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March 30, 2018

The Honorable Ann Begeman, Chairman
United States Surface Transportation Board
395 E Street, S.W.
Washington, D.C. 20423

The Honorable Deb Miller, Vice Chairman
United States Surface Transportation Board
395 E Street, S.W.
Washington, D.C. 20423

Re: CP's 2018 Service and Demand Outlook

Dear Chairman Begeman and Vice-Chairman Miller:

Thank you for the opportunity to share Canadian Pacific's (CP)¹ outlook on its U.S. rail service operations and demand for the near term and the remainder of 2018. Before responding to the specific requests outlined in the Board's March 16 Letter, I would like to provide an update on the overall progress made in the past five years in transforming CP, and what that means for both our customers and our shareholders.

Since new management took the helm, we have made significant gains in productivity, efficiency, service, and financial stability by nearly every measure. For example, a comparison of our Q1 2014 and Q1 2018 operating metrics shows train speed improved 32.3%, train weight 19.4%, car velocity 17.8%, and locomotive productivity 24.5%. On the financial side we achieved similar results reducing our operating ratio from a high of 81.3% in 2011 to 56.1% in Q4 2017. Improved operating execution has enabled us to move greater volumes with greater reliability and greater consistency. Through operating execution we have also actually created additional capacity. This in turn has allowed us to enhance our service offerings, enter new markets, repatriate market share, and to do so in a disciplined way that benefits our customers, shareholders, employees and the public.

Importantly, these significant gains in operational execution and customer service have been made while maintaining a firm commitment to safety. CP's Federal Railroad Administration (FRA) personal injury rate improved again last year, and our FRA train accident frequency decreased 12% making 2017 the 12th consecutive year CP has lead the industry on this safety metric.

We expected demand for service to grow in 2018 relative to 2017, and it has. System-wide CP's overall volumes, as measured in revenue ton miles, are up 6.5% year to date compared to 2017, notwithstanding unusually extreme cold weather in the upper Midwest and in Canada which impacted car velocity and locomotive cycles. Our network has now recovered from these weather challenges to such an extent that

¹ Canadian Pacific is a trade name under which Canadian Pacific Railway Company and its United States subsidiaries, Soo Line Railroad Company, Dakota, Minnesota and Eastern Railroad Corporation, and Delaware and Hudson Railway Company, Inc. operate.

volumes this month, March, will be our highest since March, 2015, as measured by revenue ton miles. Overall, volumes to date have been in line with our initial forecast. We have seen stronger volumes than we expected in several areas, in particular potash, frac sand, fertilizer and intermodal. We have also seen an increase in demand for Canadian crude oil by rail given the development of pipeline constraints which have driven price spreads in favor of rail. Service challenges on a Canadian competitor have contributed to an unexpected shift of business to CP as well. These factors together with demand in other business lines lead us to believe that the strong demand seen in Q1 2018 will likely continue throughout the year. As explained more fully below, we are well positioned to serve that demand.

Regarding the Board's specific questions:

Locomotive Availability. CP has adequate locomotive power to meet anticipated demand and is continuing with its plan to bring on additional locomotives. System-wide, CP currently has a total of 1068 locomotives in service (a 9% increase over 2017), 286 of which are operating in the United States. These numbers fluctuate based on train flows to and from Canada and other carriers in the United States, but are sufficient to meet demand.

We are also in the process of taking delivery of 110 completely re-manufactured GE AC4400 locomotives. In late 2017, we took delivery of 30 of these units, and are bringing on the additional 80 such locomotives through August as they are re-manufactured. In addition, we are performing extensive maintenance on existing non-serviceable locomotives, (both yard and road units) and will bring these on line as needed to supplement our fleet. As a result, we expect to have approximately 1170 locomotives in service system-wide by September, with the ability to recall additional locomotives as needed. We believe we have sufficient locomotive power to meet expected demand in 2018, including the fall peak.

Employee Resources. Our train and engine headcount on January 1, 2018 was 1091 in the United States. Our 2018 hiring plan calls for approximately 1180 US train and engine employees, net of attrition, by Q4 2018. Our progress to date in meeting this plan has been good. We have hired 63 transportation employees in the United States and are in the process of hiring approximately 150 more, with a focus on Chicago, St. Paul, Enderlin, North Dakota and the Quad Cities, Iowa. We may increase that number depending on the qualifications of the applicants and ongoing service demand developments. Additionally, CP's collective bargaining agreements with its US transportation employees, unique in the industry, allow CP the flexibility to adjust its workforce and scheduling to meet demand. Trains holding for crews has been a sporadic issue, due largely to winter weather related events. Our field managers are sufficient in number and well trained in our operating model.

Yard Performance. Our key yards in the United States, Chicago and St. Paul, are fluid and in good operating condition. As the Board is aware the Chicago Terminal is the heart of the national network, and CP is committed to doing its part to keep Chicago fluid for the benefit of our railroad and the industry. CP's Bensenville Yard at Chicago has been operationally consistent all year with dwell at Bensenville trending better than last year. Of note, we have also begun direct interchange with CSX at Chicago. Each road builds blocks for one another outside the Terminal, and swaps them at Bensenville. At present, this results in each road sending approximately 100 fewer cars per day, total 200, to the Belt Railway of Chicago's (BRC) Clearing Yard. Historically, as Clearing goes so goes Chicago. Earlier this year we experienced an uptick in dwell at St. Paul, but have since resolved the issue, in part due to increased communication and consistent

handling with Union Pacific at St. Paul.

Demand. As noted above, we are currently moving strong traffic volumes across our US network consistent with overall growth in the North American economy and our expected outlook for 2018. Most of our individual lines of business are trending higher this year with the exception of grain and autos. Also as indicated above, volumes of Canadian crude destined to the US and domestic US frac sand traffic have increased on our network more than anticipated. Our operating model has adjusted and handled these volumes, and we anticipate it will continue to do so. We expect to continue to provide strong service in these lines of business as well as grain, potash, car load and intermodal.

Communication. We communicate frequently with our customers at CP, and are committed to improving that communication. In January of this year, we launched a Customer Advisory Panel with 16 industry leaders from our customer base. The intention behind the Advisory Panel is to listen and avail ourselves of the dialogue to shape our service offering. As a result of the inaugural meeting we are expanding our Information Technology Platform (cpr.ca—Customer Station) to improve ease of use and provide more timely information. We are also committed to having our field operations personnel in the communication loop and having them accessible to the customer.

Capacity Constraints. CP has spent \$198 million since 2013 to remove infrastructure bottlenecks on our US network. The improvements include installation of multiple yard extensions, sidings and Centralized Traffic Control (CTC) from the international border at Portal, North Dakota to St. Paul, Minnesota, a live intermodal lift capacity at the border (which greatly improves the customs process for intermodal traffic), and streamlining an important junction with BNSF at St. Paul. In 2018, CP will expend approximately \$1.35 to \$1.5 billion in network capital investment system-wide, a portion of which will provide for approximately 11 additional sidings across the network to support trains operating in the north/south corridor (Saskatchewan/Manitoba to Chicago). This is the second year in a row CP has increased its capital expenditure, and represents CP's commitment to long term investment in its franchise to the benefit of our customers. On March 12 of this year we started receiving intermodal trains at Schiller Park to support growth and ease congestion at our intermodal ramp at Bensenville Yard in Chicago.

NGFA and Auto Alliance. With respect to NGFA's concern relative to the late 2017 timeframe, CP experienced significant outages on our mainline in western Canada due to a derailment in a mountain tunnel in British Columbia, followed by a series of avalanches that took both our line and CN's line out of service in the Fraser River Canyon. These significant outages did not impact our US operations directly, but did impact velocity and the flow of locomotive power. Velocity was further impacted over Christmas with cold weather. Regarding NGFA's concern with changes in CP's tariff, we note that the changes in CP's tariff are reasonable and competitive.

With respect to the concerns of the Auto Alliance, we have experienced congestion with the Indiana Harbor Belt (IHB) at Chicago. From CP's perspective, IHB is having difficulty handling empty auto traffic from western carriers due, as we understand it, to operational and crew issues.

In conclusion, I am proud of what this Company and its 12,000 plus employees have accomplished, but recognize there is still work to do. Our focus in 2018 will continue to be how we can best serve our customers and how this translates to serving our shareholders through profitable, sustainable growth while

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at the same time ensuring the safe action is always the action we take.

Sincerely,

A handwritten signature in black ink that reads "Keith Creel". The signature is written in a cursive style with a large, prominent initial 'K'.

Keith Creel,
President and Chief Executive Officer