*</u>

Brock Winter (SVP, Ops)	Kathryn McQuade (EVP, COO)	Brock Winter (SVP, Ops)	Edmond Harris (EVP, COO)	Mike Franczak (EVP, Ops)
May 2006 – June 2007	**June 2007 – Sept 2008**	**Sept 2008 – April 2010**	**April 2010 – April 2011**	**April 2011 – Present**

<u>Head of Finance *(CFO or Equivalent)*</u>

Brian Grassby (Acting CFO)	Michael Lambert (EVP, CFO)	Kathryn McQuade (EVP, CFO)
April 2006 – Oct 2006	**Oct 2006 – Sept 2008**	**Sept 2008 – Present**

Instability in key roles, particularly operations, hampers performance

Has the Board Set Proper Targets and Compensation?

Fred Green's Performance

- Worst operating performance in the industry
- EBIT has declined ~10% excluding DM&E
- Negative cash flow

Fred Green's Targets

- Yet, Fred Green deemed to have met 17 of 18 individual performance objectives set by the Board
- Only one missed objective: financial targets in 2008
- Financial targets for Green were eliminated after 2008

Has the Board Set Proper Targets and Compensation?

Fred Green's "Value" to Shareholders	Fred Green's Compensation
▪ Negative 18% total return to shareholders, including dividends, over tenure(1) ▪ $1.8bn of shareholder value destroyed(1)	▪ Fred Green has been paid $27mm from 2006 – 2010

(1) Returns from May 5, 2006 (date upon which Fred Green became CP's CEO) through September 22, 2011 (prior to Pershing Square's accumulation). Total return to shareholders includes dividends, assumed to be reinvested.

Has the Board Set Proper Targets and Compensation?

Performance targets are lowered in the face of underperformance

2009 Performance Share Units – Targets

Payout Level (% of units)		2011 Pre-tax ROCE 50%	TSR CAGR* Relative to index 50%
Threshold	50%	8.5%	-1%
Target	100%	10.5%	0%
Exceptional	200%	13.5%	2%

Reduced ROCE targets ~200bps

2010 Performance Share Units – Targets

Performance Period	Performance Level (% of Units)		2012 Pre-Tax ROCE 50%	TSR CAGR* Relative to index 50%
2010 – 2012	Threshold	50	7.5%	-2%
	Target	100	8.4%	0%
	Exceptional	200	11.2%	4%

Source: CP Proxy Circular, May 2011.

Has the Board Set Proper Targets and Compensation?

CP's performance targets are meaningfully lower than CN's

CP's 2010 Performance Share Units – Targets

Performance Period	Performance Level (% of Units)		2012 Pre-Tax ROCE 50%	TSR CAGR* Relative to index 50%
2010 – 2012	Threshold	50	7.5%	-2%
	Target	100	8.4%	0%
	Exceptional	200	11.2%	4%

CN's 2010 Restricted Share Units – Targets

	OBJECTIVE	PERFORMANCE VESTING FACTOR[1]
Performance Objective: Average ROIC for the three-year period ending on December 31, 2012	Below 10.5%	0%
	10.5%	50%
	11.5%	100%
	12.5%	125%
	13.5% and above	150%

CP's measure is pre-tax, CN's measure is after-tax

Source: CP Proxy Circular, May 2011. CN Proxy Circular, April 2011.

Has the Board Set Proper Targets and Compensation?

COST OF MANAGEMENT RATIO

	2010	2009	2008	2007	2006
Total aggregate NEO compensation ($millions)	15.4	10.1	10.3	13.9	9.7
Net income ($millions)	650.7	550.0	627.8	907.6	796.3
As a percentage of net income	2.4%	1.8%	1.6%	1.5%	1.2%

The cost of management ratio has doubled

Source: CP Proxy Circular, May 2011.

Has the Board Held Management Accountable?

CEO Responsibilities	Performance
Attract, Develop & Retain Strong Management Team	- Questionable hires / roles - Five COOs in 5 years, Three CFOs in 5 years
Maximize Operating Performance	- Worst OR in industry; far worse than closest competitor - Poor asset utilization, ROIC, cash flow - Lower reliability, losing market share
Drive Strategic Direction	- Underinvestment vs. peers - Disastrous DM&E acquisition
Capital Allocation & Balance Sheet Management	- Weakened balance sheet, including pension mismanagement - Inopportune equity repurchases / issuances

The stock price reflects value destruction over the past ~5.5 years

What Does the Board Need?

- **Railroad expertise**
  - Added only after Pershing Square's involvement, despite significant operating underperformance
- **Shareholder representation**
- **Restructuring expertise**
- **Entrepreneurial culture**
- **Culture of equity ownership and shareholder value creation**

What Should CP Do?

Hire the Ideal CEO for this Unique Challenge

- **Repeated success transforming railroads into <u>best-in-class</u> operators**
- **Proven success driving <u>operational and cultural</u> change**
- **Extensive <u>CEO-level</u> experience in <u>Canadian</u> rail industry**
- **An executive who has studied CP for over a decade**
- **Strong record developing executives**
- **Consistently delivering <u>industry-leading results</u>, <u>not excuses</u>**
- **Strongly supported by shareholders**

Who is the best CEO alternative for CP?

Hunter Harrison

Led operational and cultural transformations at two underperforming railroads, including one in Canada. Drove unprecedented performance, far ahead of peers

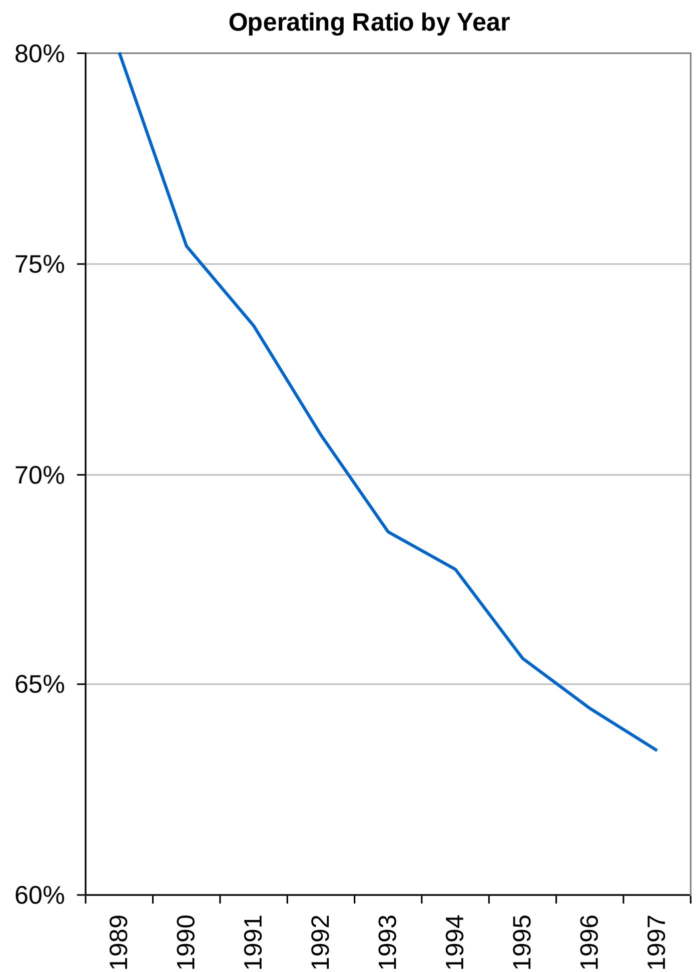
Hunter Harrison

Hunter's experience gives him a <u>unique</u> and <u>massive</u> head start in the transformation of Canadian Pacific

Illinois Central - Case Study

Hunter Harrison led IC's transformation into the best operating railroad in the industry, ~2,000bps ahead of the competition

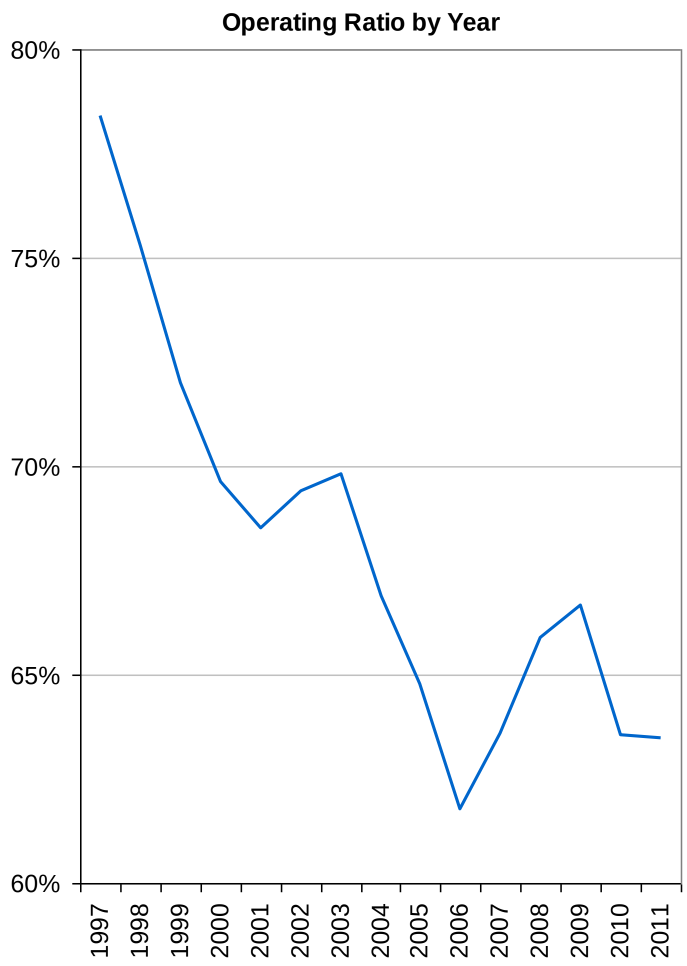
- **Pioneered and implemented Precision Scheduled Railroading**
- **EBIT increased 2.8x**
- **OR improved 1,700bps from 80% in 1989 to 63% in 1997**
  - Massive operating improvement *despite price decreases* prevailing at IC and within industry at the time
  - Dramatic *reduction* in asset intensity, with 29% *reduction* in locomotives and 10% *reduction* in rolling stock, despite growing volumes
- **Bought by CN: 450% return to equity holders**



Canadian National - Case Study

Hunter Harrison led CN's operational and cultural transformation into the best operating railroad in the industry

- **Operational / cultural transformation and implementation of Precision Scheduled Railroading**
- **EBIT increased 2.6x**
- **OR improved 1,100bps from 78% in 1997 to 67% in 2009**
  - As low as 62% OR in 2006 (1,600bps)
  - $3bn of acquisitions (at high 70%s OR), integrating and transforming these rails, leading to flattish ORs in high 60%s in the early 2000s
  - Not capital intensive → capex = 17% of rev.
- **Total return to shareholders of 350%**

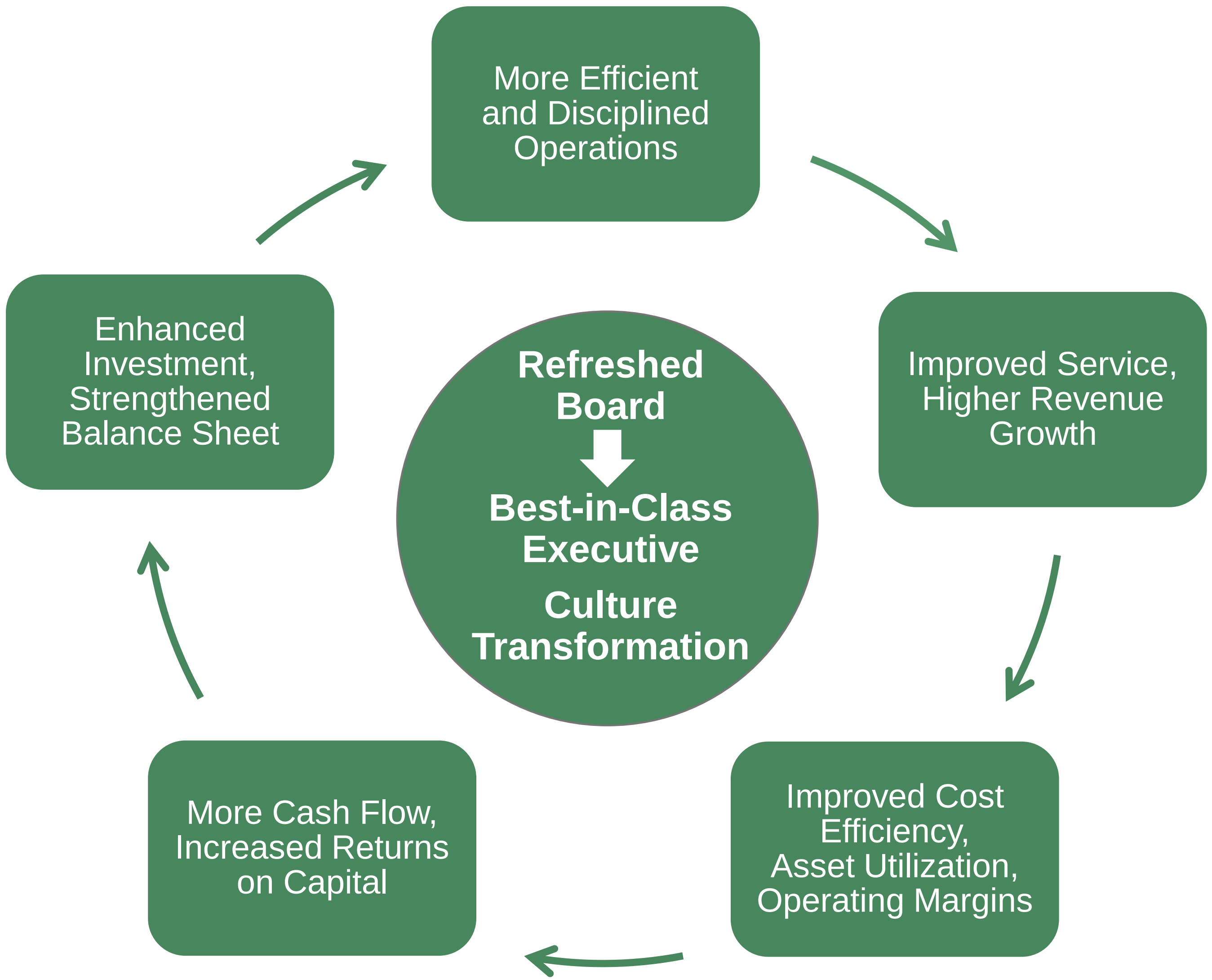


Hunter Harrison

Hunter is an Experienced

Culture Change Agent

Change Will Drive Virtuous Cycle of Improvement



Change Will Drive Enormous Value Creation

Assuming a mid-60% OR by year 4 (2015), CP's intrinsic value could be ~$140 per share in three years (12/31/2014)

Year 4 (2015) Earnings per Share

		Revenue Growth, p.a. (2012 - 2015)		
		4%	**6%**	**8%**
	69%	$7.95	$8.68	$9.45
Year 4 (2015)	**67%**	$8.56	$9.34	$10.16
Operating	**65%**	$9.19	$10.01	$10.88
Ratio %	**63%**	$9.82	$10.69	$11.61
	61%	$10.45	$11.37	$12.34

Intrinsic Value at Year 3 (12/31/2014) assuming 14x NTM Earnings

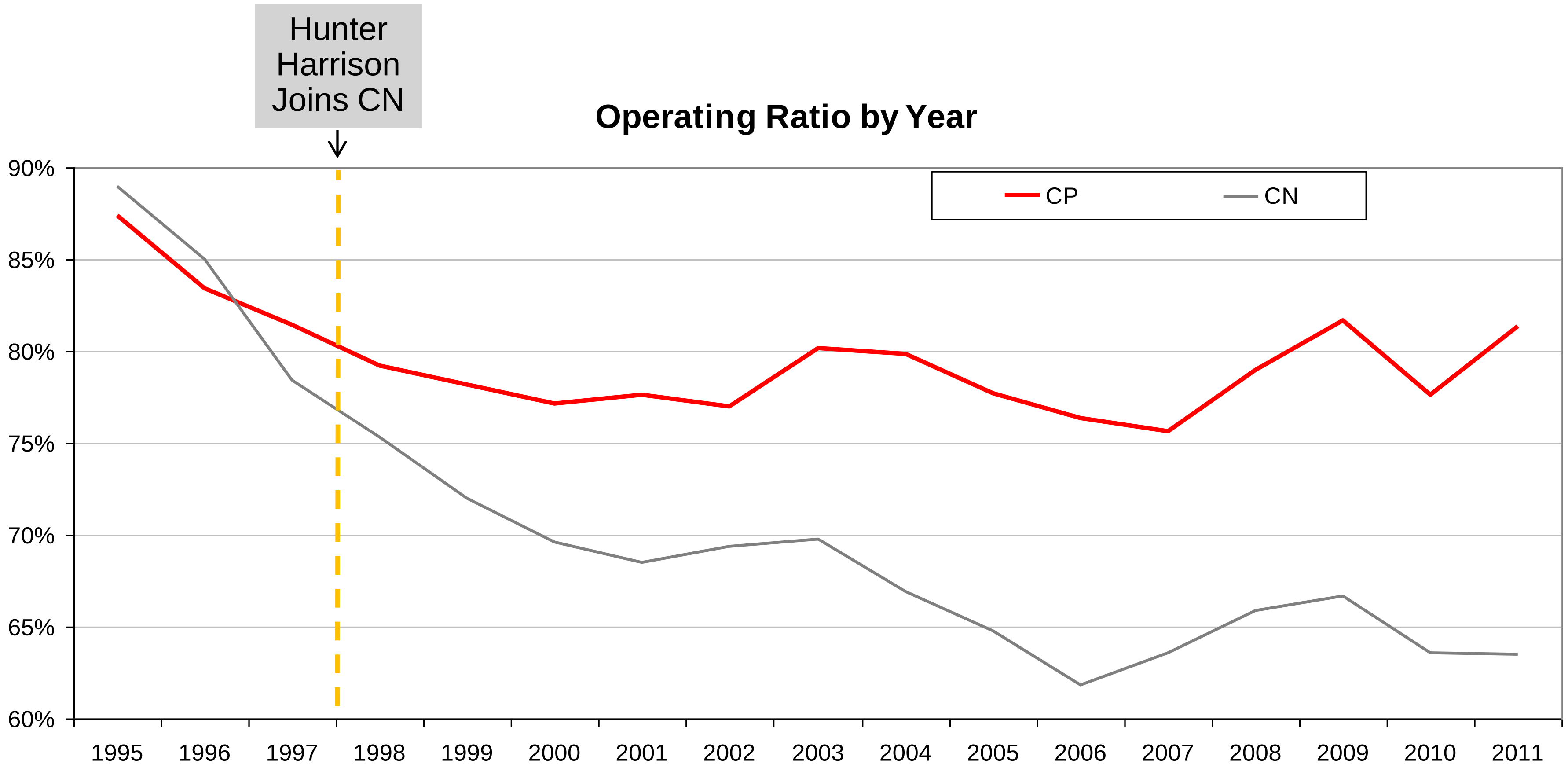
		Revenue Growth, p.a. (2012 - 2015)		
		4%	**6%**	**8%**
	69%	$111.25	$121.48	$132.30
Year 4 (2015)	**67%**	$119.90	$130.79	$142.30
Operating	**65%**	$128.63	$140.18	$152.38
Ratio %	**63%**	$137.44	$149.64	$162.55
	61%	$146.32	$159.19	$172.80

CP's Board would not even interview Hunter Harrison…

…We now have the opportunity to do so ourselves

Appendix:
CP’s Potential

A Look Back at Operating Margins



Is it possible that CP has always been efficient while CN (and every other U.S. Class I rail) improved margins massively?

Each Rail has Advantages and Disadvantages

While each Class I rail has specific characteristics, these differences do not explain CP's massive operating profit deficit

CP vs. CN

Potential Advantages	Potential Disadvantages
- Most direct route through the Rockies (100-miles shorter) - Strong franchise, bulk / unit train mix, longer hauls - Bakken and ethanol access - Unencumbered by low density eastern Canada lines	- Steeper Rockies grade - Fewer sidings / double track - Lack of Prince Rupert & Halifax access - Less Alberta access - Low density of U.S. lines

Earlier in his tenure, Fred Green privately told numerous investors that CP's "structural disadvantage" vs. CN was benchmarked at ~200-300 bps

Each Rail has Advantages and Disadvantages

While each Class I rail has specific characteristics, these differences do not explain CP's massive operating profit deficit

CP vs. U.S. Class I Rails

Potential Advantages	Potential Disadvantages
- Canada's natural resource economy is levered to emerging market growth - Nationalized healthcare and lower payroll taxes reduce operating expenses - Less network complexity	- Northern weather conditions reduce efficiency in winter months - Final Offer Arbitration regulatory process potentially more uncertain

An Operating Ratio of Mid-60%s is Achievable

CP enjoys an attractive franchise structurally capable of a 65% OR with a proper operating plan and disciplined execution

- **Over the long-term, the operating ratio is a function of structural business factors, not profit levels at any given time**

- **Top down analysis: CN going to low 60%s and U.S. Class I Rails to ~65%**
  - What are CP's *structural* advantages and disadvantages vs. peers?

- **2 for 2 success rate: Hunter has transformed both IC and CN to mid / low 60%s ORs**

A Mid-60%s OR is Achievable in Four Years

- **Hunter's third turnaround, 47 years of experience, 12 more than when joining CN and 21 more than when joining IC**
  - Apply the many successful practices, learn and adapt from mistakes

- **Pace of similar OR improvement at IC and CN was slowed by a declining price environment (IC) and integration of lower margin acquisitions (CN)**

- **Decade-plus of experience with CP, Canada, and competitive landscape**
  - Customers, terrain / routes, labour, regulations (FOA, interswitching)

- **Operating plan is proven and successful, similar best operating practices are already in place and producing results for CP's competitor**
  - Adoption of concepts by employees / unions, customers, regulators, and other stakeholders will be more rapid given proven success of concepts

Wealth of experience and massive "head start" enable four year improvement

Appendix:
Hunter Harrison & The Plan

Why Hunter Harrison?

Best executive in railroad industry; led operational and cultural transformation of both Illinois Central and Canadian National into best-in-class railways

- **Illinois Central – 1989 to 1997**
  - Led transformation of IC into best performing railway in North America, nearly ~2,000 bps ahead of industry at the time
  - EBIT increased 2.8x, OR improved from 80% in 1989 to industry-best 63% in 1997
  - Sold to CN: 450% return to equity holders
- **Canadian National – 1998 to 2009**
  - Led transformation of CN into best performing railway in North America
  - EBIT increased 2.6x, OR improved from 78% in 1997 to industry-best 67% in 2009 (OR as low as 62% in 2006)
  - Total returns to shareholders of 350%

Why Hunter Harrison?

Best executive in railroad industry; led operational and cultural transformation of both Illinois Central and Canadian National into best-in-class railways

- **Recognitions (amongst many):**
  - Railroader of the Year, Railway Age (2002)
  - Award of Merit, B'nai Brith (2006)
  - 1 of 10 appointed by PM Harper to North American Competitiveness Council (2006)
  - CEO of the Year, Globe and Mail (2007)
  - International Executive of the Year, Canadian Chamber of Commerce (2009)
  - Railroad Innovator Award, Progressive Railroading (2009)

Hunter is Uniquely Qualified to Lead CP

- **Unrivaled track record: <u>2 out of 2 success rate</u> with operational and cultural turnarounds**

- **<u>Only executive</u> to lead railroads to <u>low 60%s</u> OR levels**

- **<u>Intimately familiar</u> with CP, Canada, and competitive landscape**
  - Customers, terrain / routes, labour, regulations (FOA, interswitching)

- **Track record of building a strong team & succession planning, as evidenced by continued strong performance after he left CN**

- **Non-promotional: met or beat targets consistently at IC / CN**

Best Executive + Familiarity = Massive Improvements to Worst Performer

Hunter's Impact Is Transformational

"We will aim to be *below 80* percent [operating ratio] in the year 2000. *Ambitious goals?* Perhaps, but I am convinced that they must be achieved."

- Paul M. Tellier, CN's 1996 Annual Report (April 1997)

"With an operating ratio of 62.3% during 1997, *Illinois Central is one of the most efficiently operating railroads in North America*. As a result, a portion of the anticipated synergies from the Acquisition will be derived from the *application of Illinois Central's 'best practices'*."

- CN / IC Merger Debt Securities Prospectus (May 1998)

Canadian National *achieved a 69.6% operating ratio in 2000*, utilizing Precision Scheduled Railroading, on the way to the low 60s by the mid-2000s

Hunter’ Plan – Precision Scheduled Railroading

The Precision Scheduled Railroading plan is the most known and transparent plan in the industry and has an unrivaled track record of results

- **Operating philosophy is detailed in two published books with nearly 300 pages of detail(1)**
- **Cultural transformation chronicled in another published book(2)**
- **Philosophies described at length to CN and other industry employees at “Hunter camps”**
- **Unrivaled track record of results**
  - 2 for 2 success rate
  - Low 60%s operating ratios achieved

(1) How We Work and Why (Running A Precision Railroad) and Change, Leadership, Mud and Why (How We Work and Why Volume II), by E. Hunter Harrison
(2) Switch Points: Culture Change on the Fast Track to Business Success, by Judy Johnson, Les Dakens, Peter Edwards, Ned Morse

Advantages of Precision Scheduled Railroading

An operationally efficient CP would be better for all stakeholders, including employees, shippers, consumers, and shareholders

- **Superior service and reliability**
  - Service and reliability drives yield and volumes
- **Reduced capital spending levels with better asset utilization**
  - Capacity enhancements without excess capital spending
- **Enhanced cash flow increases ability to invest in and grow franchise**
- **Strong growth in earnings and cash flows lead to improved share price performance**
- **Good for all stakeholders and Canada**
  - Shippers / exporters, employees / unions, taxpayers, environment

Appendix:
The Nominees for Management Change

The Nominees for Management Change: Bio – Bill Ackman

Bill Ackman, 45, is the founder and Chief Executive Officer of Pershing Square Capital Management, L.P., an investment advisor with $11 billion of assets under management, founded in 2003 and registered with the United States Securities and Exchange Commission. Investors in Pershing Square's managed funds include university endowments, public and private U.S., Canadian and European pension funds, individuals, charitable foundations and sovereign wealth funds. Ackman is a director of the J. C. Penney Company, Inc. (NYSE: JCP), Chairman of the Board of The Howard Hughes Corporation (NYSE: HHC), and a director of Justice Holdings Ltd. (LSE: JUSH). Ackman is a member of the Board of Dean's Advisors of the Harvard Business School and a Trustee of the Pershing Square Foundation, which has made more than $130 million in grants towards inner city education, global health care delivery, poverty alleviation, human rights, venture philanthropy, urban planning and the arts. Ackman received an M.B.A. from Harvard Business School and a Bachelor of Arts magna cum laude from Harvard College.

The Nominees for Management Change: Bio – Gary F. Colter

Gary F. Colter, 66, is the President of CRS Inc., a corporate restructuring, strategic and management consulting company which he founded in 2002. Previously, Mr. Colter spent 34 years with KPMG Canada and its predecessor firm Peat Marwick, where he was a Partner for 27 years, holding various senior positions, including Vice Chairman of Financial Advisory Services and a member of the Management Committee from 1989 to 1998. From 1998 to 2000, Mr. Colter was Global Managing Partner of Financial Advisory Services and a member of a then new International Executive Team for KPMG International. In 2002, he retired as Vice Chairman of KPMG Canada. Since 2002, Colter has been a director of Owens-Illinois Inc. (NYSE:OI), the largest manufacturer of glass bottles in the world, where he serves on the Governance and Audit Committees and previously chaired the Audit Committee for over six years. In 2003, he joined the Board of Canadian Imperial Bank of Commerce ("CIBC") (TSX:CM; NYSE:CM) where he chairs the Governance Committee and serves on the Audit Committee. He previously served on the Compensation Committee and Chaired the Audit Committee of CIBC for over five years and the Risk Committee for one year. In 2004, Colter joined the Board of Core-Mark Holding Company, Inc. (NASDAQ:CORE), a leading North American manufacturer of fresh and broad line supply solutions to the convenience retail industry. Mr. Colter is Chair of the Governance Committee and serves on the Audit Committee. He previously chaired the Compensation Committee for over three years. In 2005, he joined the Board of Retirement Residences REIT, a company that provides accommodation, care and services for seniors. In 2007, the company was purchased by Public Service Pension Investment Board and changed its name to Revera Inc. Colter is Chair of Revera's Audit Committee and serves on the Governance Committee. From 2003 to 2006, Colter was a director of Saskatchewan Wheat Pool Inc., now Viterra Inc. (TSX:VT), and chaired the company's Audit Committee and was a member of the Strategic and Business Planning Committee. Mr. Colter has a B.A. (Honours) in Business Administration from the Ivey Business School of the University of Western Ontario, and is a Fellow Chartered Accountant.

The Nominees for Management Change: Bio – Paul C. Hilal

Paul C. Hilal, 45, is a Partner at Pershing Square, which he joined in 2006. From 2002 to 2005, he was the Managing Partner of Caliber Capital Management, LP. From 1998 to 2001, he ran the information technology sector investment program at Hilal Capital Management. From 1992 to 1997, Hilal was a Principal at Broadview Associates, providing mergers and acquisitions advisory services to information technology companies. From 1999 to 2000, Hilal served as the Chairman of the Board and Interim Chief Executive Officer of Worldtalk Communications Corporation. He served as a director of Ceridian Corporation in 2007, prior to its sale to the Thomas H Lee Company. Hilal received an A.B. degree in Biochemistry from Harvard College in 1988, a J.D. from Columbia University School of Law in 1992, and an M.B.A. from Columbia University School of Business in 1992.

The Nominees for Management Change: Bio – Rebecca MacDonald

Rebecca MacDonald, 58, is a founder and current Executive Chair of Just Energy Group Inc. (TSX:JE), a Toronto-based independent marketer of deregulated gas and electricity, with annual sales of $3 billion. Just Energy currently supplies more than 3.5 million customers across Canada and the United States, having signed its first customer in 1997. She has been a director of Just Energy since 2001 and has held the position of Executive Chair since 2007. In 1989, she founded Energy Marketing Inc., the first company which targeted small customers under Canadian natural gas deregulation, which she subsequently sold. Following the sale of that business, in 1995 she founded another company which aggregated customers within the U.K. natural gas deregulation, which was also sold. Ms. MacDonald served as President and Chief Executive Officer of Just Energy prior to becoming Executive Chair in 2007. MacDonald is a member of the Board of Governors of the Royal Ontario Museum. She founded the Rebecca MacDonald Centre for Arthritis and Autoimmune Disease at Mount Sinai Hospital in Toronto. She is Vice-Chair of the Board of Directors of Mount Sinai Hospital. Previously, she was a director of the Arthritis Society. In 2002, MacDonald received the Rotman Canadian Woman Entrepreneur of the Year Lifetime Achievement Award. That same year, the University of Toronto, Rotman School of Business named her Canadian Woman Entrepreneur of the Year for 2002. She was also named the top woman chief executive officer for each year from 2003 to 2009 by Profit Magazine. She was named Ontario Entrepreneur of the Year by Ernst & Young in 2003. In 2009, Ms. MacDonald received the Canadian Horatio Alger Award for demonstrated community leadership. She received an honourary degree from the University of Victoria in 2002.

The Nominees for Management Change: Bio – Dr. Anthony R. Melman

Dr. Anthony R. Melman, 64, is Chairman and Chief Executive Officer of Nevele Inc., providing strategic business and financial advice to a wide range of businesses. Previously, Dr. Melman was a Managing Director (until 2006) and a Special Advisor, Strategic Acquisitions (2006-07) at Onex Corporation (TSX: OCX), which he joined as a Partner and Vice President at its inception in 1984. At Onex, Dr. Melman led or participated in the company's bids for Labatt and Air Canada, and the acquisitions of Sky Chefs Inc., Beatrice Canada and electronics maker Celestica Inc. (TSX: CLS; NYSE: CLS), IBM's manufacturing arm. Together with Celestica's management team he developed Celestica from a single-facility manufacturing operation in Toronto with under US$1 billion in annualized sales in 1996, to a global public company listed on both the New York and Toronto Stock Exchanges with over US$10 billion in sales by 2001. Prior to joining Onex, Dr. Melman served as a Senior Vice President of the Canadian Imperial Bank of Commerce in charge of worldwide merchant banking, project financing, acquisitions and other specialized financing activities. Since 2010, Dr. Melman has served as a director and Chair of the Budget and Finance Committee of the Ontario Lottery and Gaming Corporation. He is a past director of Celestica Inc., ProSource Inc. and the University of Toronto Asset Management Corporation. He was until February 2, 2012 Chair of The Baycrest Centre for Geriatric Care, one of the world's premier academic health sciences centres focused on aging. Dr. Melman will continue as director of the Baycrest Centre, but has now assumed the role of Chair of Baycrest Global Solutions, a for-profit corporation that will commercialize the intellectual property, assets, and technologies of the Baycrest Centre. He is also the former Chair of the Childhood Cancer Charitable Council of the Pediatric Oncology Group of Ontario (POGO) and a member of the Board of Governors of Mount Sinai Hospital. In 2011, Dr. Melman was appointed Chair of the Board of Directors of Cogniciti Inc., a for-profit joint venture created by Baycrest and MaRS Discovery District, an organization that helps science, technology and social entrepreneurs build their companies. Dr. Melman was born in Johannesburg, South Africa, and is a Canadian citizen. He holds a Bachelor of Science degree in Chemical Engineering from the University of the Witwatersrand, a M.B.A. degree (Gold Medalist) from the University of Cape Town and a Ph.D. in Finance from the University of the Witwatersrand.

Meet Hunter Harrison:
Bio – Hunter Harrison

Hunter Harrison, 67, served as the President and Chief Executive Officer of Canadian National Railway Company ("CN") (TSX: CNR; NYSE: CNI) from January 1, 2003 to December 31, 2009 and as Executive Vice President and Chief Operating Officer from March 26, 1998 to December 31, 2002. Harrison served on CN's Board of directors from December 1999 until December 2009. Prior to joining CN, Harrison served as President and Chief Executive Officer of Illinois Central Corporation ("IC") and Illinois Central Railroad Company ("ICRR") from 1993 to 1998, and as a director of IC and ICRR from 1993 to 1998. At IC and ICRR, Harrison first held the position of Vice-President and Chief Operating Officer in 1989, becoming Senior Vice-President – Transportation in 1991, Senior Vice-President – Operations in 1992, and President and Chief Executive Officer the following year. His railroad career began nearly five decades ago in 1963 when he joined the Frisco (St. Louis-San Francisco) Railroad as a carman-oiler in Memphis, while still attending school. He advanced through positions of increasing responsibility in the operations function, first with the Frisco, then with Burlington Northern after it acquired the Frisco in 1980. Before moving to IC and ICRR in 1989, Harrison served as Burlington Northern's Vice-President – Transportation and Vice-President – Service Design. Harrison currently serves or has served as a director on several railway companies and industry associations, including The Belt Railway of Chicago, Wabash National Corporation (NYSE: WNC), The American Association of Railroads, Terminal Railway, TTX Company, Canadian National Railway Company, Illinois Central Corp., and Illinois Central Railroad Company. Harrison has received numerous accolades, including North America's Railroader of the Year by Railway Age magazine in 2002 and CEO of the Year by the Globe and Mail's Report on Business magazine in 2007.