

REFINITIV

DELTA REPORT

10-Q

CANADIAN PACIFIC RAILWAY

10-Q - MARCH 31, 2023 COMPARED TO 10-Q - SEPTEMBER 30, 2022

The following comparison report has been automatically generated

TOTAL DELTAS 3087

■ CHANGES	397
■ DELETIONS	1251
■ ADDITIONS	1439

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2022** **March 31, 2023**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from **to**
Commission File Number **001-01342**

Canadian Pacific Railway Kansas City Limited

(Exact name of registrant as specified in its charter)

Canada

98-0355078

(State or Other Jurisdiction
of Incorporation or Organization)

(IRS Employer
Identification No.)

7550 Ogden Dale Road S.E., **Calgary, Alberta,**

T2C
4X9

Calgary

AB Canada

(Address of **Principal Executive Offices** principal executive offices)

(Zip Code)

(403) 319-7000

Registrant's Telephone Number, Including Area Code: **(403) 319-7000**

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

Title of Each Class each class	Trading Symbol(s)	Name of Each Exchange each exchange on which Registered
Common Shares, without par value, of Canadian Pacific Railway Kansas City Limited	CP	New York Stock Exchange
Common Shares, without par value, of Canadian Pacific Kansas City Limited	CP	Toronto Stock Exchange
Perpetual 4% Consolidated Debenture Stock of Canadian Pacific Railway Company	CP/40 CP40	New York Stock Exchange
Perpetual 4% Consolidated Debenture Stock of Canadian Pacific Railway Company	BC87	London Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of the close of business on **October 25, 2022** **April 25, 2023**, there were **930,123,568** **931,059,385** of the registrant's Common Shares issued and outstanding.

CANADIAN PACIFIC RAILWAY KANSAS CITY LIMITED
FORM 10-Q
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PART I

ITEM 1. FINANCIAL STATEMENTS

INTERIM CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(in millions of Canadian dollars, except share and per share data)	(in millions of Canadian dollars, except share and per share data)	For the three months ended September				For the nine months ended September				For the three months ended March 31					
		30		30		(in millions of Canadian dollars, except share and per share data)		2023		2022		2022			
		2022	2021	2022	2021	2023	2022	2023	2022	2022	2021	2023	2022		
Revenues (Note 3)	Revenues (Note 3)												Revenues (Note 3)		
Freight	Freight	\$ 2,264	\$ 1,896	\$ 6,214	\$ 5,822	Freight	\$ 2,217	\$ 1,796					Non-freight	49	42
Non-freight	Non-freight	48	46	138	133										
Total revenues	Total revenues	2,312	1,942	6,352	5,955	Total revenues	2,266	1,838							
Operating expenses	Operating expenses												Operating expenses		
Compensation and benefits	Compensation and benefits	393	381	1,154	1,165	Compensation and benefits	438	413					Fuel	326	273
Fuel	Fuel	358	199	1,001	623	Fuel	326	273					Materials	72	62
Materials	Materials	66	51	191	164	Materials	72	62					Equipment rents	30	35
Equipment rents	Equipment rents	33	31	97	92	Equipment rents	30	35					Depreciation and amortization	225	210
Depreciation and amortization	Depreciation and amortization	213	203	634	605	Depreciation and amortization	225	210					Purchased services and other (Note 10)	312	303
Purchased services and other (Note 8)						Purchased services and other (Note 8)	346	310							
Total operating expenses	Total operating expenses	1,375	1,168	4,012	3,581	Total operating expenses	1,437	1,303							
Operating income	Operating income	937	774	2,340	2,374	Operating income	829	535							
Less:	Less:					Less:									
Equity earnings of Kansas City Southern (Note 10)		(221)	—	(627)	—	Equity earnings of Kansas City Southern (Note 8, 9)	(204)	(198)							
Other expense (Note 4, 10)		7	124	13	253	Other expense (income) (Note 8)	2	(1)							
Merger termination fee (Note 10)		—	—	—	(845)	Other components of net periodic benefit recovery (Note 15)	(304)	(286)							
Other components of net periodic benefit recovery (Note 15)		(102)	(95)	(304)	(286)	Other components of net periodic benefit recovery (Note 12)	(86)	(101)							
Net interest expense	Net interest expense	166	104	486	315	Net interest expense	154	160							
Income before income tax expense	Income before income tax expense	1,087	641	2,772	2,937	Income before income tax expense	963	675							
Income tax expense (Note 5)		196	169	526	617	Income tax expense (Note 4)	163	85							
Income tax expense (Note 4)						Net income	\$ 800	\$ 590							
Net income	Net income	\$ 891	\$ 472	\$ 2,246	\$ 2,320	Earnings per share (Note 6)									
Earnings per share	Earnings per share (Note 5)												Earnings per share (Note 5)		
Basic earnings per share	Basic earnings per share	\$ 0.96	\$ 0.71	\$ 2.42	\$ 3.48	Basic earnings per share	\$ 0.86	\$ 0.63							

Diluted earnings per share	Diluted earnings per share	\$ 0.96	\$ 0.70	\$ 2.41	\$ 3.46	Diluted earnings per share	\$ 0.86	\$ 0.63
Weighted-average number of shares (millions) (Note 6)								
Weighted-average number of shares (millions) (Note 5)								
Basic	Basic	930.0	666.9	929.9	666.7	Basic	930.7	929.7
Diluted	Diluted	932.9	669.8	932.8	669.8	Diluted	933.5	932.7
Dividends declared per share	Dividends declared per share	\$ 0.190	\$ 0.190	\$ 0.570	\$ 0.570	Dividends declared per share	\$ 0.190	\$ 0.190

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(in millions of Canadian dollars)	(in millions of Canadian dollars)	For the three months ended September 30		For the nine months ended September 30		For the three months ended March 31		
		2022	2021	2022	2021	(in millions of Canadian dollars)	2023	2022
		Net income	Net income	\$ 891	\$ 472	\$ 2,246	\$ 2,320	Net income
Net gain (loss) in foreign currency translation adjustments, net of hedging activities		1,565		(17)		1,948		3
Net loss in foreign currency translation adjustments, net of hedging activities							Net loss in foreign currency translation adjustments, net of hedging activities	(27)
Change in derivatives designated as cash flow hedges	Change in derivatives designated as cash flow hedges	2	141	5	69	69	Change in derivatives designated as cash flow hedges	2
Change in pension and post-retirement defined benefit plans	Change in pension and post-retirement defined benefit plans	22	53	99	158	158	Change in pension and post-retirement defined benefit plans	8
Equity accounted investments	Equity accounted investments	47	—	182	—	—	Equity accounted investments	3
Other comprehensive income before income taxes		1,636	177	2,234	230		Other comprehensive loss before income taxes	(14)
Income tax recovery (expense) on above items		36	(29)	2	(59)		Income tax expense on above items	(3)
Other comprehensive income (Note 7)		1,672	148	2,236	171		Other comprehensive loss (Note 6)	(17)
Other comprehensive loss before income taxes							Other comprehensive loss before income taxes	(234)
Income tax expense on above items							Income tax expense on above items	(36)
Other comprehensive loss (Note 6)							Other comprehensive loss (Note 6)	(270)
Comprehensive income	Comprehensive income	\$ 2,563	\$ 620	\$ 4,482	\$ 2,491	\$ 783	\$ 320	

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED BALANCE SHEETS AS AT (unaudited)

	September 30	December 31	March 31	December 31
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(in millions of Canadian dollars)	(in millions of Canadian dollars)			(in millions of Canadian dollars)	(in millions of Canadian dollars)		
	2022	2021		2023	2022		
Assets	Assets			Assets			
Current assets	Current assets			Current assets			
Cash and cash equivalents	Cash and cash equivalents	\$ 138	\$ 69	Cash and cash equivalents	\$ 290	\$ 451	
Restricted cash and cash equivalents		—	13				
Accounts receivable, net (Note 8)		1,053	819				
Accounts receivable, net (Note 7)				Accounts receivable, net (Note 7)	1,029	1,016	
Materials and supplies	Materials and supplies	267	235	Materials and supplies	285	284	
Other current assets	Other current assets	186	216	Other current assets	176	138	
		1,644	1,352		1,780	1,889	
Investment in Kansas City Southern (Note 11)		45,964	42,309				
Investment in Kansas City Southern (Note 9)				Investment in Kansas City Southern (Note 9)	44,955	45,091	
Investments	Investments	230	209	Investments	228	223	
Properties	Properties	22,150	21,200	Properties	22,555	22,385	
Goodwill and intangible assets	Goodwill and intangible assets	390	371	Goodwill and intangible assets	385	386	
Pension asset	Pension asset	2,631	2,317	Pension asset	3,186	3,101	
Other assets	Other assets	426	419	Other assets	413	420	
Total assets	Total assets	\$ 73,435	\$ 68,177	Total assets	\$ 73,502	\$ 73,495	
Liabilities and shareholders' equity	Liabilities and shareholders' equity			Liabilities and shareholders' equity			
Current liabilities	Current liabilities			Current liabilities			
Accounts payable and accrued liabilities	Accounts payable and accrued liabilities	\$ 1,575	\$ 1,609	Accounts payable and accrued liabilities	\$ 1,582	\$ 1,703	
Long-term debt maturing within one year (Note 12, 13)		1,236	1,550				
Long-term debt maturing within one year (Note 10, 11)				Long-term debt maturing within one year (Note 10, 11)	1,096	1,510	
		2,811	3,159		2,678	3,213	
Pension and other benefit liabilities	Pension and other benefit liabilities	726	718	Pension and other benefit liabilities	537	538	
Other long-term liabilities	Other long-term liabilities	519	542	Other long-term liabilities	484	520	
Long-term debt (Note 12, 13)		19,339	18,577				
Long-term debt (Note 10, 11)				Long-term debt (Note 10, 11)	18,066	18,141	
Deferred income taxes	Deferred income taxes	12,226	11,352	Deferred income taxes	12,217	12,197	
Total liabilities	Total liabilities	35,621	34,348	Total liabilities	33,982	34,609	
Shareholders' equity	Shareholders' equity			Shareholders' equity			
Share capital	Share capital	25,498	25,475	Share capital	25,538	25,516	
Additional paid-in capital	Additional paid-in capital	77	66	Additional paid-in capital	84	78	
Accumulated other comprehensive income (loss) (Note 7)		133	(2,103)				

Accumulated other comprehensive income (Note 6)			Accumulated other comprehensive income (Note 6)		
Retained earnings	Retained earnings	12,106	10,391	Retained earnings	13,824
		37,814	33,829		39,520
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity	\$ 73,435	\$ 68,177	Total liabilities and shareholders' equity	\$ 73,502

See Contingencies (Note 17) 14).

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in millions of Canadian dollars)	(in millions of Canadian dollars)	For the three months ended September 30				For the three months ended March 31			
		2022		2021		2022		2021	
		2022	2021	2022	2021	2023	2022	2023	2022
Operating activities	Operating activities								
Net income	Net income	\$ 891	\$ 472	\$ 2,246	\$ 2,320	Net income	\$ 800	\$ 590	
Reconciliation of net income to cash provided by operating activities:	Reconciliation of net income to cash provided by operating activities:					Reconciliation of net income to cash provided by operating activities:			
Depreciation and amortization	Depreciation and amortization	213	203	634	605	Depreciation and amortization	225	210	
Deferred income tax expense (Note 5)		38	130	151	190				
Pension recovery and funding (Note 15)		(74)	(62)	(218)	(188)				
Equity earnings of Kansas City Southern (Note 10)		(221)	—	(627)	—				
Foreign exchange loss (gain) on debt and lease liabilities (Note 4)		—	46	—	(39)				
Dividend from Kansas City Southern (Note 10)		259	—	593	—				
Deferred income tax expense (recovery) (Note 4)						Deferred income tax expense (recovery) (Note 4)	24	(1)	
Pension recovery and funding (Note 12)						Pension recovery and funding (Note 12)	(77)	(72)	
Equity earnings of Kansas City Southern (Note 8, 9)						Equity earnings of Kansas City Southern (Note 8, 9)	(204)	(198)	
Dividend from Kansas City Southern (Note 9)						Dividend from Kansas City Southern (Note 9)	300	334	
Other operating activities, net	Other operating activities, net	(3)	(14)	(102)	(50)	Other operating activities, net	(47)	(83)	
Change in non-cash working capital balances related to operations	Change in non-cash working capital balances related to operations	(1)	(227)	(255)	246	Change in non-cash working capital balances related to operations	(140)	(167)	
Cash provided by operating activities	Cash provided by operating activities	1,102	548	2,422	3,084	Cash provided by operating activities	881	613	

Investing activities		Investing activities				Investing activities	
Additions to properties	Additions to properties	(422)	(372)	(1,018)	(1,111)	Additions to properties	(405)
Payment to Kansas City Southern (Note 10)		—	(1,773)	—	(1,773)		(226)
Proceeds from sale of properties and other assets	Proceeds from sale of properties and other assets	11	16	37	65	Proceeds from sale of properties and other assets	4
Other	Other	1	—	3	(1)	Other	—
5							
Cash used in investing activities		Cash used in investing activities				Cash used in investing activities	
		(410)	(2,129)	(978)	(2,820)		(401)
Financing activities		Financing activities				Financing activities	
Dividends paid	Dividends paid	(177)	(127)	(530)	(380)	Dividends paid	(177)
Issuance of CP Common Shares		9	4	18	20		
Issuance of Common Shares						Issuance of Common Shares	18
8							
Repayment of long-term debt, excluding commercial paper (Note 12)		(7)	(318)	(559)	(349)		
Repayment of term loan (Note 12)		(504)	—	(636)	—		
Proceeds from term loan		—	633	—	633		
Net (repayment) issuance of commercial paper (Note 12)		(42)	713	298	(66)		
Repayment of long-term debt, excluding commercial paper (Note 10)						Repayment of long-term debt, excluding commercial paper (Note 10)	(486)
							(542)
Acquisition-related financing fees (Note 10)		—	—	—	(45)		
Other		—	(3)	—	(7)		
Cash (used in) provided by financing activities							
		(721)	902	(1,409)	(194)		
Net issuance of commercial paper (Note 10)						Net issuance of commercial paper (Note 10)	—
							320
Cash used in financing activities						Cash used in financing activities	
							(645)
							(391)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents		Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents				Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	
		13	10	21	6		4
							—
Cash position		Cash position				Cash position	
(Decrease) increase in cash, cash equivalents, and restricted cash	(Decrease) increase in cash, cash equivalents, and restricted cash	(16)	(669)	56	76	(Decrease) increase in cash, cash equivalents, and restricted cash	(161)
Cash, cash equivalents, and restricted cash at beginning of period	Cash, cash equivalents, and restricted cash at beginning of period	154	892	82	147	Cash, cash equivalents, and restricted cash at beginning of period	451
							82

Cash, cash equivalents, and restricted cash at end of period	Cash, cash equivalents, and restricted cash at end of period	\$ 138	\$ 223	\$ 138	\$ 223	\$ 290	\$ 98
Supplemental disclosures of cash flow information:	Supplemental disclosures of cash flow information:						
Income taxes paid	Income taxes paid	\$ 67	\$ 129	\$ 319	\$ 401	\$ 184	\$ 159
Interest paid	Interest paid	\$ 148	\$ 153	\$ 467	\$ 365	\$ 147	\$ 150

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

(in millions of Canadian dollars except per share data)	For the three months ended September 30										
	Common Shares		Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity				
	(in millions)										
Balance as at July 1, 2022	930.0	\$ 25,488	\$ 73	\$ (1,539)	\$ 11,392	\$ 35,414					
Net income	—	—	—	—	—	891	891				
Other comprehensive income (Note 7)	—	—	—	1,672	—	—	1,672				
Dividends declared (\$0.190 per share)	—	—	—	—	(177)	—	(177)				
Effect of stock-based compensation expense	—	—	5	—	—	—	5				
Shares issued under stock option plan	0.1	10	(1)	—	—	—	9				
Balance as at September 30, 2022	930.1	\$ 25,498	\$ 77	\$ 133	\$ 12,106	\$ 37,814					
Balance as at July 1, 2021	666.8	\$ 2,003	\$ 63	\$ (2,791)	\$ 9,690	\$ 8,965					
Net income	—	—	—	—	472	472					
Other comprehensive income (Note 7)	—	—	—	148	—	—	148				
Dividends declared (\$0.190 per share)	—	—	—	—	(127)	—	(127)				
Effect of stock-based compensation expense	—	—	6	—	—	—	6				
Shares issued under stock option plan	0.1	5	(1)	—	—	—	4				
Balance as at September 30, 2021	666.9	\$ 2,008	\$ 68	\$ (2,643)	\$ 10,035	\$ 9,468					
For the nine months ended September 30						For the three months ended March 31					
(in millions of Canadian dollars except per share data)	(in millions of Canadian dollars except per share data)	Common Shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	(in millions of Canadian dollars except per share data)	Common Shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings
Balance as at January 1, 2022	929.7	\$ 25,475	\$ 66	\$ (2,103)	\$ 10,391	\$ 33,829					
Balance as at January 1, 2023	930.5	\$ 25,516	\$ 78	\$ 91	\$ 13,201	\$ 37,814					
Net income	Net income	—	—	—	2,246	2,246	Net income	—	—	—	800
Other comprehensive income (Note 7)	—	—	—	2,236	—	2,236					
Dividends declared (\$0.570 per share)	—	—	—	—	(531)	(531)					
Effect of stock-based compensation expense	—	—	17	—	—	17					
Shares issued for Kansas City Southern acquisition	—	—	(2)	—	—	(2)					
Shares issued under stock option plan	0.4	23	(4)	—	—	19					
Balance as at September 30, 2022	930.1	\$ 25,498	\$ 77	\$ 133	\$ 12,106	\$ 37,814					
Balance as at January 1, 2021	666.3	\$ 1,983	\$ 55	\$ (2,814)	\$ 8,095	\$ 7,319					

Net income	—	—	—	—	2,320	2,320
Other comprehensive income (Note 7)	—	—	—	171	—	171
Dividends declared (\$0.570 per share)	—	—	—	—	(380)	(380)
Other comprehensive loss (Note 6)	—	—	—	—	—	—
Dividends declared (\$0.190 per share)	—	—	—	—	—	—
Effect of stock-based compensation expense	Effect of stock-based compensation expense	—	—	18	—	18
Shares issued under stock option plan	Shares issued under stock option plan	0.6	25	(5)	—	20
Balance as at September 30, 2021	666.9	\$ 2,008	\$ 68	\$ (2,643)	\$ 10,035	\$ 9,468
Balance as at March 31, 2023					Balance as at March 31, 2023	930.9 \$25,538 \$ 84 \$ 74 \$ 13,824 \$
Balance as at January 1, 2022					Balance as at January 1, 2022	929.7 \$25,475 \$ 66 \$ (2,103) \$ 10,391 \$
Net income					Net income	— — — — 590
Other comprehensive loss (Note 6)					Other comprehensive loss (Note 6)	— — — (270) —
Dividends declared (\$0.190 per share)					Dividends declared (\$0.190 per share)	— — — — (177)
Effect of stock-based compensation expense					Effect of stock-based compensation expense	— — 7 — —
Shares issued for Kansas City Southern acquisition					Shares issued for Kansas City Southern acquisition	— — (2) — —
Shares issued under stock option plan					Shares issued under stock option plan	0.2 11 (3) — —
Balance as at March 31, 2022					Balance as at March 31, 2022	929.9 \$25,486 \$ 68 \$ (2,373) \$ 10,804 \$

See Notes to Interim Consolidated Financial Statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2022 **March 31, 2023**

(unaudited)

1 Description of business and Basis of presentation

On April 14, 2023, Canadian Pacific Railway Limited ("CPRL" or "CP") assumed control of Kansas City Southern ("KCS") (through an indirect wholly owned subsidiary), and filed articles of amendment to change CPRL's name to Canadian Pacific Kansas City Limited ("CPKC"). CPKC owns and operates the only freight railway spanning Canada, the United States ("U.S."), and Mexico. CPKC provides rail and intermodal transportation services over a network of approximately 20,000 miles, directly serving principal business centres of Canada, the U.S., and Mexico.

These unaudited Interim Consolidated Financial Statements ("Interim Consolidated Financial Statements") do not include KCS and its subsidiaries on a consolidated basis but continue to account for KCS using the equity method while the outstanding shares of Canadian Pacific Railway Limited ("CPRL") KCS were held in a voting trust (see Notes 8, 9 and 15). These Interim Consolidated Financial Statements of CPKC and its subsidiaries (collectively, "CP" "CPKC", or "the Company"), expressed in Canadian dollars, reflect management's estimates and assumptions that are necessary for their fair presentation in conformity with generally accepted accounting principles in the United States of America ("GAAP"). They do not include all disclosures required under GAAP for annual financial statements and should be read in conjunction with the **2021** **2022** annual Consolidated Financial Statements and notes included in CP's **2021** CPRL's **2022**

Annual Report on Form 10-K. The accounting policies used are consistent with the accounting policies used in preparing the 2021 CPRL's 2022 annual Consolidated Financial Statements. Statements except as discussed in Note 2.

CP In these Interim Consolidated Financial Statements, unless the context indicates otherwise, references to "CPKC", "the Company", "we", "our", or "us" are to Canadian Pacific Kansas City Limited and its subsidiaries prior to April 14, 2023, at which time KCS was held as an equity investment accounted for by the equity method of accounting. On and from April 14, 2023, KCS became a consolidated subsidiary of CPKC.

The Company'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.

In management's opinion, the Interim Consolidated Financial Statements include all adjustments (consisting of normal and recurring adjustments) necessary to present fairly such information. Interim results are not necessarily indicative of the results expected for the fiscal year.

2 Accounting changes

Implemented in 2022

Government Assistance 2023

On January 1, 2022 January 1, 2023, the Company adopted the new Accounting Standards Update ("ASU" ("ASU") 2021-10, 2021-08, issued by the Financial Accounting Standards Board ("FASB" ("FASB"), and all related amendments under FASB Accounting Standards Codification ("ASC" ("ASC")), Topic 832, Government Assistance. The amendment is made to increase transparency by introducing specific disclosure requirements for entities who apply a grant or contribution model by analogy to account for transactions with a government. This update is applied to government assistance transactions within the scope of this amendment that are in the financial statements at the date of initial application and prospectively to new transactions entered into after initial application. See Note 9 for further discussion on government assistance.

All other accounting pronouncements that became effective during the period covered by the Interim Consolidated Financial Statements did not have a material impact on the Company's Consolidated Financial Statements and related disclosures.

Future changes

Contract Assets and Contract Liabilities Acquired in a 805, Business Combination

In October 2021, the FASB issued ASU 2021-08, Business Combinations, (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. This Customers in anticipation of obtaining effective control of KCS. The amendment introduces the requirement for an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with the requirements of FASB ASC Topic 606, Revenue from Contracts with Customers, rather than at fair value. The Company assumed control of KCS (through an indirect wholly owned subsidiary) on April 14, 2023. This amendment update will be effective applied prospectively from January 1, 2023, with early adoption permitted. The Company is currently assessing to contract assets and liabilities within the impact scope of this amendment, which includes any contract assets and liabilities of KCS that will be recorded in the purchase price allocation. The adoption of this update will not have a material impact to the Company's financial statements. See Note 15 for further discussion on the Company's acquisition of KCS.

All other accounting pronouncements that became effective during the period covered by the Interim Consolidated Financial Statements did not have a material impact on the Company's Consolidated Financial statements and related disclosures.

Future changes

All accounting pronouncements recently issued, but not effective until after September 30, 2022 March 31, 2023, have been assessed and are not expected to have a material impact on the Company's Consolidated Financial Statements and related disclosures.

3 Revenues

The following table disaggregates the Company's revenues from contracts with customers by major source:

(in millions of Canadian dollars)	For the three months ended September 30		For the nine months ended September 30	
	2022	2021	2022	2021
Freight				
Grain	\$ 391	\$ 352	\$ 1,121	\$ 1,244
Coal	156	158	458	491
Potash	170	113	445	348
Fertilizers and sulphur	81	72	244	227
Forest products	109	89	299	259
Energy, chemicals and plastics	360	392	1,010	1,149
Metals, minerals and consumer products	246	196	655	535
Automotive	111	83	322	289
Intermodal	640	441	1,660	1,280

Total freight revenues	2,264	1,896	6,214	5,822
Non-freight excluding leasing revenues	28	25	77	75
Revenues from contracts with customers	2,292	1,921	6,291	5,897
Leasing revenues	20	21	61	58
Total revenues	\$ 2,312 \$	1,942 \$	6,352 \$	5,955

Contract liabilities

Contract liabilities represent payments received for performance obligations not yet satisfied and relate to deferred revenue and are presented as components of "Accounts payable and accrued liabilities" and "Other long-term liabilities" on the Company's Interim Consolidated Balance Sheets.

The following table summarizes the changes in contract liabilities:

(in millions of Canadian dollars)	For the three months ended September 30		For the nine months ended September 30	
	2022	2021	2022	2021
Opening balance	\$ 69 \$	245 \$	67 \$	61
Revenue recognized that was included in the contract liability balance at the beginning of the period	(8)	(93)	(16)	(36)
Increase due to consideration received, net of revenue recognized during the period	4	4	14	131
Closing balance	\$ 65 \$	156 \$	65 \$	156

(in millions of Canadian dollars)	For the three months ended March 31	
	2023	2022
Freight		
Grain	\$ 515 \$	360
Coal	155	139
Potash	132	104
Fertilizers and sulphur	96	78
Forest products	103	86
Energy, chemicals and plastics	366	310
Metals, minerals and consumer products	233	181
Automotive	125	91
Intermodal	492	447
Total freight revenues	2,217	1,796
Non-freight excluding leasing revenues	27	22
Revenues from contracts with customers	2,244	1,818
Leasing revenues	22	20
Total revenues	\$ 2,266 \$	1,838

4 Other expense

(in millions of Canadian dollars)	For the three months ended September 30		For the nine months ended September 30	
	2022	2021	2022	2021
Foreign exchange loss (gain) on debt and lease liabilities	\$ — \$	46 \$	— \$	(39)
Other foreign exchange losses (gains)	2	(7)	1	(9)
Acquisition-related costs (Note 10)	—	83	—	295
Other	5	2	12	6
Other expense	\$ 7 \$	124 \$	13 \$	253

5 Income taxes

(in millions of Canadian dollars)	For the three months ended September 30	For the nine months ended September 30
	2022	2021

	For the three months ended		For the nine months ended September 30	
	September 30	2021	September 30	2021
(in millions of Canadian dollars)				
Current income tax expense	\$ 158	\$ 39	\$ 375	\$ 427
Deferred income tax expense	38	130	151	190
Income tax expense	\$ 196	\$ 169	\$ 526	\$ 617

During the three months ended September 30, 2022, legislation was enacted to decrease the Iowa state corporate income tax rate. As a result of this change, the Company recorded a deferred tax recovery of \$12 million related to the revaluation of deferred income tax balances as at January 1, 2022.

The effective tax rates rate including discrete items for the three and nine months ended September 30, 2022 were 18.01% and 18.97% March 31, 2023 was 16.90%, respectively, compared to 26.36% and 21.00%, respectively 12.67% for the same periods period of 2021 2022.

For the three months ended September 30, 2022 March 31, 2023, the effective tax rate was 24.25% 24.50%, excluding the discrete items of the equity earnings of Kansas City Southern ("KCS") KCS of \$221 million \$204 million, acquisition-related costs incurred by CP CPKC of \$18 \$15 million, the deferred tax recovery of \$12 million described above, and an outside basis deferred tax recovery of \$9 million \$23 million arising from the difference between the carrying amount of CP's CPKC's investment in KCS for financial reporting and the underlying tax basis of this investment.

For the three months ended September 30, 2021, the effective tax rate was 24.60%, excluding the discrete items of acquisition-related costs incurred by CP of \$98 million, and a foreign exchange ("FX") loss of \$46 million on debt and lease liabilities.

For the nine months ended September 30, 2022 March 31, 2022, the effective tax rate was 24.25%, excluding the discrete items of the equity earnings of KCS of \$627 million \$198 million, acquisition-related costs incurred by CP CPKC of \$57 \$20 million, the deferred tax recovery of \$12 million described above, and an outside basis deferred tax expense recovery of \$8 million \$32 million arising from the difference between the carrying amount of CP's CPKC's investment in KCS for financial reporting, and the underlying tax basis of this investment.

For the nine months ended September 30, 2021, the effective tax rate was 24.60%, excluding the discrete items of acquisition-related costs incurred by CP of \$442 million, the merger termination payment received in connection with KCS's termination of the Agreement and Plan of Merger (the "Original Merger Agreement") of \$845 million (U.S. \$700 million), and an FX gain of \$39 million on debt and lease liabilities.

65 Earnings per share

Basic earnings per share has been calculated using Net income for the period divided by the weighted-average number of shares outstanding during the period. The number of shares used in the earnings per share calculations are reconciled as follows:

(in millions)	For the three months ended		For the nine months ended		(in millions)	For the three months ended March 31	
	September 30	2022	September 30	2021		2023	2022
Net income					Net income	\$ 800	\$ 590
Weighted-average basic shares outstanding	Weighted-average basic shares outstanding	930.0	666.9	929.9	666.7	930.7	929.7
Dilutive effect of stock options	Dilutive effect of stock options	2.9	2.9	2.9	3.1	2.8	3.0
Weighted-average diluted shares outstanding	Weighted-average diluted shares outstanding	932.9	669.8	932.8	669.8	933.5	932.7
Earnings per share - basic					Earnings per share - basic	\$ 0.86	\$ 0.63
Earnings per share - diluted					Earnings per share - diluted	\$ 0.86	\$ 0.63

For the three and nine months ended September 30, 2022 March 31, 2023, there were nil 0.3 0.4 million options respectively, excluded from the computation of diluted earnings per share because their effects were not dilutive (three and nine months ended September 30, 2021 March 31, 2022 - 0.2 million and 0.1 million, respectively nil).

76 Changes in Accumulated other comprehensive income (loss) ("AOCI") by component

	For the three months ended September 30

(in millions of Canadian dollars)	Foreign currency net of hedging activities ⁽¹⁾	Derivatives ⁽¹⁾⁽²⁾	Pension and post-retirement defined benefit plans ⁽¹⁾	Equity accounted investments ⁽¹⁾⁽²⁾	Total ⁽¹⁾
Opening balance, July 1, 2022	\$ 217 \$	(2) \$	(1,856) \$	102 \$	(1,539)
Other comprehensive income (loss) before reclassifications	1,618	—	(14)	37	1,641
Amounts reclassified from accumulated other comprehensive income	—	1	30	—	31
Net other comprehensive income	1,618	1	16	37	1,672
Closing balance, September 30, 2022	\$ 1,835 \$	(1) \$	(1,840) \$	139 \$	133
Opening balance, July 1, 2021	\$ 110 \$	(91) \$	(2,800) \$	(10) \$	(2,791)
Other comprehensive income before reclassifications	6	101	—	—	107
Amounts reclassified from accumulated other comprehensive loss	—	2	39	—	41
Net other comprehensive income	6	103	39	—	148
Closing balance, September 30, 2021	\$ 116 \$	12 \$	(2,761) \$	(10) \$	(2,643)

For the three months ended March 31					
(in millions of Canadian dollars)	Foreign currency net of hedging activities ⁽¹⁾	Derivatives ⁽¹⁾	Pension and post-retirement defined benefit plans ⁽¹⁾	Equity accounted investments ⁽¹⁾	Total ⁽¹⁾
Opening balance, January 1, 2023	\$ 1,505 \$	— \$	(1,410) \$	(4) \$	91
Other comprehensive (loss) income before reclassifications	(27)	—	—	3	(24)
Amounts reclassified from accumulated other comprehensive income	—	1	6	—	7
Net other comprehensive (loss) income	(27)	1	6	3	(17)
Closing balance, March 31, 2023	\$ 1,478 \$	1 \$	(1,404) \$	(1) \$	74
Opening balance, January 1, 2022	\$ (182) \$	(4) \$	(1,915) \$	(2) \$	(2,103)
Other comprehensive (loss) income before reclassifications	(349)	—	—	46	(303)
Amounts reclassified from accumulated other comprehensive loss	—	1	31	1	33
Net other comprehensive (loss) income	(349)	1	31	47	(270)
Closing balance, March 31, 2022	\$ (531) \$	(3) \$	(1,884) \$	45 \$	(2,373)

⁽¹⁾ Amounts are presented net of tax.

⁽²⁾ Comparative figures have been reclassified to conform with current period presentation.

For the nine months ended September 30					
(in millions of Canadian dollars)	Foreign currency net of hedging activities ⁽¹⁾	Derivatives ⁽¹⁾⁽²⁾	Pension and post-retirement defined benefit plans ⁽¹⁾	Equity accounted investments ⁽¹⁾⁽²⁾	Total ⁽¹⁾
Opening balance, January 1, 2022	\$ (182) \$	(4) \$	(1,915) \$	(2) \$	(2,103)
Other comprehensive income (loss) before reclassifications	2,017	—	(14)	140	2,143
Amounts reclassified from accumulated other comprehensive income	—	3	89	1	93
Net other comprehensive income	2,017	3	75	141	2,236

Closing balance, September 30, 2022	\$ 1,835	\$ (1)	\$ (1,840)	\$ 139	\$ 133
Opening balance, January 1, 2021	\$ 112	\$ (40)	\$ (2,878)	\$ (8)	\$ (2,814)
Other comprehensive income (loss) before reclassifications	4	46	—	(2)	48
Amounts reclassified from accumulated other comprehensive loss	—	6	117	—	123
Net other comprehensive income (loss)	4	52	117	(2)	171
Closing balance, September 30, 2021	\$ 116	\$ 12	\$ (2,761)	\$ (10)	\$ (2,643)

^(a) Amounts are presented net of tax.

^(b) Comparative figures have been reclassified to conform with current period presentation.

Amounts in Pension and post-retirement defined benefit plans reclassified from AOCI are as follows:

(in millions of Canadian dollars)	For the three months ended September 30		For the nine months ended September 30	
	2022	2021	2022	2021
Recognition of net actuarial loss ^(a)	\$ 39	\$ 53	\$ 116	\$ 158
Income tax recovery	(9)	(14)	(27)	(41)
Total net of income tax	\$ 30	\$ 39	\$ 89	\$ 117

^(a) Impacts "Other components of net periodic benefit recovery" on the Interim Consolidated Statements of Income.

7 Accounts receivable, net

(in millions of Canadian dollars)	As at September 30, 2022			As at December 31, 2021		
	Freight	Non-freight	Total	Freight	Non-freight	Total
Total accounts receivable	\$ 835	\$ 257	\$ 1,092	\$ 614	\$ 239	\$ 853
Allowance for credit losses	(26)	(13)	(39)	(20)	(14)	(34)
Total accounts receivable, net	\$ 809	\$ 244	\$ 1,053	\$ 594	\$ 225	\$ 819

(in millions of Canadian dollars)	For the three months ended September 30, 2022			For the three months ended September 30, 2021		
	Freight	Non-freight	Total	Freight	Non-freight	Total
Allowance for credit losses, opening balance	\$ (24)	\$ (15)	\$ (39)	\$ (23)	\$ (15)	\$ (38)
Current period credit loss provision, net	(2)	2	—	1	(1)	—
Allowance for credit losses, closing balance	\$ (26)	\$ (13)	\$ (39)	\$ (22)	\$ (16)	\$ (38)

(in millions of Canadian dollars)	For the nine months ended September 30, 2022			For the nine months ended September 30, 2021		
	Freight	Non-freight	Total	Freight	Non-freight	Total
Allowance for credit losses, opening balance	\$ (20)	\$ (14)	\$ (34)	\$ (25)	\$ (15)	\$ (40)
Current period credit loss provision, net	(6)	1	(5)	3	(1)	2
Allowance for credit losses, closing balance	\$ (26)	\$ (13)	\$ (39)	\$ (22)	\$ (16)	\$ (38)

(in millions of Canadian dollars)	As at March 31, 2023			As at December 31, 2022		
	Freight	Non-freight	Total	Freight	Non-freight	Total
Total accounts receivable	\$		\$ 1,071			\$ 1,057
Allowance for credit losses			(42)			(41)
Total accounts receivable, net	\$		\$ 1,029			\$ 1,016

9 Government assistance

By analogy to the grant model of accounting within International Accounting Standards ("IAS") 20, Accounting for Government Grants and Disclosure of Government Assistance, CP records government assistance from various levels of Canadian and U.S. governments and government agencies when the conditions of their receipt are complied with and there is reasonable assurance that the assistance will be received.

Government assistance related to properties has as a primary condition that CP should purchase, construct, or otherwise acquire property, plant and equipment. Under certain government assistance arrangements, there is a secondary condition that requires CP to repay a portion of the assistance if certain conditions related to the assets are not adhered to during a specified period. In these cases, it is CP's intention to comply with all conditions imposed by the terms of the government assistance. Government assistance received or receivable related to CP's property assets is deducted from the cost of the assets in the Interim Consolidated Balance Sheets within "Properties" and amortized over the same period as the related assets in "Depreciation and amortization" in the Interim Consolidated Statements of Income.

During the three and nine months ended September 30, 2022, the Company received \$6 million and \$25 million, respectively, of government assistance towards the purchase and construction of properties.

As of September 30, 2022, the total Properties balance of \$22,150 million is net of \$279 million of unamortized government assistance (December 31, 2021 - \$259 million), primarily related to the enhancement of CP's track and roadway infrastructure. Amortization expense related to government assistance for the three and nine months ended September 30, 2022 was \$3 million and \$8 million, respectively.

10.8 Business acquisition

Kansas City Southern

On December 14, 2021, the Company purchased 100% of the issued and outstanding shares of KCS. KCS is a U.S. Class I railway with approximately 7,000 route miles extending from the Midwest and southeast portions of the United States south to Mexico and connects with all Class I railways. KCS connects with the Company's network in Kansas City.

On March 15, 2023, the STB issued a final decision approving the Company and KCS's joint merger application, subject to certain conditions. The Company accounts assumed control of KCS on April 14, 2023 (see Note 15). The Company accounted for its investment in KCS using the equity method of accounting while up to the U.S. Surface Transportation Board ("STB") considers the Company's application to control KCS. The STB review effective date of CP's proposed control of KCS while KCS is in the voting trust is expected to be completed in the first quarter of 2023. The investment in KCS of \$45,964 million as at September 30, 2022 includes \$627 million of equity earnings of KCS and foreign currency translation of \$3,445 million, offset by dividends of \$593 million received in the nine months ended September 30, 2022. Included within the \$221 million and \$627 million of equity earnings of KCS recognized for the three and nine months ended September 30, 2022 was amortization (net of tax), of the approximately \$30 billion basis difference, representing the difference in value between the consideration paid to acquire KCS and the underlying carrying value of the net assets of KCS as at December 14, 2021, immediately prior to the acquisition by CP. The amortization (net of tax), recognized for the three and nine months ended September 30, 2022 was \$42 million and \$121 million, respectively. The basis difference is related to depreciable property, plant and equipment, intangible assets with definite lives, and long-term debt, and is amortized over the related assets' remaining useful lives, and the remaining terms to maturity of the debt instruments. KCS.

During the three and nine months ended September 30, 2022 March 31, 2023, the Company incurred \$18 million and \$57 million in acquisition-related costs, respectively, recorded within "Purchased services and other" in the Company's Interim Consolidated Statements of Income. Acquisition-related costs of \$12 million and \$39 million incurred by KCS during the three and nine months ended September 30, 2022 are included within "Equity earnings of Kansas City Southern" in the Company's Interim Consolidated Statements of Income.

During the three and nine months ended September 30, 2021, the Company incurred \$98 million and \$442 million, respectively, in acquisition-related costs associated with the Original Merger Agreement and Merger Agreement, of which \$15 million and \$147 million were recorded within "Purchased services and other" and \$83 million and \$295 million were recorded within "Other expense", respectively, including the amortization expense (income). Acquisition-related costs of financing fees associated with new credit facilities. Total financing fees paid for a bridge facility associated with the \$10 million incurred by KCS acquisition during the three and nine months ended September 30, 2021 March 31, 2023 were \$nil and \$45 million, respectively, presented under "Cash (used in) provided by financing activities" in the Company's Interim Consolidated Statements included within "Equity earnings of Cash Flows, Kansas City Southern".

On May 21, 2021, KCS terminated During the Original Merger Agreement entered into on March 21, 2021 with CP to enter into a definitive agreement with Canadian National Railway ("CN"). At the same time and in accordance with the terms of the Original Merger Agreement, KCS paid CP a termination fee of \$845 million (U.S. \$700 million). This amount is reported as "Merger termination fee" in the Company's Interim Consolidated Statements of Income for the nine three months ended September 30, 2021 March 31, 2022, the Company incurred \$20 million in acquisition-related costs, recorded within "Purchased services and other". No similar items Acquisition-related costs of \$13 million incurred by KCS during the three months ended March 31, 2022 were received in the same period included within "Equity earnings of 2022, Kansas City Southern".

In connection with the Merger Agreement, the Company remitted \$1,773 million (U.S. \$1,400 million) to KCS on September 15, 2021 in connection with KCS's payment of the CN merger termination fees, recorded within "Investment in KCS" in the Company's Balance Sheets.

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9 Investment in KCS

The investment in KCS investment carrying cost of \$45,964 \$44,955 million reported on the Company's Interim Consolidated Balance Sheets as at September 30, 2022 March 31, 2023 (December 31, 2022 - \$45,091 million) reflects the consideration paid to acquire KCS, the offsetting asset recorded upon recognition of a deferred tax liability computed on an outside basis, (see Note 5), the subsequent recognition of equity earnings, the dividends received from KCS, and foreign currency translation based on the quarter-end exchange rate, rates.

For the three months ended March 31, 2023, the Company recognized \$204 million of equity earnings of KCS (March 31, 2022 - \$198 million, and received dividends from KCS of \$300 million (March 31, 2022 - \$334 million). The foreign currency translation of the investment in KCS for this period totaled \$41 million (March 31, 2022 - \$608 million). Included within the \$204 million of equity earnings of KCS recognized for the three months ended March 31, 2023 (March 31, 2022 - \$198 million) was amortization (net of tax) of \$42 million of basis differences (March 31, 2022 - \$40 million). These basis differences relate to depreciable property, plant and equipment, intangible assets with definite lives, and long-term debt, and are amortized over the related assets' remaining useful lives and the remaining terms to maturity of the debt instruments.

The following table presents summarized financial information for KCS, on its historical cost basis:

Statement of Income

(in millions of Canadian dollars)	(in millions of Canadian dollars)	For the three months ended September 30, 2022	For the nine months ended September 30, 2022	(in millions of Canadian dollars)	For the three months ended March 31, 2023	For the three months ended March 31, 2022
(1)	(1)			(1)		

Total revenues	Total revenues	\$ 1,152	\$ 3,216	Total revenues	\$ 1,187	\$ 986
Total operating expenses	Total operating expenses	728	2,024	Total operating expenses	779	617
Operating income	Operating income			Operating income	408	369
Less: Other ⁽²⁾	Less: Other ⁽²⁾	424	1,192	Less: Other ⁽²⁾	74	39
Income before income taxes	Income before income taxes	67	164	Income before income taxes	334	330
Net income	Net income	\$ 263	\$ 748	Net income	\$ 246	\$ 238

⁽¹⁾ Amounts translated at the average FX rate exchange rates averaging \$1.00 USD = \$1.35 CAD for the three and nine months ended September 30, 2022 of \$1.00 USD = \$1.31 CAD March 31, 2023 and \$1.00 USD = \$1.28 USD = \$1.27 CAD respectively, for the three months ended March 31, 2022.

⁽²⁾ Includes Equity in net earnings of KCS's affiliates, Interest expense, FX loss, and Other income, net.

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10 Debt

During the nine months ended September 30, 2022, the Company repaid at maturity \$125 million 5.100% 10-year Medium Term Notes, U.S. \$250 million (\$313 million) 4.500% 10-year Notes, and a U.S. \$76 million (\$97 million) 6.99% finance lease.

Credit facility

Effective March 14, 2022, the Company extended the maturity date of the U.S. \$500 million unsecured non-revolving term credit facility (the "term facility") to September 15, 2022. During the three months ended June 30, 2022 March 31, 2023, the Company repaid U.S. \$100 \$350 million (\$132,479 million) of the term facility 4.450% 12.5-year. During the three months ended September 30, 2022, the Company repaid in full the term facility's outstanding borrowings of U.S. \$400 million (\$504 million). The facility was automatically terminated on September 15, 2022 following the final principal repayment. Notes at maturity.

Commercial paper program

The Company has a commercial paper program which enables it to issue commercial paper up to a maximum aggregate principal amount of U.S. \$1.0 billion in the form of unsecured promissory notes. This commercial paper program is backed by the U.S. \$1.3 billion revolving credit facility. As at September 30, 2022 March 31, 2023 and December 31, 2022, the Company had total no commercial paper borrowings of U.S. \$525 million (\$720 million), included in "Long-term debt maturing within one year" on the Company's Interim Consolidated Balance Sheets (December 31, 2021 - U.S. \$265 million). The weighted-average interest rate on these borrowings as at September 30, 2022 was 3.48% (December 31, 2021 - 0.32%), outstanding. The Company presents issuances and repayments of commercial paper, all of which have a maturity of less than 90 days, in the Company's Interim Consolidated Statements of Cash Flows on a net basis.

13 11 Financial instruments

A. Fair values of financial instruments

The Company categorizes its financial assets and liabilities measured at fair value into a three-level hierarchy established by GAAP that prioritizes those inputs to valuation techniques used to measure fair value based on the degree to which they are observable. The three levels of the fair value hierarchy are as follows: Level 1 inputs are quoted prices in active markets for identical assets and liabilities; Level 2 inputs, other than quoted prices included within Level 1, are observable for the asset or liability either directly or indirectly; and Level 3 inputs are not observable in the market.

The Company's short-term financial instruments may include Cash cash and cash equivalents, Restricted restricted cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and short-term borrowings including commercial paper and term loans. The carrying values of short-term financial instruments approximate their fair values.

The carrying value of the Company's long-term debt and finance lease liabilities does not approximate their fair value. Their estimated fair value has been determined based on market information, where available, or by discounting future payments of principal and interest at estimated interest rates expected to be available to the Company at period end. All measurements are classified as Level 2. The Company's long-term debt and finance lease liabilities, including current maturities, with a carrying value of \$19,855 million \$19,162 million as at September 30, 2022 March 31, 2023 (December 31, 2021 2022 - \$19,151 million \$19,651 million), had a fair value of \$17,472 million \$17,845 million (December 31, 2021 2022 - \$21,265 million \$17,720 million).

B. Financial risk management

FX management

Net investment hedge

The effect of the Company's net investment hedge for the three and nine months ended September 30, 2022 March 31, 2023 was an unrealized FX loss of \$440 million and \$558 million, respectively \$1 million (three and nine months ended September 30, 2021 March 31, 2022 - unrealized FX loss gain of \$168 million and \$6 million, respectively) \$98 million recognized in "Other comprehensive income" loss.

14 Shareholders' equity

On January 27, 2021, the Company announced a normal course issuer bid ("NCIB"), commencing January 29, 2021, to purchase up to 16.7 million Common Shares in the open market for cancellation on or before January 28, 2022. Upon expiry of this NCIB, the Company had not purchased any Common Shares under this NCIB.

15.12 Pension and other benefits

In the three and nine months ended September 30, 2022 March 31, 2023, the Company made contributions to its defined benefit pension plans of \$5 \$4 million and \$12 million, respectively (three and nine months ended September 30, 2021 March 31, 2022 - \$4 million and \$15 million, respectively) \$3 million).

Net periodic benefit costs for defined benefit pension plans and other benefits included the following components:

(in millions of Canadian dollars)	For the three months ended September 30				
	Pensions		Other benefits		
	2022	2021	2022	2021	
Current service cost (benefits earned by employees)	\$ 37	\$ 42	\$ 3	\$ 4	4
Other components of net periodic benefit (recovery) cost:					
Interest cost on benefit obligation	95	88	4	4	4
Expected return on fund assets	(240)	(240)	—	—	—
Recognized net actuarial loss	39	52	—	—	1
Total other components of net periodic benefit (recovery) cost	(106)	(100)	4	5	
Net periodic benefit (recovery) cost	\$ (69)	\$ (58)	\$ 7	\$ 9	

(in millions of Canadian dollars)	For the nine months ended September 30					For the three months ended March 31				
	Pensions		Other benefits			Pensions		Other benefits		
	2022	2021	2022	2021	(in millions of Canadian dollars)	2023	2022	2023	2022	
Current service cost (benefits earned by employees)	Current service cost (benefits earned by employees)	\$ 111	\$ 128	\$ 8	\$ 10	Current service cost (benefits earned by employees)	\$ 18	\$ 37	\$ 2	\$ 2
Other components of net periodic benefit (recovery) cost:	Other components of net periodic benefit (recovery) cost:					Other components of net periodic benefit (recovery) cost:				
Interest cost on benefit obligation	Interest cost on benefit obligation	287	264	12	12	Interest cost on benefit obligation	121	96	5	4
Expected return on fund assets	Expected return on plan assets	(719)	(720)	—	—	Expected return on plan assets	(220)	(240)	—	—
Recognized net actuarial loss	Recognized net actuarial loss	115	155	1	3	Recognized net actuarial loss	8	38	—	1
Total other components of net periodic benefit (recovery) cost	Total other components of net periodic benefit (recovery) cost	(317)	(301)	13	15	Total other components of net periodic benefit (recovery) cost	(91)	(106)	5	5
Net periodic benefit (recovery) cost	Net periodic benefit (recovery) cost	\$ (206)	\$ (173)	\$ 21	\$ 25	Net periodic benefit (recovery) cost	\$ (73)	\$ (69)	\$ 7	\$ 7

16.13 Stock-based compensation

As at September 30, 2022 March 31, 2023, the Company had several stock-based compensation plans including stock option plans, various cash-settled liability plans, and an employee share purchase plan. These plans resulted in an expense for the three and nine months ended September 30, 2022 March 31, 2023 of \$21 million and \$67 million, respectively \$32 million (three and nine months ended September 30, 2021 March 31, 2022 - expense of \$26 million and \$75 million, respectively) \$44 million).

Stock option plans

In the **nine** three months ended **September 30, 2022** **March 31, 2023**, under **CPs** the Company's stock option plans, the Company issued **836,379** **662,744** options at the weighted-average price of **\$90.96** **\$105.55** per share, based on the closing price on the grant date. Pursuant to the employee plan, these options may be exercised upon vesting, which is between 12 months and 48 months after the grant date, and will expire after seven years.

Under the fair value method, the fair value of the stock options at grant date was approximately **\$16 million** **\$20 million**. The weighted-average fair value assumptions were approximately:

	For the nine three months ended September 30, 2022 March 31, 2023
Expected option life (years) ⁽¹⁾	4.75
Risk-free interest rate ⁽²⁾	1.61% 3.32%
Expected share price volatility ⁽³⁾	26.84% 28.29%
Expected annual dividends per share ⁽⁴⁾	\$0.760
Expected forfeiture rate ⁽⁵⁾	3.00% 2.94%
Weighted-average grant date fair value per option granted during the period	\$18.79 29.53

⁽¹⁾ Represents the period of time that awards are expected to be outstanding. Historical data on exercise behaviour or, when available, specific expectations regarding future exercise behaviour were used to estimate the expected life of the option.

⁽²⁾ Based on the implied yield available on zero-coupon government issues with an equivalent term commensurate with the expected option life.

⁽³⁾ Based on the historical volatility of the Company's share price over a period commensurate with the expected term of the option.

⁽⁴⁾ Determined by the current annual dividend at the time of grant. The Company does not employ different dividend yields throughout the contractual term of the option.

⁽⁵⁾ The Company estimates forfeitures based on past experience. This rate is monitored on a periodic basis.

Performance share unit plans

During the **nine** three months ended **September 30, 2022** **March 31, 2023**, the Company issued **414,375** **394,404** Performance Share Units ("PSUs") with a grant date fair value of approximately **\$36 million** **\$42 million** and **13,506** **26,333** Performance Deferred Share Units ("PDSUs") with a grant date fair value, including the value of expected future matching units, of approximately **\$2 million** **\$3 million**. PSUs and PDSUs attract dividend equivalents in the form of additional units based on dividends paid on the Company's Common Shares, and vest approximately three years after the grant date, contingent upon **CPs** the Company's performance ("performance factor"). The fair value of these PSUs and PDSUs is measured periodically until settlement. Vested PSUs are settled in cash. Vested PDSUs are settled in cash pursuant to the Deferred Share Unit ("DSU") Plan and are eligible for a 25% match if the holder has not exceeded their share ownership requirements, and are paid out only when the holder ceases their employment with **CP**, the Company.

The performance period for PSUs and PDSUs issued in the **nine** three months ended **September 30, 2022** **March 31, 2023** is **January 1, 2022** **January 1, 2023** to **December 31, 2024** **December 31, 2025** and the performance factors are Free Cash Flow ("FCF"), Adjusted Net Debt to Adjusted earnings before interest, tax, depreciation, and amortization ("EBITDA") Modifier, Total Shareholder Return ("TSR") compared to the S&P/TSX 60 Index, and TSR compared to the S&P 500 Industrials Index.

The performance period for **489,990** PSUs and **50,145** PDSUs issued in **2019** **2020** was **January 1, 2019** **January 1, 2020** to **December 31, 2021**. The **December 31, 2022**, and the performance factors for **668,405** these PSUs were Return on Invested Capital ("ROIC"), TSR compared to the S&P/TSX 60 Index, and TSR compared to Class I Railways. The resulting payout was **200%** **180%** of the outstanding units multiplied by the Company's average share price calculated using the last 30 trading days preceding **December 31, 2021** **December 31, 2022**. In the first quarter of **2022**, **2023**, payouts occurred on **631,457** total **459,358** PSUs outstanding, awards, including dividends reinvested, totalling **\$116 million**.

Deferred share unit plan

During the **nine** months ended **September 30, 2022**, the Company granted **53,834** Deferred Share Units ("DSUs") with **\$87 million**. The **45,058** PDSUs that vested on **December 31, 2022** for a grant date total fair value of approximately **\$5 million**. DSUs vest over various periods of up to **\$11 million**, including dividends reinvested and matching units, will payout in the future pursuant to **36 months** and are only redeemable for a specified period after employment is terminated. The expense for DSUs is recognized over the vesting period for both the initial subscription price and the change in value between reporting periods. DSU plan (as described above).

17.14 Contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage 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 **September 30, 2022** **March 31, 2023** 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 business, financial position, or results of operations, operations, or liquidity. However, an unexpected adverse resolution of one or more of these legal actions could have a material adverse effect on the Company's business, financial position, results of operations, or liquidity in a particular quarter or fiscal year.

Legal proceedings related to Lac-Mégantic rail accident

On July 6, 2013, a train carrying petroleum crude oil operated by Montréal Maine and Atlantic Railway ("MMAR") or a subsidiary, Montréal Maine & Atlantic Canada Co. ("MMAC" and collectively the "MMA Group"), derailed in Lac-Mégantic, Québec. The

derailment occurred on a section of railway owned and operated by the MMA Group and while the MMA Group exclusively controlled the train.

Following the derailment, MMAC sought court protection in Canada under the *Companies' Creditors Arrangement Act* and MMAR filed for bankruptcy in the U.S. Plans of arrangement were approved in both Canada and the U.S. (the "Plans"), providing for the distribution of approximately \$440 million amongst those claiming derailment damages.

A number of legal proceedings, set out below, were commenced in Canada and the U.S. against **CP** the Company and others:

- (1) Québec's Minister of Sustainable Development, Environment, Wildlife and Parks ordered various parties, including CP, the Company, to remediate the derailment site (the "Cleanup Order") and served CP, the Company with a Notice of Claim for \$95 million for those costs. CP, The Company appealed the Cleanup Order and contested the Notice of Claim with the Administrative Tribunal of Québec. These proceedings are stayed pending determination of the Attorney General of Québec ("AGQ") action (paragraph 2 below).
- (2) The AGQ sued CP, the Company in the Québec Superior Court claiming \$409 million in damages, which was amended and reduced to \$315 million (the "AGQ Action"). The AGQ Action alleges that: (i) CP, the Company was responsible for the petroleum crude oil from its point of origin until its delivery to Irving Oil Ltd.; and (ii) CP, the Company is vicariously liable for the acts and omissions of the MMA Group.
- (3) A class action in the Québec Superior Court on behalf of persons and entities residing in, owning or leasing property in, operating a business in, or physically present in Lac-Mégantic at the time of the derailment was certified against CP, the Company on May 8, 2015 (the "Class Action"). Other defendants including MMAC and Mr. Thomas Harding ("Harding") were added to the Class Action on January 25, 2017. On November 28, 2019, the plaintiffs' motion to discontinue their action against Harding was granted. The Class Action seeks unquantified damages, including for wrongful death, personal injury, property damage, and economic loss.
- (4) Eight subrogated insurers sued CP, the Company in the Québec Superior Court claiming approximately \$16 million in damages, which was amended and reduced to approximately \$15 million (the "Promutuel Action"), and two additional subrogated insurers sued CP, the Company claiming approximately \$3 million in damages (the "Royal Action"). Both actions contain similar allegations as the AGQ Action. The actions do not identify the subrogated parties. As such, the extent of any overlap between the damages claimed in these actions and under the Plans is unclear. The Royal Action is stayed pending determination of the consolidated proceedings described below.

On December 11, 2017, the AGQ Action, the Class Action and the Promutuel Action were consolidated. The joint liability trial of these consolidated claims commenced on September 21, 2021 with oral arguments ending on June 15, 2022. A The Quebec Superior Court issued a decision is expected on December 14, 2022 dismissing all claims as against the Company, finding that the Company's actions were not the direct and immediate cause of the accident and the damages suffered by December 15, 2022 the plaintiffs. All three plaintiffs filed a declaration of appeal on January 13, 2023. A damages trial will follow after the disposition of all appeals, if necessary.

- (5) Forty-eight plaintiffs (all individual claims joined in one action) sued CP, the Company, MMAC, and Harding in the Québec Superior Court claiming approximately \$5 million in damages for economic loss and pain and suffering, and asserting similar allegations as in the Class Action and the AGQ Action. The majority of the plaintiffs opted-out of the Class Action and all but two are also plaintiffs in litigation against CP, the Company, described in paragraph 7 below. This action is stayed pending determination of the consolidated claims described above.
- (6) The MMAR U.S. bankruptcy estate representative commenced an action against CP, the Company in November 2014 in the Maine Bankruptcy Court claiming that CP, the Company failed to abide by certain regulations and seeking approximately U.S. \$30 million in damages for MMAR's loss in business value according to a recent expert report filed by the bankruptcy estate. This action asserts that CP, the Company knew or ought to have known that the shipper misclassified the petroleum crude oil and therefore should have refused to transport it. Summary judgment motion was argued and taken under advisement on June 9, 2022, and decision is pending. In the meantime, the Company has filed a motion for leave to file additional arguments on the effect of the decision of the Québec Superior Court in the consolidated claims and motion is set for further case management hearing on May 23, 2023.
- (7) The class and mass tort action commenced against CP, the Company in June 2015 in Texas (on behalf of Lac-Mégantic residents and wrongful death representatives) and the wrongful death and personal injury actions commenced against CP, the Company in June 2015 in Illinois and Maine, were all transferred and consolidated in Federal District Court in Maine (the "Maine Actions"). The Maine Actions allege that CP, the Company negligently misclassified and improperly packaged the petroleum crude oil. On CP's motion, the Maine Actions were dismissed. The plaintiffs appealed the dismissal decision to the United States First Circuit Court of Appeals, which dismissed the plaintiffs' appeal on June 2, 2021. The plaintiffs further petitioned the United States First Circuit Court of Appeals for a rehearing, which was denied on September 8, 2021. On January 24, 2022, the plaintiffs further appealed to the U.S. Supreme Court on two bankruptcy procedural grounds. On May 31, 2022, the U.S. Supreme Court denied the petition, thereby rejecting the plaintiffs' appeal.
- (8) The trustee for the wrongful death trust commenced Carmack Amendment claims against CP, the Company in North Dakota Federal Court, seeking to recover approximately U.S. \$6 million for damaged rail cars and lost crude oil and reimbursement for the settlement paid by the consignor and the consignee under the Plans (alleged to be U.S. \$110 million and U.S. \$60 million, respectively). The Court issued an Order on August 6, 2020 granting and denying in parts the parties' summary judgment motions which has been reviewed and confirmed following motions by the parties for clarification and reconsideration. Final briefs of

dispositive motions for summary judgment and for reconsideration on tariff applicability were

submitted on September 30, 2022. In On January 20, 2023, the event Court granted in part the dispositive motions are denied, this action is scheduled Company's summary judgment motion by dismissing all claims for recovery of settlement payments but leaving for trial from February 27 to March 2, 2023. the determination of the value of the lost crude oil. It also dismissed the Company's motion for reconsideration on tariff applicability. The remaining issues of the value of the lost crude oil and applicability of judgement reduction provisions do not require trial, and are being briefed by the parties for the court.

At this stage of the proceedings, any potential responsibility and the quantum of potential losses cannot be determined. Nevertheless, CP, the Company denies liability and is vigorously defending these proceedings.

Court decision related to Remington Development Corporation legal claim

On October 20, 2022, the Court of King's Bench of Alberta issued a decision in a claim brought by Remington Development Corporation ("Remington") against the Company and the Province of Alberta ("Alberta") with respect to an alleged breach of contract by the Company in relation to the sale of certain properties in Calgary. In its decision, the Court found the Company had breached its contract with Remington and Alberta had induced the contract breach. The Court found the Company and Alberta liable for damages of approximately \$164 million plus interest and costs, and subject to an adjustment to the acquisition value of the property. However, the court Court has not provided any indication of how the damages, which are currently estimated to total approximately \$200 million before Remington's costs are established, should be apportioned between the Company and Alberta. As a result, at this time, the Company cannot reasonably estimate the amount of damages or range of damages, for which it is liable under the ruling of the Court and no amount has been accrued in the Company's financial statements as at September 30, 2022. Court. The Company plans to has filed an appeal of the Court's decision.

Environmental liabilities

Environmental remediation accruals, recorded on an undiscounted basis unless a reliable, determinable estimate as to an amount and timing of costs can be established, cover site-specific remediation programs.

The accruals for environmental remediation represent CP's the Company's best estimate of its probable future obligation and include both asserted and unasserted claims, without reduction for anticipated recoveries from third parties. Although the recorded accruals include CP's the Company's best estimate of all probable costs, CP's the Company's total environmental remediation costs cannot be predicted with certainty. Accruals for environmental remediation may change from time to time as new information about previously untested sites becomes known, and as environmental laws and regulations evolve and advances are made in environmental remediation technology. The accruals may also vary as the courts decide legal proceedings against outside parties responsible for contamination. These potential charges, which cannot be quantified at this time, may materially affect income in the particular period in which a charge is recognized. Costs related to existing, but as yet unknown, or future contamination will be accrued in the period in which they become probable and reasonably estimable.

15 Subsequent events

KCS Acquisition

The expense included Company assumed control of KCS on April 14, 2023 (the "Control Date") as further described in "Purchased services" Note 8 Business Acquisition. Between December 14, 2021, and other April 13, 2023, the Company recorded its investment in KCS using the equity method of accounting, see Note 9 Investment in KCS for further discussion.

Accordingly, the Company commenced consolidation of KCS on the Control Date, accounting for the acquisition as a business combination achieved in stages. The results from operations and cash flows have been consolidated prospectively from the Control Date. The Company derecognized its previously held equity method investment in KCS of approximately \$44.4 billion as of April 13, 2023 and remeasured the investment at its estimated provisional Control Date fair value of \$37.2 billion which forms part of the purchase consideration, resulting in a preliminary estimated net remeasurement loss of \$7.2 billion. In addition, a deferred tax recovery of approximately \$7.8 billion was recognized upon the derecognition of the deferred tax liability computed on the outside basis that the Company had recognized in relation to its investment in KCS while accounted for using the equity method. The preliminary estimated fair value of the previously held equity interest in KCS was determined through the use of various valuation methodologies.

The identifiable assets acquired, and liabilities and non-controlling interest assumed are measured at their estimated provisional fair values at the Control Date, with certain exceptions. The estimated provisional fair values of the tangible assets were determined using valuation techniques including, but not limited to, the market approach and the cost approach. The significant assumptions used to determine the estimated provisional fair value of the tangible assets include, but are not limited to, a selection of comparable assets and inflation. Presented with the acquired Properties are concession rights and related assets held under the terms of a concession from the Mexican government. The concession expires in June 2047 and is renewable under certain conditions for additional periods of up to 50 years.

The estimated provisional fair values of the intangible assets were determined using valuation techniques including, but not limited to, the multi-period excess earnings method, the replacement cost method, the relief from royalty method and the income approach. The significant assumptions used to determine the estimated provisional fair values of the intangible assets include,

but are not limited to, the renewal probability and term of the Mexican concession extension, discount rates, earnings before interest, tax, depreciation, and amortization ("EBITDA") margins and terminal growth rates.

The protective order issued by the STB on April 2, 2021 ("Protective Order") limited the Company's access to non-public KCS information, including but not limited to, financial forecasts, customer data, collectability of accounts receivable, valuation of materials and supplies, condition of property, plant and equipment, legal and other claims, including environmental matters, other contingent liabilities, and uncertain tax positions. As a result of the limited period of time since the Control Date the Company has presented a provisional purchase price allocation based on best estimates and information currently available. It is subject to adjustments as management completes its validation of KCS's April 14, 2023 balance sheet and finalizes its fair valuation of KCS.

The Company also has 12 months from the Control Date, the measurement period, to finalize its allocation of the Control Date fair value of KCS to the acquired assets and assumed liabilities and non-controlling interest for additional information which may become available as to facts and circumstances as of the Control Date. Measurement uncertainty may exist at the Control date, however, during the measurement period this uncertainty may be resolved due to new information being obtained about facts and circumstances that existed as of the Control Date that, if known, would have affected the amounts recognized as of that date, including, but not limited to, amounts relating to the items noted above in relation to information for which the Company did not have, or only had limited access to, prior to the Control Date as a result of the STB's Protective Order.

The following table summarizes the estimated provisional amounts expected to be recognized in respect of the identifiable assets acquired and liabilities and non-controlling interest assumed on the Control Date, as well as the preliminary estimated fair value at the Control Date of the previously held equity interest in KCS:

(in billions of Canadian dollars)

Net assets acquired:

Cash and cash equivalents	\$	0.3
Net working capital		0.3
Properties		27.7
Intangible assets		2.6
Other long-term assets		0.4
Long-term debt		(4.5)
Deferred income taxes		(6.6)
Other long-term liabilities		(0.5)
Total identifiable net assets	\$	19.7
Goodwill		18.5
	\$	38.2
Consideration:		
Fair value of previously held equity method investment	\$	37.2
Estimated fair value of non-controlling interest		1.0
Total	\$	38.2

Acquired cash and cash equivalents of \$0.3 billion will be presented as an investing activity on the Company's Interim Consolidated Statements of Income Cash Flows for the six months ended June 30, 2023.

Intangible assets estimated at \$2.6 billion consist of contracts and customer relationships with amortization periods of nine to 22 years as well as U.S. trackage rights and the KCS brand with indefinite estimated useful lives. Included in the acquired Properties are concession rights and related assets held under the terms of a concession from the Mexican government, which have estimated provisional fair values totalling \$8.3 billion.

The excess of the total consideration, over the amounts allocated to acquired assets and assumed liabilities and the non-controlling interest to be recognized, will be recognized as goodwill of \$18.5 billion. All of the goodwill will be assigned to the rail transportation segment. None of the goodwill is expected to be deductible for income tax purposes.

On a pro forma basis, if the Company had consolidated KCS starting January 1, 2022, the revenue and earnings of the combined entity would be as follows for the three and nine months ended September 30, 2022 was \$1 million March 31, 2023 and \$5 million, respectively (three and nine March 31, 2022;

(in billions of Canadian dollars)	Three Months Ended		Three Months Ended			
	March 31, 2023	KCS Historical ⁽¹⁾	Pro Forma	March 31, 2022	KCS Historical ⁽¹⁾	Pro Forma
Revenue	\$ 1.2	\$ 3.5	\$ 1.0	\$ 2.8		
Net income attributable to controlling shareholders	0.2	0.8	0.2	1.2		

⁽¹⁾ Revenues are translated into Canadian dollars at the Bank of Canada daily exchange rate for the three months ended September 30, 2021 - \$2 million March 31, 2023 and \$6 million, respectively. Provisions for environmental remediation costs three months ended March 31, 2022 with effective exchange rates of 1.3526 and \$1.2668, respectively. All remaining expenses and income are translated at the Company's Interim Consolidated Balance Sheets in "Other long-term liabilities", except Bank of Canada monthly average exchange rate for the current portion, which is recorded three months ended March 31, 2023 and three months ended March 31, 2022 with effective exchange rates of \$1.3526 and \$1.2669, respectively.

The supplemental pro forma earnings for the combined entity were adjusted for:

- the remeasurement loss of \$7.2 billion for the three months ended March 31, 2022 upon derecognition of CPRL's previously held equity method investment in "Accounts payable KCS and accrued liabilities". The total remeasurement at its Control Date fair value, and includes the reclassification of associated accumulated other comprehensive income to retained earnings;
- depreciation and amortization of differences between the historic carrying value and the estimated provisional fair value of tangible and intangible assets and investments;
- amortization of differences between the carrying amount provided and the estimated provisional fair value of debt through net interest expense;
- the elimination of intercompany transactions between the Company and KCS;
- miscellaneous amounts have been reclassified across revenue, operating expenses, and non-operating income or expense, consistent with CPKC's financial statement captions;
- the removal of equity earnings from KCS as at September 30, 2022 was \$85 million (December 31, 2021 - \$79 million). Payments are previously held equity method investment of \$0.2 billion and \$0.2 billion for the three months ended March 31, 2023 and for the three months ended March 31, 2022, respectively;
- estimated transaction costs expected to be made over 10 years through 2031, incurred by the Company; and
- income tax expense or recovery adjustments including:
 - a deferred tax recovery of \$7.8 billion for the three months ended March 31, 2022 related to the elimination of the deferred tax liability on the outside basis difference of the investment in KCS;
 - a deferred tax recovery on CPKC unitary state apportionment changes;
 - a deferred tax recovery on amortization of fair value adjustments to investments, properties, intangible assets and debt; and

a current tax recovery on transaction costs expected to be incurred by CPKC.

KCS Debt Exchange

On March 20, 2023, the Company announced the commencement of offers to exchange any and all validly tendered (and not validly withdrawn notes) and accepted notes of seven series, each previously issued by KCS (the "Old Notes") for notes issued by Canadian Pacific Railway Company ("CPRC") (the "CPRC Notes"), a wholly owned subsidiary of CPKC, and unconditionally guaranteed on an unsecured basis by CPKC. Each CPRC Note in a series contains the same interest rates, interest payment dates, maturity dates, and substantively the same redemption provisions as the corresponding series of Old Notes.

In exchange for each U.S. \$1,000 principal amount of Old Notes that was validly tendered prior to March 31, 2023 (the "Early Participation Date") and not validly withdrawn, holders of Old Notes received consideration consisting of U.S. \$1,000 principal amount of CPRC Notes and a cash amount of U.S. \$1.00. This total consideration included an early participation premium, consisting of U.S. \$30 principal amount of CPRC Notes per U.S. \$1,000 principal amount of Old Notes. In exchange for each U.S. \$1,000 principal amount of Old Notes that was validly tendered after the Early Participation Date but prior to the expiration of the exchange offers on April 17, 2023 (the "Expiration Date") and not validly withdrawn, holders of Old Notes received consideration consisting of U.S. \$970 principal amount of CPRC Notes and a cash amount of U.S. \$1.00. On April 19, 2023, the exchange offerings were settled as follows:

(in millions of U.S. dollars, except percentages)

Series of Old Notes Subject to Exchange	Amount Tendered and Consents Received	Tendered and Consenting	Percentage of Total Outstanding Principal		Series of CPRC Notes Issued by CPRC	Aggregate Principal Amount of CPRC Notes Issued
			Aggregate Principal	Amount of such Series of Old Notes		
			Amount Tendered	Tendered		
3.125 % Senior Notes due 2026	\$ 227	90.8 %	3.125 % Notes due 2026	\$ 227		
2.875 % Senior Notes due 2029	415	97.6 %	2.875 % Notes due 2029	415		
4.300 % Senior Notes due 2043	448	100.0 %	4.300 % Notes due 2043	448		
4.950 % Senior Notes due 2045	463	92.8 %	4.950 % Notes due 2045	463		
4.700 % Senior Notes due 2048	498	99.6 %	4.700 % Notes due 2048	498		
3.500 % Senior Notes due 2050	543	98.7 %	3.500 % Notes due 2050	543		
4.200 % Senior Notes due 2069	420	98.9 %	4.200 % Notes due 2069	420		
Total	\$ 3,014	97.3 %				\$ 3,014

The debt exchange is accounted for as a modification of debt as the financial terms of the CPRC Notes do not differ from the Old Notes of KCS and there is no substantial difference between the present value of cash flows under each respective set of notes. During the three months ended March 31, 2023, the Company incurred \$3 million of costs associated with the debt exchange, recorded within "Other expense (income)".

Satisfaction and Discharge of KCS 2023 Notes

On April 24, 2023, KCS irrevocably deposited U.S. \$647 million of non-callable government securities to the KCS 2023 note trustee to satisfy and discharge KCS's obligations under two series of notes that mature in 2023 and were not included within the KCS debt exchange. As a result of the satisfaction and discharge, the obligations of the Company under the indenture with respect to the KCS 2023 Notes have been terminated, except those provisions of the indenture that, by their terms, survive the satisfaction and discharge. The Company utilized existing cash resources and issuances of commercial paper to fund the satisfaction and discharge. The KCS 2023 notes will be presented on the Company's consolidated balance sheet until their respective maturity dates of May 2023 and November 2023. The balances of principal and interest outstanding as of April 24, 2023 on the two series of notes were U.S. \$445 million and U.S. \$203 million, respectively. This transaction, along with the debt exchange mentioned above, will relieve KCS from continuous disclosure obligations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to enhance a reader's understanding of the Company's results of operations and financial condition. The MD&A is provided as a supplement to, and should be read in conjunction with the Company's Interim Consolidated Financial Statements and the related notes for the three and nine months ended September 30, 2022 March 31, 2023 in Item 1. Financial Statements, other information in this report, and Item 8. Financial Statements and Supplementary Data of the Company's 2021 2022 Annual Report on Form 10-K. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars.

For purposes of this report, all references herein to "CP", "the Company", "we", "our" and "us" refer to Canadian Pacific Railway Limited ("CPRL"), CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL's subsidiaries, as the context may require.

Available Information

CP The Company makes available on or through its website www.cpr.ca www.cpkcr.com free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such reports are filed with or furnished to the Securities and Exchange Commission ("SEC"). Our website also contains charters for our Board of Directors and each of its committees, our corporate governance guidelines and our Code of Business Ethics. SEC filings made by CP the Company are also accessible through the SEC's website at www.sec.gov. The information on our website is not part of this quarterly report on Form 10-Q.

The Company has included the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") certifications regarding the Company's public disclosure required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits to this report.

KCS Acquisition

On March 15, 2023, the United States ("U.S.") Surface Transportation Board ("STB") issued a final decision approving the Canadian Pacific Railway Limited ("CPRL" or "CP") and Kansas City Southern ("KCS") joint merger application, subject to certain conditions. On March 17, 2023 CP announced its acceptance of the STB final decision and its intent to assume control of KCS on April 14, 2023 (the "Control Date"). On the Control Date, the voting trust was terminated and CP assumed control of KCS (through an indirect wholly owned subsidiary), and changed CPRL's name to Canadian Pacific Kansas City Limited ("CPKC"). CP's current President and CEO, Mr. Keith Creel serves as the CEO of the combined company. Calgary, Alberta, Canada is the global headquarters of CPKC, and Kansas City, Missouri, U.S. is designated as the U.S. headquarters. The Mexican headquarters remain in Mexico City and Monterrey. CP's legacy U.S. headquarters in Minneapolis-St. Paul, Minnesota will remain an important base of operations. Four former KCS directors will be nominated to join CPKC's expanded Board at the next annual general meeting, bringing their experience and expertise in overseeing KCS's multinational operations.

CPKC owns and operates the only freight railway spanning Canada, the U.S. and Mexico. CPKC provides rail and intermodal transportation services over a network of approximately 20,000 miles, directly serving principal business centres of Canada, the U.S. and Mexico. The transaction will deliver dramatically expanded market reach for customers served by CPKC, provides new competitive transportation service options, and supports North American economic growth.

In this Quarterly Report on Form 10-Q, unless the context indicates otherwise, references to "CPKC", "the Company", "we", "our", or "us" are to Canadian Pacific Kansas City Limited and its subsidiaries prior to April 14, 2023, at which time KCS was held as an equity investment accounted for by the equity method of accounting. On and from April 14, 2023, KCS became a consolidated subsidiary of CPKC.

We are integrating KCS into our existing single operating segment.

Specific risk factors related to the KCS acquisition are included in Item 1A. Risk Factors of this Quarterly Report on Form 10-Q.

Executive Summary

Third First Quarter of 2022 2023 Results

- **Financial performance** - In the third first quarter of 2022, CP 2023, the Company reported Diluted earnings per share ("EPS") of \$0.96, \$0.86, an increase of 37% compared to the same period of 2021. This increase was primarily due to equity earnings of Kansas City Southern ("KCS"), higher volumes as measured by revenue ton-miles ("RTMs"), and the favourable impact of changes in fuel prices, partially offset by a higher average number of shares outstanding due to shares issued related to the KCS acquisition and higher interest expense primarily due to debt issued related to the KCS acquisition. 2022, Core adjusted diluted EPS was \$1.01 \$0.90 in the third first quarter of 2022, 2023, an increase of 15% 35% compared to the same period of 2021. This increase was due 2022. The Company's commitment to the same factors discussed above for the increase in Diluted EPS, except that Core adjusted EPS excludes the impact of KCS purchase accounting, acquisition-related costs, deferred tax recovery due to Iowa state tax rate change, deferred tax recovery on the outside basis difference of the investment in KCS, as well as FX loss on debt service and lease liabilities recognized in 2021.

CP reported Net income of \$891 million in the third quarter of 2022, an increase of 89% compared to the same period of 2021. This increase was primarily due to equity earnings of KCS, higher volumes as measured by RTMs, and the favourable impact of changes in fuel prices, partially offset by higher interest expense primarily due to debt issued related to the KCS acquisition. Core adjusted income was \$945 million in the third quarter of 2022, an increase of 60% compared to the same period of 2021. This increase was due to the same factors discussed above for the increase in Net income, except that Core adjusted income excludes the impact of KCS purchase accounting, acquisition-related costs, deferred tax recovery due to Iowa state tax rate change, deferred tax recovery on the outside basis difference of the investment in KCS, as well as FX loss on debt and lease liabilities recognized in 2021.

CP reported operational efficiency produced an Operating ratio of 59.5% 63.4% in the third first quarter of 2022, 2023, a 70 750 basis point improvement compared to the same period of 2021. 2022 and Adjusted operating ratio was 58.7% of 62.9%, a 70 690 basis point improvement compared to the same period of 2021. These improvements were primarily due to higher volumes as measured by RTMs and higher freight rates, partially offset cost inflation.

2022, Core adjusted diluted EPS Core adjusted income, and Adjusted operating ratio are defined and reconciled in Non-GAAP Measures and discussed further in Results of Operations of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

- **Total revenues** - Total revenues increased by 19% 23% in the third first quarter of 2022, 2023 to \$2,312 million \$2,266 million compared to the same period of 2021, 2022. This increase was primarily due to increased freight revenue per RTM and higher volumes as measured by RTMs. RTMs and increased freight revenue per RTM.

Recent Developments

- **Operating performance** - CP's average train weight increased On March 20, 2023, the Company announced the commencement of offers to exchange any and all validly tendered (and not validly withdrawn notes) and accepted notes of seven series, each previously issued by 3% KCS (the "Old Notes") for notes to 10,247 tons be issued by Canadian Pacific Railway Company ("CPRC") (the "CPRC" Notes), a wholly-owned subsidiary of CPKC, and average train length increased to be unconditionally guaranteed on an unsecured basis by 4% to 8,578 feet, compared to CPKC. The exchange offers expired on April 17, 2023. On April 19, 2023, U.S. \$3,014 million of Old Notes of such seven series were tendered and accepted in exchange for U.S. \$3,014 million of CPRC Notes in seven corresponding series. Each CPRC Note in a series contains the same period in 2021. These increases were a result interest rates, interest payment dates, maturity dates, and substantively the same redemption provisions as the corresponding series of improvements in operating plan efficiency Old Notes. For further details, refer to Note 15 of Item 1. Financial Statements, and continued improvements in bulk train efficiency due to moving heavier and longer Potash trains. These

metrics are discussed further in Performance Indicators Supplemental Guarantor Financial Information of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Operation.

Recent Developments On April 24, 2023, KCS irrevocably deposited U.S. \$647 million of non-callable government securities to the KCS 2023 note trustee to satisfy and discharge KCS's obligations under two series of notes that mature in 2023 and were not included within the KCS debt exchange. The KCS 2023 notes will be presented on the Company's Consolidated Balance Sheet until their respective maturity dates of May 2023 and November 2023. This transaction, along with the debt exchange offers mentioned above, will relieve KCS from continuous disclosure obligations.

- On March 16, 2022 April 14, 2023, CP issued a 72-hour notice CPKC announced the appointment of David Garza-Santos, Ambassador Antonio Garza (Ret.), Henry Maier and Janet Kennedy, each former directors of KCS, to the Teamsters Canada Rail Conference ("TCRC") - Train & Engine, Board of its plan Directors of CPRC, effective immediately. Mr. Garza-Santos, Mr. Garza,

Mr. Maier and Ms. Kennedy are expected to lock-out employees be nominated to stand for election to the board of CPKC at 00:01 Eastern Time CPKC's 2023 annual meeting of shareholders to be held on March 20, 2022 if the TCRC leadership and the Company were unable to come to a negotiated settlement or agree to binding arbitration. The TCRC represents approximately 3,000 locomotive engineers, conductors, and train and yard workers across Canada. On March 19, 2022, while the Company was still engaged in ongoing negotiations facilitated by federal mediators, the TCRC withdrew its services in the final hours before the deadline for a legal strike or lockout to potentially occur. On March 22, 2022, CP reached an agreement with the TCRC Negotiating Committee to enter into binding arbitration. This agreement enabled CP employees to return to work effective noon March 22, 2022 local time to resume our essential services for our customers and the North American supply chain. June 15, 2023.

The work stoppage resulted in lower volumes during the first quarter. Once the TCRC members returned to work on March 22, 2022, the Company quickly re-established service.

On August 15, 2022, CP entered into a new two-year collective agreement with the TCRC following binding arbitration. The new agreement includes a 3.5 percent wage increase in 2022 and 2023 and increased benefits. Under the arbitration decision, the TCRC will also join a CP pension improvement account. The new collective agreement is effective from January 1, 2022 to December 31, 2023.

Prior Developments

- On July 20, 2022 March 17, 2023, KCS and its affiliate Kansas City Southern de México, S.A. de C.V. ("KCSM") the Company announced an agreement extending the concession exclusivity rights granted to KCSM for an additional 10 years. executive leadership team that will lead CPKC.

KCSM reached an agreement with the Mexican Ministry of Infrastructure, Communications and Transportation ("SICT") to fund a new investment in the Celaya-NBA Line Railway Bypass and other infrastructure. As part of the agreement, the SICT has authorized the amendment of KCSM's Concession Title effective July 14, 2022, to extend the exclusivity rights granted to KCSM for an additional period of 10 years. Under this amendment, KCSM's exclusivity will now expire in 2037.

The U.S. Surface Transportation Board's ("STB") review of CP's proposed control of KCS is expected to be completed in the first quarter of 2023. Prior to obtaining STB control approval, KCS's management and Board of Directors will continue to steward KCS while it is in trust, pursuing its independent business plan and growth strategies.

Specific risk factors related to the KCS acquisition and pending KCS business combination are provided in Part I, Item 1A. Risk Factors of the Company's 2021 Annual Report on Form 10-K.

- On April 27, 2022, at the Company's Annual and Special Meeting of Shareholders, all nine director nominees were elected.

Performance Indicators

The following table lists the key measures of the Company's operating performance:

	For the three months ended March 31		
	2023	2022	% Change
Operations Performance			
Gross ton-miles ("GTMs") (millions)	67,449	62,182	8
Train miles (thousands)	7,257	6,893	5
Fuel efficiency (U.S. gallons of locomotive fuel consumed / 1,000 GTMs)	0.973	0.994	(2)
Total employees (average)	12,935	11,767	10

	For the three months ended September 30			For the nine months ended September 30		
	2022	2021	% Change	2022	2021	% Change
Operations Performance						
Gross ton-miles ("GTMs") (millions)	68,482	64,665	6	199,512	207,347	(4)
Train miles (thousands)	7,237	6,999	3	21,390	22,406	(5)
Average train weight - excluding local traffic (tons)	10,247	9,973	3	10,093	9,953	1
Average train length - excluding local traffic (feet)	8,578	8,285	4	8,387	8,192	2
Average terminal dwell (hours)	7.8	7.2	8	8.0	7.1	13
Average train speed (miles per hour, or "mph")	21.5	21.7	(1)	21.5	21.4	—
Locomotive productivity (GTMs / operating horsepower)	202	203	—	196	204	(4)
Fuel efficiency (U.S. gallons of locomotive fuel consumed / 1,000 GTMs)	0.927	0.907	2	0.949	0.928	2
Total Employees and Workforce						
Total employees (average)	13,004	12,485	4	12,427	12,411	—
Total employees (end of period)	13,087	12,262	7	13,087	12,262	7
Workforce (end of period)	13,144	12,301	7	13,144	12,301	7
Safety Indicators⁽¹⁾						
FRA personal injuries per 200,000 employee-hours	0.86	0.98	(12)	0.96	0.98	(2)
FRA train accidents per million train-miles	0.37	1.54	(76)	0.84	1.13	(26)

■ Federal Railroad Administration ("FRA") personal injuries per 200,000 employee-hours for the three and nine months ended September 30, 2021, previously reported as 0.97 and 0.97, were restated to 0.98 and 0.98, respectively in this report. FRA train accidents per million train-miles for the nine months ended September 30, 2021, previously reported as 1.09, was restated to 1.13 in this report. These restatements reflect new information available within specified periods stipulated by the FRA but that exceed for key measures of the Company's financial reporting timeline.

Operations Performance revenue performance, refer to *Operating Revenues of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations*.

These key measures are used by management as comparisons to historical operating results and in the planning process to facilitate decisions that continue to drive further productivity improvements in the Company's operations. Results of these key measures reflect how effective CP's the Company's management is at controlling costs and executing the Company's operating plan and strategy. Continued monitoring of these key measures ensures that enables the Company can to take appropriate actions to ensure the delivery of deliver superior service and be able to grow its business at low incremental cost.

Three months ended September 30, 2022 March 31, 2023 compared to the three months ended September 30, 2021 March 31, 2022

■ A **GTM** is defined as the movement of one ton of train weight over one mile. GTMs are calculated by multiplying total train weight by the distance the train moved. Total train weight comprises the weight of the freight cars, their contents, and any inactive locomotives. An increase in GTMs indicates additional workload. GTMs increased by 6% 8% in the third first quarter of 2022 2023 compared to the same period of 2021 2022. This increase was mainly attributable to primarily driven by higher volumes of Canadian grain, Intermodal, Potash Energy, chemicals and frac sand, plastics, Metals, minerals and consumer products and Potash. This increase was partially offset by lower volumes of Coal and Canadian U.S. grain.

■ Train miles are defined as the sum of the distance moved by all trains operated on the network. Train miles provide a measure of the productive utilization of our network. A smaller increase in train miles relative to increases in volumes, as measured by RTMs, and/or workload, as measured by GTMs, indicate improved train productivity. Train miles increased by 3% 5% in the third first quarter of 2022 2023 compared to the same period of 2021 2022. This increase reflects the impact of a 6% was driven by an 8% increase in workload (GTMs), partially offset by a 3% increase in average train weights, GTMs.

■ Average train weight is defined as the average gross weight of CP trains, both loaded and empty. This excludes trains in short-haul service, work trains used to move CP's track equipment and materials, and the haulage of other railways' trains on CP's network. An increase in average train weight indicates improved asset utilization and may also be the result of moving heavier commodities. Average train weight increased by 3% in the third quarter of 2022 compared to the same period of 2021. This increase was a result of improvements in operating plan efficiency and proportionally higher volumes of Potash, which is a heavier commodity.

■ Average train length is defined as the average total length of CP trains, both loaded and empty. This includes all cars and locomotives on the train and is calculated as the sum of each car or locomotive's length multiplied by the distance travelled, divided by train miles. This excludes trains in short-haul service, work trains used to move CP's track equipment and materials, and the haulage of other railways' trains on CP's network. An increase in average train length indicates improved asset utilization. Average train length increased by 4% in the third quarter of 2022 compared to the same period of 2021. This increase was a result of improvements in operating plan efficiency and higher volumes of Intermodal and Potash, which move in longer trains.

■ Average terminal dwell is defined as the average time a freight car resides within terminal boundaries expressed in hours. The timing starts with a train arriving at the terminal, a customer releasing the car to the Company, or a car arriving at interchange from another railway. The timing ends when the train leaves, a customer receives the car from CP, or the freight car is transferred to another railway. Freight cars are excluded if they are being stored at the terminal or used in track repairs. A decrease in average terminal dwell indicates improved terminal performance resulting in faster cycle times and improved railcar utilization. Average terminal dwell increased by 8% in the third quarter of 2022 compared to the same period of 2021, primarily as a result of moving proportionally lower volumes of bulk commodities, which require less processing times in yards.

■ Average train speed is defined as a measure of the line-haul movement from origin to destination including terminal dwell hours. It is calculated by dividing the total train miles travelled by the total train hours operated. This calculation does not include delay time related to customers or foreign railroads and excludes the time and distance travelled by: i) trains used in or around CP's yards; ii) passenger trains; and iii) trains used for repairing track. An increase in average train speed indicates improved on-time performance resulting in improved asset utilization. Average train speed decreased by 1% in the third quarter of 2022 compared to the same period of 2021. This decrease is primarily as a result of increased track and roadway programs.

■ Locomotive productivity is defined as the daily average GTMs divided by daily average operating horsepower. Operating horsepower excludes units offline, tied up or in storage, or in use on other railways, and includes foreign units online. An increase in locomotive productivity indicates more efficient locomotive utilization and may also be the result of moving heavier commodities. Locomotive productivity was flat in the third quarter of 2022 compared to the same period of 2021.

■ Fuel efficiency is defined as U.S. gallons of locomotive fuel consumed per 1,000 GTMs. Fuel consumed includes gallons from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities. An improvement in fuel efficiency indicates operational cost savings and CP's the Company's commitment to corporate sustainability through a reduction

of greenhouse gas emissions intensity. Fuel efficiency decreased improved by 2% in the third first quarter of 2022 2023 compared to the same period of 2021 2022. This decrease increase in efficiency was due to higher volumes of Intermodal, which has lower horsepower utilization.

Nine months ended September 30, 2022 compared to the nine months ended September 30, 2021

■ GTMs decreased by 4% for the first nine months of 2022 compared to the same period of 2021. This decrease was mainly attributable to lower volumes of Canadian grain, Coal, running longer and Energy, chemicals and plastics. This decrease was partially offset by higher volumes of U.S. grain, Intermodal, Potash, and frac sand.

- **Train miles** decreased by 5% for the first nine months of 2022 compared to the same period of 2021. This decrease reflected the impact of a 4% decrease in workload (GTMs) and a 1% increase in average train weights.
- **Average train weight** increased by 1% for the first nine months of 2022 compared to the same period of 2021. This increase was heavier trains as a result of improvements in the operating plan efficiency and moving longer and heavier Potash trains. This increase was partially offset by moving lower volumes of Canadian grain and Coal, which are heavier commodities.
- **Average train length** increased by 2% for the first nine months of 2022 from the same period of 2021. This increase was primarily due to improvements in operating plan efficiency and higher volumes of Intermodal and Potash, which move in longer trains.
- **Average terminal dwell** increased by 13% in the first nine months of 2022 compared to the same period of 2021. This increase was primarily as a result of proportionally lower volumes of bulk commodities, which require less processing time in yards, and harsher winter operating conditions in the first quarter of 2022.
- **Average train speed** was flat in the first nine months of 2022 compared to the same period of 2021.
- **Locomotive productivity** decreased by 4% in the first nine months of 2022 compared to the same period of 2021, as a result of harsher winter operating conditions in the first quarter of 2022.
- **Fuel efficiency** decreased by 2% in the first nine months of 2022 compared to the same period of 2021. This decrease in efficiency was due to lower locomotive productivity and harsher winter operating conditions in the first quarter of 2022, and lower volumes of Canadian grain, which has higher horsepower utilization.

Total Employees and Workforce plan.

An **employee** is defined as an individual currently engaged in full-time, part-time, or seasonal employment with CP while **workforce** is defined as total employees plus contractors and consultants. The Company monitors employment and workforce levels in order to efficiently meet service and strategic requirements. The number of employees is a key driver to total compensation and benefits costs.

The average number of total employees increased by 4% was 12,935 for the three months ended September 30, 2022 and was flat for the nine months ended March 31, 2023, an increase of 1,168 or 10%, compared to the same periods of 2021. The total number of employees and total workforce as at September 30, 2022 increased 7% compared to September 30, 2021. The increase in average number of employees 11,767 for the three months ended September 30, 2022, and the increase in total employees and workforce as at September 30, 2022 were due to increased workload as measured in GTMs.

Safety Indicators

Safety is a key priority and core strategy for CP's management, employees, and Board of Directors. Personal injuries and train accidents are indicators of the effectiveness of the Company's safety systems, and are used by management to evaluate and, as necessary, alter the Company's safety systems, procedures, and protocols. Each measure follows U.S. FRA reporting guidelines, which can result in restatement after initial publication to reflect new information available within specified periods stipulated by the FRA but that exceed the Company's financial reporting timeline.

The **FRA personal injuries per 200,000 employee-hours** frequency is the number of personal injuries, multiplied by 200,000 and divided by total employee hours. Personal injuries are defined as injuries that require employees to lose time away from work, modify their normal duties or obtain medical treatment beyond minor first aid. FRA employee-hours are the total hours worked, excluding vacation and sick time, by all employees, excluding contractors. The FRA personal injuries per 200,000 employee-hours frequency for CP was 0.86 in the third quarter of 2022, a decrease from 0.98 in the same period of 2021. For the first nine months of 2022, the FRA personal injury rate per 200,000 employee-hours for CP was 0.96, a decrease from 0.98 in the same period of 2021. to support existing volume growth and anticipated future volume growth.

The **FRA train accidents per million train-miles** frequency is the number of train accidents, multiplied by 1,000,000 and divided by total train miles. Train accidents included in this metric meet or exceed the FRA reporting threshold of U.S. \$11,300 in 2022 and U.S. \$11,200 in damage for 2021. The FRA train accidents per million train-miles was 0.37 in the third quarter of 2022, a decrease from 1.54 in the same period of 2021. For the first nine months of 2022, the FRA train accidents per million train-miles was 0.84, a decrease from 1.13 in the same period of 2021.

Financial Highlights

The following table presents selected financial data related to the Company's financial results as of, and for the three and nine months ended, September 30, 2022, March 31, 2023 and the comparative figures in 2021, 2022. The financial highlights should be read in conjunction with Item 1. Financial Statements and this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

	For the three months ended September 30		For the nine months ended September 30		For the three months ended March 31			
	(in millions, except per share data, percentages and ratios)	2022	2021	2022	2021	(in millions, except per share data, percentages and ratios)	2023	2022
Financial Performance and Liquidity	Financial Performance and Liquidity					Financial Performance and Liquidity		

Total revenues	Total revenues	\$ 2,312	\$ 1,942	\$ 6,352	\$ 5,955	Total revenues	\$ 2,266	\$ 1,838
Operating income	Operating income	937	774	2,340	2,374	Operating income	829	535
Adjusted operating income ⁽¹⁾	Adjusted operating income ⁽¹⁾	955	789	2,397	2,521	Adjusted operating income ⁽¹⁾	841	555
Net income	Net income	891	472	2,246	2,320	Net income	800	590
Core adjusted income ⁽¹⁾	Core adjusted income ⁽¹⁾	945	592	2,455	1,881	Core adjusted income ⁽¹⁾	840	628
Basic EPS	Basic EPS	0.96	0.71	2.42	3.48	Basic EPS	0.86	0.63
Diluted EPS	Diluted EPS	0.96	0.70	2.41	3.46	Diluted EPS	0.86	0.63
Core adjusted diluted EPS ⁽¹⁾	Core adjusted diluted EPS ⁽¹⁾	1.01	0.88	2.63	2.81	Core adjusted diluted EPS ⁽¹⁾	0.90	0.67
Dividends declared per share	Dividends declared per share	0.190	0.190	0.570	0.570	Dividends declared per share	0.190	0.190
Cash provided by operating activities	Cash provided by operating activities	1,102	548	2,422	3,084	Cash provided by operating activities	881	613
Cash used in investing activities	Cash used in investing activities	(410)	(2,129)	(978)	(2,820)	Cash used in investing activities	(401)	(206)
Cash (used in) provided by financing activities		(721)	902	(1,409)	(194)			
Cash used in financing activities						Cash used in financing activities	(645)	(391)
Free cash ⁽¹⁾	Free cash ⁽¹⁾	721	203	1,514	1,245	Free cash ⁽¹⁾	495	424
Financial Position	Financial Position	As at September 30, 2022			As at December 31, 2021			
Total assets	Total assets	\$ 73,435	\$	68,177	Total assets	\$ 73,502	\$ 73,495	
Total long-term debt, including current portion	Total long-term debt, including current portion	20,575		20,127	Total long-term debt, including current portion	19,162	19,651	
Total shareholders' equity	Total shareholders' equity	37,814		33,829	Total shareholders' equity	39,520	38,886	
		For the three months ended September 30		For the nine months ended September 30			As at December 31, 2022	
Financial Ratios	Financial Ratios	2022	2021	2022	2021	Financial Ratios	As at March 31, 2023	2022
Operating ratio ⁽²⁾	Operating ratio ⁽²⁾	59.5 %	60.2 %	63.2 %	60.1 %	Operating ratio ⁽²⁾	63.4 %	70.9 %
Adjusted operating ratio ⁽¹⁾	Adjusted operating ratio ⁽¹⁾	58.7 %	59.4 %	62.3 %	57.7 %	Adjusted operating ratio ⁽¹⁾	62.9 %	69.8 %
		For the twelve months ended September 30					For the twelve months ended March 31	
		2022		2021			2023	2022
Return on average shareholders' equity ⁽³⁾	Return on average shareholders' equity ⁽³⁾	11.8 %		36.6 %		Return on average shareholders' equity ⁽³⁾	10.1 %	13.6 %
Adjusted return on invested capital ("Adjusted ROIC") ⁽¹⁾	Adjusted return on invested capital ("Adjusted ROIC") ⁽¹⁾	8.9 %		15.9 %		Adjusted return on invested capital ("Adjusted ROIC") ⁽¹⁾	7.3 %	8.2 %

Long-term debt to Net income ratio ⁽⁴⁾	Long-term debt to Net income ratio ⁽⁴⁾	7.4	3.2	Long-term debt to Net income ratio ⁽⁴⁾	5.1	6.9
Adjusted net debt to adjusted EBITDA ratio ⁽¹⁾	Adjusted net debt to adjusted EBITDA ratio ⁽¹⁾	4.3	2.4	Adjusted net debt to adjusted EBITDA ratio ⁽¹⁾	3.5	4.7
Pro-forma adjusted Net Debt to Pro-forma adjusted EBITDA Ratio ⁽¹⁾		4.1	N/A			
Combined adjusted net debt to Combined adjusted EBITDA Ratio ⁽¹⁾				Combined adjusted net debt to Combined adjusted EBITDA Ratio ⁽¹⁾	3.6	4.1

⁽¹⁾ These measures have no standardized meanings prescribed by accounting principles generally accepted in the United States of America ("GAAP") and, therefore, may not be comparable to similar measures presented by other companies. These measures are defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

⁽²⁾ Operating ratio is defined as operating expenses divided by revenues, further discussed in Results of Operations of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

⁽³⁾ Return on average shareholders' equity is defined as Net income divided by average shareholders' equity, averaged between the beginning and ending balance over a **trailing twelve month period**, further discussed in Results of Operations of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

⁽⁴⁾ Long-term debt to Net income ratio is defined as long-term debt, including long-term debt maturing within one year, divided by Net income, further discussed in Liquidity and Capital Resources of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of **Operations**.

Results of Operations

Three months ended September 30, 2022 compared Except as expressly stated, the financial condition and results of operations discussed throughout Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report on Form 10-Q are those of CPKC and its consolidated subsidiaries prior to the **three months ended September 30, 2021** KCS acquisition.

Income

Operating Revenues

Operating income The Company's revenues are primarily derived from transporting freight. Changes in freight volumes generally contribute to corresponding changes in freight revenues and certain variable expenses, such as fuel, equipment rents, and crew costs. Non-freight revenue is generated from leasing of certain assets; interline switching fees; and other arrangements, including contracts with passenger service operators and logistical services.

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions) ⁽¹⁾	\$ 2,217	\$ 1,796	\$ 421	23
Non-freight revenues (in millions)	49	42	7	17
Total revenues (in millions)	\$ 2,266	\$ 1,838	\$ 428	23
Carloads (in thousands)	679.5	625.7	53.8	9
Revenue ton-miles (in millions)	37,549	33,693	3,856	11
Freight revenue per carload (in dollars)	\$ 3,263	\$ 2,870	\$ 393	14
Freight revenue per revenue ton-mile (in cents)	5.90	5.33	0.57	11

⁽¹⁾ Freight revenues include fuel surcharge revenues of \$312 million in 2023 and \$189 million in 2022. Fuel surcharge revenues include recoveries of carbon taxes, levies, and obligations under cap-and-trade programs.

Total Revenues

The increase in Freight revenues was **\$937 million** primarily due to increased freight revenue per RTM and higher volumes as measured by RTMs. The increase in Non-freight revenues was primarily due to higher interline switching fees, higher leasing revenue, higher revenue from logistical services, and higher revenue from passenger service operators.

RTMs

RTMs are defined as the movement of one revenue-producing ton of freight over a distance of one mile. RTMs measure the relative weight and distance of rail freight moved by the Company. The increase in RTMs was mainly attributable to higher volumes of Canadian grain, Intermodal, Metals, minerals and consumer products, Energy, chemicals and plastics, and Potash. This increase was partially offset by lower volumes of U.S. grain.

Freight revenue per RTM

Freight revenue per RTM is defined as freight revenue per revenue-producing ton of freight over a distance of one mile. This is an indicator of yield. The increase in freight revenue per RTM was primarily due to higher fuel surcharge revenue as a result of higher fuel prices of \$101 million, the favourable impact of the change in FX of \$65 million, and higher freight rates.

Fuel Cost Adjustment Program

Freight revenues include fuel surcharge revenues associated with the Company's fuel cost adjustment program, which is designed to respond to fluctuations in fuel prices and help reduce exposure to changing fuel prices. The surcharge is applied to shippers through tariffs and by contract, within agreed-upon guidelines. This program includes recoveries of carbon taxes, levies, and obligations under cap-and-trade programs. Freight revenues included fuel surcharge revenues of \$312 million in the third quarter of 2022, an increase of \$163 million or 65%, from \$189 million in the same period of 2021. This increase was primarily due to higher fuel prices, higher volumes, and the favourable impact of the change in FX.

Lines of Business

Grain

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 515	\$ 360	\$ 155	43
Carloads (in thousands)	104.8	83.7	21.1	25
Revenue ton-miles (in millions)	10,014	7,974	2,040	26
Freight revenue per carload (in dollars)	\$ 4,914	\$ 4,301	\$ 613	14
Freight revenue per revenue ton-mile (in cents)	5.14	4.51	0.63	14

The increase in Grain revenue was primarily due to higher volumes of Canadian grain to Vancouver, British Columbia ("B.C.") and eastern Canada due to prior year drought conditions that impacted the 2021-2022 crop size, and increased freight revenue per RTM. This increase was partially offset by moving lower volumes of U.S. corn from the U.S. Midwest to western Canada primarily due to an improved Canadian harvest for the 2022-2023 crop year. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, the favourable impact of the change in FX, and higher freight rates.

Coal

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 155	\$ 139	\$ 16	12
Carloads (in thousands)	72.4	69.9	2.5	4
Revenue ton-miles (in millions)	3,925	3,997	(72)	(2)
Freight revenue per carload (in dollars)	\$ 2,141	\$ 1,989	\$ 152	8
Freight revenue per revenue ton-mile (in cents)	3.95	3.48	0.47	14

The increase in Coal revenue was primarily due to increased freight revenue per RTM, higher volumes of Canadian coal to Kamloops, B.C., and higher volumes of U.S. coal, partially offset by lower volumes of Canadian coal to Vancouver and Thunder Bay, Ontario. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher freight rates, and the favourable impact of the change in FX. RTMs decreased while carloads increased due to moving lower volumes of Canadian coal to Vancouver and Thunder Bay, which have longer lengths of haul, and higher volumes of Canadian coal to Kamloops, which has a shorter length of haul.

Potash

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 132	\$ 104	\$ 28	27
Carloads (in thousands)	36.9	32.1	4.8	15
Revenue ton-miles (in millions)	4,010	3,652	358	10
Freight revenue per carload (in dollars)	\$ 3,577	\$ 3,240	\$ 337	10
Freight revenue per revenue ton-mile (in cents)	3.29	2.85	0.44	15

The increase in Potash revenue was primarily due to increased freight revenue per RTM, higher volumes of export potash to the U.S. Pacific Northwest and Vancouver, and higher volumes of domestic potash to the U.S. Midwest. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, the favourable impact of the change in FX, and higher freight rates. Carloads increased more than RTMs due to moving higher volumes of export potash to the U.S. Pacific Northwest, which has a shorter length of haul.

Fertilizers and Sulphur

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 96	\$ 78	\$ 18	23
Carloads (in thousands)	17.0	15.9	1.1	7
Revenue ton-miles (in millions)	1,340	1,219	121	10
Freight revenue per carload (in dollars)	\$ 5,647	\$ 4,906	\$ 741	15
Freight revenue per revenue ton-mile (in cents)	7.16	6.40	0.76	12

The increase in Fertilizers and sulphur revenue was primarily due to increased freight revenue per RTM and higher volumes of dry and wet fertilizers. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, the favourable impact of the change in FX, and higher freight rates.

Forest Products

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 103	\$ 86	\$ 17	20
Carloads (in thousands)	17.7	17.4	0.3	2
Revenue ton-miles (in millions)	1,378	1,361	17	1
Freight revenue per carload (in dollars)	\$ 5,819	\$ 4,943	\$ 876	18
Freight revenue per revenue ton-mile (in cents)	7.47	6.32	1.15	18

The increase in Forest products revenue was primarily due to increased freight revenue per RTM and higher volumes of paper products primarily from Vancouver to Texas, via interchange in Kansas City, Missouri, partially offset by lower volumes of lumber and panel products. Freight revenue per RTM increased due to the favourable impact of the change in FX, higher freight rates, and higher fuel surcharge revenue as a result of higher fuel prices.

Energy, Chemicals and Plastics

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 366	\$ 310	\$ 56	18
Carloads (in thousands)	75.2	72.6	2.6	4
Revenue ton-miles (in millions)	6,207	5,907	300	5
Freight revenue per carload (in dollars)	\$ 4,867	\$ 4,270	\$ 597	14
Freight revenue per revenue ton-mile (in cents)	5.90	5.25	0.65	12

The increase in Energy, chemicals and plastics revenue was primarily due to increased freight revenue per RTM, higher volumes of plastics to Chicago, Illinois, as well as higher volumes of diluents to Alberta and ethylene glycol to Chicago, partially offset by lower volumes of crude and liquified petroleum gas. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, the favourable impact of the change in FX, and higher freight rates.

Metals, Minerals and Consumer Products

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 233	\$ 181	\$ 52	29
Carloads (in thousands)	61.8	54.6	7.2	13
Revenue ton-miles (in millions)	2,911	2,519	392	16
Freight revenue per carload (in dollars)	\$ 3,770	\$ 3,315	\$ 455	14
Freight revenue per revenue ton-mile (in cents)	8.00	7.19	0.81	11

The increase in Metals, minerals and consumer products revenue was primarily due to higher volumes of frac sand to the Bakken and Marcellus shale formations, higher volumes of steel, and increased freight revenue per RTM. Freight revenue per RTM increased due to higher freight rates, the favourable impact of the change in FX, and higher fuel surcharge revenue as a result of higher fuel prices.

Automotive

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 125	\$ 91	\$ 34	37
Carloads (in thousands)	28.7	24.1	4.6	19
Revenue ton-miles (in millions)	474	403	71	18
Freight revenue per carload (in dollars)	\$ 4,355	\$ 3,776	\$ 579	15
Freight revenue per revenue ton-mile (in cents)	26.37	22.58	3.79	17

The increase in Automotive revenue was primarily due to higher volumes as a result of the prior year global semiconductor chip shortage, higher volumes from Kansas City to various destinations in Canada, and increased freight revenue per RTM. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher freight rates, and the favourable impact of the change in FX.

Intermodal

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 492	\$ 447	\$ 45	10
Carloads (in thousands)	265.0	255.4	9.6	4
Revenue ton-miles (in millions)	7,290	6,661	629	9
Freight revenue per carload (in dollars)	\$ 1,857	\$ 1,750	\$ 107	6
Freight revenue per revenue ton-mile (in cents)	6.75	6.71	0.04	1

The increase in Intermodal revenue was primarily due to higher international intermodal volumes primarily to and from the Port of Vancouver, the Port of Montreal, and the Port of Saint John, including onboarding a new international intermodal customer, higher domestic intermodal wholesale volumes, and increased freight revenue per RTM. This increase was partially offset by lower domestic intermodal cross-border volumes. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher freight rates, and the favourable impact of the change in FX, partially offset by lower intermodal ancillary revenue. RTMs increased more than carloads due to moving higher international intermodal volumes to and from the Port of Vancouver, which has a longer length of haul.

Operating Expenses

For the three months ended March 31 (in millions of Canadian dollars)	2023	2022	Total Change	% Change
Compensation and benefits	\$ 438	\$ 413	\$ 25	6
Fuel	326	273	53	19
Materials	72	62	10	16
Equipment rents	30	35	(5)	(14)
Depreciation and amortization	225	210	15	7
Purchased services and other	346	310	36	12
Total operating expenses	\$ 1,437	\$ 1,303	\$ 134	10

Operating expenses were \$1,437 million in the first quarter of 2023, an increase of \$134 million, or 10%, from \$1,303 million in the same period of 2022. This increase was primarily due to:

- higher freight volumes as measured by RTMs; volume variable expenses;
- the favourable impact of changes in fuel prices of \$84 million; cost inflation;
- higher freight rates; the unfavourable impact of the change in FX of \$38 million; and
- lower casualty costs; the unfavourable impact of higher fuel prices of \$17 million.

This increase was partially offset by lower crude liquidated damages, including customer volume commitments, due to defined pension current service costs of \$19 million and a lower stock based compensation expense of \$12 million, primarily driven by a lower increase in share price compared to the completion of customer contracts and cost inflation; prior period.

Adjusted operating income

Compensation and Benefits

Compensation and benefits expense includes employee wages, salaries, fringe benefits, and stock-based compensation. Compensation and benefits expense was \$955 million \$438 million in the third first quarter of 2022, 2023, an increase of \$166 million, \$25 million, or 21% 6%, from \$789 million \$413 million in the same period of 2021. This increase was due to the same factors discussed above for the increase in Operating income.

Net income was \$891 million in the third quarter of 2022, an increase of \$419 million, or 89%, from \$472 million in the same period of 2021. 2022. This increase was primarily due to:

- equity earnings; the impact of KCS of \$221 million; wage and benefit inflation;
- higher operating income volume variable expenses as a result of \$163 million; a increase in workload as measured by GTMs;
- lower acquisition-related costs associated with the KCS acquisition of \$83 million in Other expense; increased new hire training costs; and
- no the unfavourable impact of the change in FX translation loss on U.S. dollar-denominated debt and lease liabilities compared to \$46 million recognized in 2021, of \$7 million.

This increase was partially offset by higher interest lower defined benefit pension current service costs of \$19 million and a decrease in stock-based compensation expense of \$12 million, primarily due to debt issued related driven by a lower increase in share price compared to the KCS acquisition and higher income tax expense as a result of higher taxable earnings; prior period.

Core adjusted income

Fuel

Fuel expense consists mainly of fuel used by locomotives and includes provincial, state, and federal fuel taxes. Fuel expense was \$945 million \$326 million in the third first quarter of 2022, 2023, an increase of \$353 million, \$53 million, or 60% 19%, from \$592 million \$273 million in the same period of 2021, 2022. This increase was primarily due to equity earnings of KCS, excluding:

- an increase in workload, as measured by GTMs;
- the unfavourable impact of KCS purchase accounting higher fuel prices of \$42 million \$17 million; and acquisition-related costs
- the unfavourable impact of \$12 million and higher Adjusted operating income the change in FX of \$166 million, \$15 million;

This increase was partially offset by higher interest expense primarily an improvement in fuel efficiency of 2% due to debt issued related to running longer and heavier trains as a result of improvements in the KCS acquisition and higher income tax expense due to higher taxable earnings; operating plan.

Diluted Earnings per Share

Materials

Diluted EPS Materials expense includes the cost of materials used for the maintenance of track, locomotives, freight cars, and buildings, as well as software sustainment. Materials expense was \$0.96 million in the third quarter of 2022, an increase of \$0.26 million, or 37%, from \$0.70 million in the same period of 2021. This increase was primarily due to higher Net income, partially offset by a higher average number of outstanding shares due to shares issued for the KCS acquisition, cost inflation and increased spending on track maintenance.

Core adjusted diluted EPS

Equipment Rents

Equipment rents expense includes the cost associated with using other companies' freight cars, intermodal equipment, and locomotives, net of rental income received from other railways for the use of the Company's equipment. Equipment rents expense was \$1.01 million in the third quarter of 2022, an increase of \$0.13 million, or 15%, from \$0.88 million in the same period of 2021. This increase was primarily due to higher Core adjusted income, increased receipts from other railways for the use of the Company's locomotives partially offset by a higher average number of outstanding shares due to shares issued for pooled freight cars by the KCS acquisition, Company.

Operating Ratio

Depreciation and Amortization

The Operating ratio provides Depreciation and amortization expense represents the percentage charge associated with the use of revenues used to operate the railway. A lower percentage normally indicates higher efficiency track and roadway, buildings, rolling stock, information systems, and other depreciable assets. Depreciation and amortization expense was \$225 million in the operation of the railway. The Company's Operating ratio was 59.5% in the third quarter of 2022, a 70 basis point improvement in 2023, an increase of \$15 million, or 7%, from 60.2% in 2021. This improvement increase was primarily due to a higher depreciable asset base and the unfavourable impact of change in FX of \$4 million.

Purchased Services and Other

For the three months ended March 31
(in millions of Canadian dollars)

	2023	2022	Total Change	% Change
Support and facilities	\$ 94	\$ 84	10	12
Track and operations	81	73	8	12
Intermodal	57	51	6	11
Equipment	31	29	2	7
Casualty	30	21	9	43
Property taxes	36	35	1	3
Other	18	27	(9)	(34)
Land sales	(1)	(10)	9	(93)
Total Purchased services and other	\$ 346	\$ 310	36	12

Purchased services and other expense encompasses a wide range of third-party costs, including expenses for joint facilities, personal injuries and damage claims, environmental remediation, property taxes, contractor and consulting fees, and insurance. Purchased services and other expense was \$346 million in the first quarter of 2023, an increase of \$36 million, or 12%, from \$310 million in the same period of 2022. This increase was primarily due to:

- higher freight volumes as measured by RTMs;
- higher freight rates; and
- lower casualty costs.

This improvement was partially offset by:

- the impact of cost inflation;
- lower crude liquidated damages, including customer volume commitments, gains on land sales;
- higher expenses primarily due to the completion of increased severity of customer contracts, casualty incidents; and
- a decrease in the unfavorable impact of the change in fuel efficiency FX of 2% due to higher volumes of intermodal, which has lower horsepower utilization. \$9 million.

Adjusted operating ratio This increase was 58.7% partially offset by lower acquisition-related costs of \$8 million associated with the KCS acquisition, reported in Other.

Other Income Statement Items

Equity Earnings of Kansas City Southern

In the third quarter of 2022, a 70 basis point improvement in 2023, the Company recognized \$204 million (U.S. \$151 million) of equity earnings of KCS, an increase of \$6 million, or 3%, from \$198 million (U.S. \$156 million) in the same period of 2021. This improvement amount is net of amortization of basis differences of \$42 million (U.S. \$31 million) associated with KCS purchase accounting, an increase of \$2 million or 5%, from \$40 million (U.S. \$31 million) in the same period of 2022, and net of acquisition-related costs incurred by KCS.

On a historical basis, without any effect of purchase accounting, KCS recorded net income attributable to controlling interests of \$246 million (U.S. \$182 million) in the first quarter of 2023, an increase of \$8 million (U.S. \$5 million decrease), or 3%, from \$238 million (U.S. \$187 million) in the same period of 2022. This increase was primarily due to higher revenues of \$201 million (U.S. \$99 million) along with the favourable impact of FX on translation of \$17 million, partially offset by higher operating expense of \$162 million (U.S. \$89 million) driven by higher

transportation and fuel costs, along with higher FX losses of \$23 million (U.S. \$17 million) recognized by KCS. Acquisition-related costs (net of tax) incurred by KCS in the first quarter of 2023 were \$10 million (U.S. \$7 million), a decrease of \$3 million (U.S. \$3 million), or 23%, from \$13 million (U.S. \$10 million) in the same factors discussed above period of 2022. These values have been translated at exchange rates averaging \$1.3526 and \$1.2670 CAD per USD for the improvement three months ended March 31, 2023 and 2022, respectively.

Other Expense (Income)

Other expense (income) consists of gains and losses from the change in Operating ratio, except that Adjusted operating ratio excludes FX on working capital, costs related to financing, shareholder costs, equity income, and other non-operating expenditures. Other expense was \$2 million in the first quarter of 2023, a change of \$3 million, or 300%, compared to income of \$1 million in the same period of 2022. This change was primarily due to lower equity income of \$3 million, as well as an increase in acquisition-related costs associated with of \$3 million due to the KCS acquisition that were recognized Debt Exchange. This was partially offset by an increase in Purchased services net FX gains on US-denominated cash and other in both periods. working capital of \$3 million.

Adjusted operating

Other Components of Net Periodic Benefit Recovery

Other components of net periodic benefit recovery is related to the Company's pension and other post-retirement and post-employment benefit plans. It includes interest cost on benefit obligations, expected return on plan assets, recognized net actuarial losses, and amortization of prior service costs. Other components of net periodic benefit recovery were \$86 million in the first quarter of 2023, a decrease of \$15 million, or 15%, from \$101 million in the same period of 2022. This decrease was due to an increase in the interest cost on benefit obligations of \$26 million and a decrease in the expected return on plan assets of \$20 million, partially offset by a decrease in recognized net actuarial losses of \$31 million.

Net Interest Expense

Net interest expense includes interest on long-term debt and finance leases. Net interest expense was \$154 million in the first quarter of 2023, a decrease of \$6 million, or 4%, from \$160 million in the same period of 2022. This decrease was primarily due to a decrease in debt levels of \$7 million and higher interest income Core of \$6 million as a result of higher interest rates and a higher average cash balance. This decrease was partially offset by the unfavorable impact of the change in FX of \$9 million.

Income Tax Expense

Income tax expense was \$163 million in the first quarter of 2023, an increase of \$78 million, or 92%, from \$85 million in the same period of 2022. This increase was primarily due to higher taxable earnings and a lower deferred tax recovery on the change in the outside basis difference of the equity investment in KCS.

The effective tax rate in the first quarter of 2023 was 16.90% compared to 12.67% in the same period of 2022. The adjusted effective income Core tax rate in the first quarter of 2023 was 24.50%, compared to 24.25% in the same period of 2022. The adjusted diluted EPS, effective tax rate is a Non-GAAP measure, calculated as the effective tax rate adjusted for significant items as they are not considered indicative of future financial trends either by nature or amount or provide improved comparability to past performance and Adjusted Operating ratio it also excludes equity earnings of KCS. This Non-GAAP measure does not have a standardized meaning and is not defined by GAAP and, therefore, may not be comparable to similar measures presented by other companies. Significant items are defined and reconciled discussed further in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Return Following the acquisition of control of KCS, the Company's 2023 effective tax rate is expected to be approximately 25.50%, which excludes discrete tax items, the impact of the change in the equity investment in KCS, and associated deferred tax on Average Shareholders' Equity the outside basis difference during the year. The Company's 2023 outlook for its annualized effective income tax rate is based on certain assumptions about events and Adjusted Return on Invested Capital

Return on average shareholders' equity developments that may or may not materialize, or that may be offset entirely or partially by new events and Adjusted ROIC are measures used by management to determine how productively the Company uses its long-term capital investments, representing critical indicators of good operating and investment decisions. Adjusted ROIC developments. This is also an important performance criteria discussed further in determining certain elements Item 1A. Risk Factors of the Company's long-term incentive plan.

Return 2022 Annual Report on average shareholders' equity was 11.8% for the twelve months ended September 30, 2022, a 2,480 basis point decrease compared to 36.6% for the twelve months ended September 30, 2021. This decrease was primarily due to higher average shareholders' equity driven by shares issued for the KCS acquisition and lower accumulated Net income.

Adjusted ROIC was 8.9% for the twelve months ended September 30, 2022, a 700 basis point decrease compared to 15.9% for the twelve months ended September 30, 2021. This decrease was primarily due to shares and higher average long-term debt issued for the KCS acquisition, partially offset by higher Adjusted income. Adjusted ROIC is a Non-GAAP measure, which is defined and reconciled from Return on average shareholders' equity, the most comparable measure calculated in accordance with GAAP, in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Nine months ended September 30, 2022 compared to the nine months ended September 30, 2021

Income

Operating income was \$2,340 million in the first nine months of 2022, a decrease of \$34 million, or 1%, from \$2,374 million in the same period of 2021. This decrease was primarily due to:

- lower volumes as measured by RTMs;
- lower crude liquidated damages, including customer volume commitments, due to the completion of customer contracts;
- cost inflation; and
- a gain on exchange of property and construction easements in Chicago of \$50 million in 2021.

This decrease was partially offset by:

- higher freight rates;
- the favourable impact of changes in fuel prices of \$137 million; and
- lower acquisition-related costs of \$90 million associated with the KCS acquisition that were recognized in Purchased services and other.

Adjusted operating income was \$2,397 million in the first nine months of 2022, a decrease of \$124 million, or 5%, from \$2,521 million in the same period of 2021. This decrease reflected the same factors discussed above for the decrease in Operating income, except that Adjusted operating income excludes the acquisition-related costs associated with the KCS acquisition that were recognized in Purchased services and other in both periods.

Net income was \$2,246 million in the first nine months of 2022, a decrease of \$74 million, or 3%, from \$2,320 million in the same period of 2021. This decrease was primarily due to:

- the \$845 million merger termination payment received in the second quarter of 2021 in connection with KCS's termination of the Agreement and Plan of Merger (the "Original Merger Agreement");
- higher interest expense primarily due to debt issued related to the KCS acquisition;
- no FX translation gain on U.S. dollar-denominated debt and lease liabilities compared to \$39 million recognized in 2021; and
- lower Operating income of \$34 million.

This decrease was partially offset by:

- equity earnings of KCS of \$627 million;
- lower acquisition-related costs associated with the KCS transaction of \$295 million in Other expense; and
- lower income tax expense due to lower taxable earnings.

Core adjusted income was \$2,455 million in the first nine months of 2022, an increase of \$574 million, or 31%, from \$1,881 million in the same period of 2021. This increase was due to equity earnings of KCS, excluding the impact of KCS purchase accounting of \$121 million and acquisition-related costs of \$39 million, and lower income tax expense due to lower taxable earnings, partially offset by higher interest expense primarily due to debt issued related to the KCS acquisition and lower Adjusted operating income of \$124 million.

Diluted Earnings per Share

Diluted EPS was \$2.41 in the first nine months of 2022, a decrease of \$1.05, or 30%, from \$3.46 in the same period of 2021. This decrease was due to a higher average number of outstanding shares driven by shares issued for the KCS acquisition and lower Net income.

Core adjusted diluted EPS was \$2.63 in the first nine months of 2022, a decrease of \$0.18, or 6%, from \$2.81 in the same period of 2021. This decrease was due to a higher average number of outstanding shares driven by shares issued for the KCS acquisition, partially offset by higher Core adjusted income.

Operating Ratio

The Company's Operating ratio was 63.2% in the first nine months of 2022, a 310 basis point increase from 60.1% in the same period of 2021. This increase was primarily due to:

- cost inflation;
- lower crude liquidated damages, including customer volume commitments, due to the completion of customer contracts; and
- the unfavourable impact of changes in fuel prices, net of fuel recoveries;
- lower volumes as measured by RTMs; and
- a gain on the exchange of property and construction easements in Chicago in 2021.

This increase was partially offset by higher freight rates and lower acquisition-related costs associated with the KCS acquisition that were recognized in Purchased services and other.

Adjusted operating ratio was 62.3% in the first nine months of 2022, a 460 basis point increase from 57.7% in the same period of 2021. This increase was due to the same factors as discussed above for the increase in operating ratio, except that Adjusted operating ratio excludes the acquisition-related costs associated with the KCS transaction that were recognized in Purchased services and other in both periods.

Adjusted operating income, Core adjusted income, Core adjusted diluted EPS, and Adjusted Operating ratio are defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Form 10-K.

Impact of FX on Earnings and Foreign Exchange Risk

The information presented below describes the Company as at and for the quarter ended March 31, 2023 and does not reflect the Company post obtaining control of KCS, which is described in Item 1. Financial Statements, Note 15 Subsequent events.

Although the Company conducts business primarily in Canada, a significant portion of its revenues, expenses, assets and liabilities including debt are denominated in U.S. dollars. In addition, equity earnings or losses of KCS are denominated in U.S. dollars. The value of the Canadian dollar is affected by a number of domestic and international factors, including, without limitation, economic performance, commodity prices, and Canadian, U.S., and international monetary policies. Fluctuations in FX affect the Company's results because U.S. dollar-denominated revenues and expenses are translated into Canadian dollars. U.S. dollar-denominated revenues and expenses increase (decrease) when the Canadian dollar weakens (strengthens) in relation to the U.S. dollar.

On October 21, 2022, the noon buying rate certified for customs purposes by the U.S. Federal Reserve Bank of New York was U.S. \$1.00 = \$1.37 Canadian dollar.

The following tables set forth, for the periods indicated, the average exchange rate between the Canadian dollar and the U.S. dollar expressed in the Canadian dollar equivalent of one U.S. dollar, the high and low exchange rates and period end exchange rates for the periods indicated. Average for year-end periods are calculated by using the exchange rates on the last day of each full month during the relevant period. These rates are based on the noon buying rate certified for customs purposes by the U.S. Federal Reserve Bank of New York set forth in the H.10 statistical release of the Federal Reserve Board.

Average exchange rates (Canadian/U.S. dollar)	2022	2021
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For the three months ended - September 30	\$	1.31	\$	1.26
For the nine months ended - September 30	\$	1.28	\$	1.25
Ending exchange rates (Canadian/U.S. dollar)	2022			2021
Beginning of year - January 1	\$	1.28	\$	1.28
Beginning of quarter - July 1	\$	1.29	\$	1.24
End of quarter - September 30	\$	1.38	\$	1.27

In the third quarter of 2022, the U.S. dollar has strengthened to an average rate of \$1.35 Canadian/U.S. dollar, compared to \$1.27 Canadian/U.S. dollar in the first quarter of 2022. In the first quarter of 2023, the impact of a stronger U.S. dollar resulted in an increase in total revenues of \$31 million, an increase in total operating expenses of \$17 million, \$38 million, and an increase in Net interest expense of \$2 million \$9 million from the same period of 2021. In 2022,

On an annualized basis, the first nine months Company expects that every \$0.01 weakening (or strengthening) of 2022, the impact of a stronger Canadian dollar relative to the U.S. dollar, resulted in an increase in total positively (or negatively) impacts Total revenues of \$65 million by approximately \$36 million (December 31, 2022 – approximately \$37 million), an increase in total operating negatively (or positively) impacts Operating expenses of \$34 million by approximately \$21 million (December 31, 2022 – approximately \$18 million), and an increase in negatively (or positively) impacts Net interest expense of \$6 million from by approximately \$4 million (December 31, 2022 – approximately \$4 million).

To manage its exposure to fluctuations in exchange rates between Canadian and U.S. dollars, the same period of 2021.

There was no material change. Company may sell or purchase U.S. dollar forwards at fixed rates in future periods. In addition, changes in the impact of FX on total revenues exchange rate between the Canadian

dollar and operating expenses during other currencies (including the third quarter U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and first nine months ended September 30, 2022 from the information provided may in Part II, Item 7A. Quantitative and Qualitative Disclosure about Market Risk in CP's 2021 Annual Report on Form 10-K, turn positively or negatively affect revenues.

Impact of Fuel Price on Earnings Cost Adjustment Program

Fluctuations in freight revenues include fuel surcharge revenues associated with the Company's fuel cost adjustment program, which is designed to respond to fluctuations in fuel prices. The Company's results because and help reduce exposure to changing fuel expense constitutes a significant portion of CP's operating costs. As fuel prices fluctuate, there will be an impact on earnings due to price changes. The surcharge is applied to the timing of shippers through tariffs and by contract, within agreed-upon guidelines. This program includes recoveries from CP's fuel cost adjustment program. The following table indicates the average fuel price for the three and nine months ended September 30, 2022 and the comparative periods of 2021.

Average Fuel Price (U.S. dollars per U.S. gallon)	2022	2021
For the three months ended - September 30	\$ 4.33	\$ 2.70
For the nine months ended - September 30	\$ 4.13	\$ 2.59

The impact of fuel prices on earnings includes the impacts of carbon taxes, levies, and obligations under cap-and-trade programs recovered and paid, on programs. Freight revenues and expenses, respectively.

In included fuel surcharge revenues of \$312 million in the third quarter of 2022, the favourable impact of fuel prices on Operating income was \$84 million. Higher fuel prices, the favourable impact of the timing of recoveries under CP's fuel cost adjustment program, and increased carbon tax recoveries resulted in 2023, an increase in Total revenues of \$206 million. Higher fuel prices resulted in an increase in Total operating expenses of \$122 million \$123 million, or 65%, from the same period of 2021.

In the first nine months of 2022, the favourable impact of fuel prices on Operating income was \$137 million. Higher fuel prices and increased carbon tax recoveries resulted in an increase in Total revenues of \$511 million. Higher fuel prices resulted in Total operating expenses of \$374 million from the same period of 2021.

Impact of Share Price on Earnings

Fluctuations in the Common Share price affect the Company's operating expenses because share-based liabilities are measured at fair value. The Company's Common Shares are listed on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE") with ticker symbol "CP". The following tables indicate the opening and closing Common Share price on the TSX and the NYSE for the three and nine months ended September 30, 2022 and the comparative periods in 2021.

TSX (in Canadian dollars)	2022	2021
Opening Common Share price, as at January 1	\$ 90.98	\$ 88.31
Ending Common Share price, as at June 30	\$ 89.91	\$ 95.32
Ending Common Share price, as at September 30	\$ 92.21	\$ 82.71
Change in Common Share price for the three months ended September 30	\$ 2.30	\$ (12.61)

Change in Common Share price for the nine months ended September 30	\$ 1.23	\$ (5.60)
NYSE (in U.S. dollars)	2022	2021
Opening Common Share price, as at January 1	\$ 71.94	\$ 69.34
Ending Common Share price, as at June 30	\$ 69.84	\$ 76.91
Ending Common Share price, as at September 30	\$ 66.72	\$ 65.07
Change in Common Share price for the three months ended September 30	\$ (3.12)	\$ (11.84)
Change in Common Share price for the nine months ended September 30	\$ (5.22)	\$ (4.27)

In the third quarter of 2022, the impact of the change in Common Share prices resulted in a decrease in stock-based compensation expense of \$3 million compared to a decrease of \$27 million \$189 million in the same period of 2021.

In the first nine months of 2022, the impact of the change in Common Share prices resulted in a decrease in stock-based compensation expense of \$6 million compared to a decrease of \$10 million in the same period of 2021.

The impact of share price on stock-based compensation is discussed further in Item 3. Quantitative and Qualitative Disclosures About Market Risk, Share Price Impact on Stock-Based Compensation.

Operating Revenues

The Company's revenues are primarily derived from transporting freight. Changes in freight volumes generally contribute to corresponding changes in freight revenues and certain variable expenses, such as fuel, equipment rents, and crew costs. Non-freight revenue is generated from leasing of certain assets; other arrangements, including contracts with passenger service operators and logistical services; and interline switching fees.

For the three months ended September 30	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 2,264	\$ 1,896	368	19	17
Non-freight revenues (in millions)	48	46	2	4	4
Total revenues (in millions)	\$ 2,312	\$ 1,942	370	19	17
Carloads (in thousands)	730.0	665.0	65.0	10	N/A
Revenue ton-miles (in millions)	37,569	35,391	2,178	6	N/A
Freight revenue per carload (in dollars)	\$ 3,101	\$ 2,851	250	9	7
Freight revenue per revenue ton-mile (in cents)	6.03	5.36	0.67	13	11

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Freight revenues were \$2,264 million in the third quarter of 2022, an increase of \$368 million, or 19%, from \$1,896 million in the same period of 2021. This increase was primarily due to higher fuel prices, higher volumes, and the favourable impact of the change in FX.

Lines of Business

Grain

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 515	\$ 360	155	43
Carloads (in thousands)	104.8	83.7	21.1	25
Revenue ton-miles (in millions)	10,014	7,974	2,040	26
Freight revenue per carload (in dollars)	\$ 4,914	\$ 4,301	613	14
Freight revenue per revenue ton-mile (in cents)	5.14	4.51	0.63	14

The increase in Grain revenue was primarily due to higher volumes of Canadian grain to Vancouver, British Columbia ("B.C.") and eastern Canada due to prior year drought conditions that impacted the 2021-2022 crop size, and increased freight revenue per RTM and higher volumes as measured by RTMs.

RTMs are defined as the movement of one revenue-producing ton of freight over a distance of one mile. RTMs measure the relative weight and distance of rail freight moved by the Company. RTMs for the third quarter of 2022 were 37,569 million, an increase of 2,178 million, or 6%, from 35,391 million in the same period of 2021. This increase was mainly attributable to higher volumes of intermodal, Potash, and frac sand RTM. This increase was partially offset by moving lower volumes of Coal and U.S. corn from the U.S. Midwest to western Canada primarily due to an improved Canadian grain.

harvest for the 2022-2023 crop year. Freight revenue per RTM is defined as freight revenue per revenue-producing ton of freight over a distance of one mile. This is an indicator of yield. Freight revenue per RTM was 6.03 cents in the third quarter of 2022, an increase of 0.67 cents, or 13%, from 5.36 cents in the same period of 2021. This increase was primarily increased due to higher fuel surcharge revenue as a result of higher fuel prices, of \$206 million, higher freight rates, and the favourable impact of the change in FX, of \$31 million. This increase was partially offset by lower crude liquidated damages, including customer volume commitments, due to the completion of customer contracts, and higher freight rates.

Carloads are defined as revenue-generating shipments of containers and freight cars. Carloads were 730.0 thousand Coal

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 155	\$ 139	\$ 16	12
Carloads (in thousands)	72.4	69.9	2.5	4
Revenue ton-miles (in millions)	3,925	3,997	(72)	(2)
Freight revenue per carload (in dollars)	\$ 2,141	\$ 1,989	\$ 152	8
Freight revenue per revenue ton-mile (in cents)	3.95	3.48	0.47	14

The increase in the third quarter of 2022, an increase of 65.0 thousand, or 10%, from 665.0 thousand in the same period of 2021. This increase Coal revenue was primarily due to increased freight revenue per RTM, higher volumes of intermodal, Potash, Canadian coal to Kamloops, B.C., and frac sand. This increase was higher volumes of U.S. coal, partially offset by lower volumes of crude.

Canadian coal to Vancouver and Thunder Bay, Ontario. Freight revenue per carload is defined as freight revenue per revenue-generating shipment of containers or freight cars. This is an indicator of yield. Freight revenue per carload was \$3,101 in the third quarter of 2022, an increase of \$250, or 9%, from \$2,851 in the same period of 2021. This increase was primarily RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, of \$206 million, higher freight rates, and the favourable impact of the change in FX of \$31 million. This increase was partially offset by lower crude liquidated damages, including customer volume commitments, FX, RTMs decreased while carloads increased due to the completion moving lower volumes of customer contracts, Canadian coal to Vancouver and Thunder Bay, which have longer lengths of haul, and higher volumes of Canadian coal to Kamloops, which has a shorter length of haul.

Non-freight revenues were \$48 million in the third quarter of 2022, an increase of \$2 million, or 4%, from \$46 million in the same period of 2021. This increase was primarily due to higher interline switching fees, Potash

For the nine months ended September 30	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 6,214	\$ 5,822	\$ 392	7	6
Non-freight revenues (in millions)	138	133	5	4	3
Total revenues (in millions)	\$ 6,352	\$ 5,955	\$ 397	7	6
Carloads (in thousands)	2,068.4	2,079.9	(11.5)	(1)	N/A
Revenue ton-miles (in millions)	109,355	113,725	(4,370)	(4)	N/A
Freight revenue per carload (in dollars)	\$ 3,004	\$ 2,799	\$ 205	7	6
Freight revenue per revenue ton-mile (in cents)	5.68	5.12	0.56	11	10

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 132	\$ 104	\$ 28	27
Carloads (in thousands)	36.9	32.1	4.8	15
Revenue ton-miles (in millions)	4,010	3,652	358	10
Freight revenue per carload (in dollars)	\$ 3,577	\$ 3,240	\$ 337	10
Freight revenue per revenue ton-mile (in cents)	3.29	2.85	0.44	15

Freight revenues were \$6,214 million. The increase in the first nine months of 2022, an increase of \$392 million, or 7%, from \$5,822 million in the same period of 2021. This increase Potash revenue was primarily due to increased freight revenue per RTM, partially offset by lower volumes as measured by RTMs.

RTMs for the first nine months of 2022 were 109,355 million, a decrease of 4,370 million, or 4% from 113,725 million in the same period of 2021. This decrease was mainly attributable to lower volumes of Canadian grain, Coal, and Energy, chemicals and plastics. This decrease was partially offset by higher volumes of export potash to the U.S. grain, Intermodal, Potash, Pacific Northwest and frac sand.

Vancouver, and higher volumes of domestic potash to the U.S. Midwest. Freight revenue per RTM was 5.68 cents in the first nine months of 2022, an increase of 0.56 cents, or 11%, from 5.12 cents in the same period in 2021. This increase was primarily increased due to higher fuel surcharge revenue as a result of higher fuel prices, of \$511 million, higher freight rates, and the favourable impact of the change in FX, of \$64 million. This increase was partially offset by lower crude liquidated damages, including customer volume commitments, and higher freight rates. Carloads increased more than RTMs due to moving higher volumes of export potash to the completion U.S. Pacific Northwest, which has a shorter length of customer contracts, haul.

Carloads were 2,068.4 thousand

Fertilizers and Sulphur

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 96	\$ 78	\$ 18	23
Carloads (in thousands)	17.0	15.9	1.1	7
Revenue ton-miles (in millions)	1,340	1,219	121	10
Freight revenue per carload (in dollars)	\$ 5,647	\$ 4,906	\$ 741	15
Freight revenue per revenue ton-mile (in cents)	7.16	6.40	0.76	12

The increase in the first nine months of 2022, a decrease of 11.5 thousand, or 1%, from 2,079.9 thousand in the same period of 2021. This decrease was primarily due to lower volumes of Canadian grain, Energy, chemicals and plastics, Coal, and Automotive. This decrease was partially offset by higher volumes of Intermodal, frac sand, dry and Potash.

wet fertilizers. Freight revenue per carload was \$3,004 in the first nine months of 2022, an increase of \$205, or 7%, from \$2,799 in the same period of 2021. This increase was primarily due to higher fuel surcharge revenue as a result of higher fuel prices, the favourable impact of \$511 million, the change in FX, and higher freight rates.

Forest Products

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 103	\$ 86	\$ 17	20
Carloads (in thousands)	17.7	17.4	0.3	2
Revenue ton-miles (in millions)	1,378	1,361	17	1
Freight revenue per carload (in dollars)	\$ 5,819	\$ 4,943	\$ 876	18
Freight revenue per revenue ton-mile (in cents)	7.47	6.32	1.15	18

The increase in Forest products revenue was primarily due to increased freight revenue per RTM and higher volumes of paper products primarily from Vancouver to Texas, via interchange in Kansas City, Missouri, partially offset by lower volumes of lumber and panel products. Freight revenue per RTM increased due to the favourable impact of the change in FX, higher freight rates, and higher fuel surcharge revenue as a result of higher fuel prices.

Energy, Chemicals and Plastics

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 366	\$ 310	\$ 56	18
Carloads (in thousands)	75.2	72.6	2.6	4
Revenue ton-miles (in millions)	6,207	5,907	300	5
Freight revenue per carload (in dollars)	\$ 4,867	\$ 4,270	\$ 597	14
Freight revenue per revenue ton-mile (in cents)	5.90	5.25	0.65	12

The increase in Energy, chemicals and plastics revenue was primarily due to increased freight revenue per RTM, higher volumes of plastics to Chicago, Illinois, as well as higher volumes of diluents to Alberta and ethylene glycol to Chicago, partially offset by lower volumes of crude and liquefied petroleum gas. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, the favourable impact of the change in FX, and higher freight rates.

Metals, Minerals and Consumer Products

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 233	\$ 181	\$ 52	29
Carloads (in thousands)	61.8	54.6	7.2	13
Revenue ton-miles (in millions)	2,911	2,519	392	16
Freight revenue per carload (in dollars)	\$ 3,770	\$ 3,315	\$ 455	14
Freight revenue per revenue ton-mile (in cents)	8.00	7.19	0.81	11

The increase in Metals, minerals and consumer products revenue was primarily due to higher volumes of frac sand to the Bakken and Marcellus shale formations, higher volumes of steel, and increased freight revenue per RTM. Freight revenue per RTM increased due to higher freight rates, the favourable impact of the change in FX, and higher fuel surcharge revenue as a result of higher fuel prices.

Automotive

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 125	\$ 91	\$ 34	37
Carloads (in thousands)	28.7	24.1	4.6	19
Revenue ton-miles (in millions)	474	403	71	18
Freight revenue per carload (in dollars)	\$ 4,355	\$ 3,776	\$ 579	15
Freight revenue per revenue ton-mile (in cents)	26.37	22.58	3.79	17

The increase in Automotive revenue was primarily due to higher volumes as a result of the prior year global semiconductor chip shortage, higher volumes from Kansas City to various destinations in Canada, and increased freight revenue per RTM. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher freight rates, and the favourable impact of the change in FX.

Intermodal

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 492	\$ 447	\$ 45	10
Carloads (in thousands)	265.0	255.4	9.6	4
Revenue ton-miles (in millions)	7,290	6,661	629	9
Freight revenue per carload (in dollars)	\$ 1,857	\$ 1,750	\$ 107	6
Freight revenue per revenue ton-mile (in cents)	6.75	6.71	0.04	1

The increase in Intermodal revenue was primarily due to higher international intermodal volumes primarily to and from the Port of Vancouver, the Port of Montreal, and the Port of Saint John, including onboarding a new international intermodal customer, higher domestic intermodal wholesale volumes, and increased freight revenue per RTM. This increase was partially offset by lower domestic intermodal cross-border volumes. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher freight rates, and the favourable impact of the change in FX, partially offset by lower intermodal ancillary revenue. RTMs increased more than carloads due to moving higher international intermodal volumes to and from the Port of \$64 million. Vancouver, which has a longer length of haul.

Operating Expenses

For the three months ended March 31 (in millions of Canadian dollars)	2023	2022	Total Change	% Change
Compensation and benefits	\$ 438	\$ 413	\$ 25	6
Fuel	326	273	53	19
Materials	72	62	10	16
Equipment rents	30	35	(5)	(14)
Depreciation and amortization	225	210	15	7
Purchased services and other	346	310	36	12
Total operating expenses	\$ 1,437	\$ 1,303	\$ 134	10

Operating expenses were \$1,437 million in the first quarter of 2023, an increase of \$134 million, or 10%, from \$1,303 million in the same period of 2022. This increase was primarily due to:

- higher volume variable expenses;
- the impact of cost inflation;
- the unfavourable impact of the change in FX of \$38 million; and
- the unfavourable impact of higher fuel prices of \$17 million.

This increase was partially offset by lower crude liquidated damages, including customer volume commitments, due defined pension current service costs of \$19 million and a lower stock based compensation expense of \$12 million, primarily driven by a lower increase in share price compared to the completion of customer contracts prior period.

Non-freight revenues were \$138 million

Compensation and Benefits

Compensation and benefits expense includes employee wages, salaries, fringe benefits, and stock-based compensation. Compensation and benefits expense was \$438 million in the first nine months quarter of 2022, 2023, an increase of \$5 million \$25 million, or 4% 6%, from \$133 million \$413 million in the same period of 2021, 2022. This increase was primarily due to:

- the impact of wage and benefit inflation;
- higher volume variable expenses as a result of a increase in workload as measured by GTMs;
- increased new hire training costs; and
- the unfavourable impact of the change in FX of \$7 million.

This increase was partially offset by lower defined benefit pension current service costs of \$19 million and a decrease in stock-based compensation expense of \$12 million, primarily driven by a lower increase in share price compared to the prior period.

Fuel

Fuel expense consists mainly of fuel used by locomotives and includes provincial, state, and federal fuel taxes. Fuel expense was \$326 million in the first quarter of 2023, an increase of \$53 million, or 19%, from \$273 million in the same period of 2022. This increase was primarily due to:

- an increase in workload, as measured by GTMs;
- the unfavourable impact of higher fuel prices of \$17 million; and
- the unfavourable impact of the change in FX of \$15 million;

This increase was partially offset by an improvement in fuel efficiency of 2% due to running longer and heavier trains as a result of improvements in the operating plan.

Materials

Materials expense includes the cost of materials used for the maintenance of track, locomotives, freight cars, and buildings, as well as software sustainment. Materials expense was \$72 million in the first quarter of 2023, an increase of \$10 million, or 16% from \$62 million in the same period of 2022. This increase was primarily due to the impact of cost inflation and increased spending on track maintenance.

Equipment Rents

Equipment rents expense includes the cost associated with using other companies' freight cars, intermodal equipment, and locomotives, net of rental income received from other railways for the use of the Company's equipment. Equipment rents expense was \$30 million in the first quarter of 2023, a decrease of \$5 million, or 14%, from \$35 million in the same period of 2022. This decrease was primarily due to increased receipts from other railways for the use of the Company's locomotives partially offset by increased usage of pooled freight cars by the Company.

Depreciation and Amortization

Depreciation and amortization expense represents the charge associated with the use of track and roadway, buildings, rolling stock, information systems, and other depreciable assets. Depreciation and amortization expense was \$225 million in the first quarter of 2023, an increase of \$15 million, or 7%, from \$210 million in the same period of 2022. This increase was primarily due to a higher depreciable asset base and the unfavourable impact of change in FX of \$4 million.

Purchased Services and Other

For the three months ended March 31 (in millions of Canadian dollars)	2023	2022	Total Change	% Change
Support and facilities	\$ 94	\$ 84	10	12
Track and operations	81	73	8	12
Intermodal	57	51	6	11
Equipment	31	29	2	7
Casualty	30	21	9	43
Property taxes	36	35	1	3
Other	18	27	(9)	(34)
Land sales	(1)	(10)	9	(93)
Total Purchased services and other	\$ 346	\$ 310	36	12

Purchased services and other expense encompasses a wide range of third-party costs, including expenses for joint facilities, personal injuries and damage claims, environmental remediation, property taxes, contractor and consulting fees, and insurance. Purchased services and other expense was \$346 million in the first quarter of 2023, an increase of \$36 million, or 12%, from \$310 million in the same period of 2022. This increase was primarily due to:

- the impact of cost inflation;
- lower gains on land sales;
- higher expenses primarily due to the increased severity of casualty incidents; and
- the unfavorable impact of the change in FX of \$9 million.

This increase was partially offset by lower acquisition-related costs of \$8 million associated with the KCS acquisition, reported in Other.

Other Income Statement Items

Equity Earnings of Kansas City Southern

In the first quarter of 2023, the Company recognized \$204 million (U.S. \$151 million) of equity earnings of KCS, an increase of \$6 million, or 3%, from \$198 million (U.S. \$156 million) in the same period of 2022. This amount is net of amortization of basis differences of \$42 million (U.S. \$31 million) associated with KCS purchase accounting, an increase of \$2 million or 5%, from \$40 million (U.S. \$31 million) in the same period of 2022, and net of acquisition-related costs incurred by KCS.

On a historical basis, without any effect of purchase accounting, KCS recorded net income attributable to controlling interests of \$246 million (U.S. \$182 million) in the first quarter of 2023, an increase of \$8 million (U.S. \$5 million decrease), or 3%, from \$238 million (U.S. \$187 million) in the same period of 2022. This increase was primarily due to higher revenue from passenger service operators and higher leasing revenue, revenues of \$201 million (U.S. \$99 million) along with the favourable impact of FX on translation of \$17 million, partially offset by higher operating

expense of \$162 million (U.S. \$89 million) driven by higher transportation and fuel costs, along with higher FX losses of \$23 million (U.S. \$17 million) recognized by KCS. Acquisition-related costs (net of tax) incurred by KCS in the first quarter of 2023 were \$10 million (U.S. \$7 million), a decrease of \$3 million (U.S. \$3 million), or 23%, from \$13 million (U.S. \$10 million) in the same period of 2022. These values have been translated at exchange rates averaging \$1.3526 and \$1.2670 CAD per USD for the three months ended March 31, 2023 and 2022, respectively.

Other Expense (Income)

Other expense (income) consists of gains and losses from the change in FX on working capital, costs related to financing, shareholder costs, equity income, and other non-operating expenditures. Other expense was \$2 million in the first quarter of 2023, a change of \$3 million, or 300%, compared to income of \$1 million in the same period of 2022. This change was primarily due to lower revenue equity income of \$3 million, as well as an increase in acquisition-related costs of \$3 million due to the KCS Debt Exchange. This was partially offset by an increase in net FX gains on US-denominated cash and working capital of \$3 million.

Other Components of Net Periodic Benefit Recovery

Other components of net periodic benefit recovery is related to the Company's pension and other post-retirement and post-employment benefit plans. It includes interest cost on benefit obligations, expected return on plan assets, recognized net actuarial losses, and amortization of prior service costs. Other components of net periodic benefit recovery were \$86 million in the first quarter of 2023, a decrease of \$15 million, or 15%, from \$101 million in the same period of 2022. This decrease was due to an increase in the interest cost on benefit obligations of \$26 million and a decrease in the expected return on plan assets of \$20 million, partially offset by a decrease in recognized net actuarial losses of \$31 million.

Net Interest Expense

Net interest expense includes interest on long-term debt and finance leases. Net interest expense was \$154 million in the first quarter of 2023, a decrease of \$6 million, or 4%, from \$160 million in the same period of 2022. This decrease was primarily due to a decrease in debt levels of \$7 million and higher interest income of \$6 million as a result of higher interest rates and a higher average cash balance. This decrease was partially offset by the unfavorable impact of the change in FX of \$9 million.

Income Tax Expense

Income tax expense was \$163 million in the first quarter of 2023, an increase of \$78 million, or 92%, from \$85 million in the same period of 2022. This increase was primarily due to higher taxable earnings and a lower deferred tax recovery on the change in the outside basis difference of the equity investment in KCS.

The effective tax rate in the first quarter of 2023 was 16.90% compared to 12.67% in the same period of 2022. The adjusted effective income tax rate in the first quarter of 2023 was 24.50%, compared to 24.25% in the same period of 2022. The adjusted effective tax rate is a Non-GAAP measure, calculated as the effective tax rate adjusted for significant items as they are not considered indicative of future financial trends either by nature or amount or provide improved comparability to past performance and it also excludes equity earnings of KCS. This Non-GAAP measure does not have a standardized meaning and is not defined by GAAP and, therefore, may not be comparable to similar measures presented by other companies. Significant items are discussed further in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Following the acquisition of control of KCS, the Company's 2023 effective tax rate is expected to be approximately 25.50%, which excludes discrete tax items, the impact of the change in the equity investment in KCS, and associated deferred tax on the outside basis difference during the year. The Company's 2023 outlook for its annualized effective income tax rate is based on certain assumptions about events and developments that may or may not materialize, or that may be offset entirely or partially by new events and developments. This is discussed further in Item 1A. Risk Factors of the Company's 2022 Annual Report on Form 10-K.

Impact of FX on Earnings and Foreign Exchange Risk

The information presented below describes the Company as at and for the quarter ended March 31, 2023 and does not reflect the Company post obtaining control of KCS, which is described in Item 1. Financial Statements, Note 15 Subsequent events.

Although the Company conducts business primarily in Canada, a significant portion of its revenues, expenses, assets and liabilities including debt are denominated in U.S. dollars. In addition, equity earnings or losses of KCS are denominated in U.S. dollars. The value of the Canadian dollar is affected by a number of domestic and international factors, including, without limitation, economic performance, commodity prices, and Canadian, U.S., and international monetary policies. Fluctuations in FX affect the Company's results because U.S. dollar-denominated revenues and expenses are translated into Canadian dollars. U.S. dollar-denominated revenues and expenses increase (decrease) when the Canadian dollar weakens (strengthens) in relation to the U.S. dollar.

In the first quarter of 2023, the U.S. dollar has strengthened to an average rate of \$1.35 Canadian/U.S. dollar, compared to \$1.27 Canadian/U.S. dollar in the first quarter of 2022. In the first quarter of 2023, the impact of a stronger U.S. dollar resulted in an increase in Total revenues of \$66 million, an increase in Total operating expenses of \$38 million, and an increase in Net interest expense of \$9 million from the same period of 2022.

On an annualized basis, the Company expects that every \$0.01 weakening (or strengthening) of the Canadian dollar relative to the U.S. dollar, positively (or negatively) impacts Total revenues by approximately \$36 million (December 31, 2022 – approximately \$37 million), negatively (or positively) impacts Operating expenses by approximately \$21 million (December 31, 2022 – approximately \$18 million), and negatively (or positively) impacts Net interest expense by approximately \$4 million (December 31, 2022 – approximately \$4 million).

To manage its exposure to fluctuations in exchange rates between Canadian and U.S. dollars, the Company may sell or purchase U.S. dollar forwards at fixed rates in future periods. In addition, changes in the exchange rate between the Canadian

dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and may in turn positively or negatively affect revenues.

Fuel Cost Adjustment Program

Freight revenues include fuel surcharge revenues associated with CP's the Company's fuel cost adjustment program, which is designed to respond to fluctuations in fuel prices and help reduce exposure to changing fuel prices. The surcharge is applied to shippers through tariffs and by contract, within agreed-upon guidelines. This program includes recoveries of carbon taxes, levies, and obligations under cap-and-trade programs. Freight revenues included fuel surcharge revenues of \$393 million \$312 million in the third first quarter of 2022, 2023, an increase of \$245

million \$123 million, or 166% 65%, from \$148 million \$189 million in the same period of 2021. This increase was primarily due to higher fuel prices, higher volumes, and increased carbon tax recoveries, the favourable impact of the change in FX.

In the first nine months of 2022, fuel surcharge revenues were \$941 million, an increase of \$575 million, or 157%, from \$366 million in the same period of 2021. This increase was primarily due to higher fuel prices and increased carbon tax recoveries.

Lines of Business

Grain

For the three months ended September 30	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 391	\$ 352	\$ 39	11	9
Carloads (in thousands)	87.6	89.0	(1.4)	(2)	N/A
Revenue ton-miles (in millions)	7,577	7,715	(138)	(2)	N/A
Freight revenue per carload (in dollars)	\$ 4,463	\$ 3,955	\$ 508	13	11
Freight revenue per revenue ton-mile (in cents)	5.16	4.56	0.60	13	11

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 515	\$ 360	\$ 155	43
Carloads (in thousands)	104.8	83.7	21.1	25
Revenue ton-miles (in millions)	10,014	7,974	2,040	26
Freight revenue per carload (in dollars)	\$ 4,914	\$ 4,301	\$ 613	14
Freight revenue per revenue ton-mile (in cents)	5.14	4.51	0.63	14

The increase in Grain revenue was \$391 million in the third quarter of 2022, an increase of \$39 million, or 11%, from \$352 million in the same period of 2021. This increase was primarily due to higher volumes of Canadian grain to Vancouver, British Columbia ("B.C.") and eastern Canada due to prior year drought conditions that impacted the 2021-2022 crop size, and increased freight revenue per RTM and higher RTM. This increase was partially offset by moving lower volumes of U.S. corn from the U.S. Midwest to western Canada. This increase was partially offset by lower volumes of Canadian grain Canada primarily to eastern Canada and Vancouver due to drought conditions that impacted the 2021-2022 an improved Canadian crop size, as well as a delayed harvest for the 2022-2023 crop year. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher freight rates, and the favourable impact of the change in FX.

For the nine months ended September 30	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 1,121	\$ 1,244	\$ (123)	(10)	(11)
Carloads (in thousands)	255.4	323.8	(68.4)	(21)	N/A
Revenue ton-miles (in millions)	23,335	28,564	(5,229)	(18)	N/A
Freight revenue per carload (in dollars)	\$ 4,389	\$ 3,842	\$ 547	14	13
Freight revenue per revenue ton-mile (in cents)	4.80	4.36	0.44	10	9

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Grain Coal

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 155	\$ 139	\$ 16	12
Carloads (in thousands)	72.4	69.9	2.5	4
Revenue ton-miles (in millions)	3,925	3,997	(72)	(2)
Freight revenue per carload (in dollars)	\$ 2,141	\$ 1,989	\$ 152	8
Freight revenue per revenue ton-mile (in cents)	3.95	3.48	0.47	14

The increase in Coal revenue was \$1,121 million in the first nine months of 2022, a decrease of \$123 million, or 10%, from \$1,244 million in the same period of 2021. This decrease was primarily due to increased freight revenue per RTM, higher volumes of Canadian coal to Kamloops, B.C., and higher volumes of U.S. coal, partially offset by lower volumes of Canadian grain coal to Vancouver and eastern Canada due to drought conditions that impacted the 2021-2022 Canadian crop size. This decrease was partially offset by higher volumes of U.S. corn from the U.S. Midwest to western Canada and increased freight revenue per RTM. Thunder Bay, Ontario. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher freight rates, and the favourable impact of the change in FX. RTMs decreased less than while carloads increased due to moving higher volumes of U.S. corn from the U.S. Midwest to western Canada, which has a longer length of haul.

Coal

For the three months ended September 30	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 156	\$ 158	\$ (2)	(1)	(2)
Carloads (in thousands)	71.6	73.4	(1.8)	(2)	N/A
Revenue ton-miles (in millions)	3,857	4,334	(477)	(11)	N/A
Freight revenue per carload (in dollars)	\$ 2,179	\$ 2,153	\$ 26	1	1
Freight revenue per revenue ton-mile (in cents)	4.04	3.65	0.39	11	10

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Coal revenue was \$156 million in the third quarter of 2022, a decrease of \$2 million, or 1%, from \$158 million in the same period of 2021. This decrease was primarily due to lower volumes of Canadian coal to Vancouver as a result and Thunder Bay, which have longer lengths of production challenges at the mines. This decrease was partially offset by increased freight revenue per RTM haul, and higher volumes of Canadian coal to Kamloops, B.C. which has a shorter length of haul.

Potash

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 132	\$ 104	\$ 28	27
Carloads (in thousands)	36.9	32.1	4.8	15
Revenue ton-miles (in millions)	4,010	3,652	358	10
Freight revenue per carload (in dollars)	\$ 3,577	\$ 3,240	\$ 337	10
Freight revenue per revenue ton-mile (in cents)	3.29	2.85	0.44	15

The increase in Potash revenue was primarily due to increased freight revenue per RTM, higher volumes of export potash to the U.S. Pacific Northwest and Vancouver, and higher volumes of domestic potash to the U.S. Midwest. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher freight rates, and the favourable impact of the change in FX. RTMs decreased FX, and higher freight rates. Carloads increased more than carloads RTMs due to moving lower volumes of Canadian coal to Vancouver, which has a longer length of haul, and moving higher volumes of Canadian coal export potash to Kamloops, B.C., the U.S. Pacific Northwest, which has a shorter length of haul.

For the nine months ended September 30	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 458	\$ 491	\$ (33)	(7)	(7)
Carloads (in thousands)	213.2	224.2	(11.0)	(5)	N/A
Revenue ton-miles (in millions)	12,037	14,451	(2,414)	(17)	N/A
Freight revenue per carload (in dollars)	\$ 2,148	\$ 2,190	\$ (42)	(2)	(2)
Freight revenue per revenue ton-mile (in cents)	3.80	3.40	0.40	12	12

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Coal revenue was \$458 million in the first nine months of 2022, a decrease of \$33 million, or 7%, from \$491 million in the same period of 2021. This decrease was primarily due to lower volumes of Canadian coal to Vancouver as a result of production challenges at the mines, partially offset by higher volumes of Canadian coal to Kamloops, B.C. and increased freight revenue per RTM. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices and higher freight rates. RTMs decreased more than carloads due to moving lower volumes of Canadian coal to Vancouver, which has a longer length of haul, and moving higher volumes of Canadian coal to Kamloops, B.C., which has a shorter length of haul.

Potash

For the three months ended September 30	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 170	\$ 113	\$ 57	50	48
Carloads (in thousands)	45.7	35.8	9.9	28	N/A
Revenue ton-miles (in millions)	5,164	3,941	1,223	31	N/A
Freight revenue per carload (in dollars)	\$ 3,720	\$ 3,156	\$ 564	18	16
Freight revenue per revenue ton-mile (in cents)	3.29	2.87	0.42	15	13

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Potash revenue was \$170 million in the third quarter of 2022, an increase of \$57 million, or 50%, from \$113 million in the same period of 2021. This increase was primarily due to higher volumes of export potash to Vancouver as a result of the prior year impacts of the B.C. wildfires, higher volumes of export potash to Thunder Bay, higher volumes of domestic potash as a result of the prior year impact of mine closures, and increased freight revenue per RTM. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher freight rates, and the favourable impact of the change in FX. RTMs increased more than carloads due to moving higher volumes of export potash to Vancouver, which has a longer length of haul.

For the nine months ended September 30	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 445	\$ 348	\$ 97	28	26
Carloads (in thousands)	125.1	114.8	10.3	9	N/A
Revenue ton-miles (in millions)	14,297	12,705	1,592	13	N/A
Freight revenue per carload (in dollars)	\$ 3,557	\$ 3,031	\$ 526	17	16
Freight revenue per revenue ton-mile (in cents)	3.11	2.74	0.37	14	12

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Potash revenue was \$445 million in the first nine months of 2022, an increase of \$97 million, or 28%, from \$348 million in the same period of 2021. This increase was primarily due to increased freight revenue per RTM and higher volumes of export potash to Vancouver, Thunder Bay, and the U.S. Pacific Northwest. This increase was partially offset by lower volumes of domestic potash. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher freight rates, and the favourable impact of the change in FX. RTMs increased more than carloads due to moving higher volumes of export potash, which has a longer length of haul.

Fertilizers and Sulphur

For the three months ended September 30	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 81	\$ 72	\$ 9	13	11
Carloads (in thousands)	14.9	15.1	(0.2)	(1)	N/A
Revenue ton-miles (in millions)	1,138	1,141	(3)	—	N/A
Freight revenue per carload (in dollars)	\$ 5,436	\$ 4,768	\$ 668	14	12
Freight revenue per revenue ton-mile (in cents)	7.12	6.31	0.81	13	11

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 96	\$ 78	\$ 18	23
Carloads (in thousands)	17.0	15.9	1.1	7
Revenue ton-miles (in millions)	1,340	1,219	121	10
Freight revenue per carload (in dollars)	\$ 5,647	\$ 4,906	\$ 741	15
Freight revenue per revenue ton-mile (in cents)	7.16	6.40	0.76	12

The increase in Fertilizers and sulphur revenue was \$81 million in the third quarter of 2022, an increase of \$9 million, or 13%, from \$72 million in the same period of 2021. This increase was primarily due to increased freight revenue per RTM and higher volumes of dry fertilizers, and wet fertilizers. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, the favourable impact of the change in FX, and higher freight rates.

Forest Products

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 103	\$ 86	\$ 17	20
Carloads (in thousands)	17.7	17.4	0.3	2
Revenue ton-miles (in millions)	1,378	1,361	17	1
Freight revenue per carload (in dollars)	\$ 5,819	\$ 4,943	\$ 876	18
Freight revenue per revenue ton-mile (in cents)	7.47	6.32	1.15	18

The increase in Forest products revenue was primarily due to increased freight revenue per RTM and higher volumes of paper products primarily from Vancouver to Texas, via interchange in Kansas City, Missouri, partially offset by lower volumes of sulphur, lumber and wet fertilizers, panel products. Freight revenue per RTM increased due to the favourable impact of the change in FX, higher freight rates, and higher fuel surcharge revenue as a result of higher fuel prices.

Energy, Chemicals and Plastics

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 366	\$ 310	\$ 56	18
Carloads (in thousands)	75.2	72.6	2.6	4
Revenue ton-miles (in millions)	6,207	5,907	300	5
Freight revenue per carload (in dollars)	\$ 4,867	\$ 4,270	\$ 597	14
Freight revenue per revenue ton-mile (in cents)	5.90	5.25	0.65	12

The increase in Energy, chemicals and plastics revenue was primarily due to increased freight revenue per RTM, higher volumes of plastics to Chicago, Illinois, as well as higher volumes of diluents to Alberta and ethylene glycol to Chicago, partially offset by lower volumes of crude and liquified petroleum gas. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, the favourable impact of the change in FX, and higher freight rates.

Metals, Minerals and Consumer Products

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 233	\$ 181	\$ 52	29
Carloads (in thousands)	61.8	54.6	7.2	13
Revenue ton-miles (in millions)	2,911	2,519	392	16
Freight revenue per carload (in dollars)	\$ 3,770	\$ 3,315	\$ 455	14
Freight revenue per revenue ton-mile (in cents)	8.00	7.19	0.81	11

The increase in Metals, minerals and consumer products revenue was primarily due to higher volumes of frac sand to the Bakken and Marcellus shale formations, higher volumes of steel, and increased freight revenue per RTM. Freight revenue per RTM increased due to higher freight rates, the favourable impact of the change in FX, and higher fuel surcharge revenue as a result of higher fuel prices.

Automotive

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 125	\$ 91	\$ 34	37
Carloads (in thousands)	28.7	24.1	4.6	19
Revenue ton-miles (in millions)	474	403	71	18
Freight revenue per carload (in dollars)	\$ 4,355	\$ 3,776	\$ 579	15
Freight revenue per revenue ton-mile (in cents)	26.37	22.58	3.79	17

The increase in Automotive revenue was primarily due to higher volumes as a result of the prior year global semiconductor chip shortage, higher volumes from Kansas City to various destinations in Canada, and increased freight revenue per RTM. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher freight rates, and the favourable impact of the change in FX.

For the nine months ended September 30	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 244	\$ 227	\$ 17	7	6
Carloads (in thousands)	46.8	48.4	(1.6)	(3)	N/A
Revenue ton-miles (in millions)	3,585	3,673	(88)	(2)	N/A
Freight revenue per carload (in dollars)	\$ 5,214	\$ 4,690	\$ 524	11	9
Freight revenue per revenue ton-mile (in cents)	6.81	6.18	0.63	10	8

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations. [Intermodal](#)

Fertilizers and sulphur

For the three months ended March 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 492	\$ 447	\$ 45	10
Carloads (in thousands)	265.0	255.4	9.6	4
Revenue ton-miles (in millions)	7,290	6,661	629	9
Freight revenue per carload (in dollars)	\$ 1,857	\$ 1,750	\$ 107	6
Freight revenue per revenue ton-mile (in cents)	6.75	6.71	0.04	1

The increase in Intermodal revenue was \$244 million in the first nine months of 2022, an increase of \$17 million, or 7%, from \$227 million in the same period of 2021. This increase was primarily due to higher international intermodal volumes primarily to and from the Port of Vancouver, the Port of Montreal, and the Port of Saint John, including onboarding a new international intermodal customer, higher domestic intermodal wholesale volumes, and increased freight revenue per RTM and higher volumes of dry fertilizers, RTM. This increase was partially offset by lower volumes of wet fertilizers and sulphur, domestic intermodal cross-border volumes. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher freight rates, and the favourable impact of the change in FX.

Forest Products

	2022	2021	Total Change	% Change	FX Adjusted	% Change ⁽¹⁾
For the three months ended September 30						
Freight revenues (in millions)	\$ 109	\$ 89	\$ 20	22	22	18
Carloads (in thousands)	18.5	18.7	(0.2)	(1)	(1)	N/A
Revenue ton-miles (in millions)	1,488	1,419	69	5	5	N/A
Freight revenue per carload (in dollars)	\$ 5,892	\$ 4,759	\$ 1,133	24	24	20
Freight revenue per revenue ton-mile (in cents)	7.33	6.27	1.06	17	17	13

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forest products revenue was \$109 million in the third quarter of 2022, an increase of \$20 million, or 22%, from \$89 million in the same period of 2021. This increase was primarily due to increased freight revenue per RTM and higher volumes of lumber, partially offset by lower volumes of paperboard. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher freight rates, and the favourable impact of the change in FX. intermodal ancillary revenue, RTMs increased while carloads decreased due to moving higher volumes of lumber from western Canada to the U.S. Midwest, which has a longer length of haul, and lower volumes of paperboard from Kansas City and Minneapolis to the U.S. Midwest, which have shorter lengths of haul.

	2022	2021	Total Change	% Change	FX Adjusted	% Change ⁽¹⁾
For the nine months ended September 30						
Freight revenues (in millions)	\$ 299	\$ 259	\$ 40	15	15	13
Carloads (in thousands)	55.3	55.1	0.2	—	—	N/A
Revenue ton-miles (in millions)	4,366	4,290	76	2	2	N/A
Freight revenue per carload (in dollars)	\$ 5,407	\$ 4,701	\$ 706	15	15	12
Freight revenue per revenue ton-mile (in cents)	6.85	6.04	0.81	13	13	11

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forest products revenue was \$299 million in the first nine months of 2022, an increase of \$40 million, or 15%, from \$259 million in the same period of 2021. This increase was primarily due to increased freight revenue per RTM, higher volumes of newsprint from Saint John, N.B., and higher volumes of paper and panel products from B.C. This increase was partially offset by lower volumes of lumber. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher freight rates, and the favourable impact of the change in FX.

Energy, Chemicals and Plastics

	2022	2021	Total Change	% Change	FX Adjusted	% Change ⁽¹⁾
For the three months ended September 30						
Freight revenues (in millions)	\$ 360	\$ 392	\$ (32)	(8)	(8)	(10)
Carloads (in thousands)	75.1	78.2	(3.1)	(4)	(4)	N/A
Revenue ton-miles (in millions)	6,286	6,330	(44)	(1)	(1)	N/A
Freight revenue per carload (in dollars)	\$ 4,794	\$ 5,013	\$ (219)	(4)	(4)	(6)
Freight revenue per revenue ton-mile (in cents)	5.73	6.19	(0.46)	(7)	(7)	(9)

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Energy, chemicals and plastics revenue was \$360 million in the third quarter of 2022, a decrease of \$32 million, or 8%, from \$392 million in the same period of 2021. This decrease was primarily due to decreased freight revenue per RTM and lower volumes of conventional crude and petroleum products. This decrease was partially offset by higher fuel surcharge revenue as a result of higher fuel prices, higher volumes of DRUbit™ crude to Kansas City and ethylene glycol, the favourable impact of the change in FX, and higher freight rates. Freight revenue per RTM decreased primarily due to lower crude liquidated damages, including customer volume commitments, as a result of the completion of customer contracts. Carloads decreased more than RTMs due to moving lower volumes of conventional crude to Noyes, MN and Kingsgate, B.C., which have shorter lengths of haul, and higher volumes to DRUbit™ crude to Kansas City, which has a longer length of haul.

For the nine months ended September 30	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 1,010	\$ 1,149	\$ (139)	(12)	(13)
Carloads (in thousands)	221.2	241.5	(20.3)	(8)	N/A
Revenue ton-miles (in millions)	18,221	19,328	(1,107)	(6)	N/A
Freight revenue per carload (in dollars)	\$ 4,566	\$ 4,758	\$ (192)	(4)	(5)
Freight revenue per revenue ton-mile (in cents)	5.54	5.94	(0.40)	(7)	(8)

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Energy, chemicals and plastics revenue was \$1,010 million in the first nine months of 2022, a decrease of \$139 million, or 12%, from \$1,149 million in the same period of 2021. This decrease was primarily due to decreased freight revenue per RTM and lower volumes of conventional crude, petroleum products, and plastics. This decrease was partially offset by higher fuel surcharge revenue as a result of higher fuel prices, higher volumes of DRUbit™ crude to Kansas City, higher freight rates, and the favourable impact of the change in FX. Freight revenue per RTM decreased primarily due to lower crude liquidated damages, including customer volume commitments, as a result of the completion of customer contracts. Carloads decreased more than RTMs due to moving lower volumes of conventional crude to Noyes, MN and Kingsgate, B.C., which have shorter lengths of haul, and moving higher volumes of DRUbit™ crude to Kansas City, which has a longer length of haul.

Metals, Minerals and Consumer Products

For the three months ended September 30	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 246	\$ 196	\$ 50	26	22
Carloads (in thousands)	66.0	60.4	5.6	9	N/A
Revenue ton-miles (in millions)	3,225	2,992	233	8	N/A
Freight revenue per carload (in dollars)	\$ 3,727	\$ 3,245	\$ 482	15	12
Freight revenue per revenue ton-mile (in cents)	7.63	6.55	1.08	16	14

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Metals, minerals and consumer products revenue was \$246 million in the third quarter of 2022, an increase of \$50 million, or 26%, from \$196 million in the same period of 2021. This increase was primarily due to increased freight revenue per RTM and higher volumes of frac sand to the Bakken and Marcellus shale formations, partially offset by lower volumes of steel. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher freight rates, and the favourable impact of the change in FX.

For the nine months ended September 30	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 655	\$ 535	\$ 120	22	20
Carloads (in thousands)	187.2	177.2	10.0	6	N/A
Revenue ton-miles (in millions)	8,852	8,328	524	6	N/A
Freight revenue per carload (in dollars)	\$ 3,499	\$ 3,019	\$ 480	16	14
Freight revenue per revenue ton-mile (in cents)	7.40	6.42	0.98	15	13

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Metals, minerals and consumer products revenue was \$655 million in the first nine months of 2022, an increase of \$120 million, or 22%, from \$535 million in the same period of 2021. This increase was primarily due to increased freight revenue per RTM and higher volumes of frac sand to the Marcellus and Bakken shale formations, partially offset by lower volumes of steel. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher freight rates, and the favourable impact of the change in FX.

Automotive

For the three months ended September 30	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 111	\$ 83	\$ 28	34	31
Carloads (in thousands)	25.1	23.3	1.8	8	N/A
Revenue ton-miles (in millions)	418	403	15	4	N/A
Freight revenue per carload (in dollars)	\$ 4,422	\$ 3,562	\$ 860	24	21

Freight revenue per revenue ton-mile (in cents)	26.56	20.60	5.96	29	26
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⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Automotive revenue was \$111 million in the third quarter of 2022, an increase of \$28 million, or 34%, from \$83 million in the same period of 2021. This increase was primarily due to increased freight revenue per RTM and higher volumes moving from Ontario to Chicago and Kansas City. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, the favorable impact of the change in FX and higher freight rates. Carloads increased more than RTMs due to moving higher volumes from Ontario to Chicago and Kansas City, which have shorter lengths of haul.

For the nine months ended September 30	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 322	\$ 289	\$ 33	11	10
Carloads (in thousands)	78.0	85.4	(7.4)	(9)	N/A
Revenue ton-miles (in millions)	1,308	1,378	(70)	(5)	N/A
Freight revenue per carload (in dollars)	\$ 4,128	\$ 3,384	\$ 744	22	20
Freight revenue per revenue ton-mile (in cents)	24.62	20.97	3.65	17	15

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Automotive revenue was \$322 million in the first nine months of 2022, an increase of \$33 million, or 11%, from \$289 million in the same period of 2021. This increase was primarily due to increased freight revenue per RTM, partially offset by lower volumes as a result of global supply chain challenges. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher freight rates, and the favourable impact of the change in FX. Carloads decreased more than RTMs due to moving proportionately lower volumes within the U.S. Midwest and eastern Canada, which has a shorter length of haul.

Intermodal

For the three months ended September 30	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 640	\$ 441	\$ 199	45	44
Carloads (in thousands)	325.5	271.1	54.4	20	N/A
Revenue ton-miles (in millions)	8,416	7,116	1,300	18	N/A
Freight revenue per carload (in dollars)	\$ 1,966	\$ 1,627	\$ 339	21	20
Freight revenue per revenue ton-mile (in cents)	7.60	6.20	1.40	23	22

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Intermodal revenue was \$640 million in the third quarter of 2022, an increase of \$199 million, or 45%, from \$441 million in the same period of 2021. This increase was primarily due to increased freight revenue per RTM, higher international intermodal volumes to and from the Port of Vancouver, and the Port which has a longer length of Saint John, onboarding new international intermodal customers, and higher domestic retail volumes. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher intermodal ancillary revenue, higher freight rates, and the favourable impact of the change in FX.

For the nine months ended September 30	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 1,660	\$ 1,280	\$ 380	30	29
Carloads (in thousands)	886.2	809.5	76.7	9	N/A
Revenue ton-miles (in millions)	23,354	21,008	2,346	11	N/A
Freight revenue per carload (in dollars)	\$ 1,873	\$ 1,581	\$ 292	18	18
Freight revenue per revenue ton-mile (in cents)	7.11	6.09	1.02	17	16

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Intermodal revenue was \$1,660 million in the first nine months of 2022, an increase of \$380 million, or 30%, from \$1,280 million in the same period of 2021. This increase was primarily due to increased freight revenue per RTM, higher volumes due to onboarding new international customers, higher international volumes to and from the Port of Saint John and the Port of Montreal, and higher domestic wholesale and retail volumes. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher intermodal ancillary revenue, higher freight rates, and the favourable impact of the change in FX.

Operating Expenses

Operating Expenses	2022	2021
Operating Expenses	\$ 1,660	\$ 1,280

For the three months ended September 30 (in millions of Canadian dollars)	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Compensation and benefits	\$ 393	\$ 381	\$ 12	3	2
Fuel	358	199	159	80	75
Materials	66	51	15	29	29
Equipment rents	33	31	2	6	3
Depreciation and amortization	213	203	10	5	4
Purchased services and other	312	303	9	3	2
Total operating expenses	\$ 1,375	\$ 1,168	\$ 207	18	16

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

For the three months ended March 31 (in millions of Canadian dollars)	2023	2022	Total Change	% Change
Compensation and benefits	\$ 438	\$ 413	\$ 25	6
Fuel	326	273	53	19
Materials	72	62	10	16
Equipment rents	30	35	(5)	(14)
Depreciation and amortization	225	210	15	7
Purchased services and other	346	310	36	12
Total operating expenses	\$ 1,437	\$ 1,303	\$ 134	10

Operating expenses were \$1,375 million in the third quarter of 2022, an increase of \$207 million from \$1,168 million in the same period of 2021. This increase was primarily due to:

- the unfavourable impact of changes in fuel prices of \$122 million; higher volume variable expenses;
- the impact of cost inflation;
- higher volume variable expenses as a result of an increase in workload as measured by GTMs;
- the unfavourable impact of the change in FX of \$17 million \$38 million; and
- a decrease in fuel efficiency of 2% due to higher volumes of intermodal, which has lower horsepower utilization.

This increase was partially offset by lower casualty costs incurred in 2022.

For the nine months ended September 30 (in millions of Canadian dollars)	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Compensation and benefits	\$ 1,154	\$ 1,165	\$ (11)	(1)	(2)
Fuel	1,001	623	378	61	58
Materials	191	164	27	16	16
Equipment rents	97	92	5	5	3
Depreciation and amortization	634	605	29	5	4
Purchased services and other	935	932	3	—	—
Total operating expenses	\$ 4,012	\$ 3,581	\$ 431	12	11

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Operating expenses were \$4,012 million in the first nine months of 2022, an increase of \$431 million, or 12%, from \$3,581 million in the same period of 2021. This increase was primarily due to:

- the unfavourable impact of changes in fuel prices of \$374 million;
- cost inflation;
- a gain on the exchange of property and construction easements in Chicago of \$50 million in 2021;
- a decrease in efficiencies primarily due to harsh winter weather conditions in the first quarter of 2022; and
- the unfavourable impact of the changes in FX higher fuel prices of \$34 million \$17 million.

This increase was partially offset by lower acquisition-related defined pension current service costs of \$90 \$19 million associated with a lower stock based compensation expense of \$12 million, primarily driven by a lower increase in share price compared to the KCS acquisition that were recognized in Purchased services and other and lower volume variable expenses as a result of a decrease in workload as measured by GTMs prior period.

Compensation and Benefits

Compensation and benefits expense includes employee wages, salaries, fringe benefits, and stock-based compensation. Compensation and benefits expense was \$393 million \$438 million in the third first quarter of 2022, 2023, an increase of \$12 million \$25 million, or 36.6%, from \$381 million \$413 million in the same period of 2021.

2022. This increase was primarily due to:

- the impact of wage and benefit inflation;
- increased higher volume variable expense expenses as a result of an increase in workload as measured by GTMs; and
- increased new hire training costs; and
- the unfavourable impact of the change in FX of \$7 million.

This increase was partially offset by:

- lower stock-based compensation of \$5 million;
- by lower defined benefit pension current service cost costs of \$5 million; \$19 million and
- decreased incentive compensation.

Compensation and benefits expense was \$1,154 million in the first nine months of 2022, a decrease of \$11 million, or 1%, from \$1,165 million in the same period of 2021. This decrease was primarily due to:

- decreased incentive compensation;
- lower volume variable expense as a result of a decrease in workload as measured stock-based compensation expense of \$12 million, primarily driven by GTMs; and
- a lower defined benefit pension current service cost of \$17 million.

This decrease was partially offset by increase in share price compared to the impact of wage and benefit inflation and unfavourable impact of the change in FX of \$8 million. prior period.

Fuel

Fuel expense consists mainly of fuel used by locomotives and includes provincial, state, and federal fuel taxes. Fuel expense was \$358 million \$326 million in the third first quarter of 2022, 2023, an increase of \$159 million \$53 million, or 80.19%, from \$199 million \$273 million in the same period of 2021, 2022. This increase was primarily due to:

- the unfavourable impact of higher fuel prices of \$122 million;
- an increase in workload, as measured by GTMs;
- a decrease in the unfavourable impact of higher fuel efficiency prices of 2% due to higher volumes of Intermodal, which has lower horsepower utilization; \$17 million; and
- the unfavourable impact of the change in FX of \$6 million.

Fuel expense was \$1,001 million in the first nine months of 2022, an increase of \$378 million, or 61%, from \$623 million in the same period of 2021. This increase was primarily due to:

- the unfavourable impact of higher fuel prices of \$374 million \$15 million;
- a decrease in fuel efficiency of 2% due to lower locomotive productivity and harsher winter operating conditions in the first quarter of 2022, and lower volumes of Canadian grain, which has higher horsepower utilization; and
- the unfavourable impact of the change in FX of \$12 million.

This increase was partially offset by an improvement in fuel efficiency of 2% due to running longer and heavier trains as a decrease result of improvements in workload, as measured by GTMs. the operating plan.

Materials

Materials expense includes the cost of materials used for the maintenance of track, locomotives, freight cars, and buildings, as well as software sustainment. Materials expense was \$66 million \$72 million in the third first quarter of 2022, 2023, an increase of \$15 million \$10 million, or 29.16% from \$51 million \$62 million in the same period of 2021, 2022. This increase was primarily due to the unfavourable impact of cost inflation including higher non-locomotive fuel prices, and higher spending on locomotive and track maintenance.

Materials expense was \$191 million in the first nine months of 2022, an increase of \$27 million, or 16%, from \$164 million in the same period of 2021. This increase was primarily due to:

- the unfavourable impact of inflation including higher non-locomotive fuel prices;
- an increase in non-locomotive fuel consumption; and
- higher increased spending on track maintenance.

Equipment Rents

Equipment rents expense includes the cost associated with using other railways' companies' freight cars, intermodal equipment, and locomotives, net of rental income received from other railways for the use of CP's the Company's equipment. Equipment rents expense was \$33 million \$30 million in the third first quarter of 2022, an increase 2023, a decrease of \$2 million \$5 million, or 6.14%, from \$31 million \$35 million in the same period of 2021, 2022. This increase decrease was primarily due to greater increased receipts from other railways for the use of the Company's locomotives partially offset by increased usage of pooled freight cars and lower price incentives received on Intermodal cars.

This increase was partially offset by higher container rents in 2022 and higher receipts for CP rolling stock used by other railways.

Equipment rents expense was \$97 million in the first nine months of 2022, an increase of \$5 million, or 5%, from \$92 million in the same period of 2021. This increase was primarily due to:

- lower price incentives received on Intermodal cars;
- greater usage of pooled freight cars; and
- slower cycle times. Company.

This increase was partially offset by higher receipts for CP rolling stock used by other railways and higher container rents in 2022.

Depreciation and Amortization

Depreciation and amortization expense represents the charge associated with the use of track and roadway, buildings, rolling stock, information systems, and other depreciable assets. Depreciation and amortization expense was \$213 million and \$634 million for \$225 million in the three and nine months ended September 30, 2022, first quarter of 2023, an increase of \$10 million \$15 million, or 5% 7%, and an increase of \$29 million or 5%, respectively, compared to from \$210 million in the same periods period of 2021. These increases were 2022. This increase was primarily due to a higher depreciable asset base as well as and the unfavourable impact of the change in FX of \$2 million, \$4 million.

Purchased Services and Other

For the three months ended September 30 (in millions of Canadian dollars)										For the three months ended March 31 (in millions of Canadian dollars)									
		2022		2021		Total Change		% Change				2023		2022		Total Change		% Change	
Support and facilities	Support and facilities	\$	83	\$	80	\$	3	\$	4	Support and facilities	\$	94	\$	84	\$	10	\$	12	
Track and operations	Track and operations		68		66		2		3	Track and operations		81		73		8		12	
Intermodal	Intermodal		59		50		9		18	Intermodal		57		51		6		11	
Equipment	Equipment		26		26		—		—	Equipment		31		29		2		7	
Casualty	Casualty		24		42		(18)		(43)	Casualty		30		21		9		43	
Property taxes	Property taxes		32		30		2		7	Property taxes		36		35		1		3	
Other	Other		23		17		6		35	Other		18		27		(9)		(34)	
Land sales	Land sales		(3)		(8)		5		(63)	Land sales		(1)		(10)		9		(93)	
Total Purchased services and other	Total Purchased services and other		\$ 312		\$ 303		\$ 9		3	Total Purchased services and other		\$ 346		\$ 310		\$ 36		12	

Purchased services and other expense encompasses a wide range of third-party costs, including expenses for joint facilities, personal injuries and damage claims, environmental remediation, property taxes, contractor and consulting fees, insurance, and gains on land sales, insurance. Purchased services and other expense was \$312 million \$346 million in the third first quarter of 2022, 2023, an increase of \$9 million \$36 million, or 3% 12%, from \$303 million \$310 million in the same period of 2021, 2022. This increase was primarily due to:

- the impact of cost inflation;
- higher expenses due to higher events and sponsorship costs;
- lower gains on land sales;
- higher expenses primarily due to the increased severity of casualty incidents; and
- the unfavorable impact of the change in FX of \$4 million, \$9 million.

This increase was partially offset by:

- lower expenses primarily due to the reduced severity of casualty incidents;
- expenses due to the wildfire response in British Columbia in 2021, reported in Support and facilities, and Track and operations; and
- lower legal expenses compared to the same period in 2021, reported in Support and facilities.

For the nine months ended September 30 (in millions of Canadian dollars)		2022		2021		Total Change		% Change	
Support and facilities		\$	249	\$	214	\$	35	\$	16
Track and operations			217		204		13		6
Intermodal			167		154		13		8
Equipment			82		80		2		3
Casualty			74		101		(27)		(27)
Property taxes			103		98		5		5

Other	56	148	(92)	(62)
Land sales	(13)	(67)	54	(81)
Total Purchased services and other	\$ 935	\$ 932	3	—

Purchased services and other expense was \$935 million in the first nine months of 2022, an increase of \$3 million from \$932 million in the same period of 2021. This increase was primarily due to:

- a gain on the exchange of property and construction easements in Chicago of \$50 million in 2021;
- cost inflation;
- higher expenses primarily due to higher events and sponsorship costs;
- increased purchased services due to harsher weather conditions, reported in Track and operations;
- a \$7 million arbitration settlement in 2021, reported in Track and operations;
- the unfavorable impact of the change in FX of \$7 million; and
- higher intermodal expenses related to pickup and delivery, reported in Intermodal.

This increase was partially offset by:

- by lower acquisition-related costs of \$90 million associated with the KCS acquisition, reported in Other;
- lower expenses primarily due to the reduced severity of casualty incidents; and
- lower expenses from lower volumes, reported in Intermodal, and Track and operations Other.

Other Income Statement Items

Equity Earnings of Kansas City Southern

In the third first quarter of 2022, the Company recognized \$221 million \$204 million (U.S. \$169 \$151 million) of equity income earnings of KCS, an increase of \$6 million, or 3%, from \$198 million (U.S. \$156 million) in the Company's Interim Consolidated Statements same period of Income. 2022. This amount is net of amortization of basis differences of \$42 million (U.S. \$32 \$31 million) associated with KCS purchase accounting, and net an increase of acquisition-related costs incurred by KCS. No similar equity income existed in the same period of 2021 as CP acquired KCS into trust on December 14, 2021.

On a historical basis, without any effect of purchase accounting, KCS recorded net income attributable to controlling interests of \$263 million (U.S. \$201 million) in the third quarter of 2022, a favourable change of \$66 million (U.S. \$45 million), 2 million or 34% 5%, from a \$197 million (U.S. \$156 million) net income. This change was primarily due to higher revenues of \$180 \$40 million (U.S. \$138 million) and lower acquisition-related costs, partially offset by higher fuel cost of \$56 million (U.S. \$43 million). Acquisition-related costs (net of tax) incurred by KCS in the third quarter of 2022 were \$12 million (U.S. \$10 million), a decrease of \$23 million (U.S. \$18 million), or 66%, from \$35 million (U.S. \$28 \$31 million) in the same period of 2021. These values have been translated at the average FX rate of \$1.31 and \$1.26 CAD per USD for the three months ended September 30, 2022 and 2021, respectively.

In the first nine months of 2022, the Company recognized \$627 million (U.S. \$489 million) equity income of KCS in the Company's Interim Consolidated Statements of Income. This amount is net of amortization of basis differences of \$121 million (U.S. \$94 million) associated with KCS purchase accounting and net of acquisition-related costs incurred by KCS.

On a historical basis, without any effect of purchase accounting, KCS recorded net income attributable to controlling interests of \$748 million \$246 million (U.S. \$583 million \$182 million) in the first nine months quarter of 2022, a favourable change 2023, an increase of \$835 million \$8 million (U.S. \$653 million), \$5 million decrease, or 961% 3%, from a \$87 million \$238 million (U.S. \$70 million) net loss. This change was primarily due to lower acquisition-related costs, including the merger termination fee paid to CP (\$187 million) in the same period of 2021, and 2022. This increase was primarily due to higher revenues of \$393 \$201 million (U.S. \$306 \$99 million), along with the favourable impact of FX on translation of \$17 million, partially offset by higher operating expense of \$162 million (U.S. \$89 million) driven by higher transportation and fuel cost costs, along with higher FX losses of \$145 \$23 million (U.S. \$113 (U.S. \$17 million), recognized by KCS. Acquisition-related costs (net of tax) incurred by KCS in the first nine months quarter of 2022 2023 were \$39 \$10 million (U.S. \$30 \$7 million), a decrease of \$727 \$3 million (U.S. \$3 million), or 23%, from \$13 million (U.S. \$583 million), or 95%, from \$766 million (U.S. \$613 \$10 million) in the same period of 2021 2022. These values have been translated at the average FX rate of \$1.28 exchange rates averaging \$1.3526 and \$1.25 \$1.2670 CAD per USD for the first nine three months of ended March 31, 2023 and 2022, and 2021, respectively.

Other Expense (Income)

Other expense (income) consists of gains and losses from the change in FX on debt and lease liabilities and working capital, costs related to financing, shareholder costs, equity income, and other non-operating expenditures. Other expense was \$7 million \$2 million in the third first quarter of 2022, 2023, a decrease change of \$117 million \$3 million, or 94% 300%, compared to other expense income of \$124 million \$1 million in the same period of 2021 2022. This decrease change was primarily due to lower equity income of \$3 million, as well as an increase in acquisition-related costs of \$83 million in 2021 which included losses on interest rate hedges of \$111 million, bridge facility fees of \$2 million, and gains on FX hedges of \$30 million. In addition, an FX translation loss of \$46 million was incurred in the third quarter of 2021 compared \$3 million due to nil in the same period of 2022 as a result of the designation of all U.S. dollar-denominated debt and lease liabilities as a net investment hedge following the KCS acquisition in the fourth quarter of 2021. Debt Exchange. This decrease was partially offset by higher an increase in net FX losses gains on US-denominated cash and working capital of \$9 million in the third quarter of 2022 as compared to the same period in 2021.

Other expense was \$13 million in the first nine months of 2022, a decrease of \$240 million, or 95%, from \$253 million in the same period of 2021. This decrease was primarily due to acquisition-related costs of \$295 million in 2021 which included losses on interest rate hedges of \$261 million, bridge facility and backstop revolver fees of \$47 million, and gains on FX hedges of \$13 \$3 million. This decrease was partially offset by an FX translation gain of \$39 million in the first nine months of 2021 compared to nil in the same period of 2022 as a result of the designation of all U.S. dollar-denominated debt and lease liabilities as discussed above, and higher FX losses on cash and working capital of \$10 million in the nine months ended September 30, 2022 as compared to the same period in 2021.

FX translation gains and losses on debt and lease liabilities are discussed further in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Merger Termination Fee

On May 21, 2021, KCS terminated the Original Merger Agreement with CP to enter into a definitive agreement with Canadian National Railway. At the same time and in accordance with the terms of the Original Merger Agreement, KCS paid CP a termination fee of \$845 million (U.S. \$700 million). This amount is reported as "Merger termination fee" in the Company's Interim Consolidated Statements of Income for the nine months ended September 30, 2021. No similar items were received in the same period of 2022.

Other Components of Net Periodic Benefit Recovery

Other components of net periodic benefit recovery is related to the Company's pension and other post-retirement and post-employment benefit plans. It includes interest cost on benefit obligations, expected return on fund plan assets, recognized net actuarial losses, and amortization of prior service costs. Other components of net periodic benefit recovery were \$86 million in the first quarter of 2023, a decrease of \$15 million, or 15%, from \$101 million in the same period of 2022. This decrease was \$102 million and \$304 million for the three and nine months ended September 30, 2022, due to an increase of \$7 million or 7%, and an increase of \$18 million or 6%, respectively, compared to the same periods of 2021. These increases were primarily due to decreases in recognized net actuarial losses of \$14 million and \$42 million, respectively, partially offset by increases in the interest cost on benefit obligations of \$7 million and \$23 million, a decrease in the expected return on plan assets of \$20 million, respectively, partially offset by a decrease in recognized net actuarial losses of \$31 million.

Net Interest Expense

Net interest expense includes interest on long-term debt and finance leases. Net interest expense was \$166 million \$154 million in the third first quarter of 2022, an increase 2023, a decrease of \$62 million \$6 million, or 6%, from \$104 million \$160 million in the same period of 2021 2022. This increase decrease was primarily due to interest a decrease in debt levels of \$65 million incurred on long-term debt and the U.S. \$500 million term facility issued for the KCS acquisition, \$7 million and higher interest on commercial paper income of \$5 \$6 million as a result of higher interest rates along with and a higher average outstanding balance, cash balance. This decrease was partially offset by the favourable unfavorable impact of the change in FX of \$9 million related to repayment of maturing long-term debt.

Net interest expense was \$486 million in the first nine months of 2022, an increase of \$171 million, or 54%, from \$315 million in the same period of 2021. This increase was primarily due to interest of \$192 million incurred on long-term debt and the U.S. \$500 million term facility issued for the KCS acquisition, and higher interest on commercial paper of \$7 million as a result of higher interest rates along with a higher average outstanding balance, partially offset by the favourable impacts of \$25 million related to repayment of maturing long-term debt and \$13 million as a result of a lower effective interest rates, million.

Income Tax Expense

Income tax expense was \$196 million \$163 million in the third first quarter of 2022, 2023, an increase of \$27 million \$78 million, or 16% 92%, from \$169 million \$85 million in the same period of 2021, 2022. This increase was primarily due to higher taxable earnings and a lower tax recoveries on acquisition-related costs associated with the KCS acquisition.

This increase was partially offset by:

- a deferred tax recovery of \$12 million on the revaluation of deferred income tax balances as at January 1, 2022 as a result of an Iowa state corporate tax rate decrease enacted during change in the third quarter of 2022;
- an outside basis deferred tax recovery arising from difference of the difference between the carrying amount of CP's equity investment in KCS for financial reporting and the underlying tax basis of this investment; and
- a lower effective tax rate.

Income tax expense was \$526 million in the first nine months of 2022, a decrease of \$91 million, or 15%, from \$617 million in the same period of 2021. This decrease was primarily due to:

- higher taxable earnings in 2021 due to the merger termination payment received in connection with KCS's termination of the Original Merger Agreement of \$845 million (U.S. \$700 million);
- the deferred tax recovery described above; and
- a lower effective tax rate.

This decrease was partially offset by lower tax recoveries on acquisition-related costs associated with the KCS acquisition, and an outside basis deferred tax expense arising from the difference between the carrying amount of CP's investment in KCS for financial reporting and the underlying tax basis of this investment, KCS.

The effective tax rate in the third first quarter and first nine months of 2022, including equity earnings of KCS and other discrete items, 2023 was 18.01% and 18.97%, respectively, 16.90% compared to 26.36% and 21.00% 12.67% in the same periods of 2021, 2022. The adjusted effective income tax rate in the third first quarter and first nine months of 2022, excluding discrete items, 2023 was 24.25% 24.50%, compared to 24.60% for 24.25% in the same periods of 2021.

period of 2022. The Company expects an annualized adjusted effective tax rate in 2022 between 24.00% is a Non-GAAP measure, calculated as the effective tax rate adjusted for significant items as they are not considered indicative of future financial trends either by nature or amount or provide improved comparability to past performance and 24.50%, which it also excludes equity earnings of KCS. This Non-GAAP measure does not have a standardized meaning and is not defined by GAAP and, therefore, may not be comparable to similar measures presented by other companies. Significant items are discussed further in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Following the acquisition of control of KCS, the Company's 2023 effective tax rate is expected to be approximately 25.50%, which excludes discrete tax items, the impact of the change in the equity investment in KCS, and other discrete items, associated deferred tax on the outside basis difference during the year. The Company's 2022 2023 outlook for its annualized effective income tax rate is based on certain assumptions about events and developments that may or may not materialize, or that may be offset entirely or partially by new events and developments. This is discussed further in Item 1A. Risk Factors of CP's 2021 the Company's 2022 Annual Report on Form 10-K.

Impact of FX on Earnings and Foreign Exchange Risk

The information presented below describes the Company as at and for the quarter ended March 31, 2023 and does not reflect the Company post obtaining control of KCS, which is described in Item 1. Financial Statements, Note 15 Subsequent events.

Although the Company conducts business primarily in Canada, a significant portion of its revenues, expenses, assets and liabilities including debt are denominated in U.S. dollars. In addition, equity earnings or losses of KCS are denominated in U.S. dollars. The value of the Canadian dollar is affected by a number of domestic and international factors, including, without limitation, economic performance, commodity prices, and Canadian, U.S., and international monetary policies. Fluctuations in FX affect the Company's results because U.S. dollar-denominated revenues and expenses are translated into Canadian dollars. U.S. dollar-denominated revenues and expenses increase (decrease) when the Canadian dollar weakens (strengthens) in relation to the U.S. dollar.

In the first quarter of 2023, the U.S. dollar has strengthened to an average rate of \$1.35 Canadian/U.S. dollar, compared to \$1.27 Canadian/U.S. dollar in the first quarter of 2022. In the first quarter of 2023, the impact of a stronger U.S. dollar resulted in an increase in Total revenues of \$66 million, an increase in Total operating expenses of \$38 million, and an increase in Net interest expense of \$9 million from the same period of 2022.

On an annualized basis, the Company expects that every \$0.01 weakening (or strengthening) of the Canadian dollar relative to the U.S. dollar, positively (or negatively) impacts Total revenues by approximately \$36 million (December 31, 2022 – approximately \$37 million), negatively (or positively) impacts Operating expenses by approximately \$21 million (December 31, 2022 – approximately \$18 million), and negatively (or positively) impacts Net interest expense by approximately \$4 million (December 31, 2022 – approximately \$4 million).

To manage its exposure to fluctuations in exchange rates between Canadian and U.S. dollars, the Company may sell or purchase U.S. dollar forwards at fixed rates in future periods. In addition, changes in the exchange rate between the Canadian

dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and may in turn positively or negatively affect revenues.

Impact of Fuel Price on Earnings

Fluctuations in fuel prices affect the Company's results because fuel expense constitutes a significant portion of the Company's operating costs. As fuel prices fluctuate, there will be an impact on earnings due to the timing of recoveries from the Company's fuel cost adjustment program.

The impact of fuel prices on earnings includes the impacts of carbon taxes, levies, and obligations under cap-and-trade programs recovered and paid, on revenues and expenses, respectively.

In the first quarter of 2023, the favourable impact of fuel prices on Operating income was \$84 million. The favourable impact of the timing of recoveries under the Company's fuel cost adjustment program and higher fuel prices resulted in an increase in Total revenues of \$101 million from the same period of 2022. Higher fuel prices resulted in an increase in Total operating expenses of \$17 million.

Impact of Share Price on Earnings and Stock-Based Compensation

Fluctuations in the Common Share price affect the Company's operating expenses because share-based liabilities are measured at fair value. The Company's Common Shares are listed on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE") with ticker symbol "CP".

In the first quarter of 2023, the change in Common Share prices resulted in stock-based compensation expense of \$4 million, a decrease of \$17 million, from \$21 million in the same period of 2022.

Based on information available at March 31, 2023, for every \$1.00 change in share price, stock-based compensation expense has a corresponding change of approximately \$1.4 million to \$1.8 million (December 31, 2022 - approximately \$1.2 million to \$1.8 million). This excludes the impact of changes in share price relative to the S&P/TSX 60 Index, S&P 500 Industrials Index, and to Class I railways, which may trigger different performance share unit payouts. Stock-based compensation may also be impacted by non-market performance conditions.

Additional information concerning stock-based compensation is included in Item 1. Financial Statements, Note 13 Stock-based compensation.

Liquidity and Capital Resources

The Company's primary sources of liquidity include its Cash and cash equivalents, commercial paper program, bilateral letter of credit facilities, and revolving credit facility. The Company believes that these sources as well as cash flow generated through operations and existing debt capacity are adequate to meet its short-term and long-term cash requirements. The Company is not aware of any material trends, events, or uncertainties that would create any deficiencies in the Company's liquidity.

As at **September 30, 2022** **March 31, 2023**, the Company had **\$138 million** **\$290 million** of Cash and cash equivalents compared to **\$69 million** **\$451 million** at **December 31, 2021** **December 31, 2022**.

As at **September 30, 2022** **March 31, 2023**, the Company's existing revolving credit facility was undrawn, unchanged from **December 31, 2021** **December 31, 2022**, from a total available amount of U.S. \$1.3 billion. During the three and nine months ended September 30, 2022, the Company repaid in full the outstanding borrowings of U.S. \$400 million (\$504 million) and U.S. \$500 million (\$636 million) respectively on the U.S. \$500 million unsecured non-revolving term credit facility (the "term facility"). The facility was automatically terminated on September 15, 2022 following the final principal repayment. The revolving credit facility agreement requires the Company to maintain a financial covenant. As at **September 30, 2022** **March 31, 2023**, the Company was in compliance with all terms and conditions of the credit facility arrangements and satisfied the financial covenant.

The Company has a commercial paper program that enables it to issue commercial paper up to a maximum aggregate principal amount of U.S. \$1.0 billion in the form of unsecured promissory notes. This commercial paper program is backed by the revolving credit facility. As at **September 30, 2022**, total There were no commercial paper borrowings were U.S. \$525 million, compared to U.S. \$265 million as at **December 31, 2021** **March 31, 2023** and **December 31, 2022**.

As at **September 30, 2022** **March 31, 2023**, under its bilateral letter of credit facilities, the Company had letters of credit drawn of \$75 million, compared to \$58 million as at December 31, 2021, from a total available amount of \$300 million. (December 31, 2022 - \$75 million). Under the bilateral letter of credit facilities, the Company has the option to post collateral in the form of Cash or cash equivalents, equal at least to the face value of the letter of credit issued. These agreements permit the Company to withdraw amounts posted as collateral at any time; therefore, the amounts posted as collateral are presented as "Cash and cash equivalents" on the Consolidated Balance Sheet. As at **September 30, 2022** and **December 31, 2021**, **March 31, 2023** the Company did not have any had \$70 million collateral posted on its bilateral letter of credit facilities, facilities (December 31, 2022 - \$nil).

Contractual Commitments

The Company's material cash requirements from known contractual obligations and commitments to make future payments primarily consist of long-term debt and related interest, future capital commitments, supplier purchases, leases, and other long term liabilities. Debt and finance leases, interest obligations related to debt and finance leases, and letters of credit amount to \$1,237 million \$1,097 million, \$656 million \$637 million and \$75 million within the next 12 months, respectively, with the remaining amount committed thereafter of \$19,513 million \$18,229 million, \$14,044 million \$13,559 million and nil \$nil respectively. Future capital commitments amount to \$356 million \$289 million within the next 12 months, with the remaining amount committed thereafter of \$144 million \$111 million.

Supplier purchase agreements, operating leases, and other long-term liabilities amount to \$943 million \$674 million, \$74 million \$72 million, and \$56 million within the next 12 months, respectively, with the remaining amount committed thereafter of \$548 million \$346 million, \$231 million \$193 million and \$402 million \$439 million, respectively. Other long-term liabilities include expected cash payments for environmental remediation, post-retirement benefits, worker's compensation benefits, long-term disability benefits, pension benefit payments for the Company's non-registered supplemental pension plan, and certain other long-term liabilities. Pension payments are discussed further in Critical Accounting Estimates of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Guarantees

The Company accrues for all guarantees that it expects to pay. As at September 30, 2022 March 31, 2023, these accruals amounted to \$5 million \$8 million (December 31, 2021 2022 - \$14 million \$5 million).

Operating Activities

Cash provided by operating activities was \$1,102 million \$881 million in the third first quarter of 2022, 2023, an increase of \$554 million \$268 million, or 101% 44%, compared to \$548 million \$613 million in the same period of 2021, 2022. This increase was primarily due to a dividend received of \$259 million from KCS in the third quarter of 2022, the favourable change in working capital, and an increase in higher cash generating income compared to the same period of 2021.

Cash provided by operating activities was \$2,422 million in the first nine months of 2022, a decrease of \$662 million, or 21%, compared to \$3,084 million in the same period of 2021. The decrease for the first nine months was primarily due to lower cash generating income as a result of the \$845 million merger termination fee received from KCS in the second quarter of 2021 and an unfavourable change in working capital driven by acquisition-related payables in 2021, offset by dividends of \$593 million received from KCS in 2022.

Investing Activities

Cash used in investing activities was \$410 million \$401 million in the third first quarter of 2022, a decrease 2023, an increase of \$1,719 million \$195 million, or 81% 95%, compared to \$2,129 million \$206 million in the same period of 2021, 2022. This decrease increase was primarily due to merger payments of \$1,773 million (U.S. \$1,400 million) made to KCS in September 2021, partially offset by higher capital additions.

Cash used in investing activities was \$978 million in the first nine months of 2022, a decrease of \$1,842 million, or 65%, compared to \$2,820 million in the same period of 2021. The decrease for the first nine months of 2022 compared to the same periods of 2021 was primarily due to merger payments of \$1,773 million (U.S. \$1,400) made to KCS in September 2021 and lower capital additions, partially offset by lower proceeds from the sale of properties and other assets.

Free Cash

CP generated positive Free cash of \$721 million in the third quarter of 2022, an increase of \$518 million, or 255%, from \$203 million in the same period of 2021. The increase was due to an increase in Cash provided by operating activities, partially offset by higher capital additions during the third first quarter of 2022, 2023 compared to the same period of 2021. For the first nine months of 2022, CP generated positive Free cash of \$1,514 million, an increase of \$269 million, or 22%, from \$1,245 million in the same period of 2021. The increase was due to an increase in Cash provided by operating activities and lower capital additions during the first nine months of 2022 compared to the same periods of 2021.

Free cash is affected by seasonal fluctuations and by other factors including the size of the Company's capital programs. Free cash is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. 2022.

Financing Activities

Cash used in financing activities was \$721 million \$645 million in the third first quarter of 2022, a change 2023, an increase of \$1,623 million \$254 million, or 180% 65%, compared to cash provided by financing activities of \$902 million \$391 million in the same period of 2021. This change was primarily due to the net repayment of commercial paper of \$42 million in the third quarter of 2022 compared to a net issuance of \$713 million in the third quarter of 2021, principal repayments of \$504 million (U.S. \$400 million) on a term loan during the third quarter of 2022 compared to borrowings under term loan of \$633 million (U.S. \$500 million) in the third quarter of 2021, and higher dividends paid as a result of a higher number of shares outstanding associated with the shares issued to acquire KCS in the fourth quarter of 2021. This change was partially offset by repayments on long term debt of \$7 million during the three months ended September 30, 2022 compared to \$318 million during the same period of 2021.

Cash used in financing activities was \$1,409 million in the first nine months of 2022, an increase of \$1,215 million, or 626%, compared to \$194 million in the same period of 2021, 2022. This increase was primarily due to nil commercial paper borrowings in the first quarter of 2023, compared to net issuance of \$320 million during the same period of 2022. This increase was partially offset by principal repayments of \$636 million \$479 million (U.S. \$500 million) on a term loan \$350 million of 4.45% 12.5-year Notes at maturity in the first quarter of 2023, compared to borrowings under term loan of \$633 million (U.S. \$500 million) in 2021, principal repayments of \$125 million of the Company's 5.100% 10-year Medium Term Notes, and \$313 million \$313 million (U.S. \$250 million) of the Company's 4.500% 10-year Notes, at maturity in January 2022, principal repayment of \$97 million and \$97 million (U.S. \$76 million) of the Company's 6.99% Finance lease at maturity in March 2022, and higher dividends paid as a result of a higher number of shares outstanding associated with the shares issued to acquire KCS in the fourth quarter of 2021. This increase was partially offset by a net issuance of commercial paper of \$298 million during the nine months ended September 30, 2022 compared to net repayments of \$66 million during the first nine months of 2021, and repayment of long-term debt of \$349 million during the first nine months of 2021. 2022.

Credit Measures

Credit ratings provide information relating to the Company's operations and liquidity, and affect the Company's ability to obtain short-term and long-term financing and/or the cost of such financing. The applicable margin that applies to outstanding loans under the Company's revolving credit facility is based on the credit rating assigned to the Company's senior unsecured and unsubordinated debt.

A strong investment grade credit rating is an important measure in assessing if the Company's credit ratings were to decline to below investment-grade levels, the Company could experience a significant increase in its interest cost for new debt along with a negative effect on its ability to maintain access to public financing and to minimize the cost of capital. It also affects the ability of the Company to engage in certain collateralized business activities on a cost-effective basis, readily issue new debt.

Credit ratings and outlooks are based on the rating agencies' methodologies and can change from time to time to reflect their views of CP's the Company. Their views are affected by numerous factors including, but not limited to, the Company's financial position and liquidity along with external factors beyond the Company's control.

As at September 30, 2022 March 31, 2023, CP's the Company's credit ratings from Standard & Poor's Rating Services ("Standard & Poor's") and Moody's Investor Service ("Moody's") remain unchanged from December 31, 2021 December 31, 2022. The following table shows the ratings issued for the Company by the rating agencies noted herein as of March 31, 2023 and is being presented as it relates to the Company's cost of funds and liquidity.

Credit ratings as at September 30, 2022 March 31, 2023⁽¹⁾

Long-term debt		Outlook
Standard & Poor's		
Long-term corporate credit	BBB+	stable
Senior secured debt Moody's	A Baa2	stable
BBB+	stable	
Moody's		
Senior unsecured debt	Baa2	stable
Commercial paper program		
Standard & Poor's	A-2	N/A
Moody's	P-2	N/A

⁽¹⁾ Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor. Credit ratings are based on the rating agencies' methodologies and may be subject to revision or withdrawal at any time by the rating agencies.

Financial Ratios

The Long-term debt to Net income ratio for the twelve months ended September 30, 2022 March 31, 2023 and September 30, 2021 March 31, 2022 was 7.4 5.1 and 3.2 6.9, respectively. This increase decrease was primarily due to a higher debt balance in connection with the KCS acquisition and lower net income for the twelve months ended September 30, 2022. Net income.

The Combined Adjusted net debt Net Debt to Combined Adjusted earnings before interest, tax, depreciation and amortization ("EBITDA") ("EBITDA") ratio for the twelve months ended September 30, 2022 and September 30, 2021 was 4.3 and 2.4, respectively. This increase was primarily due to a higher debt balance in connection with the KCS acquisition, partially offset by higher Adjusted EBITDA. The Adjusted net debt to Adjusted EBITDA ratio is a Non-GAAP measure, which is defined and reconciled from the Long-term debt to Net income ratio, the most comparable measure calculated in accordance with GAAP, in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Pro-forma Adjusted Net Debt to Pro-forma Adjusted EBITDA ratio for the trailing twelve month months ended September 30, 2022 March 31, 2023 and March 31, 2022 was 4.1 3.6 and 4.1, respectively. This increase from the Adjusted net debt to Adjusted EBITDA ratio in the same period of 2021 decrease was primarily due to higher Combined adjusted EBITDA and a higher lower Combined adjusted net debt balance in connection with balance. CPKC presents the trailing twelve month adjusted EBITDA of KCS acquisition, partially offset by higher Pro-forma adjusted EBITDA. Beginning in the first quarter of 2022, CP added disclosure of Pro-forma Adjusted Net Debt to Pro-forma Adjusted EBITDA Ratio on a combined basis to better align with CP's the Company's debt covenant calculation, which takes into account the trailing twelve month adjusted EBITDA of KCS as well as KCS's outstanding debt debt at its book value. This ratio is not calculated in accordance with Regulation S-X Article 11 ("Article 11"). Beginning in the first quarter of 2023, this combined ratio has been renamed as "Combined Adjusted Net Debt to Combined Adjusted EBITDA Ratio". Please see Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion. Over the long term, CP the Company targets an a Combined Adjusted net debt Net Debt to Combined Adjusted EBITDA ratio of 2.0 to 2.5.

Although CP the Company has provided a target Non-GAAP measure (Adjusted (Combined Adjusted Net Debt to Combined Adjusted EBITDA ratio), management is unable to reconcile, without unreasonable efforts, the target Combined Adjusted Net Debt to Combined Adjusted EBITDA ratio to the most comparable GAAP measure (Long-term debt to Net income ratio), due to unknown variables and uncertainty related to future results. These unknown variables may include unpredictable transactions of significant value. In recent years, CP the Company has recognized acquisition-related costs, the merger termination payment received, KCS's gain on unwinding of interest rate hedges (net of CPKC's associated purchase accounting basis differences and tax), the FX impact of translating the Company's debt and lease liabilities (including borrowings under the credit facility), discrete tax items, changes in the outside basis tax difference between the carrying amount of CP's the Company's equity investment in KCS and its tax basis of the investment, changes in income tax rates, and a change changes to an uncertain tax item. Acquisition-related costs include legal, consulting, financing fees, integration planning costs consisting of third-party services and system migration, fair value gain or loss on FX forward contracts and interest rate hedges, FX gain on U.S. dollar-denominated cash on hand from the issuances of long-term debt to fund the KCS acquisition, debt exchange transaction costs, and transaction and integration costs (net of tax) incurred by KCS which were recognized within Equity earnings of Kansas City Southern in the Equity loss Company's Consolidated Statements of KCS). Income, KCS has also recognized significant transaction costs and FX gains and losses. These or other similar, large unforeseen transactions affect Net income but may be excluded from CP's the Company's Combined Adjusted EBITDA. Additionally, the U.S.-to-Canada dollar exchange rate is unpredictable and can have a significant impact on CP's the Company's reported results, but may, be excluded from CP's Adjusted EBITDA. In particular, CP excludes the along with interest, taxes, and FX impact of translating the Company's Company's debt and lease liabilities, interest and taxes be excluded from Combined Adjusted EBITDA. Please see Forward-Looking Statements in this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion.

Supplemental Guarantor Financial Information

Canadian Pacific Railway Company ("CPRC"), CPRL, CPKC, a 100%-owned subsidiary of CPRL, CPKC, is the issuer of certain securities which are fully and unconditionally guaranteed by CPRL, CPKC on an unsecured basis. The other subsidiaries of CPRC do not guarantee the securities and are referred to below as the "Non-Guarantor Subsidiaries". The following is a description of the terms and conditions of the guarantees with respect to securities for which CPRC is the issuer and CPRL, CPKC provides a full and unconditional guarantee.

As of the date of the filing of the Form 10-Q, CPRC had U.S. \$12,050 million \$14,714 million principal amount of debt securities outstanding due through 2115 which include the debt exchanged with KCS as described below; and U.S. \$30 million and GBP £3 million in perpetual 4% consolidated debenture stock, for all of which CPRL, CPKC is the guarantor subject to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended. As of the same date, CPRC also had \$3,300 million principal amount of debt securities issued under Canadian securities law Securities Law due through 2050 for which CPRL is the guarantor and not subject to the Exchange Act.

CPRL, CPKC fully and unconditionally guarantees the payment of the principal (and premium, if any) and interest on the debt securities and consolidated debenture stock issued by CPRC, any sinking fund or analogous payments payable with respect to such securities, and any additional amounts payable when they become due, whether at maturity or otherwise. The guarantee is CPRL's, CPKC's unsubordinated and unsecured obligation and ranks equally with all of CPRL's, CPKC's other unsecured, unsubordinated obligations.

CPRL, CPKC will be released and relieved of its obligations under the guarantees after obligations to the holders are satisfied in accordance with the terms of the respective instruments.

On March 20, 2023, CPKC and CPRC announced offers to exchange any and all validly tendered (and not validly withdrawn) and accepted notes of seven series, previously issued by KCS (the "Old Notes") for notes to be issued by CPRC (the "CPRC Notes"). As of April 19, 2023, U.S. \$3,014 million of Old Notes of such seven series were tendered and accepted in exchange for U.S. \$3,014 million of CPRC Notes in seven corresponding series.

Each CPRC Note in a series contains the same interest rates, interest payment dates, maturity dates and substantively the same redemption provisions as the corresponding series of Old Notes.

In exchange for each U.S. \$1,000 principal amount of Old Notes that was validly tendered prior to March 31, 2023 (the "Early Participation Date"), holders of Old Notes received consideration consisting of U.S. \$1,000 principal amount of CPRC Notes and a cash amount of U.S. \$1.00. The total consideration included an early participation premium, consisting of U.S. \$30 principal amount of CPRC Notes per U.S. \$1,000 principal amount of Old Notes. In exchange for each U.S. \$1,000 principal amount of Old Notes that was validly tendered after the Early Participation Date but prior to the expiration of the exchange offers on April 17, 2023 (the "Expiration Date") and not validly withdrawn, holders of Old Notes received consideration consisting of U.S. \$970 principal amount of CPRC Notes and a cash amount of U.S. \$1.00.

CPKC has fully and unconditionally guaranteed the payment of the principal (and premium, if any) and interest, on the CPRC Notes, and any additional amounts payable with respect to the CPRC Notes, when they become due and payable, whether at the stated maturity thereof or by declaration of acceleration, call for redemption or otherwise. The CPRC Notes and the related guarantees are part of CPRC's and CPKC's respective unsecured obligations and rank equally with all of CPRC's and CPKC's existing and future unsecured and unsubordinated indebtedness.

Additional information is included in Item 1. Financial Statements, Note 15 Subsequent events.

Pursuant to Rule 13-01 of the SEC's Regulation S-X, the Company provides summarized financial and non-financial information of CPRC in lieu of providing separate financial statements of CPRC.

More information on the securities under this guarantee structure can be found in Exhibit 22.1 List of Issuers and Guarantor Subsidiaries of this quarterly report.

Summarized Financial Information

The following tables present summarized financial information for CPRC (Subsidiary Issuer) and CPRL, CPKC (Parent Guarantor) on a combined basis after elimination of (i) intercompany transactions and balances among CPRC and CPRL, CPKC; (ii) equity in earnings from and investments in the Non-Guarantor Subsidiaries; and (iii) intercompany dividend income.

Statements of Income

(in millions of Canadian dollars)	(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPRL (Parent Guarantor)		(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPKC (Parent Guarantor)	
		For the nine months ended September 30, 2022	For the year ended December 31, 2021		For the three months ended March 31, 2023	For the year ended December 31, 2022
Total revenues	Total revenues	\$ 4,566	\$ 5,924	Total revenues	\$ 1,569	\$ 6,384
Total operating expenses	Total operating expenses	2,985	3,712	Total operating expenses	1,018	4,110
Operating income ⁽¹⁾	Operating income ⁽¹⁾	1,581	2,212	Operating income ⁽¹⁾	551	2,274
Less: Other ⁽²⁾	Less: Other ⁽²⁾	192	(522)	Less: Other ⁽²⁾	49	234
Income before income tax expense	Income before income tax expense	1,389	2,734	Income before income tax expense	502	2,040
Net income	Net income	\$ 1,005	\$ 2,548	Net income	\$ 366	\$ 1,533

⁽¹⁾ Includes net lease costs incurred from non-guarantor subsidiaries for the nine months ended September 30, 2022 March 31, 2023 and for the year ended December 31, 2021 December 31, 2022 of \$323 million \$103 million and \$431 million \$410 million, respectively.

⁽²⁾ Includes Other expense (income), Merger termination fee, Other components of net periodic benefit recovery, and Net interest expense.

Balance Sheets

		CPRC (Subsidiary Issuer) and CPRL (Parent Guarantor)			CPRC (Subsidiary Issuer) and CPKC (Parent Guarantor)		
(in millions of Canadian dollars)	(in millions of Canadian dollars)	As at September 30, 2022	As at December 31, 2021	(in millions of Canadian dollars)	As at March 31, 2023	As at December 31, 2022	
Assets	Assets				Assets		
Current assets	Current assets	\$ 1,229	\$ 963	Current assets	\$ 1,293	\$ 1,395	
Properties	Properties	11,590	11,342	Properties	11,949	11,791	
Other non-current assets	Other non-current assets	2,865	2,536	Other non-current assets	3,427	3,337	
Liabilities	Liabilities				Liabilities		
Current liabilities	Current liabilities	\$ 2,397	\$ 2,789	Current liabilities	\$ 2,285	\$ 2,759	
Long-term debt	Long-term debt	19,334	18,574	Long-term debt	18,062	18,137	
Other non-current liabilities	Other non-current liabilities	3,108	3,008	Other non-current liabilities	3,210	3,178	

Excluded from the Income Statements and Balance Sheets above are the following significant intercompany transactions and balances that CPRC and CPRL CPKC have with the Non-Guarantor Subsidiaries:

Cash Transactions with Non-Guarantor Subsidiaries

(in millions of Canadian dollars)	(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPRL (Parent Guarantor)			CPRC (Subsidiary Issuer) and CPKC (Parent Guarantor)		
		For the nine months ended September 30, 2022	For the year ended December 31, 2021	(in millions of Canadian dollars)	For the three months ended March 31, 2023	For the year ended December 31, 2022	
Dividend income from non- guarantor subsidiaries	Dividend income from non- guarantor subsidiaries	\$ 126	\$ 297	Dividend income from non- guarantor subsidiaries	\$ 10	\$ 133	
Capital contributions to non-guarantor subsidiaries		—	(134)				
Redemption of shares by non- guarantor subsidiaries		115	1,370				
Redemption of capital from non- guarantor subsidiaries				Redemption of capital from non- guarantor subsidiaries	—	115	

Balances with Non-Guarantor Subsidiaries

(in millions of Canadian dollars)	(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPRL (Parent Guarantor)			CPRC (Subsidiary Issuer) and CPKC (Parent Guarantor)		
		As at September 30, 2022	As at December 31, 2021	(in millions of Canadian dollars)	As at March 31, 2023	As at December 31, 2022	
Assets	Assets				Assets		
Accounts receivable, intercompany	Accounts receivable, intercompany	\$ 226	\$ 344	Accounts receivable, intercompany	\$ 192	\$ 186	
Short-term advances to affiliates	Short-term advances to affiliates	2,680	2,859	Short-term advances to affiliates	1,965	2,209	
Long-term advances to affiliates	Long-term advances to affiliates	7,714	7,616	Long-term advances to affiliates	7,331	7,502	
Liabilities	Liabilities				Liabilities		
Accounts payable, intercompany	Accounts payable, intercompany	\$ 187	\$ 212	Accounts payable, intercompany	\$ 211	\$ 199	

Short-term advances from affiliates	Short-term advances from affiliates	2,633	2,777	Short-term advances from affiliates	Short-term advances from affiliates	2,660	2,649
Long-term advances from affiliates	Long-term advances from affiliates	89	82	Long-term advances from affiliates	Long-term advances from affiliates	88	88

Share Capital

At October 25, 2022 April 25, 2023, the latest practicable date, there were 930,123,568 931,059,385 Common Shares and no preferred shares issued and outstanding, which consists of 15,288 14,827 holders of record of the Common Shares. In addition, CP the Company has a Management Stock Option Incentive Plan ("MSOIP"), under which key officers and employees are granted options to purchase the Common Shares. Options issued prior to the share split described in the Executive Summary now each provide rights over five shares. For consistency, all All number of options presented herein are shown on the basis of the number of shares subject to the options. On April 27, 2022 At April 25, 2023, at the Annual and Special Meeting, the Company's shareholders approved an amendment to the MSOIP to increase the maximum number of shares available for issuance under the MSOIP, effective at and after April 27, 2022, by 20,000,000 Common Shares. At October 25, 2022, 7,727,281 7,406,675 options were outstanding under the MSOIP and stand-alone option agreements entered into with Mr. Keith Creel. There are 22,509,537 21,894,326 options available to be issued by the Company's MSOIP in the future. CP The Company also has a Director's Stock Option Plan ("DSOP"), under which directors are granted options to purchase Common Shares. There are no outstanding options under the DSOP, which has 1,700,000 options available to be issued in the future.

Non-GAAP Measures

The Company presents Non-GAAP measures to provide a basis for evaluating underlying earnings and liquidity trends in the Company's business that can be compared with the results of operations in prior periods. In addition, these Non-GAAP measures facilitate a multi-period assessment of long-term profitability, allowing management and other external users of the Company's consolidated financial information to compare profitability on a long-term basis, including assessing future profitability, with that of the Company's peers.

These Non-GAAP measures have no standardized meaning and are not defined by GAAP and, therefore, may not be comparable to similar measures presented by other companies. The presentation of these Non-GAAP measures is not intended to be considered in isolation from, as a substitute for, or as superior to the financial information presented in accordance with GAAP.

Non-GAAP Performance Measures

The Company uses adjusted earnings results including Adjusted income, Adjusted diluted earnings per share, Adjusted operating income and Adjusted operating ratio to evaluate the Company's operating performance and for planning and forecasting future business operations and future profitability. Core adjusted income and Core adjusted diluted earnings per share are presented to provide financial statement users with additional transparency by isolating for the impact of KCS purchase accounting. KCS purchase accounting represents the amortization of basis differences, being the difference in value between the consideration paid to acquire KCS and the underlying carrying value of the net assets of KCS immediately prior to its acquisition by the Company. Company, net of tax, as recognized within Equity earnings of Kansas City Southern in the Company's Interim Consolidated Statements of Income. All assets subject to KCS purchase accounting contribute to income generation and will continue to amortize over their estimated useful lives. These Non-GAAP measures are presented in Financial Highlights and discussed further in other sections of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. These Non-GAAP measures provide meaningful supplemental information regarding operating results because they exclude certain significant items that are not considered indicative of future financial trends either by nature or amount or provide improved comparability to past performance. As a result, these items are excluded for management's assessment of operational performance, allocation of resources and preparation of annual budgets. These significant items may include, but are not limited to, restructuring and asset impairment charges, individually significant gains and losses from sales of assets, acquisition-related costs, the merger termination payment received, KCS's gain on unwinding of interest rate hedges (net of CPKC's associated purchase accounting basis differences and tax), as recognized within Equity earnings of Kansas City Southern in the Company's Interim Consolidated Statements of Income, the foreign exchange ("FX") impact of translating the Company's debt and lease liabilities (including borrowings under the credit facility), discrete tax items, changes in the outside basis tax difference between the carrying amount of CPKC's equity investment in KCS and its tax basis of this investment, changes in income tax rates, changes to an uncertain tax item, and certain items outside the control of management. Acquisition-related costs include legal, consulting, financing fees, integration planning costs consisting of third-party services and system migration, fair value gain or loss on FX forward contracts and interest rate hedges, FX gain on U.S. dollar-denominated cash on hand from the issuances of long-term debt to fund the KCS acquisition, debt exchange transaction costs, and transaction and integration costs incurred by KCS, net of tax, which were recognized within Equity earnings of Kansas City Southern in the Company's Interim Consolidated Statements of Income. These items may not be non-recurring. However, excluding these significant items from GAAP results allows for a consistent understanding of the Company's consolidated financial performance when performing a multi-period assessment including assessing the likelihood of future results. Accordingly, these Non-GAAP financial measures may provide insight to investors and other external users of the Company's consolidated financial information.

In the first nine months of 2022 2023, there were three significant items included in Net income as follows:

- Deferred tax recovery of \$23 million on changes in the outside basis difference of the equity investment in KCS that favourably impacted Diluted EPS by 3 cents; and
- Acquisition-related costs of \$25 million in connection with the KCS acquisition (\$21 million after current tax recovery of \$4 million), including an expense of \$12 million recognized in Purchased services and other, \$3 million recognized in Other (income) expense, and \$10 million recognized in Equity earnings of KCS that unfavourably impacted Diluted EPS by 2 cents.

In 2022, there were five significant items included in Net income as follows:

- in the fourth quarter, a gain of \$212 million due to KCS's gain on unwinding of interest rate hedges (net of CPKC's associated purchase accounting basis differences and tax) recognized in Equity earnings of KCS that favourably impacted Diluted EPS by 23 cents;
- in the fourth quarter, a deferred tax recovery of \$24 million as a result of a reversal of an uncertain tax item related to a prior period that favourably impacted Diluted EPS by 3 cents;
- in the third quarter, a deferred tax recovery of \$12 million due to a decrease in the Iowa state tax rate that favourably impacted Diluted EPS by 1 cent;
- during the course of the year, a net deferred tax expense of \$8 million on changes in the outside basis difference of the equity investment in KCS that unfavourably impacted Diluted EPS by 1 cent as follows:
 - in the third quarter, a deferred tax recovery of \$9 million \$19 million on changes in the outside basis difference of the equity investment in KCS that favourably impacted Diluted EPS by 2 cents as follows:

- in the fourth quarter, a \$27 million recovery that favourably impacted Diluted EPS by 3 cents;
- in the third quarter, a \$9 million recovery that favourably impacted Diluted EPS by 1 cent;
- in the second quarter, a deferred tax \$49 million expense of \$49 million on changes in the outside basis difference of the equity investment in KCS that unfavourably impacted Diluted EPS by 5 cents; and
- in the first quarter, a deferred tax \$32 million recovery of \$32 million on changes in the outside basis difference of the equity investment in KCS that favourably impacted Diluted EPS by 3 cents; and
- during the course of the year, acquisition-related costs of \$96 \$123 million in connection with the KCS acquisition (\$92 108 million after current tax recovery of \$4 \$15 million), including costs of \$57 \$74 million recognized in Purchased services and other, and \$39 \$49 million recognized in Equity earnings of KCS, that unfavourably impacted Diluted EPS by 9 12 cents as follows:
 - in the fourth quarter, acquisition-related costs of \$27 million (\$16 million after current tax recovery of \$11 million), including costs of \$17 million recognized in Purchased services and other and \$10 million recognized in Equity earnings of KCS, that unfavourably impacted Diluted EPS by 3 cents;
 - in the third quarter, acquisition-related costs of \$30 million (\$33 million after current tax expense of \$3 million), including costs of \$18 million recognized in Purchased services and other and \$12 million recognized in Equity earnings of KCS, that unfavourably impacted Diluted EPS by 3 cents;
 - in the second quarter, acquisition-related costs of \$33 million (\$29 million after current tax recovery of \$4 million), including costs of \$19 million recognized in Purchased services and other and \$14 million recognized in Equity earnings of KCS, that unfavourably impacted Diluted EPS by 3 cents; and
 - in the first quarter, acquisition-related costs of \$33 million (\$30 million after current tax recovery of \$3 million), including costs of \$20 million recognized in Purchased services and other and \$13 million recognized in Equity earnings of KCS, that unfavourably impacted Diluted EPS by 3 cents.

In 2021, the nine months ended December 31, 2021, there were four significant items included in Net income as follows:

- in the fourth quarter, a deferred tax recovery of \$33 million on changes in the outside basis difference of the equity investment in KCS that favourably impacted Diluted EPS by 5 cents;
- in the second quarter, the merger termination payment received of \$845 million (\$748 million after current taxes) in connection with KCS's termination of the Original Merger Agreement effective May 21, 2021 that favourably impacted Diluted EPS by \$1.11;
- during the course of the year, acquisition-related costs of \$599 million \$563 million in connection with the KCS acquisition (\$500 473 million after current tax recovery of \$107 million \$90 million net of deferred tax expense of \$8 million \$9 million), including costs of \$183 million \$150 million recognized in Purchased services and other, \$169 million recognized in Equity loss of KCS, and \$247 million \$244 million recognized in Other expense (income), that unfavourably impacted Diluted EPS by 75 69 cents as follows:
 - in the fourth quarter, acquisition-related costs of \$157 million (\$157 million after current tax recovery of \$13 million net of deferred tax expense of \$13 million), including costs of \$36 million recognized in Purchased services and other, \$169

- million \$169 million in Equity loss of KCS, and a \$48 million recovery recognized in Other (income) expense, that unfavourably impacted Diluted EPS by 22 cents;
- in the third quarter, acquisition-related costs of \$98 million (\$80 million after current tax recovery of \$61 million net of deferred tax expense of \$43 million), including costs of \$15 million recognized in Purchased services and other and \$83 million recognized in Other expense (income), that unfavourably impacted Diluted EPS by 12 cents; and
- in the second quarter, acquisition-related costs of \$308 million (\$236 million after current taxes of \$25 million and deferred taxes of \$47 million), including costs of \$99 million recognized in Purchased services and other and \$209 million recognized in Other expense (income), that unfavourably impacted Diluted EPS by 35 cents; and
- in the first quarter, acquisition-related costs of \$36 million (\$27 million after current taxes of \$8 million and deferred taxes of \$1 million), including costs of \$33 million recognized in Purchased services and other and \$3 million recognized in Other expense (income), that unfavourably impacted Diluted EPS by 4 cents; and
- during the course of the year, a net non-cash gain/loss of \$7 million \$26 million (\$6 23 million after deferred tax) due to FX translation of debt and lease liabilities that favourably/unfavourably impacted Diluted EPS by 1 cent 3 cents as follows:
 - in the fourth quarter, a \$32 million loss (\$28 million after deferred tax) that unfavourably impacted Diluted EPS by 4 cents;
 - in the third quarter, a \$46 million loss (\$40 million after deferred tax) that unfavourably impacted Diluted EPS by 6 cents; and
 - in the second quarter, a \$52 million gain (\$45 million after deferred tax) that favourably impacted Diluted EPS by 7 cents; and
 - in the first quarter, a \$33 million gain (\$29 million after deferred tax) that favourably impacted Diluted EPS by 4 cents.

In the three months ended December 31, 2020, there were two significant items included in Net income as follows:

- a deferred tax recovery of \$29 million due to a change relating to a tax return filing election for the state of North Dakota that favourably impacted Diluted EPS by 5 cents; and
- a \$103 million non-cash gain (\$90 million after deferred tax) due to FX translation of debt that favourably impacted Diluted EPS by 13 cents.

Reconciliation of GAAP Performance Measures to Non-GAAP Performance Measures

The following tables reconcile the most directly comparable measures presented in accordance with GAAP to the Non-GAAP measures presented in Financial Highlights and discussed further in other sections of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations:

Adjusted income is calculated as Net income reported on a GAAP basis adjusted for significant items. Core adjusted income is calculated as Adjusted income less KCS purchase accounting.

(in millions of Canadian dollars)	(in millions of Canadian dollars)	For the three months ended September 30		For the nine months ended September 30		For the three months ended March 31		
		2022	2021	2022	2021	(in millions of Canadian dollars)	2023	2022
Net income as reported	Net income as reported	\$ 891	\$ 472	\$ 2,246	\$ 2,320	\$ 800	\$ 590	
Less significant items (pre-tax):								

Less significant item (pre-tax):							Less significant item (pre-tax):		
Acquisition-related costs	Acquisition-related costs	(30)	(98)	(96)	(442)	Acquisition-related costs	(25)	(33)	
Merger termination fee		—	—	—	845				
Impact of FX translation (loss) gain on debt and lease liabilities		—	(46)	—	39				
Add:	Add:					Add:			
Tax effect of adjustments ⁽¹⁾	Tax effect of adjustments ⁽¹⁾	3	(24)	(4)	3	Tax effect of adjustments ⁽¹⁾	(4)	(3)	
Deferred tax (recovery) expense on the outside basis difference of the investment in KCS		(9)	—	8	—				
Income tax rate changes		(12)	—	(12)	—				
Deferred tax recovery on the outside basis difference of the investment in KCS						Deferred tax recovery on the outside basis difference of the investment in KCS			
Adjusted income	Adjusted income	\$ 903	\$ 592	\$ 2,334	\$ 1,881	Adjusted income	\$ 798	\$ 588	
Less: KCS purchase accounting	Less: KCS purchase accounting	(42)	—	(121)	—	Less: KCS purchase accounting	(42)	(40)	
Core adjusted income	Core adjusted income	\$ 945	\$ 592	\$ 2,455	\$ 1,881	Core adjusted income	\$ 840	\$ 628	

⁽¹⁾ The tax effect of adjustments was calculated as the pre-tax effect of the adjustments multiplied by the applicable tax rate for the above items of (6.73%) and 4.35% 15.38% for the three and nine months ended September 30, 2022, respectively, March 31, 2023, and 16.88% and 0.68% 8.69% for the three and nine months ended September 30, 2021, March 31, 2022, respectively. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the significant items.

Adjusted diluted earnings per share is calculated using Adjusted income, as defined above, divided by the weighted-average diluted number of Common Shares outstanding during the period as determined in accordance with GAAP. Core adjusted diluted earnings per share is calculated as Adjusted diluted earnings per share less KCS purchase accounting.

		For the three months ended		For the nine months ended		For the three months ended March 31		
		September 30		September 30		2023		
		2022	2021	2022	2021	2023	2022	
Diluted earnings per share as reported	Diluted earnings per share as reported	\$ 0.96	\$ 0.70	\$ 2.41	\$ 3.46	\$ 0.86	\$ 0.63	
Less significant items (pre-tax):								
Less significant item (pre-tax):								
Acquisition-related costs	Acquisition-related costs	(0.03)	(0.15)	(0.10)	(0.66)	Acquisition-related costs	(0.03)	(0.04)
Merger termination fee		—	—	—	1.26			
Impact of FX translation (loss) gain on debt and lease liabilities		—	(0.07)	—	0.06			
Add:	Add:					Add:		
Tax effect of adjustments ⁽¹⁾	Tax effect of adjustments ⁽¹⁾	—	(0.04)	(0.01)	0.01	Tax effect of adjustments ⁽¹⁾	(0.01)	(0.01)
Deferred tax (recovery) expense on the outside basis difference of the investment in KCS		(0.01)	—	0.01	—			
Income tax rate changes		(0.01)	—	(0.01)	—			

Deferred tax recovery on the outside basis difference of the investment in KCS		Deferred tax recovery on the outside basis difference of the investment in KCS	(0.03)	(0.03)
Adjusted diluted earnings per share	Adjusted diluted earnings per share	Adjusted diluted earnings per share		
	\$ 0.97	\$ 0.88	\$ 2.50	\$ 2.81
Less: KCS purchase accounting	Less: KCS purchase accounting	(0.04)	—	(0.13)
Core adjusted diluted earnings per share	Core adjusted diluted earnings per share	Core adjusted diluted earnings per share		
	\$ 1.01	\$ 0.88	\$ 2.63	\$ 2.81

(1) The tax effect of adjustments was calculated as the pre-tax effect of the adjustments multiplied by the applicable tax rate for the above items of (6.73%) and 4.35% for the three and nine months ended September 30, 2022, respectively, and 16.88% and 0.68% 15.38% for the three and nine months ended September 30, 2021, March 31, 2023, and 8.69% for the three months ended March 31, 2022, respectively. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the significant items.

Adjusted operating income is calculated as Operating income reported on a GAAP basis less significant items.

(in millions of Canadian dollars)	For the three months ended September						For the three months ended March 31		
	(in millions of Canadian dollars)	30		For the nine months ended September 30			(in millions of Canadian dollars)	For the three months ended March 31	
		2022	2021	2022	2021			2023	2022
Operating income as reported	Operating income as reported	\$ 937	\$ 774	\$ 2,340	\$ 2,374		Operating income as reported	\$ 829	\$ 535
Less significant item:	Less significant item:						Less significant item:		
Acquisition-related costs	Acquisition-related costs	(18)	(15)	(57)	(147)		Acquisition-related costs	(12)	(20)
Adjusted operating income	Adjusted operating income	\$ 955	\$ 789	\$ 2,397	\$ 2,521		Adjusted operating income	\$ 841	\$ 555

Operating ratio is calculated as operating expenses divided by revenues. Adjusted operating ratio excludes those significant items that are reported within operating Operating income.

	For the three months ended September						For the three months ended March 31		
	30		For the nine months ended September			30	For the three months ended March 31		
	2022	2021	2022	2021		2023	2022		
Operating ratio as reported	Operating ratio as reported	59.5	%	60.2	%	63.2	%	60.1	%
Less significant item:	Less significant item:						Less significant item:		
Acquisition-related costs	Acquisition-related costs	0.8	%	0.8	%	0.9	%	2.4	%
Adjusted operating ratio	Adjusted operating ratio	58.7	%	59.4	%	62.3	%	57.7	%
							Adjusted operating ratio	62.9	%
								69.8	%

Adjusted ROIC Return on Invested Capital ("Adjusted ROIC")

Return on average shareholders' equity is calculated as Net income divided by average shareholders' equity, averaged between the beginning and ending balance over a trailing twelve month period. Adjusted ROIC is calculated as Adjusted return divided by Adjusted average invested capital. Adjusted return is defined as Net income adjusted for interest expense, tax effected at the Company's adjusted annualized effective tax rate, and significant items in the Company's Consolidated Financial Statements, tax effected at the applicable tax rate. Adjusted average invested capital is defined as the sum of total Shareholders' equity, Long-term debt, and Long-term debt maturing within one year, as presented in the Company's Consolidated Financial Statements, each averaged between the beginning and ending balance over a trailing twelve month period, adjusted for the impact of significant items, tax effected at the applicable tax rate, on closing balances as part of this average. Adjusted ROIC excludes significant items reported in the Company's Consolidated Financial Statements, as these significant items are not considered indicative of future financial trends either by nature or amount, and excludes interest expense, net of tax, to incorporate returns on the Company's overall capitalization. Adjusted ROIC is a

performance measure that measures how productively the Company uses its long-term capital investments, representing critical indicators of good operating and investment decisions made by management, and is an important performance criteria in determining certain elements of the Company's long-term incentive plan. Adjusted ROIC, which is reconciled below from Return on average shareholders' equity, the most comparable measure calculated in accordance with GAAP, is also presented in Financial Highlights and discussed further in Results of Operations of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Calculation of Return on average shareholders' equity

(in millions of Canadian dollars, except for percentages)	(in millions of Canadian dollars, except for percentages)	For the twelve months ended September 30		For the twelve months ended March 31	
		2022	2021	(in millions of Canadian dollars, except for percentages)	2023
Net income as reported	Net income as reported	\$ 2,778	\$ 3,122	Net income as reported	\$ 3,727
Average shareholders' equity	Average shareholders' equity	\$ 23,641	\$ 8,524	Average shareholders' equity	\$ 36,753
Return on average shareholders' equity	Return on average shareholders' equity	11.8 %	36.6 %	Return on average shareholders' equity	10.1 %
					13.6 %

Reconciliation of Net income to Adjusted return

(in millions of Canadian dollars)	(in millions of Canadian dollars)	For the twelve months ended September 30		For the twelve months ended March 31	
		2022	2021	(in millions of Canadian dollars)	2023
Net income as reported	Net income as reported	\$ 2,778	\$ 3,122	Net income as reported	\$ 3,727
Add:	Add:			Add:	
Net interest expense	Net interest expense	611	427	Net interest expense	646
Tax on interest ⁽¹⁾	Tax on interest ⁽¹⁾	(145)	(104)	Tax on interest ⁽¹⁾	(146)
Significant items (pre-tax):	Significant items (pre-tax):			Significant items (pre-tax):	
KCS net gain on unwind of interest rate hedges				KCS net gain on unwind of interest rate hedges	(212)
Acquisition-related costs	Acquisition-related costs	253	442	Acquisition-related costs	115
Merger termination fee	Merger termination fee	—	(845)	Merger termination fee	—
Impact of FX translation loss (gain) on debt and lease liabilities		32	(142)		
Impact of FX translation loss on debt and lease liabilities				Impact of FX translation loss on debt and lease liabilities	—
Tax on significant items ⁽²⁾	Tax on significant items ⁽²⁾	(8)	16	Tax on significant items ⁽²⁾	(16)
Deferred tax recovery on the outside basis difference of the investment in KCS	Deferred tax recovery on the outside basis difference of the investment in KCS	(25)	—	Deferred tax recovery on the outside basis difference of the investment in KCS	(10)
Income tax rate changes	Income tax rate changes	(12)	(29)	Income tax rate changes	(12)
Reversal of provision for uncertain tax item				Reversal of provision for uncertain tax item	(24)
Adjusted return	Adjusted return	\$ 3,484	\$ 2,887	Adjusted return	\$ 4,068
					\$ 2,926

(i) Tax was calculated at the adjusted annualized effective tax rate of 23.73% 22.59% and 24.34% 23.75% for the twelve months ended September 30, 2022 March 31, 2023 and 2021, 2022, respectively.

(ii) Tax was calculated as the pre-tax effect of the adjustments multiplied by the applicable tax rate for the above items of 2.97% 16.53% and 2.57% 0.32% for the twelve months ended September 30, 2022 March 31, 2023 and 2021, 2022, respectively. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the significant items.

Reconciliation of Average shareholders' equity to Adjusted average invested capital

(in millions of Canadian dollars)	(in millions of Canadian dollars)	For the twelve months ended September 30		For the twelve months ended March 31	
		2022	2021	(in millions of Canadian dollars)	2023
Average shareholders' equity	Average shareholders' equity	\$ 23,641	\$ 8,524	\$ 36,753	\$ 20,926
Average long-term debt, including long-term debt maturing within one year	Average long-term debt, including long-term debt maturing within one year	15,272	9,877	19,413	14,701
		\$ 38,913	\$ 18,401	\$ 56,166	\$ 35,627
Less:	Less:			Less:	
Significant items (pre-tax):	Significant items (pre-tax):			Significant items (pre-tax):	
KCS net gain on unwind of interest rate hedges				KCS net gain on unwind of interest rate hedges	106 —
Acquisition-related costs	Acquisition-related costs	(127)	(221)	Acquisition-related costs	(58) (298)
Merger termination fee	Merger termination fee	—	423	Merger termination fee	— 423
Tax on significant items ⁽ⁱ⁾	Tax on significant items ⁽ⁱ⁾	2	—	Tax on significant items ⁽ⁱ⁾	8 (2)
Deferred tax recovery on the outside basis difference of the investment in KCS	Deferred tax recovery on the outside basis difference of the investment in KCS	13	—	Deferred tax recovery on the outside basis difference of the investment in KCS	5 32
Income tax rate changes	Income tax rate changes	6	15	Income tax rate changes	6 —
				Reversal of provision for uncertain tax item	12 —
Adjusted average invested capital	Adjusted average invested capital	\$ 39,019	\$ 18,184	Adjusted average invested capital	\$ 56,087 \$ 35,472

(i) Tax was calculated at the pre-tax effect of the adjustment multiplied by the applicable tax rate of 1.71% 16.53% and 0.51% 1.71% for the twelve months ended September 30, 2022 March 31, 2023 and 2021, 2022, respectively. The applicable tax rate reflects the taxable jurisdiction and nature, being on account of capital or income, of the significant item.

Calculation of Adjusted ROIC

(in millions of Canadian dollars, except for percentages)	(in millions of Canadian dollars, except for percentages)	For the twelve months ended September 30		For the twelve months ended March 31	
		2022	2021	(in millions of Canadian dollars, except for percentages)	2023
Adjusted return	Adjusted return	\$ 3,484	\$ 2,887	Adjusted return	\$ 4,068 \$ 2,926
Adjusted average invested capital	Adjusted average invested capital	\$ 39,019	\$ 18,184	Adjusted average invested capital	\$ 56,087 \$ 35,472
Adjusted ROIC	Adjusted ROIC	8.9 %	15.9	% Adjusted ROIC	7.3 %
					8.2 %

Free Cash

Free cash is calculated as Cash provided by operating activities, less Cash used in investing activities, adjusted for changes in Cash and cash equivalents balances resulting from FX fluctuations and the operating cash flow impacts of acquisition-related costs associated with the KCS transaction, the merger termination payment received related to KCS's termination of the Original Merger Agreement and the payment to KCS related to the KCS Acquisition transaction. Free cash is a measure that management considers to be a valuable indicator of liquidity. Free cash is useful to investors and other external users of the Company's Consolidated Financial Statements as it assists with the evaluation of the Company's ability to generate cash to satisfy debt obligations and discretionary activities such as dividends, share repurchase programs, and other strategic opportunities, and is an important performance criteria in determining certain elements of the Company's long-term incentive plan. The acquisition-related costs and the merger termination fee related to the KCS acquisition are not indicative of operating trends and have been excluded from Free cash. The payment to KCS is not indicative of investment trends and has also been excluded from free cash. Free cash should be considered in addition to, rather than as a substitute for, Cash provided by operating activities. Free cash is presented in Financial Highlights and discussed further in Liquidity and Capital Resources of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Reconciliation of Cash Provided by Operating Activities to Free Cash

(in millions of Canadian dollars)	(in millions of Canadian dollars)	For the three months ended September 30				For the nine months ended September 30				For the three months ended March 31			
		2022	2021	2022	2021	2023	2022						
Cash provided by operating activities	Cash provided by operating activities	\$ 1,102	\$ 548	\$ 2,422	\$ 3,084	\$ 881	\$ 613						
Cash used in investing activities	Cash used in investing activities	(410)	(2,129)	(978)	(2,820)	(401)	(206)						
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	13	10	21	6	4	—						
Less:	Less:												
Acquisition-related costs						Acquisition-related costs							
Acquisition-related costs		(16)	(1)	(49)	(47)	(11)	(17)						
Merger termination fee		—	—	—	845								
Payment to Kansas City Southern		—	(1,773)	—	(1,773)								
Free cash	Free cash	\$ 721	\$ 203	\$ 1,514	\$ 1,245	\$ 495	\$ 424						

Foreign Exchange Adjusted % Change

FX adjusted % change allows certain financial results to be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons in the analysis of trends in business performance. Financial result variances at constant currency are obtained by translating the comparable period of the prior year results denominated in U.S. dollars at the foreign exchange rates of the current period.

FX adjusted % changes in revenues are further used in calculating FX adjusted % change in freight revenue per carload and RTM. These items are presented in Operating Revenues of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. FX adjusted % changes in revenues are as follows:

(in millions of Canadian dollars)	For the three months ended September 30				
	Reported 2022	Reported 2021	Variance due to FX	FX Adjusted 2021	FX Adjusted % Change
Freight revenues by line of business					
Grain	\$ 391	\$ 352	\$ 7	\$ 359	9
Coal	156	158	1	159	(2)
Potash	170	113	2	115	48
Fertilizers and sulphur	81	72	1	73	11
Forest products	109	89	3	92	18
Energy, chemicals and plastics	360	392	7	399	(10)
Metals, minerals and consumer products	246	196	5	201	22
Automotive	111	83	2	85	31
Intermodal	640	441	3	444	44
Freight revenues	2,264	1,896	31	1,927	17
Non-freight revenues	48	46	—	46	4

Total revenues		\$ 2,312	\$ 1,942	\$ 31	\$ 1,973	17
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(in millions of Canadian dollars)	(in millions of Canadian dollars)	For the nine months ended September 30						For the three months ended March 31					
		Reported 2022	Reported 2021	Variance due to FX	FX Adjusted 2021	FX Adjusted % Change	Reported 2023	Reported 2022	Variance due to FX	FX Adjusted 2022	FX Adjusted % Change		
Freight revenues by line of business	Freight revenues by line of business						Freight revenues by line of business						
Grain	Grain	\$ 1,121	\$ 1,244	\$ 14	\$ 1,258	(11)	Grain	\$ 515	\$ 360	\$ 17	\$ 377	37	
Coal	Coal	458	491	1	492	(7)	Coal	155	139	1	140	11	
Potash	Potash	445	348	4	352	26	Potash	132	104	4	108	22	
Fertilizers and sulphur	Fertilizers and sulphur	244	227	4	231	6	Fertilizers and sulphur	96	78	3	81	19	
Forest products	Forest products	299	259	6	265	13	Forest products	103	86	5	91	13	
Energy, chemicals and plastics	Energy, chemicals and plastics	1,010	1,149	14	1,163	(13)	Energy, chemicals and plastics	366	310	15	325	13	
Metals, minerals and consumer products	Metals, minerals and consumer products	655	535	10	545	20	Metals, minerals and consumer products	233	181	9	190	23	
Automotive	Automotive	322	289	5	294	10	Automotive	125	91	4	95	32	
Intermodal	Intermodal	1,660	1,280	6	1,286	29	Intermodal	492	447	7	454	8	
Freight revenues	Freight revenues	6,214	5,822	64	5,886	6	Freight revenues	2,217	1,796	65	1,861	19	
Non-freight revenues	Non-freight revenues	138	133	1	134	3	Non-freight revenues	49	42	1	43	14	
Total revenues	Total revenues	\$ 6,352	\$ 5,955	\$ 65	\$ 6,020	6	Total revenues	\$ 2,266	\$ 1,838	\$ 66	\$ 1,904	19	

FX adjusted % changes in operating expenses are presented in Operating Expenses of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. FX adjusted % changes in operating expenses are as follows:

(in millions of Canadian dollars)	(in millions of Canadian dollars)	For the three months ended September 30						For the three months ended March 31					
		Reported 2022	Reported 2021	Variance due to FX	FX Adjusted 2021	FX Adjusted % Change	Reported 2023	Reported 2022	Variance due to FX	FX Adjusted 2022	FX Adjusted % Change		
Compensation and benefits	Compensation and benefits	\$ 393	\$ 381	\$ 4	\$ 385	2	Compensation and benefits	\$ 438	\$ 413	\$ 7	\$ 420	4	
Fuel	Fuel	358	199	6	205	75	Fuel	326	273	15	288	13	
Materials	Materials	66	51	—	51	29	Materials	72	62	1	63	14	
Equipment rents	Equipment rents	33	31	1	32	3	Equipment rents	30	35	2	37	(19)	
Depreciation and amortization	Depreciation and amortization	213	203	2	205	4	Depreciation and amortization	225	210	4	214	5	
Purchased services and other	Purchased services and other	312	303	4	307	2	Purchased services and other	346	310	9	319	8	
Total operating expenses	Total operating expenses	\$ 1,375	\$ 1,168	\$ 17	\$ 1,185	16	Total operating expenses	\$ 1,437	\$ 1,303	\$ 38	\$ 1,341	7	

(in millions of Canadian dollars)	For the nine months ended September 30				
	Reported 2022	Reported 2021	Variance due to FX	FX Adjusted 2021	FX Adjusted % Change
Compensation and benefits	\$ 1,154	\$ 1,165	\$ 8	\$ 1,173	(2)
Fuel	1,001	623	12	635	58
Materials	191	164	1	165	16
Equipment rents	97	92	2	94	3
Depreciation and amortization	634	605	4	609	4
Purchased services and other	935	932	7	939	—
Total operating expenses	\$ 4,012	\$ 3,581	\$ 34	\$ 3,615	11

Adjusted Net Debt to Adjusted EBITDA Ratio and Pro-forma and Combined adjusted Net Debt to Pro-forma Combined adjusted EBITDA Ratio

Adjusted net debt to Adjusted earnings before interest, tax, depreciation and amortization ("EBITDA") EBITDA ratio is calculated as Adjusted net debt divided by Adjusted EBITDA. The Adjusted net debt to Adjusted EBITDA ratio is a key credit measure used to assess the Company's financial capacity. The ratio provides information on the Company's ability to service its debt and other long-term obligations from operations, excluding significant items, and is an important performance criteria in determining certain elements of the Company's long-term incentive plan. The Adjusted net debt to Adjusted EBITDA ratio, which is reconciled below from the Long-term debt to Net income ratio, the most comparable measure calculated in accordance with GAAP, is also presented in Financial Highlights and discussed further in Results of Operations of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Beginning in the first quarter of 2022, CP added disclosure of Pro-forma adjusted net debt to Pro-forma adjusted EBITDA ratio to better align with CP's debt covenant calculation, which incorporates the trailing twelve month adjusted EBITDA of KCS as well as KCS's outstanding debt. CP is incorporating CPKC presents the trailing twelve month adjusted EBITDA of KCS on a pro-forma combined basis, as CP is not entitled to earnings prior to the acquisition date of December 14, 2021. CP does CPKC did not control KCS while it was in voting trust until the voting trust during review was terminated on April 14, 2023, and CPKC assumed control of our merger application by the STB, though CP is KCS (through an indirect wholly owned subsidiary). CPKC was the beneficial owner of KCS's outstanding shares while it was in voting trust and receives received cash dividends from KCS. The adjustment to include the trailing twelve month EBITDA of KCS and KCS's outstanding debt at its book value provides users of the financial statements with better insight into CP's CPKC's progress in achieving deleveraging commitments. This ratio is not calculated in accordance with Regulation S-X Article 11 ("Article 11"). Beginning in the first quarter of 2023, this combined ratio has been renamed as "Combined Adjusted Net Debt to Combined Adjusted EBITDA Ratio", KCS's disclosed U.S. dollar financial values for the trailing twelve months month ended September 30, 2022 March 31, 2023 and March 31, 2022 were adjusted to Canadian dollars reflecting the FX rate for the appropriate period presented. We have not periods presented, 2021 Pro-forma adjusted net debt to Pro-forma adjusted EBITDA as CP was not the beneficial owner of KCS's shares as at September 30, 2021, respectively.

Calculation of Long-term Debt to Net Income Ratio

(in millions of Canadian dollars, except for ratios)	2022	2021
Long-term debt including long-term debt maturing within one year as at September 30	\$ 20,575	\$ 9,968
Net income for the twelve months ended September 30	\$ 2,778	\$ 3,122
Long-term debt to Net income ratio	7.4	3.2

Long-term debt to Net income ratio is calculated as long-term debt, including long-term debt maturing within one year, divided by Net income.

(in millions of Canadian dollars, except for ratios)	2023	2022
Long-term debt including long-term debt maturing within one year as at March 31	\$ 19,162	\$ 19,663
Net income for the twelve months ended March 31	3,727	2,840
Long-term debt to Net income ratio	5.1	6.9

Reconciliation of Long-term Debt to Adjusted Net Debt and Pro-forma Combined Adjusted Net Debt

Adjusted net debt is defined as Long-term debt, Long-term debt maturing within one year, and Short-term borrowing as reported on the Company's Consolidated Balance Sheets adjusted for pension plans deficit, operating lease liabilities recognized on the Company's Consolidated Balance Sheets, and Cash and cash equivalents. Adjusted net debt is used as a measure of debt and long-term obligations as part of the calculation of Adjusted Net Debt to Adjusted EBITDA.

(in millions of Canadian dollars) ⁽¹⁾	(in millions of Canadian dollars) ⁽¹⁾	2022	2021	(in millions of Canadian dollars) ⁽¹⁾	2023	2022
CP Long-term debt including long-term debt maturing within one year as at September 30						
\$ 20,575	\$ 9,968					

CPRL long-term debt including long-term debt maturing within one year as at March 31		CPRL long-term debt including long-term debt maturing within one year as at March 31		\$ 19,162	\$ 19,663
Add:	Add:		Add:		
Pension plans deficit ⁽²⁾	Pension plans deficit ⁽²⁾	265	323	176	263
Operating lease liabilities	Operating lease liabilities	280	274	246	279
Less:	Less:				
Cash and cash equivalents	Cash and cash equivalents	138	210	290	85
CP Adjusted net debt as at September 30		\$ 20,982	\$ 10,355		
KCS's long-term debt including long-term debt maturing within one year as at September 30		\$ 5,183	N/A		
CPRL Adjusted net debt as at March 31			CPRL Adjusted net debt as at March 31	\$ 19,294	\$ 20,120
KCS Long-term debt including long-term debt maturing within one year as at March 31			KCS Long-term debt including long-term debt maturing within one year as at March 31	\$ 5,112	\$ 4,726
Add:	Add:		Add:		
KCS operating lease liabilities	KCS operating lease liabilities	116	N/A	131	79
Less:	Less:				
KCS cash and cash equivalents	KCS cash and cash equivalents	225	N/A	225	131
KCS Adjusted net debt as at September 30		\$ 5,074	N/A		
CP Adjusted net debt as at September 30		\$ 20,982	N/A		
Pro-forma Adjusted net debt as at September 30		\$ 26,056	N/A		
KCS Adjusted net debt as at March 31			KCS Adjusted net debt as at March 31	\$ 5,018	\$ 4,674
CPRL Adjusted net debt as at March 31			CPRL Adjusted net debt as at March 31	\$ 19,294	\$ 20,120
Combined Adjusted net debt as at March 31			Combined Adjusted net debt as at March 31	\$ 24,312	\$ 24,794

(1) KCS's amounts were translated at the September 30, 2022 period end FX rate of \$1.37, \$1.35 and \$1.25 for March 31, 2023 and 2022, respectively.

(2) Pension plans deficit is the total funded status of the Pension plans in deficit only.

Reconciliation of Net Income to EBIT, Adjusted EBIT and Adjusted EBITDA EBITDA and Pro-forma Combined Adjusted EBITDA

Earnings before interest and tax ("EBIT") is calculated as Net income before Net interest expense and Income tax expense. Adjusted EBIT excludes significant items reported in both Operating income and Other expense, expense (income). Adjusted EBITDA is calculated as Adjusted EBIT plus operating lease expense and Depreciation and amortization, less Other components of net

periodic benefit recovery. Adjusted EBITDA is used as a measure of liquidity derived from operations, excluding significant items, as part of the calculation of Adjusted Net Debt to Adjusted EBITDA.

(in millions of Canadian dollars) ⁽¹⁾	(in millions of Canadian dollars) ⁽¹⁾	For the twelve months ended September 30		For the twelve months ended March 31	
		2022	2021	(in millions of Canadian dollars) ⁽¹⁾	2023
CP Net income as reported		\$ 2,778	\$ 3,122		
CPRL Net income as reported				CPRL Net income as reported	
Add:	Add:			Add:	
Net interest expense	Net interest expense	611	427	Net interest expense	646
Income tax expense	Income tax expense	677	812	Income tax expense	706
EBIT	EBIT	4,066	4,361	EBIT	5,079
Less significant items (pre-tax):	Less significant items (pre-tax):			Less significant items (pre-tax):	
KCS net gain on unwind of interest rate hedges				KCS net gain on unwind of interest rate hedges	212
Acquisition-related costs	Acquisition-related costs	(253)	(442)	Acquisition-related costs	(115)
Merger termination fee	Merger termination fee	—	845	Merger termination fee	—
Impact of FX translation (loss) gain on debt and lease liabilities		(32)	142	Impact of FX translation loss on debt and lease liabilities	—
Impact of FX translation loss on debt and lease liabilities				Impact of FX translation loss on debt and lease liabilities	(26)
Adjusted EBIT	Adjusted EBIT	4,351	3,816	Adjusted EBIT	4,982
Add:	Add:			Add:	
Operating lease expense	Operating lease expense	77	71	Operating lease expense	74
Depreciation and amortization	Depreciation and amortization	840	802	Depreciation and amortization	868
Less:	Less:			Less:	
Other components of net periodic benefit recovery	Other components of net periodic benefit recovery	405	371	Other components of net periodic benefit recovery	396
CP Adjusted EBITDA		\$ 4,863	\$ 4,318	CPRL Adjusted EBITDA	
CPRL Adjusted EBITDA				CPRL Adjusted EBITDA	
Net income attributable to KCS and subsidiaries	Net income attributable to KCS and subsidiaries	\$ 1,497		Net income attributable to KCS and subsidiaries	\$ 1,299
Add:	Add:			Add:	
KCS interest expense	KCS interest expense	200		KCS interest expense	207
KCS income tax expense	KCS income tax expense	498		KCS income tax expense	422
KCS EBIT	KCS EBIT	2,195		N/A KCS EBIT	1,928
Less significant item (pre-tax):					
KCS merger income		599		N/A	
Less significant items (pre-tax):				Less significant items (pre-tax):	

KCS merger costs		KCS merger costs	(57)	(302)
KCS gain on settlement of treasury lock agreements		KCS gain on settlement of treasury lock agreements	352	—
KCS Adjusted EBIT	KCS Adjusted EBIT	1,596	N/A	KCS Adjusted EBIT
Add:	Add:		Add:	
KCS total lease cost	KCS total lease cost	40	N/A	KCS total lease cost
KCS depreciation and amortization	KCS depreciation and amortization	491	N/A	KCS depreciation and amortization
KCS Adjusted EBITDA	KCS Adjusted EBITDA	2,127	N/A	KCS Adjusted EBITDA
CP Adjusted EBITDA	CP Adjusted EBITDA	\$ 4,863	N/A	CPRL Adjusted EBITDA
CPRL Adjusted EBITDA	CPRL Adjusted EBITDA	\$ 5,528	\$ 4,268	
Less:	Less:		Less:	
Equity earnings of KCS ⁽²⁾	Equity earnings of KCS ⁽²⁾	486	N/A	Equity earnings of KCS ⁽²⁾
Acquisition-related costs of KCS ⁽³⁾	Acquisition-related costs of KCS ⁽³⁾	208	N/A	Acquisition-related costs of KCS ⁽³⁾
Pro-forma Adjusted EBITDA	Pro-forma Adjusted EBITDA	\$ 6,296	N/A	
KCS net gain on unwind of interest rate hedges ⁽⁴⁾			KCS net gain on unwind of interest rate hedges ⁽⁴⁾	
Combined Adjusted EBITDA	Combined Adjusted EBITDA	\$ 6,815	\$ 6,035	

⁽¹⁾KCS's amounts were translated at the quarterly average FX rate of \$1.35, \$1.36, \$1.30, and \$1.28 for Q1 2023, Q4 2022, Q3 2022 and Q2 2022 and \$1.27, \$1.26, \$1.26, and \$1.23 for Q1 2022, Q4 2021, Q3 2021 and Q4 Q2 2021, respectively.

⁽²⁾Equity earnings of KCS were part of CP's CPRL's reported net income and therefore have been deducted in arriving to the Pro-forma Combined Adjusted EBITDA.

⁽³⁾Acquisition-related costs of KCS have been adjusted in CP's CPRL's Adjusted EBITDA calculation above, therefore have been deducted in arriving to the Pro-forma Combined Adjusted EBITDA.

⁽⁴⁾KCS net gain on unwind of interest rate hedges has been adjusted in CPRL's Adjusted EBITDA calculation above, therefore has been added back in arriving to the Combined Adjusted EBITDA.

Calculation of Adjusted Net Debt to Adjusted EBITDA Ratio and Pro-forma Combined Adjusted Net Debt to Pro-forma Combined Adjusted EBITDA Ratio

(in millions of Canadian dollars, except for ratios)	(in millions of Canadian dollars, except for ratios)	2022	2021	(in millions of Canadian dollars, except for ratios)	2023	2022
Adjusted net debt as at September 30	\$ 20,982	\$ 10,355		Adjusted net debt as at March 31	\$ 19,294	\$ 20,120
Adjusted EBITDA for the twelve months ended September 30	\$ 4,863	\$ 4,318		Adjusted EBITDA for the twelve months ended March 31	\$ 5,528	\$ 4,268
Adjusted net debt as at March 31				Adjusted net debt to Adjusted EBITDA ratio	3.5	4.7
Adjusted EBITDA for the twelve months ended March 31				Adjusted net debt to Adjusted EBITDA ratio	3.5	4.7
(in millions of Canadian dollars, except for ratios)						
Pro-forma adjusted net debt as at September 30				2022	2021	
Pro-forma adjusted EBITDA for the twelve months ended September 30				\$ 26,056	N/A	
Pro-forma adjusted net debt to Pro-forma adjusted EBITDA ratio				\$ 6,296	N/A	
				4.1	N/A	

(in millions of Canadian dollars, except for ratios)	2023	2022
Combined adjusted net debt as at March 31	\$ 24,312	\$ 24,794
Combined adjusted EBITDA for the twelve months ended March 31	6,815	6,035
Combined adjusted net debt to Combined adjusted EBITDA ratio	3.6	4.1

Critical Accounting Estimates

To prepare Consolidated Financial Statements that conform with GAAP, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses during the reported periods. Using the most current information available, the Company reviews estimates on an ongoing basis, including those related to **business acquisitions**, environmental liabilities, pensions and other benefits, property, plant and equipment, deferred income taxes, and personal injury and other claims liabilities. Additional information concerning critical accounting estimates is supplemented in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company's [2021](#) [2022](#) Annual Report on Form 10-K.

The development, selection and disclosure of these estimates, and this MD&A, have been reviewed by the Board of Directors' Audit and Finance Committee, which is composed entirely of independent directors.

Business acquisitions

As described in Item 1. Financial Statements, Note 8 Business Acquisitions, Note 9 Investment in KCS, and Note 15 Subsequent events, the Company assumed control of KCS on the Control Date and commenced consolidation of KCS on April 14, 2023, accounting for the acquisition as a business combination achieved in stages.

In accounting for the business combination, the Company's previously held interest in KCS is remeasured to its estimated preliminary Control Date fair value. The identifiable assets acquired, and liabilities and non-controlling interest assumed are measured at their estimated provisional fair values at the Control Date, with certain exceptions. The results from operations and cash flows will be consolidated prospectively.

The disclosure of the business combination presented in Item 1. Financial Statements, Note 15 Subsequent events is prepared on an estimated provisional basis using the best available information at this time. A preliminary purchase price allocation as of the Control Date will be finalized and disclosed in the notes to our second quarter 2023 financial statements. This preliminary purchase price allocation will be subject to adjustment during the measurement period resulting in additional assets or liabilities being recognized to reflect new information obtained about facts and circumstances that existed as of the Control Date that, if known, would affect the amounts recognized as of that date. The measurement period is not to exceed a year. Changes to the provisional amounts may impact the amount of goodwill recognized.

The Company believes the estimated provisional fair values of the assets acquired and the liabilities and non-controlling interest assumed are based on reasonable assumptions and applying known information and estimates at the date of this Management's Discussion and Analysis. Inherent uncertainty in these estimates exists due to the preliminary characteristics of the assumptions and facts used to generate these estimates. Changes to assumptions and estimates, as a result of new information that may arise about the facts and circumstances as of the Control Date, include, but are not limited to, discount rates, and growth rates and could materially change estimated provisional fair value estimates. In determining these key assumptions, management exercises judgment in applying a sufficiently narrow range of appropriate estimates and possible outcomes and selects an appropriate point in the range. In certain cases, changes in these inputs as a result of new information may have corresponding impacts on other aspects of the valuation.

The table below outlines changes in those key estimates that management believes could result from new and more precise information relating to facts and conditions at the Control Date. The table includes estimates of the related impacts to the estimated provisional fair values:

(in billions of dollars, except percentages)	Provisional Estimate		Sensitivity Range		Value Range	
	\$	at Control Date			\$	
Previously held equity investment in KCS	\$	37.2				
Revenue growth rate			-1 %	1 %	\$ 36.2	\$ 38.3
Terminal EBITDA multiple			-0.5x	0.5x	\$ 35.7	\$ 38.8
EBITDA margin			-1 %	1 %	\$ 36.6	\$ 37.8
Discount rate			-1 %	1 %	\$ 38.9	\$ 35.6
Intangible assets including Mexican concession⁽¹⁾	\$	10.9				
Terminal growth rate			-0.5 %	0.5 %	\$ 10.2	\$ 11.8
Discount rate			-1 %	1 %	\$ 12.6	\$ 9.4
Mexican concession⁽¹⁾	\$	8.3				
Renewal probability of Mexican concession ⁽¹⁾			-10 %	10 %	\$ 8.1	\$ 8.5

⁽¹⁾Concession rights and related assets held under the terms of a concession from the Mexican government are presented with acquired Properties.

Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the *United States Private Securities Litigation Reform Act of 1995* and forward-looking information within the meaning of other relevant securities legislation, including applicable

securities laws in Canada (collectively referred to herein as "forward-looking statements"). Forward-looking statements typically include words such as "financial expectations", "key assumptions", "anticipate", "believe", "expect", "project", "estimate", "forecast", "plan", "intend", "target", "will", "outlook", "should" or similar words suggesting future outcomes. All statements other than statements of historical fact may be forward-looking statements. To the extent that CP the Company has provided forecasts or targets using Non-GAAP financial measures, the Company may not be able to provide a reconciliation to a GAAP measure without unreasonable efforts, due to unknown variables and uncertainty related to future results.

This Management's Discussion and Analysis of Financial Condition and Results of Operations and Quarterly Report on Form 10-Q includes forward-looking statements relating, but not limited to, statements concerning the Company's expected impacts resulting from changes in the U.S.-to-Canadian dollar exchange rate, and the effective tax rate, as well as statements concerning the Company's operations, anticipated financial performance, business prospects and strategies, including statements concerning the anticipation that cash flow from operations and various sources of financing will be sufficient to meet debt repayments and obligations in the foreseeable future and concerning anticipated capital programs, and statements regarding future payments including income taxes, statements regarding the Company's greenhouse gas ("GHG") emissions targets and statements concerning the pending KCS business combination. taxes.

The forward-looking statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and Quarterly Report on Form 10-Q are based on current expectations, estimates, projections and assumptions, having regard to the Company's experience and its perception of historical trends, and includes, but is not limited to, expectations, estimates, projections and assumptions relating to: changes in business strategies; North American and global economic growth; commodity demand growth; sustainable industrial and agricultural production; commodity prices and interest rates; foreign exchange rates (as specified herein); effective tax rates (as specified herein); performance of our assets and equipment; sufficiency of our budgeted capital expenditures in carrying out our business plan; geopolitical conditions; applicable laws, regulations and government policies; the availability and cost of labour, services and infrastructure; and the satisfaction by third parties of their obligations to the Company; and the anticipated impacts of the COVID-19 pandemic on the Company's business, operating results, cash flows and/or financial condition. Company. Although the Company believes the expectations, estimates, projections and assumptions reflected in the forward-looking statements presented herein are reasonable as of the date hereof, there can be no assurance that they will prove to be correct. Current conditions, economic and otherwise, render assumptions, although reasonable when made, subject to greater uncertainty.

With respect to the pending KCS business combination, we can provide no assurance when or if the combination will be completed. Completion of the combination is subject to the receipt of final approval from the STB of the CP-KCS control application by December 31, 2023. There can be no assurance of receipt of this final approval by December 31, 2023. Additionally, even if such final approval is received, there can be no guarantee of the satisfaction of the conditions imposed by the STB in its March 15, 2023 final decision, successful integration of KCS or that the combined Company company will realize the anticipated benefits of the business combination, whether financial, strategic or otherwise, and this may be exacerbated by changes to the economic, political and global environment in which the merged company will operate.

Our GHG emissions targets are subject to a number of inherent risks, assumptions and uncertainties that include, but are not limited to, changes in carbon markets, evolving sustainability strategies and scientific or technological developments. Additionally, although our data underlying GHG emissions estimates have been internally vetted using accepted and relevant scientific and technical methodologies, historical performance data may become outdated due to a variety of factors, including improvement in our data collection and measuring systems, activities such as joint ventures, mergers and acquisitions or divestitures, and industry-driven changes to methodologies. As a result of these and other factors, we may not achieve our stated targets.

Undue reliance should not be placed on forward-looking statements as actual results may differ materially from those expressed or implied by forward-looking statements. By their nature, forward-looking statements involve numerous inherent risks and uncertainties that could cause actual results to differ materially from the forward-looking statements, including but not limited to the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks associated with 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 commodity prices; uncertainty surrounding timing and volumes of commodities being shipped via CP; the Company; inflation; geopolitical instability; changes in laws, regulations and government policies, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; changes in fuel prices; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions and discount rates on the financial position of pension plans and investments; trade restrictions or other changes to international trade arrangements; climate change; and various events that could disrupt operations, including severe weather, such as droughts, floods, avalanches and earthquakes, and cybersecurity attacks, as well as security threats and governmental response to them, and technological changes; and the pandemic created by the outbreak of COVID-19 and its variants and resulting effects on economic conditions, the demand environment for logistics requirements and energy prices, restrictions imposed by public health authorities or governments, fiscal and monetary policy responses by governments and financial institutions, and disruptions to global supply chains, changes. The foregoing list of factors is not exhaustive.

There are more specific factors that could cause actual results to differ materially from those described in the forward-looking statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and Quarterly Report on Form 10-Q. These more specific factors are identified and discussed in Item 1A. Risk Factors of CP's 2021 the Company's 2022 Annual Report on Form 10-K. Other risks are detailed from time to time in reports filed by CP the Company with securities regulators in Canada and the United States.

The forward-looking statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and Quarterly Report on Form 10-Q are made as of the date hereof. Except as required by law, CP the Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements, or the foregoing assumptions and risks affecting such forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

Although CP conducts business primarily in Canada, a significant portion of its revenues, expenses, assets and liabilities including debt are denominated in U.S. dollars. In addition, equity earnings or losses of KCS are denominated in U.S. dollars. The value of the Canadian dollar is affected by a number of domestic and international factors, including, without limitation, economic performance, and Canadian, U.S. and international monetary policies. Consequently, the Company's results are affected by fluctuations in the exchange rate between these currencies. As at September 30, 2022, CP expects that every \$0.01 weakening (or strengthening) of the Canadian dollar relative to the U.S. dollar, positively (or negatively) impacts Total revenues by approximately \$35 million (December 31, 2021 – approximately \$30 million), negatively (or positively) impacts Operating expenses by approximately \$20 million (December 31, 2021 – approximately \$13 million), and negatively (or positively) impacts Net interest expense by approximately \$4 million (December 31, 2021 – approximately \$3 million) on an annualized basis.

CP uses U.S. dollar-denominated debt and operating lease liabilities to hedge its net investment in U.S. operations. As at September 30, 2022, the net investment in U.S. operations is greater than the total U.S. denominated debt. Consequently, FX translation on the Company's unhedged net investment in U.S. operations is recognized in Other comprehensive income. There is no additional impact on earnings in Other expense (income) related to the FX translation on the Company's debt and operating lease liabilities.

To manage its exposure to fluctuations in exchange rates between Canadian and U.S. dollars, CP may sell or purchase U.S. dollar forwards at fixed rates in future periods. In addition, changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar) make the goods transported by the Company more or less competitive in the world marketplace and may in turn positively or negatively affect revenues.

Subject to final approval by the STB, CP anticipates consummating a business combination with KCS at which time CP will also reassess its functional currency.

Share Price Impact on Stock-Based Compensation

Based on information available at September 30, 2022, for every \$1.00 change in share price, stock-based compensation expense has a corresponding change of approximately \$1.9 million to \$2.0 million (December 31, 2021 - approximately \$1.5 million to \$2.0 million). This excludes the impact of changes in share price relative to the S&P/TSX 60 Index, S&P 500 Industrials Index, and to Class I railways, which may trigger different performance share unit payouts. Stock-based compensation may also be impacted by non-market performance conditions.

Additional information concerning stock-based compensation is included in Item 1. Financial Statements, Note 16 Stock-based compensation.

Interest Rate Risk

Information concerning market risk sensitive instruments is set forth under item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Impact of FX on Earnings and Foreign Exchange Risk and Impact of Share Price on Earnings and Stock-Based Compensation.

Debt financing forms part of the Company's capital structure. The debt agreements entered into expose CP the Company to increased interest costs on future fixed debt instruments and existing variable rate debt instruments, should market rates increase. As at September 30, 2022 March 31, 2023, a hypothetical one percentage point change in interest rates on the Company's floating rate debt obligations outstanding is not material. In addition, the present value of the Company's assets and liabilities will also vary with interest rate changes. To manage interest rate exposure, CP The Company may enter into forward rate agreements such as treasury rate locks or bond locks that lock in rates for a future date, thereby protecting against interest rate increases. CP The Company may also enter into swap agreements whereby one party agrees to pay a fixed rate of interest while the other party pays a floating rate. Contingent on the direction of interest rates, the Company may incur higher costs depending on the contracted rate.

The fair value of the Company's fixed rate debt may fluctuate with changes in market interest rates. A hypothetical one percentage point decrease in interest rates as of September 30, 2022 March 31, 2023 would result in an increase of approximately \$1.4 \$1.5 billion to the fair value of the Company's debt as at September 30, 2022 (December March 31, 2021 2022 - approximately \$2.3 \$1.9 billion). Fair values of CPs the Company's fixed rate debt are estimated by considering the impact of the hypothetical interest rates on quoted market prices and current borrowing rates, but do not consider other factors that could impact actual results.

Information concerning market risks is supplemented in Item 1. Financial Statements, Note 1311 Financial instruments.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of September 30, 2022 March 31, 2023, an evaluation was carried out under the supervision of and with the participation of CPs the Company's management, including its CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, the CEO and CFO concluded that these disclosure controls and procedures were effective as of September 30, 2022 March 31, 2023, to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified by the SEC rules and forms and (ii) accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the third first quarter of 2022, 2023, the Company has not identified any changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

For further details refer to Item 1. Financial Statements, Note 17 14 Contingencies.

SEC regulations require the disclosure of any proceeding under environmental laws to which a government authority is a party unless the registrant reasonably believes it will not result in sanctions over a certain threshold. The Company uses a threshold of U.S. \$1 million for the purposes of determining proceedings requiring disclosure.

From time to time, the Company or its subsidiaries may be subject to information requests from U.S. State or Federal environmental regulatory authorities inquiring as to the Company's compliance or remediation practices in the U.S. In September 2020, the Company received an initial request for information from the U.S. Environmental Protection Agency ("EPA") inquiring into the Company's compliance with the mobile source provisions of the Clean Air Act ("CAA"). The Company has been providing information in response to the EPA's initial and follow-up requests, and the EPA has issued Notices of Violations, which preliminarily identify certain categories of alleged non-compliance with civil provisions of the CAA pertaining to locomotives and locomotive engines. As previously disclosed in the Company's 2022 Annual Report on Form 10-K, in December 2022, the U.S. Department of Justice ("DOJ") sent a communication requesting a meeting with the Company to discuss potentially resolving any alleged noncompliance which included an initial draft consent decree from the DOJ. That initial meeting occurred in January 2023 and communications are ongoing. Neither the EPA nor the DOJ has issued a final compendium of alleged violations, demand for corrective or mitigating actions, or articulated a preliminary civil penalty assessment, and it remains too early to provide a fulsome evaluation of the likely outcome with respect to either the nature of any alleged violations or the amount of any potential civil penalty. The Company will continue to fully cooperate and engage in discussions to resolve the matter.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors from the information provided in Item 1A. Risk Factors of CP's 2021 the Company's 2022 Annual Report on Form 10-K, with the exception of those discussed below.

Risks Related to the Kansas City Southern Transaction

The conditions imposed by the STB's March 15, 2023 final decision could have an adverse effect on the Company's businesses, results of operations, financial condition, cash flows or the market value of the Company's common stock and debt securities, or reduce the anticipated benefits of the combination. In connection with the STB's March 15, 2023 final decision, the STB imposed a number of conditions, including among others (i) commitments by the combined company to keep gateways open on commercially reasonable terms and create no new bottlenecks, (ii) numerous environmental-related conditions, (iii) extensive data reporting and retention requirements, and (iv) a seven-year oversight period for the STB to monitor adherence to these conditions. In addition, the Company inherits conditions previously imposed by the STB on KCS in connection with various prior KCS acquisitions, including in relation to KCS's commitment to keep the Laredo gateway open on commercially reasonable terms in connection with its prior acquisition of The Texas Mexican Railway. Furthermore, the STB has noted its authority to issue supplemental orders to address issues or concern that may arise in the future. These conditions could disrupt the Company's businesses, and uncertainty about the outcome of that review could divert management's attention and resources, and reduce the anticipated benefits of the combination, and may have an adverse effect on the combined company. Further, the combination may give rise to potential liabilities, including as a result of pending and future shareholder lawsuits and other litigation relating to the combination. In addition, the Company has incurred, and expects to incur additional, material non-recurring expenses in connection with the completion of the combination. Any of these matters could adversely affect the businesses of, or harm the results of operations, financial condition or cash flows of the Company and the market value of the Company's common stock and debt securities.

The Company may be unable to integrate KCS successfully, and the Company may not experience the growth being sought from the combination. CPRL and KCS operated independently until the Control Date. Integrating KCS with CPKC will involve operational, technological and personnel-related challenges. This process will be time-consuming and expensive, may disrupt the businesses of either or both of the companies and may reduce the growth opportunities sought from the combination. There can be no guarantee of the successful integration of KCS or that the combined company will realize the anticipated benefits of the business combination, whether financial, strategic or otherwise, and this may be exacerbated by changes to the economic, political and global environment in which the merged company would operate.

Risks related to Operations in Mexico

The Mexican Concession of Kansas City Southern de México, S.A. de C.V. (also known as Canadian Pacific Kansas City Mexico) ("CPKCM") is subject to revocation or termination in certain circumstances, which would prevent CPKCM from conducting rail operations under the Concession and would have a material adverse effect on the Company's consolidated financial statements. CPKCM operates under the Concession granted by the Mexican government until June 2047, which is renewable for an additional period of up to 50 years, subject to certain conditions. The Concession gives CPKCM

exclusive rights to provide freight transportation services over its rail lines through 2037 (the first 40 years of the 50-year Concession), subject to certain trackage and haulage rights granted to other concessionaires.

The Secretaría de Infraestructura, Comunicaciones y Transportes (also known as Secretariat of Infrastructure, Communications and Transportation) ("SICT") and Agencia Reguladora del Transporte Ferroviario (also known as Mexico's Railway Transport Regulatory Agency) ("ARTF"), which are principally responsible for regulating railroad services in Mexico, have broad powers to monitor CPKCM's compliance with the Concession, and they can require CPKCM to supply them with any technical, administrative and financial information they request. Among other obligations, CPKCM must comply with the investment commitments established in its business plan, which forms an integral part of the Concession, and must update the plan every three years. The SICT treats CPKCM's business plans confidentially. The SICT and ARTF also monitor CPKCM's compliance with efficiency and safety standards established in the Concession. The SICT and ARTF review, and may amend, these standards from time to time.

Under the Concession, CPKCM has the right to operate its rail lines, but it does not own the land, roadway or associated structures. If the Mexican government legally terminates the Concession, it would own, control, and manage such public domain assets used in the operation of CPKCM's rail lines. All other property not covered by the Concession, including all locomotives and railcars otherwise acquired, would remain CPKCM's property. In the event of early termination, or total or partial revocation of the Concession, the Mexican government would have the right to cause the Company to lease all service related assets to it for a term of at least one year, automatically renewable for additional one-year terms for up to five years. The amount of rent would be determined by experts appointed by CPKCM and the Mexican government. The Mexican government must exercise this right within four months after early termination or revocation of the Concession.

In addition, the Mexican government would also have a right of first refusal with respect to certain transfers by CPKCM of railroad equipment within 90 days after revocation of the Concession. The Mexican government may also temporarily seize control of CPKCM's rail lines and its assets in the event of a natural disaster, war, significant public disturbance or imminent danger to the domestic peace or economy. In such a case, the SICT may restrict CPKCM's ability to operate under the Concession in such manner as the SICT deems necessary under the circumstances, but only for the duration of any of the foregoing events. Mexican law requires that the Mexican government pay compensation if it effects a statutory appropriation for reasons of the public interest. With respect to a temporary seizure due to any cause other than international war, the Mexican Regulatory Railroad Service Law and regulations provide that the Mexican government will indemnify an affected concessionaire for an amount equal to damages caused and losses suffered. However, these payments may not be sufficient to compensate CPKCM for its losses and may not be made timely.

The SICT may revoke the Concession if CPKCM is sanctioned for the same cause at least three times within a period of five years for any of the following: unjustly interrupting the operation of its rail lines or rendering its public services for charging rates higher than those it has registered with the ARTF; unlawfully restricting the ability of other Mexican rail operators to use its rail lines; failing to make payments for damages caused during the performance of services; failing to comply with any term or condition of the Mexican Regulatory Railroad Service Law and regulations or the Concession; failing to make the capital investments required under its three-year business plan filed with the SICT; or failing to maintain an obligations compliance bond and insurance coverage as specified in the Mexican Regulatory Railroad Service Law and regulations. In addition, the Concession would terminate automatically if CPKCM changes its nationality or assigns or creates any lien on the Concession, or if there is a change in control of CPKCM without the SICT's approval.

The SICT may also terminate the Concession as a result of CPKCM's surrender of its rights under the Concession, or for reasons of public interest or upon CPKCM's liquidation or bankruptcy. If the Concession is terminated or revoked by the SICT for any reason, CPKCM would receive no compensation and its interest in its rail lines, and all other fixtures covered by the Concession, as well as all improvements made by it, would revert to the Mexican government. Revocation or termination of the Concession could have a material adverse effect on the Company's consolidated financial statements.

The Company's ownership of CPKCM and operations in Mexico subject it to Mexican economic and political risks. The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Accordingly, Mexican governmental actions concerning the economy and state-owned enterprises could have a significant impact on Mexican private sector entities in general and on CPKCM's operations in particular. For example, CPKCM operations could be impacted with the introduction of new legislation or policies to regulate the railway industry, the energy market, or labor and tax conditions. The Company cannot predict the impact that the political landscape, including multiparty rule, social unrest and civil disobedience, will have on the Mexican economy or CPKCM's operations. For example, from time to time, social unrest in Mexico has resulted in service interruptions on CPKCM's right of ways due to blockages from teachers' protests. The Company's consolidated financial statements and prospects may be adversely affected by currency fluctuations, inflation, interest rates, regulation, taxation and other political, social and economic developments in or affecting Mexico. For example, the Company has several tax contingencies including, multiple tax periods subject to current examination, audit assessments for the CPKCM 2009 and 2010 Mexico tax returns, and a receivable for refundable VAT. Tax contingencies are further discussed within Exhibit 99.1 included in the Company's 2022 Annual Report on Form 10-K.

The social and political situation in Mexico could adversely affect the Mexican economy and CPKCM's operations, and changes in laws, public policies and government programs could be enacted, each of which could also have a material adverse effect on the Company's consolidated financial statements.

The Mexican economy in the past has suffered balance of payment deficits and shortages in foreign exchange reserves. Although Mexico has imposed foreign exchange controls in the past, there are currently no exchange controls in Mexico. Any restrictive exchange control policy could adversely affect the Company's ability to obtain U.S. dollars or to convert Mexican pesos into dollars for purposes of making payments. This could have a material adverse effect on the Company's consolidated financial statements.

Downturns in the United States economy or in trade between the United States and Asia or Mexico and fluctuations in the peso-dollar exchange rates could have material adverse effects on the Company's consolidated financial statements. The level and timing of the Company's Mexican business activity is heavily dependent upon the level of United States-Mexican trade and the effects of current or future multinational trade agreements on such trade. The Mexican operations depend on the United States and Mexican markets for the products CPKCM transports, the relative position of Mexico and the United States in these markets at any given time, and tariffs or other barriers to trade. Failure to preserve trade provisions conducive to trade, or any other action imposing import duties or border taxes, could negatively impact KCS customers and the volume of rail shipments, and could have a material adverse effect on the Company's consolidated financial statements.

Downturns in the United States or Mexican economies or in trade between the United States and Mexico could have material adverse effects on the Company's consolidated financial statements and the Company's ability to meet debt service obligations. In addition, the Company has invested significant amounts in developing its intermodal operations, including the Port of Lazaro Cardenas, in part to provide Asian importers with an alternative to the west coast ports of the United States, and the level of intermodal traffic depends, to an extent, on the volume of Asian shipments routed through Lazaro Cardenas. Reductions in trading volumes, which may be caused by factors beyond the Company's control, including increased government regulations regarding the safety and quality of Asian-manufactured products, could have a material adverse effect on the Company's consolidated financial statements.

Additionally, fluctuations in the peso-dollar exchange rates could lead to shifts in the types and volumes of Mexican imports and exports. Although a decrease in the level of exports of some of the commodities that CPKCM transports to the United States may be offset by a subsequent increase in imports of other commodities CPKCM hauls into Mexico and vice versa, any offsetting increase might not occur on a timely basis, if at all. Future developments in United States-Mexican trade beyond the Company's control may result in a reduction of freight volumes or in an unfavorable shift in the mix of products and commodities CPKCM carries.

Extreme volatility in the peso-dollar exchange rate may result in disruption of the international foreign exchange markets and may limit the ability to transfer or convert Mexican pesos into U.S. dollars. Although the Mexican government currently does not restrict, and for many years has not restricted, the right or ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or to transfer foreign currencies out of Mexico, the Mexican government could, as in the past, institute restrictive exchange rate policies that could limit the ability to transfer or convert pesos into U.S. dollars or other currencies for the purpose of making timely payments and meeting contractual commitments. Fluctuations in the peso-dollar exchange rates also have an effect on the Company's consolidated financial statements. A weakening of the peso against the U.S. dollar would cause reported peso-denominated revenues and expenses to decrease, and could increase reported foreign exchange loss due to the Company's net monetary assets that are peso-denominated. Exchange rate variations also affect the calculation of taxes under Mexican income tax law, and a strengthening of the peso against the U.S. dollar could cause an increase in the Company's cash tax obligation and effective income tax rate.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchase of Equity Securities

CP established a share repurchase program which is further described in Item 1. Financial Statements, Note 14 Shareholders' equity. This program expired on January 28, 2022 and upon expiry of this normal course issuer bid ("NCIB"), In connection with the KCS transaction, the Company had suspended share repurchases and did not purchase any Common Shares under this NCIB, have an active program as at March 31, 2023.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

<u>Exhibit</u>	<u>Description</u>
3.1	Restated Certificate and Articles of Incorporation of Canadian Pacific Railway Limited (incorporated by reference to Exhibit 99.2 to Canadian Pacific Railway Limited's Form 6-K filed with the Securities and Exchange Commission on October 22, 2015, File No. 001-01342).
3.2	Articles of Amendment to Restated Certificate and Articles of Incorporation of Canadian Pacific Railway Limited (incorporated by reference to Exhibit 3.1 to Canadian Pacific Railway Limited's Form 8-K filed with the Securities and Exchange Commission on May 5, 2021, File No. 001-01342).
3.3	By-law No. 1, as amended, Articles of Amendment to Restated Certificate and Articles of Incorporation of Canadian Pacific Railway Kansas City Limited (incorporated by reference to Exhibit 3.1 to Canadian Pacific Railway Kansas City Limited's Current Report on Form 6-K filed with the Securities and Exchange Commission on May 22, 2009, April 14, 2023, File No. 001-01342).
3.4 3.4*	By-law No. 1, as amended, of Canadian Pacific Kansas City Limited
3.5*	By-law No. 2 of Canadian Pacific Railway Kansas City Limited (incorporated by reference to Exhibit 99.1 to Canadian Pacific Railway Limited's Form 6-K filed with the Securities and Exchange Commission on March 13, 2015, File No. 001-01342).
3.5 3.6	General By-law, as amended, of Canadian Pacific Railway Company, a wholly owned subsidiary of Canadian Pacific Railway Limited (incorporated by reference to Exhibit 2 to Canadian Pacific Railway Limited's Form 6-K filed with the Securities and Exchange Commission on May 22, 2009, File No. 001-01342).
22.1*	List of Issuers and Guarantor Subsidiaries
31.1*	CEO Rule 13a-14(a) Certifications
31.2*	CFO Rule 13a-14(a) Certifications
32.1*	CEO Section 1350 Certifications
32.2*	CFO Section 1350 Certifications
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
	The following financial information from Canadian Pacific Railway Kansas City Limited's Quarterly Report on Form 10-Q for the third quarter ended September 30, 2022 March 31, 2023 , formatted in Extensible Business Reporting Language (XBRL) includes: (i) the Interim Consolidated Statements of Income for the third quarters and first nine three months ended September 30, 2022 March 31, 2023 and 2021 ; 2022 ; (ii) the Interim Consolidated Statements of Comprehensive Income for the third quarters and first nine three months ended September 30, 2022 March 31, 2023 and 2021 ; 2022 ; (iii) the Interim Consolidated Balance Sheets at September 30, 2022 March 31, 2023 , and December 31, 2021 December 31, 2022 ; (iv) the Interim Consolidated Statements of Cash Flows for the third quarters and first nine three months ended September 30, 2022 March 31, 2023 and 2021 ; 2022 ; (v) the Interim Consolidated Statements of Changes in Shareholders' Equity for the third quarters and first nine three months ended September 30, 2022 March 31, 2023 and 2021 ; 2022 ; and (vi) the Notes to Interim Consolidated Financial Statements.
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed with this Quarterly Report on Form 10-Q

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CANADIAN PACIFIC RAILWAY KANSAS CITY LIMITED

(Registrant)

By: /s/ NADEEM VELANI

Nadeem Velani

Executive Vice-President and
Chief Financial Officer

(Principal Financial Officer)

Date: [October 26, 2022](#) April 26, 2023

61 52

May 22, 2009

Name changed April 14, 2023

CANADIAN PACIFIC KANSAS CITY LIMITED**By-LAW NO. 1****AS AMENDED**

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CANADIAN PACIFIC KANSAS CITY LIMITED**BY-LAW NO. 1**

A by-law regulating generally the transaction of the business and affairs of Canadian Pacific Kansas City Limited.

SECTION ONE**INTERPRETATION****1.01 Definitions**

In this by-law, which may be cited as the General By-law, unless the context otherwise requires:

"Act" means the *Canada Business Corporations Act*, and any statute that may be substituted therefor, as from time to time amended;

"Articles" means the articles of the Corporation as defined in the Act;

"Board" means the Board of Directors of the Corporation;

"Corporation" means Canadian Pacific Kansas City Limited;

"meeting of shareholders" means any meeting of shareholders including an annual meeting;

"non-business day" means Saturday, Sunday and any other day that is a holiday as defined in the *Interpretation Act (Canada)*;

"recorded address" means in the case of a shareholder the address as recorded in the securities register; and in the case of joint shareholders the address appearing in the securities register in respect of such joint holding or the first address so appearing if there are two or more; and in the case of a director, officer or auditor, the latest address as recorded in the records of the Corporation.

1.02 Construction

Save as aforesaid, words and expressions defined in the Act have the same meanings when used herein; words importing the singular include the plural and vice versa; words importing the masculine gender include the feminine and neuter genders;

and words importing persons include individuals, bodies corporate, partnerships, trusts and unincorporated organizations.

SECTION TWO

MEETINGS OF SHAREHOLDERS

2.01 Meetings of Shareholders

The annual meeting of shareholders shall be held in each year on a date to be determined by the Board. The Board, the Chair or the President may call a meeting of shareholders, other than an annual meeting of shareholders, at any time. If the directors or shareholders of the Corporation call a meeting of shareholders pursuant to the Act, the directors or shareholders, as the case may be, may determine that the meeting shall be held, in accordance with the Act, entirely by means of telephonic, electronic or other communication facility that permits all participants to communicate adequately with each other during the meeting.

2.02 Chair, Secretary and Scrutineers

The chair of any meeting of shareholders shall be the Chair or, in the absence of such officer, the President or, in the absence of such officer, any director who is present and willing to act as chair of the meeting. If no such person is present within fifteen minutes from the time fixed for holding the meeting, the persons present and entitled to vote shall choose one of their number to act as chair. The secretary of any meeting of shareholders shall be the Secretary of the Corporation. If the Secretary is absent, the chair shall appoint some person, who need not be a shareholder, to act as secretary of the meeting. The chair may appoint one or more persons who need not be shareholders to act as scrutineers at the meeting.

2.03 Persons Entitled to be Present

The only persons entitled to be present at a meeting of shareholders shall be those entitled to vote thereat, the directors, the President, the auditor of the Corporation and others who, although not entitled to vote, are entitled or required under any provision of the Act or the Articles or the General By-law to be present. Any other person may be admitted with the consent of the meeting or of the chair of the meeting.

2.04 Quorum

Except as otherwise provided in the Articles, a quorum for the transaction of business at any meeting of shareholders shall be at least two persons present in person, each being a shareholder entitled to vote thereat or a duly appointed

proxyholder for or representative of such a shareholder and together holding or representing in the aggregate not less than 25% of the outstanding shares of the Corporation entitled to be voted at the meeting.

SECTION THREE

DIRECTORS

3.01 Number of Directors

Subject to the Articles, the number of directors of the Corporation may be fixed from time to time by resolution of the Board.

3.02 Qualification of Directors

No person shall be elected or appointed a director if the person is disqualified from being a director under the Act. A director ceases to hold office when the director ceases to be qualified as a director under the Act or Articles.

3.03 Quorum

A majority of the directors shall form a quorum of the Board.

3.04 Meeting Following Annual Meeting

The Board shall meet without notice as soon as practicable after each annual meeting of shareholders to transact such business as may come before the meeting and to appoint by election from among their number the Chair, who also may be appointed to other offices. The Board also may but need not appoint a President who need not be a director of the Corporation.

3.05 Other Meetings of the Board

Meetings of the Board shall be held from time to time at a time and place determined by the Board, the Chair, the President, or any two directors.

3.06 Notice of Meeting

Subject to any resolution of the Board, notice of the time and place of each meeting of the Board requiring notice shall be given to each director not less than 24 hours before the time at which the meeting is to be held.

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3.07 Chair

The chair of any meeting of the Board shall be the Chair or, in the absence of such officer, the President or, in the absence of such officer, any director who is present and willing to act as chair of the meeting.

3.08 Votes to Govern

At all meetings of the Board, every question shall be decided by a majority of the votes cast. The chair of any meeting may vote as a director.

3.09 Remuneration

No director who is a salaried officer of the Corporation shall be entitled to any remuneration for the performance of duties as a director. If any director or officer of the Corporation shall be employed by or shall perform services for the Corporation otherwise than as a director or officer or shall be a member of a firm or a shareholder, director or officer of a body corporate which is employed by or performs services for the Corporation, the fact of being a director or officer of the Corporation shall not disentitle such director or officer of such firm or body corporate, as the case may be, from receiving proper remuneration for such services.

SECTION FOUR

4.01 Execution of Instruments

All instruments and documents of whatsoever kind may be signed on behalf of the Corporation by two persons, one of whom is the Chair, the President, a Vice-President or a director of the Corporation and the other of whom is the Secretary, the Treasurer, an Assistant Secretary or an Assistant Treasurer. The Board may from time to time determine the manner in which and the person or persons by whom any particular instrument or document or class of instruments or documents may or shall be signed, including the use of facsimile reproduction of any or all signatures and the use of the corporate seal or a facsimile reproduction thereof.

4.02 Cheques

All cheques upon the bank or banks where the funds of the Corporation are kept shall be drawn payable to the order of the party entitled to the payment to be made, which cheques, notwithstanding section 4.01, shall be signed by the Treasurer, or by an

Assistant Treasurer, or by such other person as may be appointed by the Board, and countersigned by the President, or by a Vice-President, or by some other person authorized by the Board so to do. The Board may from time to time authorize the signing and countersigning of cheques by means of the facsimile signature of any of the persons authorized to sign or countersign cheques.

SECTION FIVE

DIVIDENDS

5.01 Dividends

The Board may from time to time declare dividends payable to shareholders according to their respective rights.

5.02 Dividend Payment

A dividend payable in money may be paid by cheque drawn on the Corporation's bankers, or one of them, to the order of each registered holder of shares of a class or series in respect of which the dividend has been declared, and mailed by prepaid ordinary mail to such registered holder at the holder's recorded address. In the case of joint holders the cheque shall, unless such joint holders otherwise direct, be made payable to the order of all such joint holders and mailed to them at their recorded address. The Corporation may pay a dividend by cheque to a registered holder or to joint holders other than in the manner herein set out, if the registered holder or joint holders so request. The mailing of such cheque as aforesaid, unless the same is not paid on due presentation, shall satisfy and discharge the liability for the dividend to the extent of the sum represented thereby plus the amount of any tax which the Corporation is required to and does withhold.

5.03 Idem

The Corporation may, when directed by a registered holder of a share in respect of which a dividend in money has been declared, pay the dividend in the manner so directed.

5.04 Non-receipt or Loss of Dividend Cheques

In the event of non-receipt or loss of any dividend cheque by the person to whom it is sent, the Corporation shall issue to such person a replacement cheque for a like amount on such terms as to indemnity, reimbursement of expenses and evidence of non-receipt or loss and of entitlement as the Board, the Vice-President in charge of

finance or the Treasurer may from time to time prescribe, whether generally or in a particular case.

SECTION SIX

BORROWING AND RELATED POWERS

6.01 Borrowing and Related Powers

The Board may, without authorization of the shareholders,

- (a) borrow money upon the credit of the Corporation;
- (b) issue, reissue, sell or pledge debt obligations of the Corporation;
- (c) subject to the Act, give a guarantee on behalf of the Corporation to secure performance of an obligation of any person; and
- (d) mortgage, hypothecate, pledge or otherwise create a security interest in all or any property of the Corporation, owned or subsequently acquired, to secure any obligation of the Corporation.

The Board may, by resolution, delegate the powers referred to in this section to a director, a committee of directors or an officer.

SECTION SEVEN

PROTECTION OF DIRECTORS AND OFFICERS

7.01 Limitation of Liability

No director or officer shall be liable for the acts, receipts, neglects or defaults of any other director, officer, employee or agent, or for joining in any receipt or act for conformity, or for any loss, damage or expense happening to the Corporation through the insufficiency or deficiency of title to any property acquired by, for or on behalf of the Corporation, or for the insufficiency or deficiency of any security in or upon which any of the moneys of the Corporation shall be placed out or invested, or for any loss or damage arising from the bankruptcy, insolvency or tortious act of any person with whom any moneys, securities or effects shall be lodged or deposited, or for any loss, conversion, misapplication or misappropriation of or any damage resulting from any dealings with any moneys, securities or other assets belonging to the Corporation, or

for any other loss, damage or misfortune whatever which may happen in the execution of the duties of the director's or officer's respective office or trust or in relation thereto unless the same shall happen by or through the director's or officer's failure to act honestly and in good faith with a view to the best interests of the Corporation and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

7.02 Indemnity

The Corporation shall indemnify a director or officer of the Corporation, a former director or officer of the Corporation or a person who acts or acted at the Corporation's request as a director or officer of a body corporate of which the Corporation is or was a shareholder or creditor, and the heirs and legal representatives thereof, to the extent permitted by the Act or otherwise by law.

SECTION EIGHT

NOTICES

8.01 Method of Giving Notices

Any notice, communication or document to be given, sent, delivered or served pursuant to the Act, the regulations thereunder, the Articles, the General By-law or otherwise, to a shareholder, director, officer or auditor shall be sufficiently given if delivered personally to the person to whom it is to be given or if delivered to the person's recorded address or if mailed to the person at the person's recorded address by prepaid ordinary or air mail or if sent to the person at the person's recorded address by any means of prepaid transmitted or recorded communication, including facsimile, or other electronic means. A notice so delivered shall be deemed to have been given when it is delivered personally or to the recorded address as aforesaid; a notice so mailed shall be deemed to have been given when deposited in a post office or public letter box; and a notice so sent by any means of transmitted or recorded communication shall be deemed to have been given when dispatched or delivered to the appropriate communication company or agency or its representative for dispatch.

8.02 Omissions and Errors

The accidental omission to give any notice to any shareholder, director, officer or auditor or the non-receipt of any notice by any such person or any error in any notice not affecting the substance thereof shall not invalidate any action taken at any meeting to which the notice related.

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8.03 Persons Entitled by Death or Operation of Law

Every person who, by operation of law, transfer, death of a shareholder or any other means whatsoever, becomes entitled to any share shall be bound by every notice in respect of such share which shall have been duly given to the shareholder from whom such person derives such person's title to such share prior to such person's name and address being entered on the securities register.

8.04 Waiver of Notice

A shareholder, proxyholder, director, officer or auditor may at any time waive any notice, or waive or abridge the time for any notice, required to be given to him under any provision of the Act, the regulations thereunder, the Articles, the General By-law or otherwise and such waiver or abridgment, whether given before or after the meeting or other event of which notice is required to be given, shall cure any default or defect in the giving or in the time of such notice, as the case may be. Any such waiver or abridgment shall be in writing except a waiver of notice of a meeting of shareholders or of the Board or of a committee of the Board which may be given in any manner.

SECTION NINE

EFFECTIVE DATE AND REPEAL

9.01 Effective Date

The General By-law is effective as of July 30, 2001.

9.02 Repeal

All previous by-laws of the Corporation are repealed on the coming into force of the General By-law.

9.03 Effect of Repeal

All persons appointed or elected under any by-law repealed on the coming into force of the General By-law shall continue to act until ceasing to hold office or until re-appointed or re-elected and all resolutions of the shareholders or the Board having continuing effect and passed under any repealed by-law or otherwise shall continue to be operative until amended or repealed except to the extent that they are inconsistent with the General By-law.

MADE the 30th day of July, 2001.

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WITNESS the corporate seal of the Corporation.

/s/ M. Grandin

M. Grandin
President

/s/ G. Feigel

G. Feigel
Secretary

Exhibit 3.5

March 13, 2015

Name changed April 14, 2023

CANADIAN PACIFIC KANSAS CITY LIMITED

BY-LAW NO. 2

2

CANADIAN PACIFIC KANSAS CITY LIMITED
BY-LAW NO. 2

A by-law relating to certain procedural requirements for the election of directors of Canadian Pacific Kansas City Limited.

1.01 Definitions

In this By-law, which may be cited as By-law No. 2, unless the context otherwise requires:

"Act" means the *Canada Business Corporations Act*, and any statute that may be substituted therefor, as from time to time amended;

"Applicable Securities Laws" means the applicable securities legislation of each relevant province and territory of Canada, as amended from time to time, the rules, regulations and forms made or promulgated under any such statute and the published national instruments, multilateral instruments, policies, bulletins and notices of the securities commission and similar regulatory authority of each province and territory of Canada;

"Articles" means the articles of Corporation as defined in the Act;

"Board" means the Board of Directors of the Corporation;

"Corporation" means Canadian Pacific Kansas City Limited; and

"public announcement" means disclosure in a press release reported by a national news service in Canada, or in a document publicly filed by the Corporation under its profile on the System of Electronic Document Analysis and Retrieval at www.sedar.com.

2.01 Nomination Procedures

Subject only to the Act and the Articles of the Corporation, only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Corporation. Nominations of persons for election to the Board may be made at any annual meeting of shareholders, or at any special meeting of shareholders if one of the purposes for which the special meeting was called is the election of directors:

- (a) by or at the direction of the Board, including pursuant to a notice of meeting;
- (b) by or at the direction or request of one or more shareholders pursuant to a proposal made in accordance with the provisions of the Act, or a requisition of the shareholders made in accordance with the provisions of the Act; or
- (c) by any person (a **"Nominating Shareholder"**): (A) who, at the close of business on the date of the giving of the notice provided for below in this By-law and on

the record date for notice of such meeting of shareholders, is entered in the securities register as a holder of one or more shares carrying the right to vote at such meeting or who beneficially owns shares that are entitled to be voted at such meeting; and (B) who complies with the notice procedures set forth in this By-law.

3.01 Timely Notice

In addition to any other applicable requirements, for a nomination to be made by a Nominating Shareholder, the Nominating Shareholder must have given timely notice thereof in proper written form to the Secretary of the Corporation at the principal executive offices of the Corporation in accordance with section 5.01 below.

4.01 Manner of Timely Notice

To be timely, a Nominating Shareholder's notice to the Secretary of the Corporation must be made:

- (a) in the case of an annual meeting of shareholders, not less than 30 days prior to the date of the annual meeting of shareholders; provided, however, that in the event that the annual meeting of shareholders is to be held on a date that is less than 50 days after the date on which the first public announcement (the "Notice Date") of the date of the annual meeting was made, notice by the Nominating Shareholder may be made not later than the close of business on the tenth (10th) day following the Notice Date; and
- (b) in the case of a special meeting (which is not also an annual meeting) of shareholders called for the purpose of electing directors (whether or not called for other purposes as well), not later than the close of business on the fifteenth (15th) day following the day on which the first public announcement of the date of the special meeting of shareholders was made.

5.01 Proper Form of Timely Notice

To be in proper written form, a Nominating Shareholder's notice to the Secretary of the Corporation must set forth:

- (a) as to each person whom the Nominating Shareholder proposes to nominate for election as a director: (A) the name, age, business address and residential address of the person; (B) the principal occupation or employment of the person for the last five years; (C) the status of such person as a "resident Canadian" as defined in the Act; (D) the class or series and number of shares in the capital of the Corporation which are controlled or which are owned beneficially or of record by the person as of the record date for the meeting of shareholders (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice; and (E) any other information relating to the person that would be required to be disclosed in a dissident's proxy circular in connection

with solicitations of proxies for election of directors pursuant to the Act and Applicable Securities Laws; and

- (b) as to the Nominating Shareholder giving the notice, any information relating to such Nominating Shareholder that would be required to be made in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the Act and Applicable Securities Laws.

6.01 Notice to be Updated

All information to be provided in a timely notice pursuant to section 5.01 above shall be provided as of the date of such notice. If requested by the Corporation, the Nominating Shareholder shall update such information forthwith so that it is true and correct in all material respects as of the record date for the meeting of shareholders.

7.01 Eligibility for Nomination as a Director

No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the provisions of this Bylaw; provided, however, that nothing in this Bylaw shall be deemed to preclude discussion by a shareholder (as distinct from the nomination of directors) at a meeting of shareholders of any matter in respect of which it would have been entitled to submit a proposal pursuant to the provisions of the Act. The Chairman of the meeting shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in the foregoing provisions and, if any proposed nomination is not in compliance with such foregoing provisions, to declare that such defective nomination shall be disregarded.

8.01 Delivery of Notice

Notwithstanding any other provision of this Bylaw, notice given to the Secretary of the Corporation pursuant to this Bylaw may only be given by personal delivery, facsimile transmission or by email (to the Secretary of the Corporation), and shall be deemed to have been given and made only at the time it is served by personal delivery, email or sent by facsimile transmission (provided that receipt of

confirmation of such transmission has been received) to the Secretary at the address of the principal executive offices of the Corporation; provided that if such delivery or electronic communication is made on a day which is not a business day or later than 5:00 p.m. (Calgary time) on a day which is a business day, then such delivery or electronic communication shall be deemed to have been made on the subsequent day that is a business day.

9.01 Board Discretion

Notwithstanding the foregoing, the Board may, in its sole discretion, waive any requirement in this Bylaw.

10.01 Effective Date

Subject to its confirmation by the shareholders in accordance with the Act, this Bylaw is effective as of March 13, 2015.

MADE this 13th day of March, 2015.

WITNESS the corporate seal of the Corporation.

/s/ Gary F. Colter

Gary F. Colter

Chair of the Board

/s/ Paul A. Guthrie

Paul A. Guthrie

Corporate Secretary

Exhibit 22.1

List of Issuers and Guarantor Subsidiaries

As of the date of the filing of the Form 10-Q of which this exhibit is a part, Canadian Pacific **Railway** **Kansas City** Limited, a corporation incorporated under the laws of Canada (the "Registrant") has guaranteed each of the following securities issued by Canadian Pacific Railway Company, a corporation incorporated under the laws of Canada and a direct, wholly owned subsidiary of the Registrant (the "Issuer") subject to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended:

- The Issuer's 4.450% notes due March 2023;
- The Issuer's 1.350% notes due December 2024;
- The Issuer's 2.900% notes due February 2025;
- The Issuer's 3.700% notes due February 2026;
- The Issuer's 3.125% notes due June 2026;
- The Issuer's 1.750% notes due December 2026;
- The Issuer's 4.000% notes due June 2028;
- The Issuer's 2.875% notes due November 2029;
- The Issuer's 2.050% notes due March 2030;
- The Issuer's 7.125% notes due October 2031;
- The Issuer's 2.450% notes due December 2031;
- The Issuer's 5.750% notes due March 2033;
- The Issuer's 4.800% notes due September 2035;
- The Issuer's 5.950% notes due May 2037;
- The Issuer's 3.000% notes due December 2041;
- The Issuer's 5.750% notes due January 2042;
- The Issuer's 4.300% notes due May 2043;
- The Issuer's 4.800% notes due August 2045;

- The Issuer's 4.950% notes due August 2045;
- The Issuer's 4.700% notes due May 2048;
- The Issuer's 3.500% notes due May 2050;
- The Issuer's 3.100% notes due December 2051;
- The Issuer's 4.200% notes due November 2069;
- The Issuer's 6.125% notes due September 2115;
- The Issuer's Perpetual 4% Consolidated Debenture Stock denominated in U.S. dollars; and
- The Issuer's Perpetual 4% Consolidated Debenture Stock denominated in British Pounds Sterling.

The above list does not include the following securities guaranteed securities by the Registrant issued under Canadian securities laws, as the following guaranteed securities are not subject to Section 13(a) or 15(d) of the Exchange Act:

- The Issuer's 1.589% notes due November 2023;
- The Issuer's 2.540% notes due February 2028;
- The Issuer's 3.150% notes due March 2029;
- The Issuer's 6.450% notes due November 2039; and
- The Issuer's 3.050% notes due March 2050.

Exhibit 31.1

Certification by the Chief Executive Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
Canadian Pacific Kansas City Limited, formerly known as Canadian Pacific Railway Limited

I, Keith Creel, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Canadian Pacific Railway Kansas City Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **October April 26, 2022 2023**

/s/ KEITH CREEL

Keith Creel

President and Chief Executive Officer

Exhibit 31.2

Certification by the Chief Financial Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
Canadian Pacific Kansas City Limited, formerly known as Canadian Pacific Railway Limited

I, Nadeem Velani, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Canadian Pacific **Railway** **Kansas City** Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **October April 26, 2022 2023**

/s/ NADEEM VELANI

Nadeem Velani

Executive Vice-President and Chief Financial Officer

**Certifications Furnished Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

Canadian Pacific Kansas City Limited, formerly known as Canadian Pacific Railway Limited

In connection with the Quarterly Report of Canadian Pacific **Railway** **Kansas City** Limited (the "Company") on Form 10-Q for the period ended **September 30, 2022** **March 31, 2023** (the "Report" to which this certificate is an exhibit, I, Keith Creel, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **October 26, 2022** **April 26, 2023**

/_s/ KEITH CREEL

Keith Creel
President and Chief Executive Officer

**Certifications Furnished Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

Canadian Pacific Kansas City Limited, formerly known as Canadian Pacific Railway Limited

In connection with the Quarterly Report of Canadian Pacific **Railway** **Kansas City** Limited (the "Company") on Form 10-Q for the period ended **September 30, 2022** **March 31, 2023** (the "Report" to which this certificate is an exhibit, I, Nadeem Velani, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **October** **April 26, 2022** **2023**

/_s/ NADEEM VELANI

Nadeem Velani
Executive Vice-President and Chief Financial Officer

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