CANADIAN PACIFIC RAILWAY LTD/CN
Form 6-K
October 24, 2006

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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 October, 2006
CANADIAN PACIFIC RAILWAY LIMITED
(Commission File No. 1-01342)
CANADIAN PACIFIC RAILWAY COMPANY
(Commission File No. 1-15272)
(translation of each Registrant s name into English)
Suite 500, Gulf Canada Square, 401 9th Avenue, S.W., Calgary, Alberta, Canada, T2P 4Z4
(address of principal executive offices)

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

Form 20-F o Form 40-F x

Indicate by check mark whether the registrants by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

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

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. 333-127943 (Canadian Pacific Railway Limited), and Form S-8 No. 333-13962 (Canadian Pacific Railway Limited).

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SIGNATURES

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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: October 24, 2006

Signed: Donald F. Barnhardt

By: Name: Donald F. Barnhardt
Title: Corporate Secretary

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NEWS

Release Date: October 24, 2006
Release Time: 0530 MDT

CANADIAN PACIFIC RAILWAY ANNOUNCES A STRONG THIRD QUARTER

CALGARY Canadian Pacific Railway (TSX/NYSE: CP) announced today third-quarter net income of $162 million. Net income was lower in 2006 by $42 million when compared to the same period in 2005 due primarily to the impact of foreign exchange on long-term debt and a one-time special reduction to an accrual taken in third-quarter 2005.

I am very pleased with our results, said Fred Green, CPR President and CEO. CPR has delivered growth of 26 per cent in normalized diluted earnings per share and an improved operating ratio of 74.2 per cent. We achieved this while significantly improving the safety of our train operations. Our operating metrics, which measure how well our railroad is running, are excellent and show that our scheduled railroad strategy is driving us closer to our goal of being the safest and most fluid railway in North America.

SUMMARY OF THIRD-QUARTER 2006 COMPARED WITH 2005

Excluding foreign exchange gains and losses on long-term debt and other specified items:

- Ø Income was $168 million, up 24 per cent.
- Ø Diluted earnings per share was $1.06, an increase of 26 per cent from $0.84.
- Ø Operating ratio improved 320 basis points to 74.2 per cent.
- Ø Operating expenses were virtually flat at $854 million despite increases in fuel costs.

In the third quarter, total freight revenues improved by 4 per cent to $1,122 million, with growth in grain of 18 per cent; industrial and consumer products of 13 per cent; sulphur and fertilizers of 10 per cent; and intermodal of 8 per cent. This growth more than offset a sharp decrease in coal revenues of 25 per cent.

SUMMARY OF FIRST NINE MONTHS 2006 COMPARED WITH 2005

For the first nine months of 2006, net income was $650 million, an improvement of 60 per cent over 2005 which included a $176-million reduction in future income tax expense.

Excluding foreign exchange gains and losses on long-term debt, the $176 million income tax benefit and the other specified item:

- Ø Income was $446 million, an increase of $87 million over 2005.
- Ø Diluted earnings per share increased 25 per cent to $2.79.
- Ø Operating ratio improved 210 basis points to 76.2 per cent.
- Ø Total freight revenues were up 4 per cent, despite ongoing market softness in coal, driven by a 21 per cent increase in grain and a 15 per cent increase in industrial and consumer products.
- Ø Operating expenses, excluding the impact of higher fuel prices, decreased 2 per cent in 2006 over 2005.

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2006 OUTLOOK

CPR s current outlook for diluted earnings per share in 2006 is in the range of $3.60 to $3.85, excluding foreign exchange gains and losses on long-term debt and other specified items, including specifically the $176 million income tax benefit due to the rate reduction in the second quarter. Based on current trends, it is possible that we will exceed the top end of this guidance range by up to $0.10.

The full year outlook assumes oil prices averaging US$67 per barrel and an average exchange rate of $1.13 per U.S. dollar (US$0.89). This is a revision to our previous assumption of oil prices averaging US$70 per barrel. CPR expects to grow revenue in the range of 5 per cent to 8 per cent and expenses are expected to increase by 3 per cent to 6 per cent in 2006. Capital investment is anticipated to be between $810 million and $825 million in 2006 and free cash is expected to exceed $200 million for the year.

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

CPR had a foreign exchange loss on long-term debt of $2 million ($6 million after tax) in the third quarter of 2006, compared with a gain of $65 million ($48 million after tax) in the same period of 2005. There were no other specified items in the third quarter of 2006. In the third quarter of 2005 there was one other specified item, as CPR booked a special credit of $34 million ($21 million after tax) which was a reduction of a special charge for environmental remediation of $90.9 million ($55 million after tax) taken in fourth-quarter 2004 for environmental remediation of a property in the United States. The reduction reflected a settlement of litigation related to remediation of environmental contamination.

In the first nine months of 2006, CPR had a foreign exchange gain on long-term debt of $45 million ($28 million after tax), compared with a gain of $45 million ($27 million after tax) in the first nine months of 2005. There was a future income tax benefit of $176 million as a result of a decrease in Canadian federal and provincial income tax rates that occurred in the second quarter of 2006. There were no other specified items in the first nine months of 2005 other than the environmental accrual reduction mentioned above.

Presentation of non-GAAP earnings

CPR presents non-GAAP earnings in this news release to provide a basis for evaluating underlying earnings trends in our business that can be compared with prior periods results of operations. These non-GAAP earnings exclude foreign currency translation effects on long-term debt, which can be volatile and short term, and other specified items, which are not among CPR 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. In the third quarter of 2006, there were foreign exchange losses on long-term debt and no other specified items. In the first nine months of 2006 there were foreign exchange gains on long-term debt and one other specified item.

Earnings that exclude foreign exchange currency translation effects on long-term debt and other specified items, 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.

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

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

CPR 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 Railway, through the ingenuity of its employees located across Canada and in the United States, intends to be the safest, and most fluid railway in North America. Our people are the key to delivering innovative transportation solutions to our customers and to ensuring the safe operation of our trains through the more than 900 communities where we operate. Our combined ingenuity makes 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.

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

	For the three months ended September 30 2006	2005
	(unaudited)	
Revenues		
Freight	$ 1,122.2	$ 1,079.1
Other	29.1	25.6
	1,151.3	1,104.7
Operating expenses		
Compensation and benefits	334.6	344.9
Fuel	161.3	141.9
Materials	47.1	45.4
Equipment rents	44.4	53.8
Depreciation and amortization	115.6	111.3
Purchased services and other	151.4	158.0
	854.4	855.3
Operating income before the following:	296.9	249.4
Special credit for environmental remediation *(Note 4)*		(33.9)
Operating income	**296.9**	**283.3**
Other charges *(Note 5)*	6.9	6.6
Foreign exchange losses (gains) on long-term debt	1.5	(65.4)
Interest expense *(Note 6)*	48.8	50.3
Income tax expense*(Note 7)*	78.0	88.2
Net income	**$ 161.7**	**$ 203.6**
Basic earnings per share *(Note 8)*	**$ 1.03**	**$ 1.29**
Diluted earnings per share *(Note 8)*	**$ 1.02**	**$ 1.27**

See notes to interim consolidated financial statements.

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

	For the nine months ended September 30	
	2006	**2005**
	(unaudited)	
Revenues		
Freight	$ 3,275.8	$ 3,141.9
Other	117.0	82.8
	3,392.8	3,224.7
Operating expenses		
Compensation and benefits	1,006.0	998.2
Fuel	479.3	421.6
Materials	159.2	150.2
Equipment rents	133.4	157.0
Depreciation and amortization	348.2	331.5
Purchased services and other	458.8	467.0
	2,584.9	2,525.5
Operating income before the following:	807.9	699.2
Special credit for environmental remediation *(Note 4)*		(33.9)
Operating income	**807.9**	**733.1**
Other charges *(Note 5)*	21.4	11.3
Foreign exchange gains on long-term debt	(44.8)	(45.3)
Interest expense *(Note 6)*	144.7	155.1
Income tax expense *(Note 7)*	36.4	204.5
Net income	**$ 650.2**	**$ 407.5**
Basic earnings per share *(Note 8)*	**$ 4.12**	**$ 2.57**
Diluted earnings per share *(Note 8)*	**$ 4.07**	**$ 2.54**

See notes to interim consolidated financial statements.

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CONSOLIDATED BALANCE SHEET
(in millions)

	September 30 2006	December 31 2005
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	$ 46.4	$ 121.8
Accounts receivable and other current assets	554.9	524.0
Materials and supplies	184.6	140.1
Future income taxes	115.0	108.0
	900.9	893.9
Investments	65.5	67.3
Net properties	8,963.7	8,790.9
Other assets and deferred charges *(Note 9)*	1,179.7	1,139.0
Total assets	$ 11,109.8	$ 10,891.1
Liabilities and shareholders equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 955.6	$ 1,032.8
Income and other taxes payable	29.5	30.2
Dividends payable	29.3	23.7
Long-term debt maturing within one year	184.9	30.0
	1,199.3	1,116.7
Deferred liabilities	720.4	743.5
Long-term debt	2,728.0	2,970.8
Future income taxes	1,686.2	1,674.4
Shareholders equity		
Share capital *(Note 10)*	1,166.6	1,141.5
Contributed surplus *(Note 10)*	49.0	241.6
Foreign currency translation adjustments	63.8	67.5
Retained income	3,496.5	2,935.1
	4,775.9	4,385.7
Total liabilities and shareholders equity	$ 11,109.8	$ 10,891.1

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

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STATEMENT OF CONSOLIDATED CASH FLOWS
(in millions)

	For the three months ended September 30 2006	2005
	(unaudited)	
Operating activities		
Net income	$ 161.7	$ 203.6
Add (deduct) items not affecting cash:		
Depreciation and amortization	115.6	111.3
Future income taxes	72.6	86.7
Special credit for environmental remediation		(30.9)
Foreign exchange losses (gains) on long-term debt	1.5	(65.4)
Amortization of deferred charges	4.5	5.2
Restructuring payments *(Note 11)*	(18.6)	(16.3)
Other operating activities, net	(30.2)	(19.6)
Change in non-cash working capital balances related to operations	(28.8)	(0.7)
Cash provided by operating activities	**278.3**	**273.9**
Investing activities		
Additions to properties	(220.2)	(232.1)
Increase in investments and other assets *(Note 9)*	63.9	0.5
Net proceeds from disposal of transportation properties	(2.8)	4.3
Cash used in investing activities	**(159.1)**	**(227.3)**
Financing activities		
Dividends paid	(29.5)	(23.8)
Issuance of CPR common shares	3.1	2.0
Purchase of CPR common shares	(83.3)	(65.7)
Repayment of long-term debt	(7.4)	(4.2)
Cash used in financing activities	**(117.1)**	**(91.7)**
Cash position		
Increase (decrease) in cash and cash equivalents	2.1	(45.1)
Net cash and cash equivalents at beginning of period	44.3	131.7
Net cash and cash equivalents at end of period	$ 46.4	$ 86.6

See notes to interim consolidated financial statements.

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STATEMENT OF CONSOLIDATED CASH FLOWS
(in millions)

	For the nine months ended September 30	
	2006	**2005**
	(unaudited)	
Operating activities		
Net income	$ 650.2	$ 407.5
Add (deduct) items not affecting cash:		
Depreciation and amortization	348.2	331.5
Future income taxes	2.2	195.6
Special credit for environmental remediation		(30.9)
Foreign exchange gains on long-term debt	(44.8)	(45.3)
Amortization of deferred charges	13.1	15.2
Restructuring payments *(Note 11)*	(69.2)	(42.6)
Other operating activities, net	(29.4)	(40.7)
Change in non-cash working capital balances related to operations	(135.3)	(78.9)
Cash provided by operating activities	**735.0**	**711.4**
Investing activities		
Additions to properties	(589.2)	(584.8)
(Decrease) increase in investments and other assets *(Note 9)*	(21.1)	1.9
Net proceeds from disposal of transportation properties	79.1	9.8
Cash used in investing activities	**(531.2)**	**(573.1)**
Financing activities		
Dividends paid	(83.0)	(65.8)
Issuance of CPR common shares	52.3	7.7
Purchase of CPR common shares	(226.9)	(78.3)
Repayment of long-term debt	(21.6)	(268.3)
Cash used in financing activities	**(279.2)**	**(404.7)**
Cash position		
Decrease in net cash and cash equivalents	(75.4)	(266.4)
Net cash and cash equivalents at beginning of period	121.8	353.0
Net cash and cash equivalents at end of period	$ 46.4	$ 86.6

See notes to interim consolidated financial statements.

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STATEMENT OF CONSOLIDATED RETAINED INCOME
(in millions)

	For the nine months ended September 30 2006	2005
	(unaudited)	
Balance, January 1	$2,935.1	$2,484.4
Net income for the period	650.2	407.5
Dividends	(88.8)	(68.6)
Balance, September 30	$3,496.5	$2,823.3

See notes to interim consolidated financial statements.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(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 (CPR , the Company or Canadian Pacific Railway) 2005 annual consolidated financial statements. 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.

Quarterly seasonality is not considered to be significant. Earnings in the first quarter are slightly lower due to winter operating conditions and fourth quarter earnings are slightly higher due to movement of the fall harvest.

2 New accounting policy

Effective January 1, 2006, the Company adopted the CICA Accounting Standard Section 3831 Non-Monetary Transactions . This standard is applied prospectively to non-monetary transactions occurring on or after that date. The standard requires that assets or liabilities exchanged or transferred in a non-monetary transaction that has commercial substance be valued at fair value with any gain or loss recorded in income. Commercial substance exists when, as a result of the transaction, there is a significant change to future cash flows of the item transferred or the company as a whole. Transactions that lack commercial substance or for which the fair value of the exchanged assets cannot be reliably measured will continue to be accounted for at carrying value. There was no impact to CPR on adoption of this new standard as it is applied prospectively.

3 Future accounting changes

Financial Instruments, Hedging and Other Comprehensive Income

The CICA issued the following accounting standards effective for fiscal years beginning on or after October 1, 2006: Accounting Standard Section 3855 Financial Instruments, Recognition and Measurement , Accounting Standard Section 3861 Financial Instruments, Presentation and Disclosure , Accounting Standard Section 3865 Hedging and Accounting Standard Section 1530 Comprehensive income . These sections require certain financial instruments and hedge positions to be recorded at their fair value. They also introduce the concept of comprehensive income and accumulated other comprehensive income.

Financial instruments designated as held-for-trading and available-for-sale , as well as guarantees, will be carried at their fair value while financial instruments such as loans and receivables and those classified as held-to-maturity will be carried at their amortized cost. All derivatives will be carried on the Consolidated Balance Sheet at their fair value, including derivatives designated as hedges. The effective portion of unrealized gains and losses on cash flow and net investment hedges and the cumulative foreign currency translation adjustments arising from investments in foreign operations will be carried in Accumulated Other Comprehensive Income , a component of Shareholders Equity (on the Consolidated Balance Sheet), with any ineffective portions of gains and losses on hedges taken into income immediately. Adoption of these standards will be effective from January 1, 2007 on a prospective basis without retroactive restatement of prior periods. The impact of adoption cannot be reasonably estimated as the fair value of the Company s financial instruments including derivatives designated as hedges will not be readily available until the end of the year. However, it is not expected to have a material impact on net income.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(unaudited)

3 Future accounting changes (continued)

Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date

The Emerging Issues Committee of the CICA issued Emerging Issues Committee Abstract (EIC 162) Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date in July 2006. This pronouncement will be effective for the Company commencing January 1, 2007 and will be applied retroactively with restatement. The compensation cost attributable to stock-based awards should be recognized over the period from the grant date to the date the employee becomes eligible to retire when this is shorter than the vesting period. It is not anticipated that the adoption of EIC 162 will have a material impact on the Company.

4 Special credit for environmental remediation

During the three months ended September 30, 2005, a settlement was reached with a responsible party in relation to portions of past environmental contamination at a CPR-owned property in the U.S. As a result, CPR was able to reduce accrued liabilities related to the property, and recognized a total reduction of $33.9 million to a special charge for environmental remediation recorded in 2004.

5 Other charges

(in millions)	For the three months ended September 30 2006	2005	For the nine months ended September 30 2006	2005
Amortization of discount on accruals recorded at present value	$ 2.9	$4.0	$ 8.1	$12.4
Other exchange losses (gains)	1.0		4.5	(3.3)
Loss on sale of accounts receivable	1.4	0.8	3.7	2.6
(Gains) losses on non-hedging derivative instruments	(0.3)	0.1	(0.4)	(6.5)
Other	1.9	1.7	5.5	6.1
Total other charges	$ 6.9	$6.6	$21.4	$11.3

6 Interest expense

(in millions)	For the three months ended September 30 2006	2005	For the nine months ended September 30 2006	2005
Interest expense	$50.0	$51.2	$149.1	$161.6
Interest income	(1.2)	(0.9)	(4.4)	(6.5)
Total interest expense	$48.8	$50.3	$144.7	$155.1

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(unaudited)

7 Income tax expense

In the three months ended June 30, 2006, federal and provincial legislation was introduced to reduce corporate income tax rates over a period of several years. As a result of these changes, the Company recorded a $176.0 million benefit in future tax liability and income tax expense in the three months ended June 30, 2006.

Cash taxes paid for the three months ended September 30, 2006 was $21.1 million (three months ended September 30, 2005 $0.8 million) and for the nine months ended September 30, 2006 was $26.6 million (nine months ended September 30, 2005 $6.7 million).

8 Earnings per share

At September 30, 2006, the number of shares outstanding was 155.9 million (September 30, 2005 157.3 million).

Basic earnings per share have been calculated using net income for the period divided by the weighted average number of CPR 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 September 30		**For the nine months ended September 30**	
(in millions)	**2006**	**2005**	**2006**	**2005**
Weighted average shares outstanding	156.7	158.1	157.8	158.6
Dilutive effect of stock options	1.6	1.9	1.8	1.7
Weighted average diluted shares outstanding	158.3	160.0	159.6	160.3
(in dollars)				
Basic earnings per share	$ 1.03	$ 1.29	$ 4.12	$ 2.57
Diluted earnings per share	$ 1.02	$ 1.27	$ 4.07	$ 2.54

For the three months ended September 30, 2006, 893,667 options (three months ended September 30, 2005 no options) were excluded from the computation of diluted earnings per share because their effects were not dilutive. For the nine months ended September 30, 2006, 501,717 options (nine months ended September 30, 2005 no options) were excluded from the computation of diluted earnings per share because their effects were not dilutive.

9 Other assets and deferred charges

Other assets and deferred charges on the Consolidated Balance Sheet includes assets purchased in anticipation of sale and leaseback arrangements with various financial institutions. For the three months ended September 30, 2006, $46.0 million in assets were acquired and $109.4 million were sold; and for the nine months ended September 30, 2006, $132.5 million in assets were acquired and $109.4 million sold. No gains or losses were incurred in these sale and leaseback arrangements. These investing activities are reflected in the Statement of Consolidated Cash