

**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 June 30, 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 Kansas City Limited**

(Exact name of registrant as specified in its charter)

**Canada**

(State or Other Jurisdiction  
of Incorporation or Organization)

**98-0355078**

(IRS Employer  
Identification No.)

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

**Canada**

(Address of principal executive offices)

**T2C 4X9**

(Zip Code)

**(403) 319-7000**

Registrant's Telephone Number, Including Area Code:

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

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

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 July 26, 2023, there were 931,460,732 of the registrant's Common Shares issued and outstanding.

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**CANADIAN PACIFIC 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)	For the three months ended June 30		For the six months ended June 30	
	2023	2022	2023	2022
<b>Revenues (Note 3)</b>				
Freight	\$ 3,101	\$ 2,154	\$ 5,318	\$ 3,950
Non-freight	73	48	122	90
<b>Total revenues</b>	<b>3,174</b>	<b>2,202</b>	<b>5,440</b>	<b>4,040</b>
<b>Operating expenses</b>				
Compensation and benefits (Note 8)	659	348	1,097	761
Fuel	397	370	723	643
Materials	98	63	170	125
Equipment rents	80	29	110	64
Depreciation and amortization	410	211	635	421
Purchased services and other (Note 8)	586	313	932	623
<b>Total operating expenses</b>	<b>2,230</b>	<b>1,334</b>	<b>3,667</b>	<b>2,637</b>
<b>Operating income</b>	<b>944</b>	<b>868</b>	<b>1,773</b>	<b>1,403</b>
Less:				
Equity earnings of Kansas City Southern (Note 8, 9)	(26)	(208)	(230)	(406)
Other expense (Note 8)	21	7	23	6
Other components of net periodic benefit recovery (Note 14)	(83)	(101)	(169)	(202)
Net interest expense	204	160	358	320
Remeasurement loss of Kansas City Southern (Note 8)	7,175	—	7,175	—
<b>(Loss) income before income tax expense</b>	<b>(6,347)</b>	<b>1,010</b>	<b>(5,384)</b>	<b>1,685</b>
Less:				
Current income tax expense (Note 4)	281	131	419	217
Deferred tax (recovery) expense (Note 4)	(7,953)	114	(7,928)	113
Income tax (recovery) expense (Note 4)	(7,672)	245	(7,509)	330
<b>Net income</b>	<b>\$ 1,325</b>	<b>\$ 765</b>	<b>\$ 2,125</b>	<b>\$ 1,355</b>
Less: Net income attributable to non-controlling interest	1	—	1	—
<b>Net income attributable to controlling shareholders</b>	<b>\$ 1,324</b>	<b>\$ 765</b>	<b>\$ 2,124</b>	<b>\$ 1,355</b>
<b>Earnings per share (Note 5)</b>				
Basic earnings per share	\$ 1.42	\$ 0.82	\$ 2.28	\$ 1.46
Diluted earnings per share	\$ 1.42	\$ 0.82	\$ 2.28	\$ 1.45
<b>Weighted-average number of shares (millions) (Note 5)</b>				
Basic	931.2	929.9	930.9	929.8
Diluted	933.8	932.6	933.6	932.7
<b>Dividends declared per share</b>				
	\$ 0.190	\$ 0.190	\$ 0.380	\$ 0.380

See Notes to Interim Consolidated Financial Statements.

**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(unaudited)**

(in millions of Canadian dollars)	For the three months ended June 30		For the six months ended June 30	
	2023	2022	2023	2022
Net income	\$ 1,325	\$ 765	\$ 2,125	\$ 1,355
Net (loss) gain in foreign currency translation adjustments, net of hedging activities	(611)	719	(638)	383
Change in derivatives designated as cash flow hedges	1	2	3	3
Change in pension and post-retirement defined benefit plans	(3)	38	5	77
Equity accounted investments	4	73	7	135
Other comprehensive (loss) income before income taxes	(609)	832	(623)	598
Income tax (expense) recovery on above items	(17)	2	(20)	(34)
Other comprehensive (loss) income (Note 6)	(626)	834	(643)	564
<b>Comprehensive income</b>	<b>\$ 699</b>	<b>\$ 1,599</b>	<b>\$ 1,482</b>	<b>\$ 1,919</b>
Comprehensive loss attributable to the non-controlling interest	(7)	—	(7)	—
<b>Comprehensive income attributable to controlling shareholders</b>	<b>\$ 706</b>	<b>\$ 1,599</b>	<b>\$ 1,489</b>	<b>\$ 1,919</b>

See Notes to Interim Consolidated Financial Statements.

**INTERIM CONSOLIDATED BALANCE SHEETS AS AT  
(unaudited)**

(in millions of Canadian dollars)	June 30 2023	December 31 2022
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 325	\$ 451
Accounts receivable, net (Note 7)	1,656	1,016
Short-term investments (Note 12)	264	—
Materials and supplies	381	284
Other current assets	292	138
	<b>2,918</b>	<b>1,889</b>
Investment in Kansas City Southern (Note 9)	—	45,091
Investments	532	223
Properties	51,183	22,385
Goodwill (Note 10)	17,674	344
Intangible assets (Note 11)	3,019	42
Pension asset	3,261	3,101
Other assets	585	420
<b>Total assets</b>	<b>\$ 79,172</b>	<b>\$ 73,495</b>
<b>Liabilities and equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 2,430	\$ 1,703
Long-term debt maturing within one year (Note 12, 13)	1,909	1,510
	<b>4,339</b>	<b>3,213</b>
Pension and other benefit liabilities	562	538
Other long-term liabilities	834	520
Long-term debt (Note 12, 13)	21,353	18,141
Deferred income taxes	11,080	12,197
<b>Total liabilities</b>	<b>38,168</b>	<b>34,609</b>
<b>Shareholders' equity</b>		
Share capital	25,563	25,516
Additional paid-in capital	88	78
Accumulated other comprehensive (loss) income (Note 6)	(544)	91
Retained earnings	14,972	13,201
	<b>40,079</b>	<b>38,886</b>
<b>Non-controlling interest (Note 8)</b>	<b>925</b>	<b>—</b>
<b>Total equity</b>	<b>41,004</b>	<b>38,886</b>
<b>Total liabilities and equity</b>	<b>\$ 79,172</b>	<b>\$ 73,495</b>

Certain of the comparative figures have been reclassified in order to be consistent with the 2023 presentation (Note 8).

See Contingencies (Note 16).

See Notes to Interim Consolidated Financial Statements.

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited)

(in millions of Canadian dollars)	For the three months ended June 30		For the six months ended June 30	
	2023	2022	2023	2022
<b>Operating activities</b>				
Net income	\$ 1,325	\$ 765	\$ 2,125	\$ 1,355
Reconciliation of net income to cash provided by operating activities:				
Depreciation and amortization	410	211	635	421
Deferred income tax (recovery) expense (Note 4)	(7,953)	114	(7,928)	113
Pension recovery and funding (Note 14)	(78)	(72)	(155)	(144)
Equity earnings of Kansas City Southern (Note 8, 9)	(26)	(208)	(230)	(406)
Remeasurement loss of Kansas City Southern (Note 8)	7,175	—	7,175	—
Dividend from Kansas City Southern (Note 9)	—	—	300	334
Other operating activities, net	28	(16)	(19)	(99)
Change in non-cash working capital balances related to operations	11	(87)	(129)	(254)
<b>Cash provided by operating activities</b>	<b>892</b>	<b>707</b>	<b>1,774</b>	<b>1,320</b>
<b>Investing activities</b>				
Additions to properties	(628)	(370)	(1,034)	(596)
Additions to Meridian Speedway properties	(8)	—	(8)	—
Proceeds from sale of properties and other assets	12	11	16	26
Cash acquired on control of Kansas City Southern (Note 8)	298	—	298	—
Investment in government securities (Note 12)	(267)	—	(267)	—
Other	(24)	(3)	(24)	2
<b>Cash used in investing activities</b>	<b>(617)</b>	<b>(362)</b>	<b>(1,019)</b>	<b>(568)</b>
<b>Financing activities</b>				
Dividends paid	(176)	(176)	(353)	(353)
Issuance of Common Shares	19	1	37	9
Repayment of long-term debt, excluding commercial paper (Note 12)	(610)	(10)	(1,096)	(552)
Repayment of term loan	—	(132)	—	(132)
Net issuance of commercial paper (Note 12)	550	20	550	340
Acquisition-related financing fees (Note 12)	(15)	—	(15)	—
Other	(1)	—	(1)	—
<b>Cash used in financing activities</b>	<b>(233)</b>	<b>(297)</b>	<b>(878)</b>	<b>(688)</b>
<b>Effect of foreign currency fluctuations on foreign-denominated cash and cash equivalents</b>	<b>(7)</b>	<b>8</b>	<b>(3)</b>	<b>8</b>
<b>Cash position</b>				
Increase (decrease) in cash, cash equivalents, and restricted cash	35	56	(126)	72
Cash, cash equivalents, and restricted cash at beginning of period	290	98	451	82
<b>Cash and cash equivalents at end of period</b>	<b>\$ 325</b>	<b>\$ 154</b>	<b>\$ 325</b>	<b>\$ 154</b>
<b>Supplemental disclosures of cash flow information:</b>				
Income taxes paid	\$ 259	\$ 93	\$ 443	\$ 252
Interest paid	\$ 271	\$ 169	\$ 418	\$ 319

See Notes to Interim Consolidated Financial Statements.

**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(unaudited)

For the three months ended June 30								
(in millions of Canadian dollars except per share data)	Common Shares (in millions)	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity	Non-controlling interest	Total equity
<b>Balance as at April 1, 2023</b>	<b>930.9</b>	<b>\$ 25,538</b>	<b>\$ 84</b>	<b>\$ 74</b>	<b>\$ 13,824</b>	<b>\$ 39,520</b>	<b>\$ —</b>	<b>\$ 39,520</b>
Net income	—	—	—	—	1,324	1,324	1	1,325
Other comprehensive loss (Note 6)	—	—	—	(618)	—	(618)	(8)	(626)
Dividends declared (\$0.190 per share)	—	—	—	—	(176)	(176)	—	(176)
Effect of stock-based compensation expense	—	—	9	—	—	9	—	9
Shares issued under stock option plan	0.5	25	(5)	—	—	20	—	20
Non-controlling interest in connection with business acquisition	—	—	—	—	—	—	932	932
<b>Balance as at June 30, 2023</b>	<b>931.4</b>	<b>\$ 25,563</b>	<b>\$ 88</b>	<b>\$ (544)</b>	<b>\$ 14,972</b>	<b>\$ 40,079</b>	<b>\$ 925</b>	<b>\$ 41,004</b>
Balance as at April 1, 2022	929.9	\$ 25,486	\$ 68	\$ (2,373)	\$ 10,804	\$ 33,985	\$ —	\$ 33,985
Net income	—	—	—	—	765	765	—	765
Other comprehensive income (Note 6)	—	—	—	834	—	834	—	834
Dividends declared (\$0.190 per share)	—	—	—	—	(177)	(177)	—	(177)
Effect of stock-based compensation expense	—	—	5	—	—	5	—	5
Shares issued under stock option plan	0.1	2	—	—	—	2	—	2
Balance as at June 30, 2022	930.0	\$ 25,488	\$ 73	\$ (1,539)	\$ 11,392	\$ 35,414	\$ —	\$ 35,414

For the six months ended June 30								
(in millions of Canadian dollars except per share data)	Common Shares (in millions)	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity	Non-controlling interest	Total equity
<b>Balance at January 1, 2023</b>	<b>930.5</b>	<b>\$ 25,516</b>	<b>\$ 78</b>	<b>\$ 91</b>	<b>\$ 13,201</b>	<b>\$ 38,886</b>	<b>\$ —</b>	<b>\$ 38,886</b>
Net income	—	—	—	—	2,124	2,124	1	2,125
Other comprehensive loss (Note 6)	—	—	—	(635)	—	(635)	(8)	(643)
Dividends declared (\$0.380 per share)	—	—	—	—	(353)	(353)	—	(353)
Effect of stock-based compensation expense	—	—	19	—	—	19	—	19
Shares issued under stock option plan	0.9	47	(9)	—	—	38	—	38
Non-controlling interest in connection with business acquisition	—	—	—	—	—	—	932	932
<b>Balance as at June 30, 2023</b>	<b>931.4</b>	<b>\$ 25,563</b>	<b>\$ 88</b>	<b>\$ (544)</b>	<b>\$ 14,972</b>	<b>\$ 40,079</b>	<b>\$ 925</b>	<b>\$ 41,004</b>
Balance at January 1, 2022	929.7	\$ 25,475	\$ 66	\$ (2,103)	\$ 10,391	\$ 33,829	\$ —	\$ 33,829
Net income	—	—	—	—	1,355	1,355	—	1,355
Other comprehensive income (Note 6)	—	—	—	564	—	564	—	564
Dividends declared (\$0.380 per share)	—	—	—	—	(354)	(354)	—	(354)
Effect of stock-based compensation expense	—	—	12	—	—	12	—	12
Shares issued for Kansas City Southern acquisition	—	—	(2)	—	—	(2)	—	(2)
Shares issued under stock option plan	0.3	13	(3)	—	—	10	—	10
Balance as at June 30, 2022	930.0	\$ 25,488	\$ 73	\$ (1,539)	\$ 11,392	\$ 35,414	\$ —	\$ 35,414

See Notes to Interim Consolidated Financial Statements.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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") of CPKC and its subsidiaries (collectively, "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 2022 annual Consolidated Financial Statements and notes included in CPRL's 2022 Annual Report on Form 10-K. The accounting policies used are consistent with the accounting policies used in preparing CPRL's 2022 annual Consolidated Financial Statements except as discussed in Note 2.

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, which includes KCS as a consolidated subsidiary on and from April 14, 2023. Prior to April 14, 2023, KCS was held as an equity investment accounted for by the equity method of accounting.

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 2023

On January 1, 2023, the Company adopted the new Accounting Standards Update ("ASU") 2021-08, issued by the Financial Accounting Standards Board ("FASB"), and all related amendments under FASB Accounting Standards Codification ("ASC"), Topic 805, Business Combinations, Accounting for Contract Assets and Contract Liabilities from Contracts with 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 update was applied prospectively to contract assets and liabilities within the scope of this amendment, which includes contract assets and liabilities of KCS that are recorded in the purchase price allocation. The adoption of the amendment did not result in a material impact to the Company's financial statements. See Note 8 for further discussion on the business 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 June 30, 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 June 30		For the six months ended June 30	
	2023	2022	2023	2022
Freight				
Grain	\$ 537	\$ 370	\$ 1,052	\$ 730
Coal	219	163	374	302
Potash	144	171	276	275
Fertilizers and sulphur	89	85	185	163
Forest products	187	104	290	190
Energy, chemicals and plastics	575	340	941	650
Metals, minerals and consumer products	440	228	673	409
Automotive	257	120	382	211
Intermodal	653	573	1,145	1,020
Total freight revenues	3,101	2,154	5,318	3,950
Non-freight excluding leasing revenues	39	27	66	49
Revenues from contracts with customers	3,140	2,181	5,384	3,999
Leasing revenues	34	21	56	41
Total revenues	\$ 3,174	\$ 2,202	\$ 5,440	\$ 4,040

### 4 Income taxes

The effective tax rates including discrete items for the three and six months ended June 30, 2023 were 120.88% and 139.47%, respectively, compared to 24.21% and 19.59%, respectively for the same periods of 2022.

For the three months ended June 30, 2023, the effective tax rate was 25.18%, excluding the discrete items of the derecognition of the deferred tax liability on the outside basis difference of the investment in KCS of \$7,832 million upon acquiring control (refer to Note 8), remeasurement loss of KCS of \$7,175 million (refer to Note 8), acquisition-related costs incurred by CPKC of \$119 million, amortization of business acquisition fair value adjustments of \$75 million, revaluation of deferred income tax balances on unitary state apportionment changes of \$51 million, and the equity earnings of KCS of \$26 million.

For the three months ended June 30, 2022, the effective tax rate was 24.25%, excluding the discrete items of equity earnings of KCS of \$208 million, acquisition-related costs incurred by CPKC of \$19 million, and outside basis deferred tax expense of \$49 million arising from the difference between the carrying amount of CPKC's investment in KCS for financial reporting and the underlying tax basis of this investment.

For the six months ended June 30, 2023, the effective tax rate was 24.88%, excluding the discrete items of the reversal of the deferred tax liability on the outside basis difference of the investment in KCS of \$7,832 million upon acquiring control (refer to Note 8), remeasurement loss of KCS of \$7,175 million (refer to Note 8), the equity earnings of KCS of \$230 million, acquisition-related costs incurred by CPKC of \$134 million, amortization of business acquisition fair value adjustments of \$75 million, revaluation of deferred income tax balances on unitary state apportionment changes of \$51 million, and an outside basis deferred tax recovery of \$23 million arising from the difference between the carrying amount of CPKC's investment in KCS for financial reporting and the underlying tax basis of this investment.

For the six months ended June 30, 2022, the effective tax rate was 24.25%, excluding the discrete items of equity earnings of KCS of \$406 million, acquisition-related costs incurred by CPKC of \$39 million, and outside basis deferred tax expense of \$17 million arising from the difference between the carrying amount of CPKC's investment in KCS for financial reporting and the underlying tax basis of this investment.

#### Mexican Value Added Tax

Kansas City Southern de México, S.A. de C.V. (also known as Canadian Pacific Kansas City Mexico) ("CPKCM") is not required to charge its customers value added tax ("VAT") on international import or export transportation services, which prior to 2022 resulted in CPKCM paying more VAT on its expenses than it collected from customers. These excess VAT payments are refundable by the Mexican government. Prior to 2019, Mexican companies could offset their monthly refundable VAT balance

with other tax obligations. In January 2019, Mexican tax reform eliminated the ability to offset other tax obligations with refundable VAT. From 2019 through 2021, CPKCM generated a refundable VAT balance and filed refund claims with the Servicio de Administración Tributaria ("SAT") (Mexican tax authority), which have not been refunded.

In November 2021, changes to the VAT law were announced and became effective beginning January 1, 2022. These changes reduced the recoverability of VAT paid by CPKCM on its expenditures that support international import transportation service revenues that are not subject to a VAT charge. VAT that is unrecoverable from the Mexican government results in incremental VAT expense for CPKCM. Beginning in 2022, CPKCM changed certain service offerings to either require VAT to be charged to customers on revenue, or impose a rate increase to offset the incremental VAT expense. These measures implemented by CPKCM increased the VAT collected from customers and payable to the Mexican government.

As of June 30, 2023 and April 14, 2023, the CPKCM refundable VAT balance was \$64 million and \$80 million, respectively, which was classified within "Accounts receivable, net". CPKCM has prior favourable Mexican court decisions and a legal opinion supporting its right under Mexican law to recover the refundable VAT balance from the Mexican government and believes the VAT to be fully recoverable. CPKCM will recover the refundable VAT balance as VAT billed to customers exceeds creditable VAT charged by vendors.

## 5 Earnings per share

(in millions)	For the three months ended June 30		For the six months ended June 30	
	2023	2022	2023	2022
Net income attributable to controlling shareholders	\$ 1,324	\$ 765	\$ 2,124	\$ 1,355
Weighted-average basic shares outstanding	931.2	929.9	930.9	929.8
Dilutive effect of stock options	2.6	2.7	2.7	2.9
Weighted-average diluted shares outstanding	933.8	932.6	933.6	932.7
Earnings per share - basic	\$ 1.42	\$ 0.82	\$ 2.28	\$ 1.46
Earnings per share - diluted	\$ 1.42	\$ 0.82	\$ 2.28	\$ 1.45

For the three and six months ended June 30, 2023, there were 0.5 million and 0.2 million options, respectively, excluded from the computation of diluted earnings per share because their effects were not dilutive (three and six months ended June 30, 2022 - 0.8 million and 0.4 million, respectively).

## 6 Changes in Accumulated other comprehensive (loss) income ("AOCL") by component

(in millions of Canadian dollars)	For the three months ended June 30					Total <sup>(1)(2)</sup>
	Foreign currency net of hedging activities <sup>(1)(2)</sup>	Derivatives <sup>(1)(2)</sup>	Pension and post-retirement defined benefit plans <sup>(1)(2)</sup>	Equity accounted investments <sup>(1)(2)</sup>		
<b>Opening balance, April 1, 2023</b>	\$ 1,478	\$ 1	\$ (1,404)	\$ (1)	\$ 74	
Other comprehensive (loss) income before reclassifications	(621)	—	(9)	3	(627)	
Amounts reclassified from accumulated other comprehensive income	—	1	7	1	9	
Net other comprehensive (loss) income	(621)	1	(2)	4	(618)	
<b>Closing balance, June 30, 2023</b>	\$ 857	\$ 2	\$ (1,406)	\$ 3	\$ (544)	
Opening balance, April 1, 2022	\$ (531)	\$ (3)	\$ (1,884)	\$ 45	\$ (2,373)	
Other comprehensive income before reclassifications	748	—	—	57	805	
Amounts reclassified from accumulated other comprehensive loss	—	1	28	—	29	
Net other comprehensive income	748	1	28	57	834	
Closing balance, June 30, 2022	\$ 217	\$ (2)	\$ (1,856)	\$ 102	\$ (1,539)	

<sup>(1)</sup> Amounts are presented net of tax.

<sup>(2)</sup> Amounts presented are those attributable to common shareholders.

(in millions of Canadian dollars)	For the six months ended June 30					Total <sup>(1)(2)</sup>
	Foreign currency net of hedging activities <sup>(1)(2)</sup>	Derivatives <sup>(1)(2)</sup>	Pension and post-retirement defined benefit plans <sup>(1)(2)</sup>	Equity accounted investments <sup>(1)(2)</sup>		
<b>Opening balance, January 1, 2023</b>	\$ 1,505	\$ —	\$ (1,410)	\$ (4)		<b>91</b>
Other comprehensive (loss) income before reclassifications	(648)	—	(9)	6		(651)
Amounts reclassified from accumulated other comprehensive income (loss)	—	2	13	1		16
Net other comprehensive (loss) income	(648)	2	4	7		(635)
<b>Closing balance, June 30, 2023</b>	\$ 857	\$ 2	\$ (1,406)	\$ 3		<b>(544)</b>
Opening balance, January 1, 2022	\$ (182)	\$ (4)	\$ (1,915)	\$ (2)		(2,103)
Other comprehensive income before reclassifications	399	—	—	103		502
Amounts reclassified from accumulated other comprehensive loss	—	2	59	1		62
Net other comprehensive income	399	2	59	104		564
Closing balance, June 30, 2022	\$ 217	\$ (2)	\$ (1,856)	\$ 102		(1,539)

<sup>(1)</sup> Amounts are presented net of tax.

<sup>(2)</sup> Amounts presented are those attributable to common shareholders.

## 7 Accounts receivable, net

(in millions of Canadian dollars)	As at June 30, 2023	As at December 31, 2022
Total accounts receivable	\$ 1,726	\$ 1,057
Allowance for credit losses	(70)	(41)
<b>Total accounts receivable, net</b>	<b>\$ 1,656</b>	<b>\$ 1,016</b>

## 8 Business acquisition

Management is required to make estimates and assumptions of the fair value of assets acquired and liabilities and non-controlling interest assumed in the business combination at the acquisition date. These estimates and assumptions are inherently uncertain and subject to refinement. Therefore, during the measurement period, which may be up to one year from the date of acquisition, the Company will adjust the fair values of the assets and liabilities based on new information about facts and circumstances that existed at the Control Date that, if known, would affect the amounts recognized as of that date. Changes in the provisional amounts may impact goodwill. After the earlier of the end of the measurement period or when the final fair value of the assets and liabilities assumed have been determined, any subsequent adjustments are recorded in the Interim Consolidated Statements of Income.

The Company identifies pre-acquisition contingencies as of the date of acquisition and will continue to assess these contingencies on a quarterly basis throughout the measurement period to determine whether these contingencies should be included in the fair value of assets and liabilities assumed. After the earlier of the end of the measurement period or when the final fair value of the assets and liabilities assumed have been determined, any subsequent changes to the pre-acquisition contingencies that impact the fair value of the assets and liabilities assumed are recorded in the Interim Consolidated Statements of Income.

In the event that the Company acquires a business in which it previously held an equity interest, the Company remeasures the fair value of the investment at the acquisition date, with any difference in the valuation recorded as a net remeasurement gain or loss in the Interim Consolidated Statements of Income. Any pre-existing relationship between the Company and the acquiree is effectively settled with a corresponding gain or loss recorded in the Interim Consolidated Statements of Income, separately, from the business acquisition.

## Kansas City Southern

On December 14, 2021, the Company purchased 100% of the issued and outstanding shares of KCS and placed the shares of KCS in a voting trust. Prior to control, KCS was 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 connected with all Class I railways. KCS is connected with the Company's network in Kansas City.

On March 15, 2023, the U.S. Surface Transportation Board (the "STB") issued a final decision approving the Company and KCS's joint merger application, subject to certain conditions. The Company assumed control of KCS on April 14, 2023 ("Control Date"). Between December 14, 2021 and 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. On assuming control, the merger created the only single-line railroad linking the United States, Mexico, and Canada and will enable significant growth for the Company's rail customers.

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 \$44,402 million as of April 13, 2023 and remeasured the investment at its Control Date fair value of \$37,227 million, which formed part of the purchase consideration, resulting in a net remeasurement loss of \$7,175 million. In addition, a deferred tax recovery of \$7,832 million 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 fair value of the previously held equity interest in KCS was determined through use of a discounted cash flow approach, which incorporated the Company's best estimates of long term growth rates, tax rates, discount rates, and terminal multiples.

The identifiable assets acquired, and liabilities and non-controlling interest assumed are measured at their provisional fair values at the Control Date, with certain exceptions. The 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 provisional fair value of the tangible assets included, but were 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, each of up to 50 years.

The 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 provisional fair values of the intangible assets included, but were 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.

During the measurement period, the Company will finalize its allocation of the Control Date fair value of KCS to the acquired assets and assumed liabilities and non-controlling interest to reflect additional information, which may become available as to facts and circumstances as of the Control Date. Measurement uncertainty existed at the Control date with respect to, but not limited to, property plant and equipment, materials and supplies, environmental, legal, personal injury and other contingent liabilities, deferred income taxes, uncertain tax positions and other tax assets or liabilities, pensions and other benefits and other assets and liabilities. 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 for assets and liabilities as of the Control Date.

The following table summarizes the preliminary purchase price allocation with the amounts recognized in respect of the identifiable assets acquired and liabilities and non-controlling interest assumed on the Control Date, as well as the fair value at the Control Date of the previously held equity interest in KCS:

(in millions of Canadian dollars)

<b>Net assets acquired:</b>	
Cash and cash equivalents	\$ 298
Net working capital	51
Properties	28,748
Intangible assets	3,022
Other long-term assets	496
Long-term debt	(4,545)
Deferred income taxes	(6,984)
Other long-term liabilities	(406)
<b>Total identifiable net assets</b>	<b>\$ 20,680</b>
Goodwill	17,491
	<b>\$ 38,171</b>
<b>Consideration:</b>	
Fair value of previously held equity method investment	<b>\$ 37,227</b>
Intercompany net balances acquired	12
Fair value of non-controlling interest	932
<b>Total</b>	<b>\$ 38,171</b>

Acquired cash and cash equivalents of \$298 million are presented as an investing activity on the Company's Interim Consolidated Statements of Cash Flows for the three and six months ended June 30, 2023.

The fair value of net working capital acquired included trade receivables of \$644 million and gross intercompany receivables with CPKC of \$24 million and did not include acquired debt securities with credit deterioration. The gross amount of trade receivables due under contracts was \$664 million, of which \$20 million is expected to be uncollectible.

Intangible assets of \$3,022 million 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 provisional fair values totalling \$9,176 million. The concession rights and related assets are amortized over the shorter of the underlying asset lives and the estimated concession term, including one renewal period, of 74 years.

Other long-term liabilities included environmental liabilities of \$132 million and legal and personal injury claims of \$41 million, which are contingent on the outcome of uncertain future events. The values are measured at amortized cost and evaluated for changes in facts at the end of the reporting period. Gain contingencies not recorded at acquisition date related to income taxes are discussed in Note 4.

The excess of the total consideration, over the amounts allocated to acquired assets and assumed liabilities and the non-controlling interest recognized, was recognized as goodwill of \$17,491 million. All of the goodwill has been assigned to the rail transportation segment. None of the goodwill is expected to be deductible for income tax purposes.

The Interim Consolidated Statements of Income for the three and six months ended June 30, 2023 included revenue of \$998 million from KCS and net income attributable to controlling shareholders of \$138 million from KCS from April 14, 2023 to June 30, 2023. 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 six months ended June 30, 2023 and June 30, 2022:

	<b>Three Months Ended June 30, 2023</b>		<b>Three Months Ended June 30, 2022</b>	
	<b>KCS Historical<sup>(1)</sup></b>	<b>Pro Forma CPKC</b>	<b>KCS Historical<sup>(1)</sup></b>	<b>Pro Forma CPKC</b>
(in millions of Canadian dollars)				
Revenue	\$ 164	\$ 3,338	\$ 1,079	\$ 3,285
Net income attributable to controlling shareholders	34	615	248	794

<sup>(1)</sup> KCS's results were translated into Canadian dollars at the Bank of Canada daily exchange rate for the period from April 1 to April 13, 2023 and three months ended June 30, 2022 with effective exchange rates of \$1.35 and \$1.28, respectively.

(in millions of Canadian dollars)	Six Months Ended June 30, 2023		Six Months Ended June 30, 2022	
	KCS Historical <sup>(1)</sup>	Pro Forma CPKC	KCS Historical <sup>(1)</sup>	Pro Forma CPKC
Revenue	\$ 1,351	\$ 6,794	\$ 2,065	\$ 6,112
Net income attributable to controlling shareholders	280	1,371	485	2,018

<sup>(1)</sup> KCS's results were translated into Canadian dollars at the Bank of Canada daily exchange rate for the period from January 1 to April 13, 2023 and six months ended June 30, 2022 with effective exchange rates of \$1.35 and \$1.27, respectively.

The supplemental pro forma Net income attributable to controlling shareholders for the combined entity were adjusted for:

- the removal of the remeasurement loss of \$7,175 million upon the derecognition of CPRL's previously held equity method investment in KCS from the three and six months ended June 30, 2023, which included the reclassification of associated accumulated other comprehensive income to retained earnings; and recognition of this remeasurement loss in the three months ended March 31, 2022;
- depreciation and amortization of differences between the historic carrying value and the preliminary fair value of tangible and intangible assets and investments prior to the Control Date;
- amortization of differences between the carrying amount and the fair value of debt through net interest expense prior to the Control Date;
- the elimination of intercompany transactions prior to the Control Date 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, previously held as an equity method investment prior to the Control Date, of \$26 million, \$208 million, \$230 million, and \$406 million for the three months ended June 30, 2023 and June 30, 2022 and six months ended June 30, 2023 and June 30, 2022, respectively;
- estimated transaction costs expected to be incurred by the Company; and
- income tax adjustments including:
  - the derecognition of a deferred tax recovery of \$7,832 million for the three and six months ended June 30, 2023 related to the elimination of the deferred tax liability on the outside basis difference of the investment in KCS; and recognition of this deferred tax recovery in the three months ended March 31, 2022;
  - the derecognition of a deferred tax recovery for the three months ended June 30, 2023 on CPKC unitary state apportionment changes; and recognition of these CPKC unitary state apportionment changes in the three months ended March 31, 2022;
  - a deferred tax recovery prior to the Control Date 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.

During the three and six months ended June 30, 2023, the Company incurred \$119 million and \$134 million, in acquisition-related costs, respectively, of which \$63 million and \$63 million were recorded in "Compensation and benefits", \$53 million and \$65 million were recorded within "Purchased services and other", and \$3 million and \$6 million, were recorded within "Other expense (income)". Acquisition-related costs of \$1 million and \$11 million incurred by KCS during the three and six months ended June 30, 2023 were included within "Equity earnings of Kansas City Southern".

During the three and six months ended June 30, 2022, the Company incurred \$19 million and \$39 million, in acquisition-related costs, respectively, recorded within "Purchased services and other". Acquisition-related costs of \$14 million and \$27 million incurred by KCS during the three and six months ended June 30, 2022 were included within "Equity earnings of Kansas City Southern".

## 9 Investment in KCS

On April 14, 2023 the Company assumed control of KCS and subsequently derecognized its previously held equity method investment in KCS of \$44,402 million as of April 13, 2023 (December 31, 2022 - \$45,091 million).

For the period April 1 to 13, 2023 and the period January 1 to April 13, 2023, the Company recognized \$26 million and \$230 million of equity earnings of KCS, respectively (three and six months ended June 30, 2022 - \$208 million and \$406 million, respectively), and received dividends from KCS for the period April 1 to 13, 2023 and the period January 1 to April 13, 2023 of nil and \$300 million respectively (three and six months ended June 30, 2022 - nil and \$334 million respectively). The foreign currency translation of the investment in KCS for the period April 1 to 13, 2023 and January 1 to April 13, 2023, totaled losses of \$41 million and \$578 million, respectively (three and six months ended June 30, 2022 - gains of \$608 million and \$694 million, respectively). Included within the equity earnings of KCS recognized for the period April 1 to 13, 2023 and the period January 1 to April 13, 2023 was amortization (net of tax) of basis differences of \$6 million and \$48 million, respectively (three and six months ended June 30, 2022 - \$39 million and \$79 million, respectively). 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) <sup>(1)</sup>	For the period April 1 to April 13, 2023	For the three months ended June 30, 2022	For the period January 1 to April 13, 2023	For the six months ended June 30, 2022
Total revenues	\$ 164	\$ 1,079	\$ 1,351	\$ 2,065
Total operating expenses	109	680	888	1,297
Operating income	55	399	463	768
Less: Other <sup>(2)</sup>	9	59	83	98
Income before income taxes	46	340	380	670
<b>Net income</b>	<b>\$ 34</b>	<b>\$ 248</b>	<b>\$ 280</b>	<b>\$ 485</b>

<sup>(1)</sup> Amounts translated at the average FX rate for the period April 1 to April 13, 2023 and three months ended June 30, 2022 of \$1.00 USD = \$1.35 CAD and \$1.00 USD = \$1.28 CAD respectively. Also, for the period January 1 to April 13, 2023 and six months ended June 30, 2022 of \$1.00 USD = \$1.35 CAD and \$1.00 USD = \$1.27 CAD respectively.

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

#### 10 Goodwill

(in millions of Canadian dollars)	Net carrying amount
Balance as at December 31, 2022	\$ 344
Additions (Note 8)	17,491
Foreign exchange impact	(161)
<b>Balance as at June 30, 2023</b>	<b>\$ 17,674</b>

Goodwill acquired in the period is the excess of the purchase price over the estimated fair value of net assets acquired in the business acquisition of KCS. The goodwill represents future growth opportunities, synergies and an assembled workforce.

#### 11 Intangible assets

(in millions of Canadian dollars)	Cost	Accumulated amortization	Net carrying amount
Balance as at December 31, 2022	\$ 66	\$ (24)	\$ 42
Additions (Note 8)	3,022	—	3,022
Amortization	—	(18)	(18)
Foreign exchange impact	(27)	—	(27)
<b>Balance as at June 30, 2023</b>	<b>\$ 3,061</b>	<b>\$ (42)</b>	<b>\$ 3,019</b>

#### 12 Debt

During the six months ended June 30, 2023, the Company repaid U.S. \$350 million (\$479 million) 4.450% 12.5-year Notes at maturity, and U.S. \$439 million (\$592 million) of 3.00% 10-year Senior Notes at maturity by release of funds from the trustee as discussed below in "Satisfaction and Discharge of KCS 2023 Notes".

#### Credit facility

Effective May 11, 2023, the Company entered into a second amended and restated credit agreement to extend the maturity dates and increase the total amount available under the facility. The amended revolving credit facility increased the aggregate commitments under the second amended and restated credit agreement from U.S. \$1.3 billion to U.S. \$2.2 billion, and extended the maturity dates of the five year facility and two year facility from September 27, 2026 to May 11, 2028, and September 27, 2023 to May 11, 2025, respectively. As at June 30, 2023, the revolving credit facility was undrawn (December 31, 2022 - undrawn). The Company also terminated the legacy KCS credit facility effective May 11, 2023.

## 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. \$2.2 billion revolving credit facility. As at June 30, 2023 the Company had total commercial paper borrowings outstanding of U.S. \$405 million (\$536 million) included in "Long-term debt maturing within one year" on the Company's Interim Consolidated Balance Sheets (December 31, 2022 - \$nil). The weighted-average interest rate on these borrowings as at June 30, 2023 was 5.41%. 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. The Company also terminated the legacy KCS commercial paper program effective May 19, 2023.

On July 12, 2023, the Company increased the maximum aggregate principal amount of commercial paper available to be issued to U.S. \$1.5 billion.

## 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 series of CPRC Notes has the same interest rates, interest payment dates, maturity dates, and substantively the same optional 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	Aggregate Principal Amount Tendered and Consents Received	Percentage of Total Outstanding Principal Amount of such Series of Old Notes Tendered and Consenting	Series of CPRC Notes Issued by CPRC	Aggregate Principal Amount of CPRC Notes Issued
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
<b>Total</b>	<b>\$ 3,014</b>	<b>97.3 %</b>		<b>\$ 3,014</b>

The debt exchange was 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 and six months ended June 30, 2023, the Company incurred \$9 million and \$12 million, respectively of costs associated with the debt exchange, recorded within "Other expense". These charges, along with amounts paid to noteholders, totalling \$15 million have been classified as "Acquisition-related financing fees" within the Company's Interim Consolidated Statements of Cash Flows.

## Satisfaction and Discharge of KCS 2023 Notes

On April 24, 2023, KCS irrevocably deposited U.S. \$647 million of non-callable government securities ("Treasury notes") with the trustee of two series of notes that mature in 2023 and were not included within the KCS debt exchange (the "KCS 2023 Notes") to satisfy and discharge KCS's obligations under the KCS 2023 Notes. 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. On May 15, 2023 the U.S. \$439 million 3.00% Senior Notes were repaid by release of funds from the trustee. The remaining KCS 2023 Notes as well as the short-term

investment in Treasury notes will be reported on the Company's Interim Consolidated Balance Sheets until their maturity date. The balance of principal and interest outstanding as of June 30, 2023 on the 3.85% Senior Notes maturing November 2023 was U.S. \$200 million. In the Company's Interim Consolidated Statements of Cash Flows, the government securities of U.S. \$447 million (\$600 million) purchased towards the settlement of the May maturity were treated as a cash equivalent, with settlement ultimately presented within financing activities as a repayment of long-term debt; the purchase of government securities of U.S. \$198 million (\$267 million) towards the settlement of the November maturity was presented within investing activities. This transaction, along with the debt exchange mentioned above, relieved KCS from continuous disclosure obligations.

### **13 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 and cash equivalents, 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 values have 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 \$22,726 million as at June 30, 2023 (December 31, 2022 - \$19,651 million), had a fair value of \$21,169 million (December 31, 2022 - \$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 six months ended June 30, 2023 was an unrealized FX loss of \$163 million and \$162 million, respectively (three and six months ended June 30, 2022 - unrealized FX loss of \$216 million and \$118 million, respectively) recognized in "Other comprehensive (loss) income".

##### **Foreign currency derivative instruments**

The Company's Mexican subsidiaries have net U.S. dollar-denominated monetary assets which, for Mexican income tax purposes, are subject to periodic revaluation based on changes in the value of the Mexican peso ("Ps.") against the U.S. dollar. This revaluation creates fluctuations in the Company's Mexican income tax expense and the amount of income taxes paid in Mexican peso. The Company also has net monetary assets denominated in Mexican pesos that are subject to periodic re-measurement and settlement that create fluctuations within "Other expense". The Company has hedged its net exposure to Mexican peso/U.S. dollar fluctuations in earnings with foreign currency forward contracts. The foreign currency forward contracts involve the Company's agreement to buy or sell pesos at an agreed-upon exchange rate on a future date.

As at June 30, 2023, the Company had outstanding foreign currency forward contracts to purchase a notional value of U.S. \$215 million. These outstanding contracts are at a weighted-average exchange rate of Ps.20.61 per U.S. \$1.00, with exchange rates ranging from Ps.19.55 to Ps.20.72. The weighted average term of contracts is 345 days. The Company has not designated any of the foreign currency derivative contracts as hedging instruments for accounting purposes. The Company measures the foreign currency derivative contracts at fair value each period and recognizes any change in "Other expense". The cash flows associated with these instruments are classified as "Operating activities" within the Interim Consolidated Statements of Cash Flows.

Following the acquisition of control of KCS on April 14, 2023, the Company recorded a loss of \$24 million related to foreign exchange currency forwards. As at June 30, 2023, the fair value of outstanding foreign exchange contracts included in "Accounts payable and accrued liabilities" was \$46 million.

##### ***Offsetting***

The Company's foreign currency forward contracts are executed with counterparties in the U.S. and are governed by International Swaps and Derivatives Association agreements that include standard netting arrangements. Asset and liability positions from contracts with the same counterparty are net settled upon maturity/expiration and presented on a net basis in the Interim Consolidated Balance Sheets prior to settlement.

## 14 Pension and other benefits

In the three and six months ended June 30, 2023, the Company made contributions to its defined benefit pension plans of \$5 million and \$9 million, respectively (three and six months ended June 30, 2022 - \$4 million and \$7 million, respectively).

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 June 30			
	Pensions		Other benefits	
	2023	2022	2023	2022
Current service cost (benefits earned by employees)	\$ 17	\$ 37	\$ 3	\$ 3
Other components of net periodic benefit (recovery) cost:				
Interest cost on benefit obligation	122	96	6	4
Expected return on plan assets	(221)	(239)	—	—
Recognized net actuarial loss	8	38	—	—
Amortization of prior service costs	1	—	1	—
Total other components of net periodic benefit (recovery) cost	(90)	(105)	7	4
Net periodic benefit (recovery) cost	\$ (73)	\$ (68)	\$ 10	\$ 7

(in millions of Canadian dollars)	For the six months ended June 30			
	Pensions		Other benefits	
	2023	2022	2023	2022
Current service cost (benefits earned by employees)	\$ 35	\$ 74	\$ 5	\$ 5
Other components of net periodic benefit (recovery) cost:				
Interest cost on benefit obligation	243	192	11	8
Expected return on plan assets	(441)	(479)	—	—
Recognized net actuarial loss	16	76	—	1
Amortization of prior service costs	1	—	1	—
Total other components of net periodic benefit (recovery) cost	(181)	(211)	12	9
Net periodic benefit (recovery) cost	\$ (146)	\$ (137)	\$ 17	\$ 14

## 15 Stock-based compensation

As at June 30, 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 six months ended June 30, 2023 of \$39 million and \$71 million, respectively (three and six months ended June 30, 2022 - expense of \$2 million and \$46 million, respectively).

### Stock option plans

In the six months ended June 30, 2023, under the Company's stock option plans, the Company issued 856,332 options at the weighted-average price of \$105.82 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 \$26 million. The weighted-average fair value assumptions were approximately:

	<b>For the six months ended June 30, 2023</b>
Expected option life (years) <sup>(1)</sup>	4.75
Risk-free interest rate <sup>(2)</sup>	3.35%
Expected share price volatility <sup>(3)</sup>	28.44%
Expected annual dividends per share <sup>(4)</sup>	\$0.760
Expected forfeiture rate <sup>(5)</sup>	3.18%
Weighted-average grant date fair value per option granted during the period	\$29.79

<sup>(1)</sup> 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.

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

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

<sup>(4)</sup> 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.

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

## Performance share unit plans

During the six months ended June 30, 2023, the Company issued 891,411 Performance Share Units ("PSUs") with a grant date fair value of approximately \$96 million and 26,333 Performance Deferred Share Units ("PDSUs") with a grant date fair value, including the value of expected future matching units, of approximately \$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 to four years after the grant date, contingent upon 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 the Company.

The performance period for 544,175 PSUs and all PDSUs issued in the six months ended June 30, 2023 is January 1, 2023 to December 31, 2025 and the performance factors are Free Cash Flow ("FCF"), 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 the remaining 347,236 PSUs is April 28, 2023 to December 1, 2026 and the performance factors are annualized earnings before interest, tax, depreciation, and amortization ("EBITDA"), and TSR compared to Class I Railways.

The performance period for 489,990 PSUs and 50,145 PDSUs issued in 2020 was January 1, 2020 to December 31, 2022, and the performance factors for 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 180% of the outstanding units multiplied by the Company's average share price calculated using the last 30 trading days preceding December 31, 2022. In the first quarter of 2023, payouts occurred on 459,358 PSUs outstanding, including dividends reinvested, totalling \$87 million. The 45,058 PDSUs that vested on December 31, 2022 for a total fair value of \$11 million, including dividends reinvested and matching units, will payout in the future pursuant to the DSU plan (as described above).

## 16 Contingencies

### Litigation

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 June 30, 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, results of 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 the Company and others:

- (1) Québec's Minister of Sustainable Development, Environment, Wildlife and Parks ordered various parties, including the Company, to remediate the derailment site (the "Cleanup Order") and served the Company with a Notice of Claim for \$95 million for those costs. 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 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) the Company was responsible for the petroleum crude oil from its point of origin until its delivery to Irving Oil Ltd.; and (ii) 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 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 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 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. The Québec Superior Court issued a decision 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 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 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 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 the Company in November 2014 in the Maine Bankruptcy Court claiming that 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 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. On May 23, 2023, the case management judge stayed the proceedings pending the outcome of the appeal in the Canadian consolidated claims.
- (7) The class and mass tort action commenced against 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 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 the Company negligently misclassified and improperly packaged the petroleum crude oil. On the Company'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 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. On January 20, 2023, the Court granted in part the Company's summary judgment motion by dismissing all claims for recovery of settlement payments but leaving for trial 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 have been fully briefed. Decision is pending.

At this stage of the proceedings, any potential responsibility and the quantum of potential losses cannot be determined. Nevertheless, 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 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 for which it is liable under the ruling of the Court. The Company has filed an appeal of the Court's decision.

### **2014 Tax Assessment**

On April 13, 2022, the SAT issued an assessment to CPKCM, a wholly-owned subsidiary of the Company, for Ps.5,525 million (\$428 million) for the fiscal year 2014, which included inflation, interest, and penalties. On July 7, 2022, CPKCM filed with the SAT an administrative challenge (recurso de revocación) against the assessment. On September 26, 2022, the SAT withdrew the administrative challenge. On November 10, 2022, CPKCM filed an administrative lawsuit against the withdrawal of the administrative challenge. As part of the lawsuit, CPKCM asked the Court for an injunction to avoid the collection by the SAT of the 2014 assessment. On December 7, 2022, the Administrative Court admitted the annulment lawsuit filed by CPKCM. On February 10, 2023, the SAT filed its response to the lawsuit. On March 15, 2023, the lawsuit was opened to the evidentiary stage. A resolution from the Administrative Court is expected in the fourth quarter of 2023. The decision from the Administrative Court may be appealed by CPKCM or the SAT.

### **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 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 the Company's best estimate of all probable costs, 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.

The expense included in "Purchased services and other" in the Company's Interim Consolidated Statements of Income for the three and six months ended June 30, 2023 was \$3 million and \$4 million, respectively (three and six months ended June 30, 2022 - \$2 million and \$4 million, respectively). Provisions for environmental remediation costs are recorded in the Company's Interim Consolidated Balance Sheets in "Other long-term liabilities", except for the current portion, which is recorded in "Accounts payable and accrued liabilities". The total amount provided as at June 30, 2023 was \$228 million (December 31, 2022 - \$83 million) including liabilities recognized with the acquisition of KCS. Payments are expected to be made over 10 years through 2032.

## 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 six months ended June 30, 2023 in Item 1. Financial Statements, other information in this report, and Item 8. Financial Statements and Supplementary Data of the Company's 2022 Annual Report on Form 10-K. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars.

### Available Information

The Company makes available on or through its website [www.cpkcr.com](http://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 the Company are also accessible through the SEC's website at [www.sec.gov](http://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's ("CEO") and Chief Financial Officer's 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").

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 in Canada, the U.S. and Mexico.

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, which includes KCS as a consolidated subsidiary on and from April 14, 2023. Prior to April 14, 2023, KCS was held as an equity investment accounted for by the equity method of accounting.

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

#### Second Quarter of 2023 Results

- *Financial performance* - In the second quarter of 2023, the Company reported Diluted earnings per share ("EPS") of \$1.42, an increase of 73% compared to the same period of 2022 due to the net impact of the derecognition of the investment in KCS upon consolidation. Core adjusted combined diluted EPS was \$0.83, a decrease of 13% compared to the same period of 2022. The Company reported an Operating ratio of 70.3%, a 970 basis point increase compared to the same period of 2022. Core adjusted combined operating ratio was 64.6%, a 430 basis point increase compared to the same period of 2022. Core adjusted combined diluted EPS and Core adjusted combined 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.

In the second quarter of 2023, Equity earnings of KCS prior to the Control Date was \$26 million and Net income from KCS from the Control Date to June 30, 2023 was \$138 million, compared to KCS equity earnings of \$208 million in the same period of 2022. The lower overall contribution from KCS was primarily due to increased acquisition-related costs driven by restructuring charges. This was partially offset by a decrease in net interest expense due to the completion of the debt exchange. In the second quarter of 2023, KCS contributed \$216 million and 3.7% to Operating income and Operating ratio respectively.

- *Total revenues* - Total revenues increased by 44% in the second quarter of 2023 to \$3,174 million, compared to the same period of 2022. This increase was primarily due to the impact of the KCS acquisition, increased freight revenue per RTM, and higher volumes of Canadian grain, partially offset by lower volumes of U.S grain, Potash, and Energy, chemicals and plastics.

## Recent Developments

- On June 28, 2023, CPKC, CSX Corporation ("CSX"), and Genesee & Wyoming Inc. ("G&W") announced they have reached agreements that, when completed, will create a new direct CPKC-CSX interchange connection in Alabama. As part of the series of proposed transactions, CPKC and CSX will each acquire or operate portions of Meridian & Bigbee Railroad, L.L.C., a G&W-owned railway in Mississippi and Alabama, to establish a new freight corridor for shippers that connects Mexico, Texas, and the U.S. Southeast. Certain portions of the transactions are subject to regulatory review and approval from, or exemption by, the U.S. STB.
- On April 14, 2023, CPKC announced the appointment of David Garza-Santos, Ambassador Antonio Garza (Ret.), Henry Maier and Janet Kennedy, each former directors of KCS, to the Board of Directors of CPRC, effective immediately. Mr. Garza-Santos, Mr. Garza, Mr. Maier and Ms. Kennedy were also elected, along with all nine other director nominees, to the board of CPKC at CPKC's 2023 Annual Meeting of Shareholders, which was held on June 15, 2023.

## Prior Developments

- 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 to be issued by Canadian Pacific Railway Company ("CPRC") (the "CPRC" Notes), a wholly-owned subsidiary of CPKC, and to be unconditionally guaranteed on an unsecured basis by 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 series of CPRC Notes has the same interest rates, interest payment dates, maturity dates, and substantively the same optional redemption provisions as the corresponding series of Old Notes.

On April 24, 2023, KCS irrevocably deposited U.S. \$647 million of non-callable government securities with the trustee of two series of notes that mature in 2023 and were not included within the KCS debt exchange (the "KCS 2023 Notes") 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 remaining KCS 2023 Notes are presented on the Company's Consolidated Balance Sheets until their maturity date. This transaction, along with the debt exchange offers mentioned above, relieved KCS from continuous disclosure obligations.

- On March 17, 2023, the Company announced the executive leadership team that will lead CPKC.

## Performance Indicators

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

	For the three months ended June 30			For the six months ended June 30		
	2023	2022	% Change	2023	2022	% Change
<b>Operations Performance</b>						
Gross ton-miles ("GTMs") (millions)	<b>88,650</b>	68,847	29	<b>156,099</b>	131,030	19
Train miles (thousands)	<b>10,577</b>	7,259	46	<b>17,834</b>	14,152	26
Fuel efficiency (U.S. gallons of locomotive fuel consumed / 1,000 GTMs)	<b>1.036</b>	0.930	11	<b>1.009</b>	0.960	5
Total employees (average)	<b>19,579</b>	12,509	57	<b>16,257</b>	12,138	34

These key measures are used by management 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 the Company's management is at controlling costs and executing the Company's operating plan and strategy. Continued monitoring of these key measures enables the Company to take appropriate actions to deliver superior service and grow its business at low incremental cost.

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. The increase in GTMs in the second quarter of 2023 was primarily due to the impact of the KCS acquisition and higher volumes of Canadian grain, partially offset by lower volumes of U.S. grain, Potash, and Energy, chemicals and plastics.

The increase in GTMs in the first six months of 2023 was primarily due to the impact of the KCS acquisition and higher volumes of Canadian grain, and Metals, minerals and consumer products, partially offset by lower volumes of U.S. grain and Potash.

**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. The increase in train miles in the second quarter of 2023 reflects the impact of a 29% increase in workload (GTM), and an 11% decrease in average train weights, which was primarily due to the impact of the KCS acquisition.

The increase in train miles in the first six months of 2023 reflected the impact of a 19% increase in workload (GTM) and a 4% decrease in average train weights, which was primarily due to the impact of the KCS acquisition.

**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. The decrease in fuel efficiency in the second quarter and in the first six months of 2023 was due to a decrease in average train weights by 11% and 4% respectively, which was primarily due to the impact of the KCS acquisition.

An **employee** is defined as an individual currently engaged in full-time, part-time, or seasonal employment with the Company. 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 employees increased by 57% and 34% for the three and six months ended June 30, 2023, respectively, compared to the same period of 2022. The increase in the average number of employees was due to the acquisition of KCS and to support anticipated future volume growth.

## Financial Highlights

The following table presents selected financial data related to the Company's financial results as of, and for the three and six months ended, June 30, 2023 and the comparative figures in 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.

(in millions, except per share data, percentages and ratios)	For the three months ended June 30		For the six months ended June 30	
	2023	2022	2023	2022
<b>Financial Performance</b>				
Total revenues	\$ 3,174	\$ 2,202	\$ 5,440	\$ 4,040
Operating income	944	868	1,773	1,403
Net income attributable to controlling shareholders	1,324	765	2,124	1,355
Basic EPS	1.42	0.82	2.28	1.46
Diluted EPS	1.42	0.82	2.28	1.45
Core adjusted combined diluted EPS <sup>(1)</sup>	0.83	0.95	1.73	1.62
Dividends declared per share	0.190	0.190	0.380	0.380
<b>Financial Ratios</b>				
Operating ratio <sup>(2)</sup>	70.3%	60.6%	67.4%	65.3%
Core adjusted combined operating ratio <sup>(1)</sup>	64.6%	60.3%	64.0%	63.3%

<sup>(1)</sup> 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.

<sup>(2)</sup> Operating ratio is defined as operating expenses divided by revenues.

## Results of Operations

### 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; interline switching fees; and other arrangements, including contracts with passenger service operators and logistical services.

For the three months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 3,101	\$ 2,154	\$ 947	44
Non-freight revenues (in millions)	73	48	25	52
Total revenues (in millions)	\$ 3,174	\$ 2,202	\$ 972	44
Carloads (in thousands)	1,069.7	712.7	357.0	50
Revenue ton-miles (in millions)	47,360	38,093	9,267	24
Freight revenue per carload (in dollars)	\$ 2,899	\$ 3,022	\$ (123)	(4)
Freight revenue per revenue ton-mile (in cents)	6.55	5.65	0.90	16

### Total Revenues

The increase in Freight revenues in the second quarter of 2023 was primarily due to the impact of the KCS acquisition of \$979 million, increased freight revenue per RTM, and higher volumes of Canadian grain, partially offset by lower volumes of U.S. grain, Potash, and Energy, chemicals and plastics. The increase in Non-freight revenues was primarily due to the impact of the KCS acquisition of \$19 million and higher leasing revenue.

### 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 in the second quarter of 2023 was primarily due to the impact of the KCS acquisition and higher volumes of Canadian grain, partially offset by lower volumes of U.S. grain, Potash, and Energy, chemicals and plastics. Carloads have increased more than RTMs due to the impact of the KCS acquisition, which has a shorter average length of haul.

### 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 in the second quarter of 2023 was primarily due to higher freight rates and the favourable impact of the change in FX of \$62 million, partially offset by the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices of \$94 million.

For the six months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 5,318	\$ 3,950	\$ 1,368	35
Non-freight revenues (in millions)	122	90	32	36
Total revenues (in millions)	\$ 5,440	\$ 4,040	\$ 1,400	35
Carloads (in thousands)	1,749.2	1,338.4	410.8	31
Revenue ton-miles (in millions)	84,909	71,786	13,123	18
Freight revenue per carload (in dollars)	\$ 3,040	\$ 2,951	\$ 89	3
Freight revenue per revenue ton-mile (in cents)	6.26	5.50	0.76	14

### Total Revenues

The increase in Freight revenues in the first six months of 2023 was primarily due to the impact of the KCS acquisition of \$979 million, increased freight revenue per RTM, and higher volumes as measured by RTMs. The increase in Non-freight revenues was primarily due to the impact of the KCS acquisition of \$19 million, higher leasing revenue, and higher interline switching fees.

### RTMs

The increase in RTMs in the first six months of 2023 was primarily due to the impact of the KCS acquisition and higher volumes of Canadian grain and Metals, minerals and consumer products, partially offset by lower volumes of U.S. grain and Potash. Carloads have increased more than RTMs due to the impact of the KCS acquisition, which has a shorter average length of haul.

### Freight revenue per RTM

The increase in freight revenue per RTM in the first six months of 2023 was primarily due to higher freight rates, the favourable impact of the change in FX of \$127 million, and the favourable impact to fuel surcharge revenue as a result of the timing of recoveries under the Company's fuel cost adjustment program of \$7 million.

### 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 \$403 million in the second quarter of 2023, an increase of \$44 million, or 12%, from \$359 million in the same period of 2022. This increase was primarily

due to the impact of the KCS acquisition, the favourable impact of the timing of recoveries under the Company's fuel cost adjustment program, and the favourable impact of the change in FX, partially offset by lower fuel prices.

In the first six months of 2023, fuel surcharge revenues were \$715 million, an increase of \$167 million, or 30%, from \$548 million in the same period of 2022. This increase was primarily due to the impact of the KCS acquisition, the favourable impact of the timing of recoveries under the Company's fuel cost adjustment program, the favourable impact of the change in FX, and higher volumes, partially offset by lower fuel prices.

### **Lines of Business**

#### *Grain*

For the three months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 537	\$ 370	\$ 167	45
Carloads (in thousands)	117.0	84.1	32.9	39
Revenue ton-miles (in millions)	10,947	7,784	3,163	41
Freight revenue per carload (in dollars)	\$ 4,590	\$ 4,400	\$ 190	4
Freight revenue per revenue ton-mile (in cents)	4.91	4.75	0.16	3

The increase in Grain revenue in the second quarter of 2023 was primarily due to the impact of the KCS acquisition, 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 and the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices. Freight revenue per RTM increased due to the favourable impact of the change in FX and higher freight rates.

For the six months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 1,052	\$ 730	\$ 322	44
Carloads (in thousands)	221.8	167.8	54.0	32
Revenue ton-miles (in millions)	20,961	15,758	5,203	33
Freight revenue per carload (in dollars)	\$ 4,743	\$ 4,350	\$ 393	9
Freight revenue per revenue ton-mile (in cents)	5.02	4.63	0.39	8

The increase in Grain revenue in the first six months of 2023 was primarily due to higher volumes of Canadian grain to Vancouver and eastern Canada due to prior year drought conditions that impacted the 2021-2022 crop size, the impact of the KCS acquisition, 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 the favourable impact of the change in FX and higher freight rates.

#### *Coal*

For the three months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 219	\$ 163	\$ 56	34
Carloads (in thousands)	114.8	71.7	43.1	60
Revenue ton-miles (in millions)	5,694	4,183	1,511	36
Freight revenue per carload (in dollars)	\$ 1,908	\$ 2,273	\$ (365)	(16)
Freight revenue per revenue ton-mile (in cents)	3.85	3.90	(0.05)	(1)

The increase in Coal revenue in the second quarter of 2023 was primarily due to the impact of the KCS acquisition, higher volumes of Canadian coal to Vancouver and Thunder Bay, Ontario, higher freight rates, and the favourable impact of the change in FX. This increase was partially offset by lower volumes of Canadian coal to Kamloops, B.C. and decreased freight revenue per RTM. Freight revenue per RTM decreased due to the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices.

For the six months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 374	\$ 302	\$ 72	24
Carloads (in thousands)	187.2	141.6	45.6	32
Revenue ton-miles (in millions)	9,619	8,180	1,439	18
Freight revenue per carload (in dollars)	\$ 1,998	\$ 2,133	\$ (135)	(6)
Freight revenue per revenue ton-mile (in cents)	3.89	3.69	0.20	5

The increase in Coal revenue in the first six months of 2023 was primarily due to the impact of the KCS acquisition, increased freight revenue per RTM, higher volumes of U.S. coal, and higher volumes of Canadian coal to Kamloops and Thunder Bay, partially offset by lower volumes of Canadian coal to Vancouver. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX.

#### Potash

For the three months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 144	\$ 171	\$ (27)	(16)
Carloads (in thousands)	39.8	47.3	(7.5)	(16)
Revenue ton-miles (in millions)	4,490	5,481	(991)	(18)
Freight revenue per carload (in dollars)	\$ 3,618	\$ 3,615	\$ 3	—
Freight revenue per revenue ton-mile (in cents)	3.21	3.12	0.09	3

The decrease in Potash revenue in the second quarter of 2023 was primarily due to lower volumes of export potash to the U.S. Pacific Northwest as a result of an equipment failure at the Port of Portland, lower volumes of export potash to Vancouver and Thunder Bay, and the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices. This decrease was partially offset by increased freight revenue per RTM and higher volumes of domestic potash. Freight revenue per RTM increased due to the favourable impact of the change in FX and higher freight rates.

For the six months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 276	\$ 275	\$ 1	—
Carloads (in thousands)	76.7	79.4	(2.7)	(3)
Revenue ton-miles (in millions)	8,500	9,133	(633)	(7)
Freight revenue per carload (in dollars)	\$ 3,598	\$ 3,463	\$ 135	4
Freight revenue per revenue ton-mile (in cents)	3.25	3.01	0.24	8

The increase in Potash revenue in the first six months of 2023 was primarily due to increased freight revenue per RTM and higher volumes of domestic potash. This increase was offset by lower volumes of export potash to the U.S. Pacific Northwest as a result of an equipment failure at the Port of Portland and lower volumes of export potash to Vancouver and Thunder Bay. Freight revenue per RTM increased due to the favourable impact of the change in FX and higher freight rates. RTMs decreased more than carloads due to moving lower volumes of export potash, which has a longer length of haul.

#### Fertilizers and Sulphur

For the three months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 89	\$ 85	\$ 4	5
Carloads (in thousands)	15.2	16.0	(0.8)	(5)
Revenue ton-miles (in millions)	1,107	1,228	(121)	(10)
Freight revenue per carload (in dollars)	\$ 5,855	\$ 5,313	\$ 542	10
Freight revenue per revenue ton-mile (in cents)	8.04	6.92	1.12	16

The increase in Fertilizers and sulphur revenue in the second quarter of 2023 was primarily due to increased freight revenue per RTM, the impact of the KCS acquisition, and higher volumes of wet fertilizers. This increase was partially offset by lower volumes

of sulphur and dry fertilizers and the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices. Freight revenue per RTM increased due to the favourable impact of the change in FX and higher freight rates. RTMs decreased more than carloads due to moving lower volumes of sulphur, which has a longer length of haul.

For the six months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 185	\$ 163	\$ 22	13
Carloads (in thousands)	32.2	31.9	0.3	1
Revenue ton-miles (in millions)	2,447	2,447	—	—
Freight revenue per carload (in dollars)	\$ 5,745	\$ 5,110	\$ 635	12
Freight revenue per revenue ton-mile (in cents)	7.56	6.66	0.90	14

The increase in Fertilizers and sulphur revenue in the first six months of 2023 was primarily due to increased freight revenue per RTM, the impact of the KCS acquisition, and higher volumes of wet fertilizers, partially offset by lower volumes of sulphur. Freight revenue per RTM increased due to the favourable impact of the change in FX and higher freight rates.

#### Forest Products

For the three months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 187	\$ 104	\$ 83	80
Carloads (in thousands)	34.8	19.4	15.4	79
Revenue ton-miles (in millions)	2,134	1,517	617	41
Freight revenue per carload (in dollars)	\$ 5,374	\$ 5,361	\$ 13	—
Freight revenue per revenue ton-mile (in cents)	8.76	6.86	1.90	28

The increase in Forest products revenue in the second quarter of 2023 was primarily due to the impact of the KCS acquisition, increased freight revenue per RTM, and higher volumes of lumber from Alberta to the U.S. Midwest. This increase was partially offset by lower volumes of newsprint from Saint John, New Brunswick, lower volumes of panel products, and the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices. Freight revenue per RTM increased due to the favourable impact of the change in FX and higher freight rates.

For the six months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 290	\$ 190	\$ 100	53
Carloads (in thousands)	52.5	36.8	15.7	43
Revenue ton-miles (in millions)	3,512	2,878	634	22
Freight revenue per carload (in dollars)	\$ 5,524	\$ 5,163	\$ 361	7
Freight revenue per revenue ton-mile (in cents)	8.26	6.60	1.66	25

The increase in Forest products revenue in the first six months of 2023 was primarily due to the impact of the KCS acquisition, increased freight revenue per RTM, and higher volumes of lumber from Alberta to the U.S. Midwest. This increase was partially offset by lower volumes of panel products, lower volumes of newsprint from Saint John, and the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX.

*Energy, Chemicals and Plastics*

For the three months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 575	\$ 340	\$ 235	69
Carloads (in thousands)	127.5	73.5	54.0	73
Revenue ton-miles (in millions)	8,005	6,028	1,977	33
Freight revenue per carload (in dollars)	\$ 4,510	\$ 4,626	\$ (116)	(3)
Freight revenue per revenue ton-mile (in cents)	7.18	5.64	1.54	27

The increase in Energy, chemicals and plastics revenue in the second quarter of 2023 was primarily due to the impact of the KCS acquisition and increased freight revenue per RTM. This increase was partially offset by lower volumes of crude and liquified petroleum gas ("L.P.G."), and the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices. Freight revenue per RTM increased due to the favourable impact of the change in FX and higher freight rates.

For the six months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 941	\$ 650	\$ 291	45
Carloads (in thousands)	202.7	146.1	56.6	39
Revenue ton-miles (in millions)	14,212	11,935	2,277	19
Freight revenue per carload (in dollars)	\$ 4,642	\$ 4,449	\$ 193	4
Freight revenue per revenue ton-mile (in cents)	6.62	5.45	1.17	21

The increase in Energy, chemicals and plastics revenue in the first six months of 2023 was primarily due to the impact of the KCS acquisition, increased freight revenue per RTM, and higher volumes of diluents and plastics. This increase was partially offset by lower volumes of crude and L.P.G., and the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX.

*Metals, Minerals and Consumer Products*

For the three months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 440	\$ 228	\$ 212	93
Carloads (in thousands)	129.3	66.6	62.7	94
Revenue ton-miles (in millions)	5,152	3,108	2,044	66
Freight revenue per carload (in dollars)	\$ 3,403	\$ 3,423	\$ (20)	(1)
Freight revenue per revenue ton-mile (in cents)	8.54	7.34	1.20	16

The increase in Metals, minerals and consumer products revenue in the second quarter of 2023 was primarily due to the impact of the KCS acquisition, increased freight revenue per RTM, higher volumes of frac sand to the Bakken shale formation, and higher volumes of cement. This increase was partially offset by the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices and lower volumes of steel. Freight revenue per RTM increased due to the favourable impact of the change in FX and higher freight rates.

For the six months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 673	\$ 409	\$ 264	65
Carloads (in thousands)	191.1	121.2	69.9	58
Revenue ton-miles (in millions)	8,063	5,627	2,436	43
Freight revenue per carload (in dollars)	\$ 3,522	\$ 3,375	\$ 147	4
Freight revenue per revenue ton-mile (in cents)	8.35	7.27	1.08	15

The increase in Metals, minerals and consumer products revenue in the first six months of 2023 was primarily due to the impact of the KCS acquisition, higher volumes of frac sand to the Bakken shale formation, higher volumes of cement, higher volumes of

steel, and increased freight revenue per RTM. This increase was partially offset by the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX.

#### Automotive

For the three months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 257	\$ 120	\$ 137	114
Carloads (in thousands)	56.2	28.8	27.4	95
Revenue ton-miles (in millions)	1,004	487	517	106
Freight revenue per carload (in dollars)	\$ 4,573	\$ 4,167	\$ 406	10
Freight revenue per revenue ton-mile (in cents)	25.60	24.64	0.96	4

The increase in Automotive revenue in the second quarter of 2023 was primarily due to the impact of the KCS acquisition, higher volumes from Chicago, Illinois, various origins in Ontario, Vancouver, and Kansas City, Missouri to various destinations in Canada, and increased freight revenue per RTM. This increase was partially offset by the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX. RTMs increased more than carloads due to moving higher volumes from Chicago, Ontario, and Kansas City to western Canada, which have longer lengths of haul.

For the six months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 382	\$ 211	\$ 171	81
Carloads (in thousands)	84.9	52.9	32.0	60
Revenue ton-miles (in millions)	1,478	890	588	66
Freight revenue per carload (in dollars)	\$ 4,499	\$ 3,989	\$ 510	13
Freight revenue per revenue ton-mile (in cents)	25.85	23.71	2.14	9

The increase in Automotive revenue in the first six months of 2023 was primarily due to the impact of the KCS acquisition, higher volumes as a result of the prior year global supply chain challenges, higher volumes from Chicago, various origins in Ontario, Vancouver, and Kansas City to various destinations in Canada, and increased freight revenue per RTM. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX. RTMs increased more than carloads due to moving higher volumes from Chicago, Ontario, and Kansas City to western Canada, which have longer lengths of haul.

#### Intermodal

For the three months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 653	\$ 573	\$ 80	14
Carloads (in thousands)	435.1	305.3	129.8	43
Revenue ton-miles (in millions)	8,827	8,277	550	7
Freight revenue per carload (in dollars)	\$ 1,501	\$ 1,877	\$ (376)	(20)
Freight revenue per revenue ton-mile (in cents)	7.40	6.92	0.48	7

The increase in Intermodal revenue in the second quarter of 2023 was primarily due to the impact of the KCS acquisition, higher international intermodal volumes primarily to and from the Port of Vancouver as a result of onboarding a new customer, higher freight rates, and the favourable impact of the change in FX. This increase was partially offset by lower domestic intermodal cross-border and retail volumes, lower intermodal ancillary revenue, and the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices.

For the six months ended June 30	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 1,145	\$ 1,020	\$ 125	12
Carloads (in thousands)	700.1	560.7	139.4	25
Revenue ton-miles (in millions)	16,117	14,938	1,179	8
Freight revenue per carload (in dollars)	\$ 1,635	\$ 1,819	\$ (184)	(10)
Freight revenue per revenue ton-mile (in cents)	7.10	6.83	0.27	4

The increase in Intermodal revenue in the first six months of 2023 was primarily due to the impact of the KCS acquisition, higher international intermodal volumes primarily to and from the Port of Vancouver, the Port of Saint John, and the Port of Montreal including onboarding a new customer, higher domestic intermodal wholesale and food volumes, higher freight rates, higher fuel surcharge revenue, and the favourable impact of the change in FX. This increase was partially offset by lower domestic intermodal cross-border and retail volumes and lower intermodal ancillary revenue.

### Operating Expenses

For the three months ended June 30 (in millions of Canadian dollars)	2023	2022	Total Change	% Change
Compensation and benefits	\$ 659	\$ 348	\$ 311	89
Fuel	397	370	27	7
Materials	98	63	35	56
Equipment rents	80	29	51	176
Depreciation and amortization	410	211	199	94
Purchased services and other	586	313	273	87
<b>Total operating expenses</b>	<b>\$ 2,230</b>	<b>\$ 1,334</b>	<b>\$ 896</b>	<b>67</b>

For the six months ended June 30 (in millions of Canadian dollars)	2023	2022	Total Change	% Change
Compensation and benefits	\$ 1,097	\$ 761	\$ 336	44
Fuel	723	643	80	12
Materials	170	125	45	36
Equipment rents	110	64	46	72
Depreciation and amortization	635	421	214	51
Purchased services and other	932	623	309	50
<b>Total operating expenses</b>	<b>\$ 3,667</b>	<b>\$ 2,637</b>	<b>\$ 1,030</b>	<b>39</b>

### Compensation and Benefits

Compensation and benefits expense includes employee wages, salaries, fringe benefits, and stock-based compensation. The increase in Compensation and benefits expense in the second quarter of 2023 was primarily due to:

- the impact of the KCS acquisition of \$238 million, including acquisition related costs of \$56 million made up primarily of restructuring charges of \$50 million;
- increased stock-based compensation of \$29 million, excluding stock-based compensation grants related to the KCS acquisition, primarily driven by the change in share price, and an increase in incentive compensation;
- the impact of wage and benefit inflation;
- reduced labour efficiencies, including the impact of a reduction in train weights;
- the increase in new hire training; and
- the unfavourable impact of the change in FX of \$5 million.

This increase was partially offset by lower defined benefit pension current service cost of \$20 million.

The increase in Compensation and benefits expense in the first six months of 2023 was primarily due to:

- the impact of the KCS acquisition of \$238 million, including acquisition related costs of \$56 million made up primarily of restructuring charges of \$50 million;
- the impact of wage and benefit inflation;
- the increase in new hire training;

- increased stock-based compensation of \$17 million, excluding stock-based compensation grants related to the KCS acquisition, primarily driven by the change in share price, and an increase in incentive compensation;
- the unfavourable impact of the change in FX of \$12 million;
- reduced labour efficiencies, including the impact of a reduction in train weights; and
- higher volume variable expense as a result of an increase in workload as measured by GTMs.

This increase was partially offset by lower defined benefit pension current service cost of \$39 million.

#### *Fuel*

Fuel expense consists mainly of fuel used by locomotives and includes provincial, state, and federal fuel taxes. The increase in Fuel expense in the second quarter of 2023 was primarily due to the impact of the KCS acquisition of \$124 million and the unfavourable impact of the change in FX of \$16 million.

This increase was partially offset by the favourable impact of lower fuel prices of \$114 million.

The increase in Fuel expense in the first six months of 2023 was primarily due to:

- the impact of the KCS acquisition of \$124 million;
- the unfavourable impact of the change in FX of \$32 million; and
- an increase in workload, as measured by GTMs.

This increase was partially offset by the favourable impact of lower fuel prices of \$97 million.

#### *Materials*

Materials expense includes the cost of materials used for the maintenance of track, locomotives, freight cars, and buildings, as well as software sustainment. The increase in material expenses in the second quarter and in the first six months of 2023 was primarily due to the impact of the KCS acquisition of \$31 million and the unfavorable impact of inflation.

#### *Equipment Rents*

Equipment rents expense includes the cost associated with using other railways' freight cars, intermodal equipment, and locomotives, net of rental income received from other railways for the use of the Company's equipment. The increase in Equipment rents expense in the second quarter of 2023 was primarily due to:

- the impact of the KCS acquisition of \$34 million;
- slower cycle times;
- a greater usage of pooled freight cars; and
- lower recoveries from other railway's use of the Company's locomotives.

The increase in Equipment rents expense in the first six months of 2023 was primarily due to:

- the impact of the KCS acquisition of \$34 million;
- slower cycle times; and
- a greater usage of pooled freight cars.

This increase was partially offset by greater recoveries from other railway's use of the Company's locomotives.

#### *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. The increase in Depreciation and amortization expense in the second quarter and in the first six months of 2023 was primarily due to the acquisition of KCS of \$186 million, including the unfavourable impact of purchase accounting of \$68 million, a higher depreciable asset base, as well as the unfavourable impact of the change in FX.

*Purchased Services and Other*

For the three months ended June 30 (in millions of Canadian dollars)	2023	2022	Total Change	% Change
Support and facilities	\$ 92	\$ 84	\$ 8	9
Track and operations	68	74	(6)	(8)
Intermodal	53	57	(4)	(7)
Equipment	27	28	(1)	(3)
Casualty	75	30	45	149
Property taxes	37	35	2	4
Other	235	5	230	4,609
Land sales	—	—	—	—
<b>Total Purchased services and other</b>	<b>\$ 586</b>	<b>\$ 313</b>	<b>\$ 273</b>	<b>87</b>

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. The increase in Purchased services and other expense in the second quarter of 2023 was primarily due to:

- the impact of the KCS acquisition of \$170 million, including acquisition-related costs incurred by KCS of \$5 million;
- higher expenses primarily due to the severity of casualty incidents and higher personal injury costs, reported in Casualty;
- higher acquisition-related costs incurred by CPKC, excluding KCS's acquisition-related costs, of \$28 million including community investment agreements entered into to mitigate the societal impact of the merger to various communities, reported in Other; and
- lower claim recoveries compared to the same period of 2022, reported in Other.

This increase was partially offset by lower expenses from lower volumes compared to the same period in 2022, reported in Intermodal.

For the six months ended June 30 (in millions of Canadian dollars)	2023	2022	Total Change	% Change
Support and facilities	\$ 186	\$ 166	\$ 20	12
Track and operations	149	149	—	—
Intermodal	110	108	2	2
Equipment	58	56	2	4
Casualty	104	50	54	108
Property taxes	73	71	2	3
Other	253	33	220	667
Land sales	(1)	(10)	9	(88)
<b>Total Purchased services and other</b>	<b>\$ 932</b>	<b>\$ 623</b>	<b>\$ 309</b>	<b>50</b>

The increase in Purchased services and other expense in the first six months of 2023 was primarily due to:

- the impact of the KCS acquisition of \$170 million, including acquisition-related costs incurred by KCS of \$5 million;
- higher expenses primarily due to the severity of casualty incidents and higher personal injury costs, reported in Casualty;
- higher acquisition-related costs incurred by CPKC, excluding KCS's acquisition-related costs, of \$21 million including community investment agreements entered into to mitigate the societal impact of the merger to various communities, reported in Other;
- the unfavourable impact of the change in FX of \$15 million;
- lower claim recoveries compared to the same period of 2022, reported in Other;
- lower gains on land sales; and
- cost inflation.

This increase was partially offset by lower expenses from lower volumes compared to the same period in 2022, reported in Intermodal.

## **Other Income Statement Items**

### *Equity Earnings of Kansas City Southern*

For the period from April 1 to April 13, 2023, the Company recognized \$26 million (U.S. \$19 million) of equity earnings of KCS, a decrease of \$182 million, or 88%, from \$208 million (U.S. \$163 million) in the second quarter of 2022. This amount is net of amortization of basis differences of \$6 million (U.S. \$4 million) associated with KCS purchase accounting, a decrease of \$33 million or 85%, from \$39 million (U.S. \$31 million) in the second quarter of 2022, and net of acquisition related costs incurred by KCS. Acquisition related costs (net of tax) incurred by KCS in the period from April 1 to April 13, 2023 were \$1 million (U.S. \$1 million), a decrease of \$13 million (U.S. \$10 million), or 93% from \$14 million (U.S. \$11 million) in the second quarter of 2022. These decreases are attributable to the derecognition of KCS as an equity investment following the acquisition of control by CPKC on April 14, 2023. These values have been translated at the average FX rate for the period from April 1 to April 13, 2023 and the three months ended June 30, 2022 of \$1.00 USD = \$1.35 CAD and \$1.00 USD = \$1.28 CAD, respectively.

For the period from January 1 to April 13, 2023, the Company recognized \$230 million (U.S. \$170 million) of equity earnings of KCS, a decrease of \$176 million or 43%, from \$406 million (U.S. \$319 million) in the six months ended June 30, 2022. This amount is net of amortization of basis differences of \$48 million (U.S. \$35 million) associated with KCS purchase accounting, a decrease of \$31 million or 39%, from \$79 million (U.S. \$62 million) in the first six months of 2022, and is net of acquisition related costs incurred by KCS. Acquisition related costs (net of tax) incurred by KCS in the period from January 1 to April 13, 2023 were \$11 million (U.S. \$8 million), a decrease of \$16 million (U.S. \$13 million), or 59% from \$27 million (U.S. \$21 million) in the first six months of 2022. These decreases are attributable to the derecognition of KCS as an equity investment following the acquisition of control by CPKC on April 14, 2023. These values have been translated at the average FX rate for the period from January 1 to April 13, 2023 and the six months ended June 30, 2022 of \$1.00 USD = \$1.35 CAD and \$1.00 USD = \$1.27 CAD, respectively.

### *Other Expense*

Other expense consists of gains and losses from the change in FX on working capital, the impact of foreign currency forwards, costs related to financing, shareholder costs, equity income, and other non-operating expenditures. Other expense was \$21 million in the second quarter of 2023, an increase of \$14 million, or 200%, compared to Other expense of \$7 million in the same period of 2022. The increase was primarily due to \$15 million resulting from the acquisition of KCS, and net acquisition-related costs of \$3 million driven by the KCS debt exchange.

Other expense was \$23 million in the first six months of 2023, an increase of \$17 million, or 283%, from \$6 million in the same period of 2022. The increase was primarily due to \$15 million resulting from the acquisition of KCS, and net acquisition-related costs of \$6 million driven by the KCS debt exchange.

### *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 obligation, expected return on plan assets, recognized net actuarial loss, and amortization of prior service costs. Other components of net periodic benefit recovery was \$83 million and \$169 million for the three and six months ended June 30, 2023, a decrease of \$18 million or 18%, and \$33 million or 16%, respectively, compared to the same periods of 2022. These decreases were primarily due to an increase in the interest cost on benefit obligation for the three and six months ended June 30, 2023 of \$28 million and \$54 million, respectively, and a decrease in the expected return on plan assets of \$18 million and \$38 million, respectively, partially offset by a decrease in the recognized net actuarial loss of \$30 million and \$61 million, respectively.

### *Net Interest Expense*

Net interest expense includes interest on long-term debt and finance leases. Net interest expense was \$204 million in the second quarter of 2023, an increase of \$44 million, or 28%, from \$160 million in the same period of 2022. The increase was primarily due to interest of \$39 million incurred on debt issued under the KCS debt exchange, higher interest on commercial paper of \$8 million as a result of higher interest rates along with a higher average outstanding balance, and additional interest of \$5 million resulting from the acquisition of KCS. These increases were partially offset by higher interest income.

Net interest expense was \$358 million in the first six months of 2023, an increase of \$38 million, or 12%, from \$320 million in the same period of 2022. The increase was primarily due to interest of \$39 million incurred on debt issued under the KCS debt exchange, an unfavourable impact of the change in FX of \$15 million, additional interest of \$5 million resulting from the acquisition of KCS, and higher interest on commercial paper of \$7 million as a result of higher interest rates. These increases were partially offset by \$9 million of higher interest income, and the favourable impact of \$7 million following the repayment of maturing long-term debt.

### *Remeasurement Loss of Kansas City Southern*

On April 14, 2023, the Company assumed control of KCS and began accounting for its acquisition as a business combination achieved in stages. The initial investment was accounted for using the equity method of accounting prior to assuming control. On control, the carrying value of the previously held equity investment in KCS was remeasured to its fair value and upon derecognition, a loss of \$7,175 million was recognized in the Company's Interim Consolidated Statements of Income. This loss was primarily due to the outside basis tax initially recognized upon investment in KCS.

### *Income Tax (Recovery) Expense*

Income tax recovery was \$7,672 million in the second quarter of 2023, a change of \$7,917 million, or 3231%, from \$245 million income tax expense in the same period of 2022. This change was primarily due to:

- a deferred tax recovery of \$7,832 million on the derecognition of the deferred tax liability on the outside basis difference of the investment in KCS upon acquiring control;
- a deferred tax recovery of \$51 million on the revaluation of deferred income tax balances on unitary state apportionment changes;
- an outside basis deferred tax expense of \$49 million, recorded in the second quarter of 2022, 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;
- lower taxable earnings resulting in a decrease to current tax expense; and
- higher current tax recoveries on acquisition-related costs of \$12 million associated with the KCS acquisition incurred by legacy CP.

This decrease was partially offset by a higher effective tax rate and the impact of the KCS acquisition of \$57 million, including deferred tax recovery on the amortization relating to purchase accounting fair value adjustments of \$20 million and current tax recoveries on acquisition related costs of \$4 million. As a result of the KCS debt exchange an offsetting current tax expense and deferred tax recovery of \$101 million is included in income tax expense.

Income tax recovery was \$7,509 million in the first six months of 2023, a change of \$7,839 million, or 2375%, from \$330 million income tax expense in the same period of 2022. This change was primarily due to:

- a deferred tax recovery of \$7,832 million on the derecognition of the deferred tax liability on the outside basis difference of the investment in KCS upon acquiring control;
- a deferred tax recovery of \$51 million on the revaluation of deferred income tax balances on unitary state apportionment changes;
- lower outside basis deferred tax expense of \$40 million arising from the change in the carrying amount of CP's investment in KCS for financial reporting; and
- higher current tax recoveries on acquisition-related costs of \$12 million associated with the KCS acquisition incurred by legacy CP.

This decrease was partially offset by a higher current tax expense due to higher taxable earnings, a higher effective tax rate, and the impact of the KCS acquisition of \$57 million, including deferred tax recovery on the amortization relating to purchase accounting fair value adjustments of \$20 million and current tax recoveries on acquisition-related costs of \$4 million. As a result of the KCS debt exchange an offsetting current tax expense and deferred tax recovery of \$101 million is included in income tax expense.

The effective tax rate in the second quarter of 2023 and first six months of 2023 was 120.88% and 139.47%, respectively, compared to 24.21% and 19.59% in the same periods of 2022. The Core adjusted effective income tax rate in the second quarter of 2023 and first six months of 2023 was 25.18% and 24.88% compared to 24.25% for the same periods in 2022. The Core 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 nor provide improved comparability to past performance. The Core adjusted effective tax rate also excludes equity earnings of KCS and KCS purchase accounting. 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 and KCS purchase accounting 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 Core adjusted 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 Core adjusted 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***

Although the Company is headquartered in Canada and reports in Canadian dollars, a significant portion of its revenues, expenses, assets and liabilities including debt are denominated in U.S. dollars and Mexican pesos. 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 revenues and expenses denominated in U.S. dollars and Mexican pesos 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. Mexican peso-denominated revenues and expenses increase (decrease) when the U.S. dollar weakens (strengthens) in relation to the Mexican peso.

In the second quarter of 2023, the U.S. dollar has strengthened to an average rate of \$1.34 Canadian/U.S. dollar, compared to \$1.28 Canadian/U.S. dollar in the second quarter of 2022, resulting in an increase in Total revenues of \$62 million, an increase in Total operating expenses of \$33 million, and an increase in Net interest expense of \$7 million from the same period of 2022.

In the first six months 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 six months of 2022, resulting in an increase in Total revenues of \$128 million, an increase in Total operating expenses of \$71 million, and an increase in interest expense of \$16 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 \$71 million (December 31, 2022 – approximately \$37 million), negatively (or positively) impacts Operating expenses by approximately \$44 million (December 31, 2022 – approximately \$18 million), and negatively (or positively) impacts Net interest expense by approximately \$6 million (December 31, 2022 – approximately \$4 million).

On an annualized basis, the Company expects that every Ps.0.10 strengthening (or weakening) of the Mexican peso relative to the Canadian dollar, positively (or negatively) impacts Total revenues by approximately \$9 million and negatively (or positively) impacts Operating expenses by approximately \$7 million.

To manage its exposure to fluctuations in exchange rates between Canadian dollars, U.S. dollars, and or Mexican pesos, the Company may sell or purchase U.S. dollar or Mexican peso 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 and Mexican peso) 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 second quarter of 2023, the favourable impact of fuel prices on Operating income was \$20 million. Lower fuel prices resulted in a decrease in Total operating expenses of \$114 million from the same period in 2022. Lower fuel prices, partially offset by the favourable impact of the timing of recoveries under the Company's fuel cost adjustment program, resulted in a decrease in Total revenues of \$94 million.

In the first six months of 2023, the favourable impact of fuel prices on Operating income was \$104 million. Lower fuel prices resulted in a decrease in Total operating expenses of \$97 million from the same period of 2022. The favourable impact of the timing of recoveries under the Company's fuel cost adjustment program, partially offset by lower fuel prices, resulted in an increase in Total revenues of \$7 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 second quarter of 2023, the change in Common Share prices resulted in an increase in stock-based compensation expense of \$6 million, a change of \$30 million, compared to a decrease of \$24 million in the same period of 2022.

In the first six months of 2023, the change in Common Share prices resulted in an increase in stock-based compensation expense of \$10 million, a change of \$13 million, compared to a decrease of \$3 million in the same period of 2022.

Based on information available at June 30, 2023, for every \$1.00 change in share price, stock-based compensation expense has a corresponding change of approximately \$1.6 million to \$2.0 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 15 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 June 30, 2023, the Company had \$325 million of Cash and cash equivalents compared to \$451 million at December 31, 2022.

Effective May 11, 2023, the Company entered into a second amended and restated credit agreement to extend the maturity dates and increase the total amount available under the facility. The amended revolving credit facility increased the aggregate commitments under the second amended and restated credit agreement from U.S. \$1.3 billion to U.S. \$2.2 billion, and extended the maturity dates of the five year facility and two year facility from September 27, 2026 to May 11, 2028, and September 27, 2023 to May 11, 2025, respectively. The company also terminated the legacy KCS credit facility effective May 11, 2023. As at June 30, 2023, the Company's existing revolving credit facility was undrawn. The revolving credit facility agreement requires the Company to maintain a financial covenant. As at June 30, 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 (as at June 30, 2023) in the form of unsecured promissory notes. The Company also terminated the legacy KCS commercial paper program effective May 19, 2023. The Company's existing commercial paper program is backed by the revolving credit facility. As at June 30, 2023 the Company had total commercial paper borrowings outstanding of U.S. \$405 million (December 31, 2022 - \$nil). On July 12, 2023, the Company increased the maximum aggregate principal amount of commercial paper available to be issued to U.S \$1.5 billion.

As at June 30, 2023, under its bilateral letter of credit facilities, the Company had letters of credit drawn of \$74 million from a total available amount of \$300 million (December 31, 2022 - \$75 million). The company also has additional letters of credit of \$11 million available that were undrawn at June 30, 2023. 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 June 30, 2023 the Company had \$70 million collateral posted on its bilateral letter of credit 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, 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 \$1,919 million, \$791 million and \$78 million within the next 12 months, respectively, with the remaining amounts committed thereafter of \$22,072 million, \$16,914 million and \$nil, respectively. Future capital commitments amount to \$528 million within the next 12 months, and \$791 million committed thereafter.

Supplier purchase agreements, operating leases, and other long-term liabilities amount to \$501 million, \$112 million, and \$70 million within the next 12 months, respectively, and \$358 million, \$278 million and \$565 million committed thereafter, 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 Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company's 2022 Annual Report on Form 10-K.

### *Concession Duty*

Under Kansas City Southern de México, S.A. de C.V. (also known as Canadian Pacific Kansas City Mexico) ("CPKCM")'s 50-year Concession, which could expire in 2047 unless extended, CPKCM pays annual concession duty expense of 1.25% of gross revenues.

### **Guarantees**

The Company accrues for all guarantees that it expects to pay. As at June 30, 2023, these accruals amounted to \$10 million (December 31, 2022 - \$5 million).

### **Operating Activities**

Cash provided by operating activities was \$892 million in the second quarter of 2023, an increase of \$185 million, or 26%, compared to \$707 million in the same period of 2022. This increase was primarily due to an increase in cash generating income driven by the consolidation of KCS compared to 2022 when no dividends were received from KCS, and a favourable change in working capital compared to the same period of 2022.

Cash provided by operating activities was \$1,774 million in the first six months of 2023, an increase of \$454 million, or 34%, compared to \$1,320 million in the same period of 2022. The increase was primarily due to higher cash generating income driven by the consolidation of KCS, and a favourable change in working capital compared to the same period of 2022.

### **Investing Activities**

Cash used in investing activities was \$617 million in the second quarter of 2023, an increase of \$255 million, or 70%, compared to \$362 million in the same period of 2022. Cash used in investing activities was \$1,019 million in the first six months of 2023, an increase of \$451 million, or 79%, compared to \$568 million in the same period of 2022. These increases were primarily due to higher capital additions resulting from the consolidation of KCS along with the investment in government securities towards satisfaction and discharge of debt, partially offset by cash acquired on control of KCS.

### **Financing Activities**

Cash used in financing activities was \$233 million in the second quarter of 2023, a decrease of \$64 million, or 22%, compared to \$297 million in the same period of 2022. This decrease was primarily due to a higher net issuance of commercial paper of \$550 million in the second quarter of 2023 compared to a net issuance of \$20 million in the second quarter of 2022, principal repayments of \$132 million (U.S. \$100 million) on a term loan during the second quarter of 2022, while there were no such repayments in the in the second quarter of 2023. This decrease was partially offset by principal repayments of \$592 million (U.S. \$439 million) of 3.00% 10-year Senior Notes at maturity during the second quarter of 2023 compared to \$10 million during the same period of 2022.

Cash used in financing activities was \$878 million in the first six months of 2023, an increase of \$190 million, or 28%, compared to \$688 million in the same period of 2022. This increase was primarily due to repayments of long-term debt of \$592 million (U.S. \$439 million) of 3.00% 10-year Senior Notes and \$479 million (U.S. \$350 million) of 4.45% 12.5-year Notes at maturity during the first six months of 2023 compared to repayments of \$125 million of 5.100% 10-year Medium Term Notes, \$313 million (U.S. \$250 million) of 4.500% 10-year Notes, and \$97 million (U.S. \$76 million) of 6.99% Finance lease at maturity during the same period of 2022. This increase was partially offset by a net issuance of commercial paper of \$550 million during the six months ended June 30, 2023 compared to a net issuance of \$340 million during the first six months of 2022, and principal repayments of \$132 million (U.S. \$100 million) on a term loan during the first six months of 2022, while there were no such repayments in 2023.

### *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.

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 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 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 June 30, 2023, 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, 2022. The following table shows the ratings issued for the

Company by the rating agencies noted herein as of June 30, 2023 and is being presented as it relates to the Company's cost of funds and liquidity.

Credit ratings as at June 30, 2023<sup>(1)</sup>

Long-term debt		Outlook
<b>Standard &amp; Poor's</b>	<b>BBB+</b>	stable
<b>Moody's</b>	<b>Baa2</b>	stable
<b>Commercial paper program</b>		
<b>Standard &amp; Poor's</b>	<b>A-2</b>	N/A
<b>Moody's</b>	<b>P-2</b>	N/A

<sup>(1)</sup> 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.

### Supplemental Guarantor Financial Information

CPRC, a 100%-owned subsidiary of CPKC, is the issuer of certain securities which are fully and unconditionally guaranteed by 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 CPKC provides a full and unconditional guarantee.

As of the date of the filing of the Form 10-Q, CPRC had U.S. \$14,714 million principal amount of debt securities outstanding due through 2115 which includes the debt exchanged for KCS debt as described below; and U.S. \$30 million and GBP £3 million in perpetual 4% consolidated debenture stock, for all of which 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 due through 2050 for which CPRL is the guarantor and not subject to the Exchange Act.

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 CPKC's unsubordinated and unsecured obligation and ranks equally with all of CPKC's other unsecured, unsubordinated obligations.

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 series of CPRC Notes has the same interest rates, interest payment dates, maturity dates, and substantively the same optional 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 June 30, 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 12 Debt.

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 CPKC (Parent Guarantor) on a combined basis after elimination of (i) intercompany transactions and balances among CPRC and 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)	CPRC (Subsidiary Issuer) and CPKC (Parent Guarantor)	
	For the six months ended June 30, 2023	For the year ended December 31, 2022
Total revenues	\$ 3,137	\$ 6,384
Total operating expenses	2,045	4,110
Operating income <sup>(1)</sup>	1,092	2,274
Less: Other <sup>(2)</sup>	166	234
Income before income tax expense	926	2,040
<b>Net income</b>	<b>\$ 653</b>	<b>\$ 1,533</b>

<sup>(1)</sup> Includes net lease costs incurred from non-guarantor subsidiaries for the six months ended June 30, 2023 and for the year ended December 31, 2022 of \$206 million and \$410 million, respectively.

<sup>(2)</sup> Includes Other expense, Other components of net periodic benefit recovery, and Net interest expense.

#### Balance Sheets

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPKC (Parent Guarantor)	
	As at June 30, 2023	As at December 31, 2022
<b>Assets</b>		
Current assets	\$ 1,139	\$ 1,395
Properties	12,134	11,791
Other non-current assets	3,498	3,337
<b>Liabilities</b>		
Current liabilities	\$ 2,744	\$ 2,759
Long-term debt	21,165	18,137
Other non-current liabilities	3,326	3,178

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

#### Transactions with Non-Guarantor Subsidiaries

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPKC (Parent Guarantor)	
	For the six months ended June 30, 2023	For the year ended December 31, 2022
Dividend income from non-guarantor subsidiaries	\$ 100	\$ 133
Capital contributions to non-guarantor subsidiaries	(4,322)	—
Redemption of capital from non-guarantor subsidiaries	—	115

## Balances with Non-Guarantor Subsidiaries

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPKC (Parent Guarantor)	
	As at June 30, 2023	As at December 31, 2022
<b>Assets</b>		
Accounts receivable, intercompany	\$ 168	\$ 186
Short-term advances to affiliates	1,798	2,209
Long-term advances to affiliates	7,111	7,502
<b>Liabilities</b>		
Accounts payable, intercompany	\$ 218	\$ 199
Short-term advances from affiliates	2,617	2,649
Long-term advances from affiliates	86	88

## Share Capital

At July 26, 2023, the latest practicable date, there were 931,460,732 Common Shares and no preferred shares issued and outstanding, which consists of 14,816 holders of record of the Common Shares. In addition, the Company has a Management Stock Option Incentive Plan ("MSOIP"), under which key officers and employees are granted options to purchase the Common Shares. All number of options presented herein are shown on the basis of the number of shares subject to the options. At July 26, 2023, 7,200,325 options were outstanding under the MSOIP and stand-alone option agreements entered into with Mr. Keith Creel. There are 21,702,829 options available to be issued by the Company's MSOIP in the future. 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, including Core adjusted combined operating ratio and Core adjusted combined diluted earnings per share, to provide an additional basis for evaluating underlying earnings trends in the Company's current periods' financial results that can be compared with the results of operations in prior periods. Management believes these Non-GAAP measures facilitate a multi-period assessment of long-term profitability, including assessing future profitability.

These Non-GAAP measures have no standardized meaning and are not defined 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. 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

On the Control Date, CP obtained control of KCS and CPKC began consolidating KCS, which had been accounted for under the equity method of accounting between December 14, 2021 and April 13, 2023. On the Control Date, CPKC's previously-held interest in KCS was remeasured to its Control Date fair value. CPKC is presenting Core adjusted combined operating ratio and Core adjusted combined diluted earnings per share to give effect to results while isolating and removing the impact of the acquisition of KCS on those results. These measures provide a comparison to prior period financial information as adjusted to exclude certain significant items and are used to evaluate CPKC's operating performance and for planning and forecasting future business operations and future profitability.

Management believes the use of Non-GAAP measures provides meaningful supplemental information about our 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 Consolidated Statements of Income, the foreign exchange ("FX") impact of translating the Company's debt and lease liabilities (including borrowings under the credit facility), loss on derecognition of CPKC's previously held equity method investment in KCS, 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, a deferred tax recovery related to the elimination of the deferred tax liability on the outside basis difference of the 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, debt exchange transaction costs, community investments, 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, restructuring, employee retention and synergy incentive costs, and transaction and integration costs incurred by KCS. These items may not be non-recurring. However, management believes excluding these significant items from GAAP results provides an additional viewpoint which may give users a consistent understanding of CPKC's financial performance when performing a multi-period assessment including assessing the likelihood of future results. Accordingly, these Non-GAAP financial measures may provide additional insight to investors and other external users of CPKC's financial information.

In addition, Core adjusted combined operating ratio and Core adjusted combined diluted earnings per share exclude KCS purchase accounting. KCS purchase accounting represents the amortization of basis differences being the incremental depreciation and amortization in relation to fair value adjustments to properties and intangible assets, incremental amortization in relation to fair value adjustments to KCS's investments, and amortization of the change in fair value of debt of KCS assumed on the Control Date, as recognized within Depreciation and amortization, Other expense, and Net interest expense, respectively, in the Company's Consolidated Statements of Income. During the periods that KCS was equity accounted for, from December 14, 2021 to April 13, 2023, 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, net of tax, as recognized within Equity (earnings) loss 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. Excluding KCS purchase accounting from GAAP results provides financial statement users with additional transparency by isolating for the impact of KCS purchase accounting.

### **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:

#### *Core Adjusted Combined Diluted Earnings per Share*

Core adjusted combined diluted earnings per share is calculated using Net income attributable to controlling shareholders reported on a GAAP basis adjusted for significant items less KCS purchase accounting, divided by the weighted-average diluted number of Common Shares outstanding during the period as determined in accordance with GAAP. Between December 14, 2021 and April 13, 2023, KCS was accounted for in CPKC's diluted earnings per share reported on a GAAP basis using the equity method of accounting and on a consolidated basis beginning April 14, 2023. As the equity method of accounting and consolidation both provide the same diluted earnings per share for CPKC, no adjustment is required to pre-control diluted earnings per share to be comparable on a consolidated basis.

In the first six months of 2023, there were four significant items included in the Net income attributable to controlling shareholders as reported on a GAAP basis as follows:

- in the second quarter, a remeasurement loss of KCS of \$7,175 million recognized in Remeasurement loss of Kansas City Southern due to the derecognition of CPKC's previously held equity method investment in KCS and remeasurement at its Control Date fair value that unfavourably impacted Diluted EPS by \$7.68;
- in the second quarter, a deferred tax recovery of \$51 million due to CPKC unitary state apportionment changes that favourably impacted Diluted EPS by 5 cents;
- Deferred tax recovery of \$7,855 million that favourably impacted Diluted EPS by \$8.42 cents as follows:
  - in the second quarter, a deferred tax recovery of \$7,832 million related to the elimination of the deferred tax liability on the outside basis difference of the investment in KCS that favourably impacted Diluted EPS by \$8.39; and
  - in the first quarter, a 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 \$145 million in connection with the KCS acquisition (\$122 million after current tax recovery of \$23 million), including an expense of \$128 million recognized in Purchased services and other, \$6 million recognized in Other expense, and \$11 million recognized in Equity earnings of KCS that unfavourably impacted Diluted EPS by 13 cents as follows:
  - in the second quarter, acquisition-related costs of \$120 million (\$101 million after current tax recovery of \$19 million), including costs of \$53 million recognized in Purchased services and other, \$63 million recognized in Compensation and benefits, \$3 million recognized in Other expense, and \$1 million recognized in Equity earnings of KCS that unfavourably impacted Diluted EPS by 11 cents; and
  - in the first quarter, acquisition-related costs of \$25 million (\$21 million after current tax recovery of \$4 million), including costs of \$12 million recognized in Purchased services and other, \$3 million recognized in Other expense, and \$10 million recognized in Equity earnings of KCS that unfavourably impacted Diluted EPS by 2 cents.

In the first six months of 2022, there were two significant items included in Net income attributable to controlling shareholders as reported on a GAAP basis as follows:

- a net deferred tax expense of \$17 million on changes in the outside basis difference of the equity investment in KCS that unfavourably impacted Diluted EPS by 2 cents as follows:
  - in the second quarter, a \$49 million expense that unfavourably impacted Diluted EPS by 5 cents; and
  - in the first quarter, a \$32 million recovery that favourably impacted Diluted EPS by 3 cents; and
- acquisition-related costs of \$66 million in connection with the KCS acquisition (\$59 million after current tax recovery of \$7 million), including costs of \$39 million recognized in Purchased services and other, and \$27 million recognized in Equity earnings of KCS, that unfavourably impacted Diluted EPS by 6 cents as follows:
  - 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.

KCS purchase accounting included in Net income attributable to controlling shareholders as reported on a GAAP basis was as follows:

2023:

- during the first six months ended June 30, 2023, KCS purchase accounting of \$123 million (\$103 million after deferred tax recovery of \$20 million), including costs of \$68 million recognized in Depreciation and amortization, \$6 million recognized in Net interest expense, \$1 million recognized in Other expense, and \$48 million recognized in Equity earnings of KCS that unfavourably impacted Diluted EPS by 11 cents as follows:
  - in the second quarter, KCS purchase accounting of \$81 million (\$61 million after deferred tax recovery of \$20 million), including costs of \$68 million recognized in Depreciation and amortization, \$6 million recognized in Net interest expense, \$1 million recognized in Other expense, and \$6 million recognized in Equity earnings of KCS that unfavourably impacted Diluted EPS by 6 cents; and
  - in the first quarter, KCS purchase accounting of \$42 million recognized in Equity earnings of KCS that unfavourably impacted Diluted EPS by 5 cents.

2022:

- during the first six months ended June 30, 2022, KCS purchase accounting of \$79 million expense recognized in Equity earnings of KCS that unfavourably impacted Diluted EPS by 9 cents as follows:
  - in the second quarter, KCS purchase accounting of \$39 million that unfavourably impacted Diluted EPS by 5 cents; and
  - in the first quarter, KCS purchase accounting of \$40 million that unfavourably impacted Diluted EPS by 4 cents.

	For the three months ended June 30		For the six months ended June 30	
	2023	2022	2023	2022
<b>CPKC diluted earnings per share as reported</b>	<b>\$ 1.42</b>	<b>\$ 0.82</b>	<b>\$ 2.28</b>	<b>\$ 1.45</b>
Less:				
Significant items (pre-tax):				
KCS net gain on unwind of interest rate hedges	—	—	—	—
Remeasurement loss of KCS	(7.68)	—	(7.68)	—
Acquisition-related costs	(0.13)	(0.03)	(0.16)	(0.07)
KCS purchase accounting	(0.09)	(0.05)	(0.14)	(0.09)
Add:				
Tax effect of adjustments <sup>(1)</sup>	(0.05)	—	(0.06)	(0.01)
Income tax rate changes	(0.05)	—	(0.05)	—
Deferred tax (recovery) expense on the outside basis difference of the investment in KCS	(8.39)	0.05	(8.42)	0.02
Reversal of provision for uncertain tax item	—	—	—	—
<b>Core adjusted combined diluted earnings per share<sup>(2)</sup></b>	<b>\$ 0.83</b>	<b>\$ 0.95</b>	<b>\$ 1.73</b>	<b>\$ 1.62</b>

<sup>(1)</sup> The tax effect of adjustments was calculated as the pre-tax effect of the significant items and KCS purchase accounting listed above multiplied by the applicable tax rate for the above items of 0.54% and 0.58% for the three and six months ended June 30, 2023, respectively, 4.70% and 4.32% for the three and six months ended June 30, 2022, respectively. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the adjustments.

<sup>(2)</sup> The Company previously used the non-GAAP measure Core adjusted diluted earnings per share, which was calculated as diluted earnings per share adjusted for significant items less KCS purchase accounting. Core adjusted diluted earnings per share was \$0.95 and \$1.62 for the three and six months ended June 30, 2022, respectively, which are the same as the revised measure Core adjusted combined diluted earnings per share, as KCS was equity accounted for within CPKC's results.

### *Core Adjusted Combined Operating Ratio*

Core adjusted combined operating ratio is calculated from reported GAAP revenue and operating expenses adjusted for (1) KCS operating income prior to the Control Date and giving effect to transaction accounting adjustments in a consistent manner with Regulation S-X Article 11 ("Article 11"), where applicable, (2) significant items (acquisition-related costs) that are reported within Operating income, and (3) KCS purchase accounting recognized in Depreciation and amortization.

This combined measure does not purport to represent what the actual consolidated results of operations would have been had the Company obtained control of KCS and consolidation actually occurred on January 1, 2022, nor is it indicative of future results. This information is based on information as of the date hereof and upon assumptions that CPKC believes reasonably reflect the impact to CPKC's historical financial information, on a supplemental basis, of obtaining control of KCS had it occurred as of January 1, 2022. This information does not include anticipated costs related to integration activities, cost savings or synergies that may be achieved by the combined company.

In the first six months of 2023, acquisition-related costs were \$141 million in connection with the KCS acquisition and unfavourably impacted operating ratio on a combined basis, calculated in a manner consistent with Article 11, by 2.1%:

- in the second quarter, acquisition-related costs of \$116 million that unfavourably impacted operating ratio by 3.5%; and
- in the first quarter, acquisition-related costs of \$25 million that unfavourably impacted operating ratio by 0.7%.

In the first six months of 2022, acquisition-related costs were \$104 million in connection with the KCS acquisition and unfavourably impacted operating ratio on a combined basis, calculated in a manner consistent with Article 11, by 1.7%:

- in the second quarter, acquisition-related costs of \$35 million that unfavourably impacted operating ratio by 1.1%; and
- in the first quarter, acquisition-related costs of \$69 million that unfavourably impacted operating ratio by 2.5%.

KCS purchase accounting included in operating ratio on a combined basis, calculated in a manner consistent with Article 11, was as follows:

#### 2023:

- during the first six months ended June 30, 2023, KCS purchase accounting of \$160 million recognized in Depreciation and amortization that unfavourably impacted operating ratio by 2.4% as follows:
  - In the second quarter, KCS purchase accounting of \$80 million that unfavourably impacted operating ratio by 2.4%; and
  - In the first quarter, KCS purchase accounting of \$80 million that unfavourably impacted operating ratio by 2.3%.

#### 2022:

- during the first six months ended June 30, 2022, KCS purchase accounting of \$152 million recognized in Depreciation and amortization that unfavourably impacted operating ratio by 2.5% as follows:
  - in the second quarter, KCS purchase accounting of \$76 million that unfavourably impacted operating ratio by 2.3%; and
  - in the first quarter, KCS purchase accounting of \$76 million that unfavourably impacted operating ratio by 2.7%.

	For the three months ended June 30		For the six months ended June 30	
	2023	2022 <sup>(3)</sup>	2023	2022 <sup>(3)</sup>
<b>CPKC operating ratio as reported</b>	<b>70.3 %</b>	60.6 %	<b>67.4 %</b>	65.3 %
Add:				
KCS operating income as reported prior to Control Date <sup>(1)</sup>	(0.2)%	0.8 %	(0.3)%	(0.8)%
Pro forma Article 11 transaction accounting adjustments <sup>(2)</sup>	0.4 %	2.3 %	1.4 %	3.0 %
	<b>70.5 %</b>	63.7 %	<b>68.5 %</b>	67.5 %
Less:				
Acquisition-related costs	3.5 %	1.1 %	2.1 %	1.7 %
KCS purchase accounting in Depreciation and amortization	2.4 %	2.3 %	2.4 %	2.5 %
<b>Core adjusted combined operating ratio</b>	<b>64.6 %</b>	60.3 %	<b>64.0 %</b>	63.3 %

<sup>(1)</sup> KCS results were translated into Canadian dollars at the Bank of Canada monthly average rate for April 1 through April 13, 2023 and the three months ended June 30, 2022, as well for January 1 through April 13, 2023 and the six months ended June 30, 2022 of \$1.35, \$1.28, \$1.35, and \$1.27, respectively.

<sup>(2)</sup> Pro forma Article 11 transaction accounting adjustments represent adjustments made in a manner consistent with Article 11, these include:

- For April 1 through April 13, 2023 in the three months ended June 30, 2023, depreciation and amortization of differences between the historic carrying values and the provisional fair values of KCS's tangible and intangible assets and investments prior to the Control Date of 0.4% operating ratio and miscellaneous immaterial amounts that have been reclassified across revenue, operating expenses, and non-operating income or expense, consistent with CPKC's financial statement captions;
- For January 1 through April 13, 2023 in the six months ended June 30, 2023, depreciation and amortization of differences between the historic carrying values and the provisional fair values of KCS's tangible and intangible assets and investments prior to the Control Date of 1.4% operating ratio and miscellaneous immaterial amounts that have been reclassified across revenue, operating expenses, and non-operating income or expense, consistent with CPKC's financial statement captions;
- For the three months ended June 30, 2022, depreciation and amortization of differences between the historic carrying values and the provisional fair values of KCS's tangible and intangible assets and investments prior to the Control Date of 2.3% operating ratio and miscellaneous immaterial amounts that have been reclassified across revenue, operating expenses, and non-operating income or expense, consistent with CPKC's financial statement captions; and
- For the six months ended June 30, 2022, depreciation and amortization of differences between the historic carrying values and the provisional fair values of KCS's tangible and intangible assets and investments prior to the Control Date of 2.5% operating ratio, the estimated transaction costs expected to be incurred by the Company of 0.5% operating ratio and miscellaneous immaterial amounts that have been reclassified across revenue, operating expenses, and non-operating income or expense, consistent with CPKC's financial statement captions.

For more information about these pro forma transaction accounting adjustments for the three months ended March 31, 2023, June 30, 2022 and March 31, 2022, please see Exhibit 99.1 "Selected Unaudited Combined Summary of Historical Financial Data" of CPKC's Current Report on Form 8-K furnished with the Securities and Exchange Commission ("SEC") on May 15, 2023.

<sup>(3)</sup> The Company previously used the non-GAAP measure Adjusted operating ratio, which was defined as operating ratio excluding those significant items that are reported within Operating income. Adjusted operating ratio was 59.7% and 64.3% for the three and six months ended June 30, 2022, respectively, which was changed to the revised measure Core adjusted combined operating ratio. The differences were due to the addition of KCS historical operating income less KCS acquisition-related costs (as defined above) prior to the Control Date. For the three and six months ended June 30, 2023, CPKC has presented the non-GAAP measure of Core adjusted combined operating ratio, as defined above, to provide a comparison to prior period combined information calculated in a manner consistent with Article 11 as further adjusted to conform to CPKC's core adjusted measures.

## 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 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 Acquisition and Note 9 Investment in KCS, the Company assumed control of KCS and commenced consolidation of KCS on the Control Date, 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 was remeasured to its Control Date fair value. The identifiable assets acquired, and liabilities and non-controlling interest assumed are measured at their provisional fair values at the Control Date, with certain exceptions. The results from operations and cash flows are consolidated in the financial statements.

The disclosure of the business combination presented in Item 1. Financial Statements, Note 8 Business Acquisitions is prepared on a provisional basis using the best available information at this time. A provisional purchase price allocation was determined at the Control Date. This provisional purchase price allocation may 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 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 Control Date. Measurement uncertainty in these estimates exists due to the 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 could materially change the fair value estimates.

The Company recognized goodwill arising from the business acquisition. Goodwill is the residual value after allocating the fair value of KCS to the assets acquired and liabilities and non-controlling interest assumed. Through the measurement period, there may be adjustments to the fair value of these assets and liabilities as a result of new information obtained about facts and circumstances that existed as of the Control Date that, if known at that time, would have affected the amounts recognized as of the Control Date. Any changes to the fair value of the asset and liabilities in the measurement period will result in changes in the value of goodwill.

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 provisional fair values:

(in billions of dollars, except percentages)	Provisional Estimate at Control Date	Sensitivity Range		Value Range	
<b>Previously held equity investment in KCS</b>	<b>\$ 37.2</b>				
Revenue growth rate		-1%	1%	\$ 36.2	\$ 38.3
Terminal EBITDA multiple		-0.5x	0.5x	\$ 35.6	\$ 38.8
EBITDA margin		-1%	1%	\$ 36.7	\$ 37.8
Discount rate		-1%	1%	\$ 38.9	\$ 35.6
<b>Intangible assets including Mexican concession<sup>(1)</sup></b>	<b>\$ 12.2</b>				
Terminal growth rate		-0.5%	0.5%	\$ 11.4	\$ 13.1
Discount rate		-1%	1%	\$ 14.4	\$ 10.6
<b>Mexican concession<sup>(1)</sup></b>	<b>\$ 9.2</b>				
Renewal probability of Mexican concession <sup>(1)</sup>		-10%	10%	\$ 8.9	\$ 9.4

<sup>(1)</sup> 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", "guidance", "should" or similar words suggesting future outcomes. All statements other than statements of historical fact may be forward-looking statements. To the extent that 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. dollar and Mexican peso exchange rates relative to the Canadian dollar, 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.

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; financial guidance for 2023; 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. 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 KCS business combination, 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 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.

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 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; 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 outbreak of a pandemic or contagious disease and the 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. 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 the Company's 2022 Annual Report on Form 10-K. Other risks are detailed from time to time in reports filed by 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, 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**

#### **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 the Company to increased interest costs on future fixed debt instruments and existing variable rate debt instruments, should market rates increase. As at June 30, 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, 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. 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 June 30, 2023 would result in an increase of approximately \$1.9 billion to the fair value of the Company's debt as at June 30, 2023 (June 30, 2022 - approximately \$1.6 billion). Fair values of 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 13 Financial instruments.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

As of June 30, 2023, an evaluation was carried out under the supervision of and with the participation of 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 June 30, 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**

Other than related to the acquisition of KCS, there were no changes in internal controls over financial reporting during the second quarter of 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company will continue the process of integrating internal controls over financial reporting throughout the remainder of the year.

## PART II

### ITEM 1. LEGAL PROCEEDINGS

For further details refer to Item 1. Financial Statements, Note 16 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 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 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, 2010, 2013, 2014, and 2015 Mexico tax returns, and a receivable for refundable VAT. An adverse resolution of these matters could have a material adverse effect on the Company's consolidated financial statements in a particular quarter or period. Tax contingencies are further discussed in Notes 4 and 16 of Item 1. Financial Statements, and 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**

In connection with the KCS transaction, the Company suspended share repurchases and did not have an active program as at June 30, 2023.

## **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## **ITEM 5. OTHER INFORMATION**

None.

## ITEM 6. EXHIBITS

<b>Exhibit</b>	<b>Description</b>
<a href="#">3.1</a>	<a href="#">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).</a>
<a href="#">3.2</a>	<a href="#">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).</a>
<a href="#">3.3</a>	<a href="#">Articles of Amendment to Restated Certificate and Articles of Incorporation of Canadian Pacific Kansas City Limited (incorporated by reference to Exhibit 3.1 to Canadian Pacific Kansas City Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 14, 2023, File No. 001-01342).</a>
<a href="#">3.4</a>	<a href="#">By-law No. 1, as amended, of Canadian Pacific Kansas City Limited (incorporated by reference to Exhibit 3.4 to Canadian Pacific Kansas City Limited's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on April 27, 2023, File No. 001-01342).</a>
<a href="#">3.5</a>	<a href="#">By-law No. 2 of Canadian Pacific Kansas City Limited (incorporated by reference to Exhibit 3.5 to Canadian Pacific Kansas City Limited's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on April 27, 2023, File No. 001-01342).</a>
<a href="#">3.6</a>	<a href="#">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).</a>
<a href="#">4.1</a>	<a href="#">Sixth Supplemental Indenture, dated as of April 19, 2023, by and among Canadian Pacific Railway Company, Canadian Pacific Kansas City Limited, as guarantor, and Computershare Trust Company, N.A., as successor to Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to Canadian Pacific Kansas City Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 19, 2023, File No. 001-01342)</a>
<a href="#">10.1</a>	<a href="#">Second Amended and Restated Credit Agreement, dated as of May 11, 2023, among Canadian Pacific Railway Company, as Borrower, Canadian Pacific Kansas City Limited, as Covenantor, Bank of Montreal, as Administrative Agent, and various Lenders party thereto (incorporated by reference to Exhibit 10.1 to Canadian Pacific Kansas City Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 17, 2023, File No. 001-01342)</a>
<a href="#">10.2* **</a>	<a href="#">Short Term Incentive Plan</a>
<a href="#">10.3* **</a>	<a href="#">Form of US Performance Share Units Notice of Grant and Grant Agreement</a>
<a href="#">10.4* **</a>	<a href="#">Form of Canadian Performance Share Units Notice of Grant and Grant Agreement</a>
<a href="#">10.5* **</a>	<a href="#">Form of US Stock Option Agreement</a>
<a href="#">10.6* **</a>	<a href="#">Form of Canadian Stock Option Agreement</a>
<a href="#">10.7* **</a>	<a href="#">Form of US Performance Share Units Notice of Grant and Grant Agreement (Synergy Award)</a>
<a href="#">10.8* **</a>	<a href="#">Form of Canadian Performance Share Units Notice of Grant and Grant Agreement (Synergy Award)</a>
<a href="#">22.1*</a>	<a href="#">List of Issuers and Guarantor Subsidiaries</a>
<a href="#">31.1*</a>	<a href="#">CEO Rule 13a-14(a) Certifications</a>
<a href="#">31.2*</a>	<a href="#">CFO Rule 13a-14(a) Certifications</a>
<a href="#">32.1*</a>	<a href="#">CEO Section 1350 Certifications</a>
<a href="#">32.2*</a>	<a href="#">CFO Section 1350 Certifications</a>
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 Kansas City Limited's Quarterly Report on Form 10-Q for the second quarter ended June 30, 2023, formatted in Extensible Business Reporting Language (XBRL) includes: (i) the Interim Consolidated Statements of Income for the second quarters and first six months ended June 30, 2023 and 2022; (ii) the Interim Consolidated Statements of Comprehensive Income for the second quarters and first six months ended June 30, 2023 and 2022; (iii) the Interim Consolidated Balance Sheets at June 30, 2023, and December 31, 2022; (iv) the Interim Consolidated Statements of Cash Flows for the second quarters and first six months ended June 30, 2023 and 2022; (v) the Interim Consolidated Statements of Changes in Equity for the second quarters and first six months ended June 30, 2023 and 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

\*\* Management contract or compensatory arrangement

**Policy 3411**  
Short Term Incentive Plan

**Short Term Incentive Plan (STIP)**  
Non-Unionized Employees in Canada, US and Mexico  
Issuing Department: Human Resources

<b>Policy Statement</b>	Canadian Pacific Kansas City ("CPKC" or the "Company") offers a Short Term Incentive Plan (the "Plan"), to recognize the contribution that each regular, non-unionized employee makes to the Railway's achievement of its business objectives.
<b>Accountability</b>	<p>The Management Resources and Compensation Committee of the Board of Directors of Canadian Pacific Railway Company and Canadian Pacific Kansas City Limited (the "Committee") has complete authority to interpret and define individual and group eligibility and to establish rules and regulations required to properly administer the Plan. The Board may also suspend, amend or terminate this Plan at any time.</p> <p>On an annual basis, managers are responsible for guiding their employees in the objective setting process. Managers must conduct regular progress reviews throughout the year, evaluate performance against objectives at year end and report results to Human Resources.</p> <p>Employees are responsible for setting and striving to achieve their annual performance objectives and for soliciting performance feedback from their managers.</p> <p>Human Resources is responsible for interpreting this policy, guiding its administration and supporting employees and managers applying the policy.</p>
<b>Process and Application</b>	
Plan Year	The Plan Year runs from January 1 to December 31.
Eligibility	<p>Regular full-time or part-time employees who participate in the Company's non-unionized compensation program are eligible to participate in the Plan provided they join the Plan prior to October 1<sup>st</sup> in their first year of participation.</p> <p>Employees must complete three (3) months (65 working days) of cumulative active service in the Plan year in order to be eligible for a STIP payout.</p>
Transfers and Joint Ventures	Employees transferred or seconded to employers participating in a joint venture with CPKC may be designated as participants in the Plan by the Company.
Temporary Replacements	Unionized employees who temporarily assume a non-unionized position, in accordance with Policy 8503 (applicable to Canada only), will be eligible for STIP, provided the temporary assignment commences prior to October 1 <sup>st</sup> of the Plan year and has a minimum continuous duration of three (3) months (65 working days) in the Plan year.

**Policy 3411**  
Short Term Incentive Plan

Plan Objectives	<p>The objectives of the Plan are:</p> <ul style="list-style-type: none"> <li>• to tie a part of the employee’s compensation directly to CPKC's results;</li> <li>• to reward the achievement of individual and team objectives that support CPKC's achievement of its annual business plans and long-term strategy; and</li> <li>• to maintain the competitiveness of CPKC's compensation program.</li> </ul>												
Ending Participation	<p>Participation in the Plan ends when the employee reverts to a unionized position at the Company’s request, retires or terminates their employment with CPKC.</p> <p>Employees who revert to a unionized position at their own initiative prior to payout will not be eligible for a STIP award.</p>												
Target Award Levels	<p>For each Plan Year the Committee establishes the various classes of participants, the weighting of each performance measure assigned to each class and the Target Award Levels. Employee level determines their Target Award Levels. Target Award Levels are expressed as a percentage of annual salary and are the basis for calculating STIP awards.</p>												
Weighting of Corporate Individual Components	<p>Individual STIP awards are based on two components, individual and corporate. STIP award payouts are based on an employee’s group and weighting category at year-end.</p> <p>The following table outlines the weighting for corporate and individual performance for the various management levels in the organization:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><b>LEVEL</b></th> <th style="text-align: center;"><b>CORPORATE</b></th> <th style="text-align: center;"><b>INDIVIDUAL</b></th> </tr> </thead> <tbody> <tr> <td>Level A to F</td> <td style="text-align: center;">75%</td> <td style="text-align: center;">25%</td> </tr> <tr> <td>Level 1</td> <td style="text-align: center;">60%</td> <td style="text-align: center;">40%</td> </tr> <tr> <td>Level 2 to 6</td> <td style="text-align: center;">50%</td> <td style="text-align: center;">50%</td> </tr> </tbody> </table>	<b>LEVEL</b>	<b>CORPORATE</b>	<b>INDIVIDUAL</b>	Level A to F	75%	25%	Level 1	60%	40%	Level 2 to 6	50%	50%
<b>LEVEL</b>	<b>CORPORATE</b>	<b>INDIVIDUAL</b>											
Level A to F	75%	25%											
Level 1	60%	40%											
Level 2 to 6	50%	50%											

**Policy 3411**  
Short Term Incentive Plan

Assessing PMP Objectives	<p>The individual component of STIP awards is tied directly to the individual's PMP objectives established under the Performance Management Program (PMP). A PMP rating (from Unsatisfactory to Outstanding) will be assigned to each of the individual's PMP objectives.</p> <p>The performance ratings are determined on the basis of three dimensions:</p> <ol style="list-style-type: none"> <li>1. achievement of objectives against the standards and measures established for each objective;</li> <li>2. context of performance throughout the year; and</li> <li>3. peer clustering of employees into a distribution profile established by the Company.</li> </ol> <p>The context of performance dimension considers the "how" of the achievement and adds a necessary judgmental component to the assessment process. The demonstration of company values must be considered.</p> <p>Taking the three dimensions into account, through the calibration process, an overall PMP rating and an overall STIP attainment level, based on the scales below, are determined for the employee's individual performance component.</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Overall PMP Rating</th> <th style="text-align: left; border-bottom: 1px solid black;">Overall STIP Attainment Level</th> </tr> </thead> <tbody> <tr> <td>Outstanding</td> <td>170% - 200%</td> </tr> <tr> <td>Exceeds</td> <td>125% - 165%</td> </tr> <tr> <td>Achieved</td> <td>90% - 120%</td> </tr> <tr> <td>Partially Achieved</td> <td>0% - 85%</td> </tr> <tr> <td>Unsatisfactory</td> <td>0%</td> </tr> </tbody> </table>	Overall PMP Rating	Overall STIP Attainment Level	Outstanding	170% - 200%	Exceeds	125% - 165%	Achieved	90% - 120%	Partially Achieved	0% - 85%	Unsatisfactory	0%
Overall PMP Rating	Overall STIP Attainment Level												
Outstanding	170% - 200%												
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Unsatisfactory	0%												

**Policy 3411**  
Short Term Incentive Plan

<p>Potential Corporate Payout Levels</p>	<p>Annually, the Committee establishes the performance metrics, the weighting assigned to each performance metric and corporate performance target levels for the STIP Program.</p> <p>Each corporate performance metric will have three levels of performance and payout.</p> <p>a) <u>Exceptional Level</u> - 200% of Target Award Level assigned to the corporate component where the actual CPKC performance meets or exceeds the exceptional level established by the Committee;</p> <p>b) <u>Target Level</u> - 100% of Target Award Level assigned to the corporate component where the actual CPKC performance meets the target level established by the Committee;</p> <p>c) <u>Threshold Level</u> - 50% of Target Award Level assigned to the corporate component when the actual CPKC performance level for the Plan Year is at the threshold level established by the Committee; and</p> <p>Where the actual CPKC performance metric falls between the threshold and exceptional levels, the payout level will be interpolated.</p> <p>Where the actual CPKC performance metric falls below the threshold Level, no awards will be paid under the corporate component.</p>
<p>Corporate Hurdle</p>	<p>For each Plan Year, the Committee establishes a minimum level of corporate performance, below the threshold level, called the corporate hurdle. If the Company's performance falls below this hurdle, no awards will be paid under the individual or corporate components.</p>
<p>Individual Hurdle</p>	<p>If individual performance levels are unsatisfactory, no award will be paid to the individual under the corporate or individual components.</p>
<p>CP Net Loss</p>	<p>The Committee has the discretion to adjust the amount of awards so that payment of awards under the Plan does not result in a net loss for CPKC. No awards will be paid if CPKC has a net loss for the Plan Year.</p>

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Short Term Incentive Plan

Calculation of Awards	<p>Awards are calculated by performing the following calculation:</p> <p>Target Award Level multiplied by the weighting for the individual component, multiplied by the annual salary in effect at the end of the Plan Year, multiplied by the STIP attainment level</p> <p><b>added to</b></p> <p>the Target Award Level, multiplied by the weighting for the corporate component, multiplied by the annual salary in effect at the end of the Plan Year, multiplied by the weighting of the performance measure, multiplied by the payout level. This calculation is repeated for each of the Company's performance measures.</p> <p>For sample STIP calculations, see Appendix 1.</p> <p><b>KCSM Only</b></p> <p>If an employee is eligible under statutory law for a profit-sharing payment from KCSM for a calendar year, the STIP payout amount otherwise payable to the employee shall be reduced by an amount equal to such statutory profit-sharing amount payable to the employee.</p> <p>For sample calculations, see Appendix 2.</p>
Payment of Awards	<p>Awards to be paid out in any Plan Year, will be paid as soon as possible after CPKC financial results are determined, the Committee has approved a payout, and the participants' performance has been assessed under PMP.</p>
Joining Plan Before October 1st	<p>New entrants prior to October 1 of the plan year will have their award for that year prorated based on the length of time they have been a member of the Plan.</p>
Leaving the Plan Before April 1st	<p>Employees who cease participation in the Plan prior to April 1 of the Plan Year will not be eligible for any STIP Award for the Plan Year.</p>
Leaves of Absence	<p>Leaves of absence (LOA) are those periods when an employee is not actively at work i.e. short or long term disability, personal, maternity, parental, educational leaves. Participants who take a leave of absence greater than 30 consecutive days (22 working days) during the year will have their award prorated based on the length of time in active service during the year.</p> <p>Potential STIP Awards will be held for participants who take a personal (non-medical or educational) leave of absence. Eligibility for STIP will be determined at the end of the LOA. If the participant decides not to return it will be considered a voluntary resignation and the participant will not be eligible for a STIP Award. The payment of any STIP Award will only occur when the participant returns from the LOA.</p>

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Short Term Incentive Plan

Transfers	Participants transferring on or after April 1st of the Plan Year to a position to which this plan does not apply will have their award prorated based on the length of time in the eligible position.
Termination without Cause	<p>Participants whose employment is terminated by the Company without cause on or after April 1st of the Plan Year will continue to participate in the Plan until their last day actively at work. If all program conditions are met, (i.e. Company performance and individual performance warrants a payout), they will receive a prorated award based on the length of time they participated in the plan during the year.</p> <p>For KCSM - If an employee is eligible under statutory law for a profit-sharing payment from KCSM for a calendar year, they will be eligible for a profit-sharing payment in accordance with the applicable statutory law.</p>
Retirements	<p>Employees that retire on or after April 1 of the plan year without a severance payment are eligible for a prorated STIP award provided:</p> <ul style="list-style-type: none"> <li>• he/she provided Retirement Notice in accordance with Retirement Policy 8101; and</li> <li>• retirees are between 55 and less than 60 years of age with a minimum of 5 years of company service from the last date of hire or if retiring at age 60 or greater, must have a minimum of 2 years of company service from their last date of hire.</li> </ul> <p>For KCSM - If an employee is eligible under statutory law for a profit-sharing payment from KCSM for a calendar year, the STIP payout amount otherwise payable to the employee shall be reduced by an amount equal to such statutory profit-sharing amount payable to the employee.</p>
Termination for Cause	<p>Employees who are terminated for cause during the year will not receive an award for the year in which their employment ended. They will also not be eligible to receive any award not yet paid at the time of their termination for cause.</p> <p>For KCSM - If an employee is eligible under statutory law for a profit-sharing payment from KCSM for a calendar year, they will be eligible for a profit-sharing payment in accordance with the applicable statutory law.</p>
Resignation	<p>Employees who resign prior to the STIP payout date will not be eligible for an award for the previous or current plan year.</p> <p>For KCSM - If an employee is eligible under statutory law for a profit-sharing payment from KCSM for a calendar year, they will be eligible for a profit-sharing payment in accordance with the applicable statutory law.</p>

**Policy 3411**  
Short Term Incentive Plan

Death	<p>Employees who are deceased after April 1st of the Plan Year, if all program conditions are met, a prorated award based on the length of their membership in the Plan during the year will be paid to the employee's estate.</p> <p>For KCSM - If an employee is eligible under statutory law for a profit-sharing payment from KCSM for a calendar year, they will be eligible for a profit-sharing payment in accordance with the applicable statutory law.</p>
<b>Administration</b>	
Setting PMP Objectives	The STIP cycle begins with the establishment of PMP Objectives. In discussion with their manager and/or team leader, participants are responsible for the development of their PMP objectives and assigning weightings.
Assigning Weights	PMP objectives are weighted according to their relative importance. The total value of all PMP objectives must equal 100%.
Reporting Results	By the end of January, annually, managers should have STIP attainment levels reported to Human Resources for the previous Plan Year.
<b>Additional Information</b>	For additional information, please contact your HR Business Partner or Employee Services by e-mail at <a href="mailto:Employee_Services@cpr.ca">Employee_Services@cpr.ca</a> .
<b>Cross Reference</b>	<p>Policy 5611 - Performance Management Program</p> <p>Policy 8503 - Compensation &amp; Benefits for Unionized Employees who Temporarily Assume Non-Unionized Positions</p> <p>Policy 8101 - Retirement Policy</p>
	(U.S. only disclaimer: This policy statement represents the current policy and practice of CPKC regarding the Short Term Incentive Plan for non-unionized employees and may be changed from time to time by CPKC without notice. Nothing in this policy is intended to create any contract, agreement or other obligation by CPKC with any of its employees.)

**Policy 3411**  
Short Term Incentive Plan

**APPENDIX 1 - Sample STIP Calculations**

<b>Level 5 with annual salary of \$65,000, PMP rating of Achieves at 100%</b>				
<b>Target Award Level</b>	<b>Individual Component</b>	<b>Annual Salary</b>	<b>PMP Rating %</b>	<b>Individual Component Award</b>
10%	50%	\$65,000	100%	\$3,250
<b>Added to</b>				
<b>Target Award Level</b>	<b>Corporate Component</b>	<b>Annual Salary</b>	<b>Corporate Component %</b>	<b>Corporate Component Award</b>
10%	50%	\$65,000	100% (at target)	\$3,250
<b>STIP Award total</b>				<b>\$6,500</b>

<b>Level 4 with annual salary of \$85,000, PMP rating of Exceeds at 125%</b>				
<b>Target Award Level</b>	<b>Individual Component</b>	<b>Annual Salary</b>	<b>PMP Rating %</b>	<b>Individual Component Award</b>
15%	50%	\$85,000	125%	\$7,969
<b>Added to</b>				
<b>Target Award Level</b>	<b>Corporate Component</b>	<b>Annual Salary</b>	<b>Corporate Component %</b>	<b>Corporate Component Award</b>
15%	50%	\$85,000	50% (Threshold)	\$3,188
<b>STIP Award total</b>				<b>\$11,157</b>

<b>Level 3 with annual salary of \$105,000, PMP rating of Achieves at 110%</b>				
<b>Target Award Level</b>	<b>Individual Component</b>	<b>Annual Salary</b>	<b>PMP Rating %</b>	<b>Individual Component Award</b>
17.5%	50%	\$105,000	110%	\$10,106
<b>Added to</b>				
<b>Target Award Level</b>	<b>Corporate Component</b>	<b>Annual Salary</b>	<b>Corporate Component %</b>	<b>Corporate Component Award</b>
17.5%	50%	\$105,000	0% (Below Threshold)	\$0
<b>STIP Award total</b>				<b>\$10,106</b>

**Policy 3411**  
Short Term Incentive Plan

**APPENDIX 2 - Sample Mexico Profit-Sharing (PTU) and STIP Calculations**

<b>Annual salary of MXN 420,000, PMP rating of Achieves at 100%</b>				
<b>Target Award Level</b>	<b>Individual Component</b>	<b>Annual Salary</b>	<b>PMP Rating %</b>	<b>Individual Component Award</b>
8.33%	50%	MXN 420,000	100%	MXN 17,493
<b>Added to</b>				
<b>Target Award Level</b>	<b>Corporate Component</b>	<b>Annual Salary</b>	<b>Corporate Component %</b>	<b>Corporate Component Award</b>
8.33%	50%	MXN 420,000	100% (at target)	MXN 17,493
<b>STIP Award total</b>				<b>MXN 34,986</b>
<b>PTU Payment (Estimate three months' salary)</b>				<b>MXN 105,000</b>
<b>STIP Payment</b>				<b>MXN 0</b>

<b>Annual salary of MXN 720,000, PMP rating of Exceeds at 125%</b>				
<b>Target Award Level</b>	<b>Individual Component</b>	<b>Annual Salary</b>	<b>PMP Rating %</b>	<b>Individual Component Award</b>
21%	50%	MXN 720,000	125%	MXN 94,500
<b>Added to</b>				
<b>Target Award Level</b>	<b>Corporate Component</b>	<b>Annual Salary</b>	<b>Corporate Component %</b>	<b>Corporate Component Award</b>
21%	50%	MXN 720,000	150%	MXN 113,400
<b>STIP Award total</b>				<b>MXN 207,900</b>
<b>PTU Payment (Estimate three months' salary)</b>				<b>MXN 180,000</b>
<b>STIP Payment</b>				<b>MXN 27,900</b>

**CANADIAN PACIFIC KANSAS CITY LIMITED**

**Performance Share Units  
Notice of Grant and Grant Agreement (“Agreement”)**

[US Form of Agreement]

Canadian Pacific Kansas City Limited (formerly known as Canadian Pacific Railway Limited) (“the Corporation”) has granted the target number of [ ] PSUs<sup>[1]</sup> (“Target”) to the employee named below (the “Eligible Employee”), in accordance with this Agreement and the provisions of the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited as amended from time to time (the “Plan”)[, a sub-plan under the Canadian Pacific Railway Limited Section 162(m) Incentive Plan (the “162(m) Plan”)].

<b>Grant Date</b>	[ ]
<b>PSU Service Year</b>	[ ]
<b>Below Threshold</b>	[ ]% of Target
<b>Threshold</b>	[ ]% of Target
<b>Maximum</b>	[ ]% of Target
<b>Performance Period</b>	[ ] – [ ]
Payment in respect of PSUs covered by this Agreement will be based on the extent to which the Performance Criteria (as defined below) set out in <b>Schedule A</b> are satisfied at the end of the Performance Period.	

**By signing this Agreement, the Eligible Employee hereby acknowledges and agrees to the following:**

1. Grant of PSUs

- 1.1 Pursuant to the Plan and in respect of services to be provided to the Corporation by the Eligible Employee during the Performance Period, the Corporation has granted the number of PSUs set out in Solium Capital ULC (“Shareworks”) to the Eligible Employee for the Performance Period set out above and subject to the terms and conditions set out in this Agreement and the Plan.
- 1.2 The grant of PSUs and payment of any amount in respect of any such PSUs are subject to the terms and conditions of the Plan and the Schedules appended to this Agreement, all of which are incorporated into and form an integral part of this Agreement.

2. Vesting

- 2.1 Subject to the terms and conditions of the Plan (including without limitation the conditions related to remaining actively Employed and not ceasing employment), the PSUs granted to the Eligible Employee pursuant to Section 1.1 will become Vested PSUs at the end of the Performance Period in such proportion as may be specified in this Agreement and in Schedule A attached hereto and subject to satisfaction of the conditions set out in Schedule A (the “Performance Criteria”) as provided therein.
- 2.2 Notwithstanding any other provisions in this Agreement, all PSUs awarded (vested or unvested) shall be subject to the terms and conditions in the Non-Competition and Non-Solicitation Agreement in Schedule B (without any further notice, compensation in lieu of notice or damages of any kind). In addition, the Eligible Employee agrees to reconfirm the obligations outlined in Schedule B upon

<sup>[1]</sup> Capitalized terms not defined herein shall have the meanings given to those terms in the Plan.

request by the Corporation at any time throughout the term of the Eligible Employee's employment or upon termination thereof, and failure to provide such confirmation as requested by the Company shall result in the immediate cancellation of all PSUs granted herein (without any further notice, compensation in lieu of notice or damages of any kind).

### 3. Settlement

3.1 Subject to the provisions of the Plan and the provisions of this Agreement, the Eligible Employee shall be entitled to an amount equal to the Market Value on the last day of the Performance Period multiplied by the number of PSUs (which may be whole or fractional) that become Vested in respect of the Performance Period, less such amount as is required to be withheld on account of taxes and other required deductions in accordance with Section 4.1. For participants paid in United States dollars at the time of the grant of PSUs, the Market Value is based on the average closing price per Share on the New York Stock Exchange over the same period.

3.2 For greater certainty, no cash or other compensation shall be paid or payable to any person in respect of any PSUs that are forfeited by the Eligible Employee or otherwise cease to be payable to the Eligible Employee or his or her estate, on account of damages, or otherwise.

### 4. Withholdings

4.1 The Corporation or a Subsidiary may withhold, or cause to be withheld, from any amount payable to the Eligible Employee, either under the Plan or otherwise, such amount as may be necessary so as to ensure that the Corporation or the Subsidiary will be able to comply with the applicable provisions of any federal, provincial, state or other law relating to the withholding of tax or other required deductions.

4.2 The Corporation's Chief Executive Officer has discretion, subject to any requires of applicable law, to determine whether the after tax value be delivered in Shares purchased on the open market or cash.

### 5. Personal Information

5.1 The Eligible Employee consents to the holding and processing of personal data provided by the Eligible Employee to the Corporation or any Subsidiary or to any third party service provider for all purposes relating to the operation of the Plan, including (i) administering and maintaining records of the Eligible Employee; (ii) providing information to the Corporation, any Subsidiary, their agents, and any third party administrators of the Plan; and (iii) transferring information about the Eligible Employee to a country or territory outside his or her home country that may not provide the same statutory protection for the information as the Eligible Employee's home country.

### 6. Binding Agreement and Amendment

6.1 This Agreement shall constitute an agreement between the Eligible Employee and the Corporation and will be binding upon the Eligible Employee and the legal representatives of his or her estate and any other person who acquires the Eligible Employee's rights in respect of the PSUs granted hereunder by inheritance or otherwise, provided that in the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. This Agreement shall be governed and constituted in accordance with the laws of the State of Minnesota.

6.2 The Corporation reserves the right to amend or terminate this Grant or the Plan at any time, in which case PSUs that have not previously vested in accordance with Section 2 of this Agreement will not become Vested unless otherwise determined by the Committee.

By electronically "accepting" this agreement, I hereby confirm and acknowledge the terms of the grant of PSUs as set out above and confirm and acknowledge that I have received, read and understood the terms of the Plan. I also confirm and acknowledge that I have not been induced to enter into this Grant Agreement by expectation of employment or continued employment with the Corporation or any Subsidiary.

IN WITNESS WHEREOF the Corporation and the Eligible Employee have entered into this Agreement as of [ ].

**Canadian Pacific Kansas City Limited**

\_\_\_\_\_  
President and Chief Executive Officer

## SCHEDULE A – PERFORMANCE MEASURES

## SCHEDULE B – NON-COMPETITION AND NON-SOLICITATION AGREEMENT

### NON-COMPETITION AND NON-SOLICITATION AGREEMENT

**THIS AGREEMENT** is made and effective as of the [ ] day of [ ].

#### **BETWEEN:**

Canadian Pacific Kansas City Limited,  
a corporation organized under the laws of Canada,  
(formerly known as Canadian Pacific Railway Limited) (the “**Company**”)

- and -

###PARTICIPANT\_NAME###,  
(the “**Employee**”)

#### **RECITALS**

**WHEREAS**, the Company has offered the Employee the opportunity to participate in one or more of its long term incentive programs which include the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, and the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as each such plan may be amended from time to time (collectively, the “**LTIPs**”);

**AND WHEREAS**, during the course of the Employee’s employment with the member of the CPKC Group (as defined below) that employs Employee, the Employee has access to proprietary and confidential information of the Company and the CPKC Group, thereby making the Company and the CPKC Group uniquely vulnerable to misuse of such information to the detriment of the Company’s and the CPKC Group’s business and interests;

**AND WHEREAS**, any LTIP granting agreement made on or after the effective date of this Agreement and any grant thereunder is subject to the terms of this Agreement, and such terms are required to protect the proprietary interests and value of the Company and the CPKC Group;

**AND WHEREAS**, the Employee wishes to participate in one or more of the LTIPs and be eligible to receive grants under these LTIPs by accepting this Agreement either by signature below or by electronic acceptance through Solium Capital ULC (“**Shareworks**”).

**THEREFORE**, the parties agree as follows:

1. **Consideration.** In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee’s acceptance of the covenants set out in this Agreement.
2. **Protected Rights.** The parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee’s ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator (“**Government Agencies**”) relating to potential violations of law or regulations; or (ii) the Employee’s ability to communicate with Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by Government Agencies, including providing documents or other information, without notice to the Company.

### 3. Non-Competition/Non-Solicitation.

(a) In this Agreement:

- (i) **“Covenant Period”** means the period of the Employee's employment with the member of the CPKC Group that employs Employee and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and
- (ii) **“CPKC Group”** means and includes all parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company which the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

(b) Non-Competition. During the Covenant Period, the Employee shall not, directly or indirectly, anywhere in Canada or the United States, (i) maintain any interest (proprietary, financial or otherwise) in the business of a Class 1 Railroad or (ii) in any manner, accept employment with, become engaged in the business of, or provide services to, a Class 1 Railroad in any position, role, or area of responsibility similar to or greater than those the Employee held with the member of the CPKC Group that employs Employee in his or her last five (5) years of employment with such member of the CPKC Group. This restriction shall still permit the Employee to acquire, directly or indirectly, less than 2% of the outstanding capital stock of any publicly traded company in the business of a Class 1 Railroad.

(c) Non-Solicitation of Customers, Suppliers and Licensors. During the Covenant Period, the Employee shall not, directly or indirectly, solicit any person that:

- (i) is a customer, supplier or licensor of the Company or the CPKC Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;
- (ii) was a customer, supplier or licensor of the Company or the CPKC Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or
- (iii) to the knowledge of the Employee by virtue of the Employee's employment, has been pursued as a prospective customer, supplier or licensor by or on behalf of the Company or the CPKC Group through the submission of a proposal in writing to perform services for that prospective customer, supplier or licensor at any time within twelve (12) months before the cessation of the Employee's employment and regarding whom the Company and the CPKC Group has not determined to cease pursuing,

for the purposes of: (A) terminating or modifying any actual or prospective relationship the customer or prospective customer has with the Company or the CPKC Group or for the purposes of selling any services to, or soliciting services from, that customer or prospective customer where those services are substantially similar to or competitive with the services sold by the Company or the CPKC Group at the cessation of the Employees' employment, or (B) terminating or modifying any actual or prospective relationship the supplier or licensor or prospective supplier or licensor has with the Company or the CPKC Group.

(d) Non-Solicitation of Employees and Consultants. During the Covenant Period, the Employee shall not directly or indirectly solicit any employee or consultant of the Company or the CPKC Group to leave their employment or engagement. For this Paragraph 3(d), general

newspaper and other media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CPKC Group.

- (e) Notwithstanding Paragraphs 3(a)(i) and 5, the Company agrees that Paragraph 3(b) of this Agreement does not apply to the cessation of the Employee's employment if the member of the CPKC Group that employs Employee terminates the Employee's employment as a result of a layoff due to lack of work or elimination of position unrelated to the Employee's performance or conduct.

4. **Acknowledgements.**

- (a) Reasonableness of Covenants, Right to Counsel, and Time for Review. The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CPKC Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defenses to the strict enforcement of those obligations and restrictions. Employee acknowledges that they are advised to consult with counsel prior to signing this Agreement, and further acknowledges and understands that they have fourteen (14) days to review this Agreement prior to signing.
- (b) Annual Confirmation Process. The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish. However, such confirmation is not necessary to enforce Employee's obligations under this Agreement, which continue in full force and effect regardless of any subsequent failure to confirm.
- (c) Blue Pencil Doctrine. In the event any of the terms of this Agreement are determined by a court of competent jurisdiction to be unreasonable or overbroad under circumstances then existing, the parties hereto authorize and request the court to apply the "blue pencil doctrine" to modify the unreasonable or overly broad term to make it enforceable against Employee. This Agreement shall not be construed against any party regardless of who was more responsible for its preparation.
- (d) Continuing Confidentiality Obligations. The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the member of the CPKC Group that employs Employee and following the cessation of the Employee's employment for any reason. Both Employee and Company understand and acknowledge that Employee will not be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that is: (1) made in confidence to a federal, state, or local government official, or to an attorney, solely for the purpose of reporting or investigating a suspected violation of the law; or (2) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding.

- 5. **Survival.** All obligations and restrictions imposed on the Employee under this Agreement shall survive and continue in full force and effect (i) regardless of any changes to the Employee's terms of employment with the member of the CPKC Group that employs Employee, including changes to the Employee's duties and location of employment; and (ii) following the cessation of the Employee's employment with the member of the CPKC Group that employs Employee for any reason.

- 6. **Relief/Remedies.** In the event of a breach of this Agreement, the Company may seek and shall be entitled to the following remedies, which are non-exhaustive and non-exclusive and are in addition to any further remedies available to the Company in contract, law or equity:

- (a) **Injunction.** The Employee agrees that any breach of this Agreement would cause irreparable harm to the Company and the CPKC Group and this harm may not be compensable entirely with monetary damages. If the Employee breaches this Agreement, the Company and the CPKC Group shall be entitled to injunctive relief. Any injunctive relief sought by the Company and the CPKC Group shall be in addition to and not in limitation of any monetary relief or other remedies or rights to which the Company and the CPKC Group are or may be entitled at law, in equity, or under this Agreement.
- (b) **Repayment or Return of Benefit.** If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after the effective date of this Agreement (the “**Repayment Period**”), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:
- (i) with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and
  - (ii) with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.

For further clarity, the obligation set out above in this Paragraph 6(b) regarding the Repayment Period shall not be interpreted to extend the Employee’s Covenant Period.

- (a) **Forfeiture.** The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.
- (b) **Accounting.** The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.
- (c) **Legal Costs.** The Company shall be awarded its reasonable expenses, including attorneys’ fees and costs, incurred in enforcing this Agreement.
7. **Severability.** Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.
8. **Non-Waiver.** The Company’s decision to not enforce a breach of any part of this Agreement (or the Company’s settlement of any claims for breach) will not prevent the Company from enforcing the Agreement regarding any other breach of this Agreement that the Company discovers, and shall not operate as a waiver against any future enforcement of any part of this Agreement, any

other agreement with the Employee or any other agreement with any other employee of the Company.

9. **No Breach of Obligations to Others.** The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or conflicts with the Employee's obligations under this Agreement or the Employee's employment with the member of the CPKC Group that employs Employee. The Employee agrees to indemnify the Company and the CPKC Group in respect of any violation of this representation.
10. **Disclosure.** The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.
11. **Governing Law and Forum.** This Agreement shall be construed and determined according to the laws of the State of Minnesota, and any disputes arising out of this Agreement shall be determined in a court of appropriate jurisdiction in the state of Minnesota, and the Employee expressly consents to the exclusive jurisdiction of the state and federal courts in Minnesota for any dispute arising under this Agreement. The employee waives the right to claim any other jurisdiction is more convenient or to challenge the jurisdiction of the courts of Minnesota over the Employee.
12. **Successor and Assigns.** This Agreement binds and inures to the benefit of the Company's successors and assigns.
13. **Amendments.** No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.
14. **Independent Advice.** The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.
15. **At-Will Employment.** Nothing in this Agreement is intended to provide nor shall this Agreement provide the Employee with any contractual rights to employment for any period of time. The Employee acknowledges that his/her employment relationship with the member of the CPKC Group that employs Employee is one of at-will employment. This means that either (i) the Employee or (ii) the member of the CPKC Group that employs Employee may terminate the employment relationship at any time and for any reason, with or without cause or notice. The Employee understands he/she is an at-will employee of the member of the CPKC Group that employs Employee and that this Agreement does not modify the Employee's at-will status in any manner.
16. **Practice of Law.** As it relates to the practice of law after the Employee's employment with the Company has ceased (for any reason), the restrictions described in this Agreement shall be interpreted consistent with the applicable rules of professional responsibility, including but not limited to rules on confidentiality of information, duties to former clients and restrictions on the right to practice.]
17. **Entire Agreement.** This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CPKC Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered no oral or written promises, inducements, or representations, and the Employee accepts this

Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.

18. **Recitals.** The recitals set forth above form part of this Agreement.

The Employee may enter into this Agreement by electronic acceptance via Shareworks, and acknowledges that such electronic signature is intended to authenticate Employee's acceptance and shall have the same force and effect as a manual signature. This Agreement shall be effective and binding upon acceptance by Employee; Employee acknowledges that the Company is not required to execute this Agreement for it to be binding.

Dated: ###ACCEPTANCE\_DATE###

###PARTICIPANT\_NAME###

**CANADIAN PACIFIC KANSAS CITY LIMITED**

**Performance Share Units  
Notice of Grant and Grant Agreement (“Agreement”)**

[Canadian Form of Agreement]

Canadian Pacific Kansas City Limited (formerly known as Canadian Pacific Railway Limited) (“the Corporation”) has granted the target number of [ ] PSUs<sup>[1]</sup> (“Target”) to the employee named below (the “Eligible Employee”), in accordance with this Agreement and the provisions of the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited as amended from time to time (the “Plan”).

<b>Grant Date</b>	[ ]
<b>PSU Service Year</b>	[ ]
<b>Below Threshold</b>	[ ]% of Target
<b>Threshold</b>	[ ]% of Target
<b>Maximum</b>	[ ]% of Target
<b>Performance Period</b>	[ ] – [ ]
Payment in respect of PSUs covered by this Agreement will be based on the extent to which the Performance Criteria (as defined below) set out in <b>Schedule A</b> are satisfied at the end of the Performance Period.	

**By signing this Agreement, the Eligible Employee hereby acknowledges and agrees to the following:**

1. Grant of PSUs

- 1.1 Pursuant to the Plan and as a bonus for services provided to the Corporation or a Subsidiary by the Eligible Employee, the Corporation has granted the number of PSUs set out in Shareworks (the “Target Number of PSUs”) to the Eligible Employee for the Performance Period set out above and subject to the terms and conditions set out in this Agreement and the Plan.
- 1.2 The grant of PSUs and payment of any amount in respect of any such PSUs are subject to the terms and conditions of the Plan and the Schedules appended to this Agreement, all of which are incorporated into and form an integral part of this Agreement.

2. Vesting

- 2.1 Subject to the terms and conditions of the Plan (including without limitation the conditions related to remaining actively Employed and not ceasing employment), the PSUs granted to the Eligible Employee pursuant to Section 1.1 will become Vested PSUs at the end of the Performance Period in such proportion as may be specified in this Agreement and in Schedule A attached hereto and subject to satisfaction of the conditions set out in Schedule A (the “Performance Criteria”) as provided therein.
- 2.2 Notwithstanding any other provisions in this Agreement, all PSUs awarded (vested or unvested) shall be subject to the terms and conditions in the Non-Competition and Non-Solicitation Agreement in Schedule B (without any further notice, compensation in lieu of notice or damages of any kind). In addition, the Eligible Employee agrees to reconfirm the obligations outlined in Schedule B upon request by the Corporation at any time throughout the term of the Eligible Employee’s employment or

<sup>[1]</sup> Capitalized terms not defined herein shall have the meanings given to those terms in the Plan.

upon termination thereof, and failure to provide such confirmation as requested by the Company shall result in the immediate cancellation of all PSUs granted herein (without any further notice, compensation in lieu of notice or damages of any kind).

### 3. Settlement

- 3.1 Subject to the provisions of the Plan and the provisions of this Agreement, the Eligible Employee shall be entitled to an amount equal to the Market Value on the last day of the Performance Period multiplied by the number of PSUs (which may be whole or fractional) that become Vested in respect of the Performance Period, less such amount as is required to be withheld on account of taxes and other required deductions in accordance with Section 4.1.
- 3.2 For greater certainty, no cash or other compensation shall be paid or payable to any person in respect of any PSUs that are forfeited by the Eligible Employee or otherwise cease to be payable to the Eligible Employee or his or her estate, on account of damages, or otherwise, including without limitation in respect of those PSUs that as a result of the termination of the Eligible Employee's employment without cause have not become Vested PSUs as of the Date of Termination of such Eligible Employee.

### 4. Withholdings

- 4.1 The Corporation or a Subsidiary may withhold, or cause to be withheld, from any amount payable to the Eligible Employee, either under the Plan or otherwise, such amount as may be necessary so as to ensure that the Corporation or the Subsidiary will be able to comply with the applicable provisions of any federal, provincial, or other law relating to the withholding of tax or other required deductions.
- 4.2 The Corporation's Chief Executive Officer has discretion, subject to any requires of applicable law, to determine whether the after tax value be delivered in Shares purchased on the open market or cash.

### 5. Personal Information

- 5.1 The Eligible Employee consents to the holding and processing of personal data provided by the Eligible Employee to the Corporation or any Subsidiary or to any third party service provider for all purposes relating to the operation of the Plan, including (i) administering and maintaining records of the Eligible Employee; (ii) providing information to the Corporation, any Subsidiary, their agents, and any third party administrators of the Plan; and (iii) transferring information about the Eligible Employee to a country or territory outside his or her home country that may not provide the same statutory protection for the information as the Eligible Employee's home country.

### 6. Binding Agreement and Amendment

- 6.1 This Agreement shall constitute an agreement between the Eligible Employee and the Corporation and will be binding upon the Eligible Employee and the legal representatives of his or her estate and any other person who acquires the Eligible Employee's rights in respect of the PSUs granted hereunder by inheritance or otherwise, provided that in the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. This Agreement shall be governed and constituted in accordance with the laws of the Province of Alberta.
- 6.2 The Corporation reserves the right to amend or terminate this Grant or the Plan at any time, in which case PSUs that have not previously vested in accordance with Section 2 of this Agreement will not become Vested unless otherwise determined by the Committee.

By electronically "accepting" this agreement, I hereby confirm and acknowledge the terms of the grant of PSUs as set out above and confirm and acknowledge that I have received, read and understood the terms of the Plan. I also confirm and acknowledge that I have not been induced to enter into this Grant Agreement by expectation of employment or continued employment with the Corporation or any Subsidiary.

IN WITNESS WHEREOF the Corporation and the Eligible Employee have entered into this Agreement as of [ ].

**Canadian Pacific Kansas City Limited**

\_\_\_\_\_  
President and Chief Executive Officer

## SCHEDULE A – PERFORMANCE MEASURES

## SCHEDULE B – NON-COMPETITION AND NON-SOLICITATION AGREEMENT

### NON-COMPETITION AND NON-SOLICITATION AGREEMENT

**THIS AGREEMENT** is made and effective as of the [ ] day of [ ].

#### **BETWEEN:**

Canadian Pacific Kansas City Limited,  
a corporation organized under the laws of Canada,  
(formerly known as Canadian Pacific Railway Limited) (the “**Company**”)

- and -

###PARTICIPANT\_NAME###,  
(the “**Employee**”)

#### **RECITALS**

**WHEREAS**, the Company has offered the Employee the opportunity to participate in one or more of its long term incentive programs which include the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, and the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as each such plan may be amended from time to time (collectively, the “**LTIPs**”);

**AND WHEREAS**, during the course of the Employee’s employment with the member of the CPKC Group (as defined below) that employs Employee, the Employee has access to proprietary and confidential information of the Company and the CPKC Group, thereby making the Company and the CPKC Group uniquely vulnerable to misuse of such information to the detriment of the Company’s and the CPKC Group’s business and interests;

**AND WHEREAS**, any LTIP granting agreement made on or after the effective date of this Agreement and any grant thereunder is subject to the terms of this Agreement, and such terms are required to protect the proprietary interests and value of the Company and the CPKC Group;

**AND WHEREAS**, the Employee wishes to participate in one or more of the LTIPs and be eligible to receive grants under these LTIPs by accepting this Agreement either by signature below or by electronic acceptance through Solium Capital ULC (“**Shareworks**”).

**THEREFORE**, the parties agree as follows:

1. **Consideration.** In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee’s acceptance of the covenants set out in this Agreement.
2. **Protected Rights.** The parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee’s ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator (“**Government Agencies**”) relating to potential violations of law or regulations; or (ii) the Employee’s ability to communicate with Government Agencies or otherwise participate in any investigation or proceeding that may

be conducted by Government Agencies, including providing documents or other information, without notice to the Company.

3. **Non-Competition/Non-Solicitation.**

(a) In this Agreement:

- (i) **“Covenant Period”** means the period of the Employee's employment with the member of the CPKC Group that employs Employee and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and
- (ii) **“CPKC Group”** means and includes all parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company which the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

(b) Non-Competition. During the Covenant Period, the Employee shall not, directly or indirectly, anywhere in Canada or the United States, (i) maintain any interest (proprietary, financial or otherwise) in the business of a Class 1 Railroad or (ii) in any manner, accept employment with, become engaged in the business of, or provide services to, a Class 1 Railroad in any position, role, or area of responsibility similar to or greater than those the Employee held with the member of the CPKC Group that employs Employee in his or her last five (5) years of employment with such member of the CPKC Group. This restriction shall still permit the Employee to acquire, directly or indirectly, less than 2% of the outstanding capital stock of any publicly traded company in the business of a Class 1 Railroad.

(c) Non-Solicitation of Customers, Suppliers and Licensors. During the Covenant Period, the Employee shall not, directly or indirectly, solicit any person that:

- (i) is a customer, supplier or licensor of the Company or the CPKC Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;
- (ii) was a customer, supplier or licensor of the Company or the CPKC Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or
- (iii) to the knowledge of the Employee by virtue of the Employee's employment, has been pursued as a prospective customer, supplier or licensor by or on behalf of the Company or the CPKC Group through the submission of a proposal in writing to perform services for that prospective customer, supplier or licensor at any time within twelve (12) months before the cessation of the Employee's employment and regarding whom the Company and the CPKC Group has not determined to cease pursuing,

for the purposes of: (A) terminating or modifying any actual or prospective relationship the customer or prospective customer has with the Company or the CPKC Group or for the purposes of selling any services to, or soliciting services from, that customer or prospective customer where those services are substantially similar to or competitive with the services sold by the Company or the CPKC Group at the cessation of the Employees' employment, or (B) terminating or modifying any actual or prospective relationship the supplier or licensor or prospective supplier or licensor has with the Company or the CPKC Group.

- (d) Non-Solicitation of Employees and Consultants. During the Covenant Period, the Employee shall not directly or indirectly solicit any employee or consultant of the Company or the CPKC Group to leave their employment or engagement. For this Paragraph 3(d), general newspaper and other media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CPKC Group.
- (e) Notwithstanding Paragraphs 3(a)(i) and 5, the Company agrees that Paragraph 3(b) of this Agreement does not apply to the cessation of the Employee's employment if the member of the CPKC Group that employs Employee terminates the Employee's employment as a result of a layoff due to lack of work or elimination of position unrelated to the Employee's performance or conduct.

4. **Acknowledgements.**

- (a) Reasonableness of Covenants. The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CPKC Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defences to the strict enforcement of those obligations and restrictions.
- (b) Annual Confirmation Process. The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish. However, such confirmation is not necessary to enforce Employee's obligations under this Agreement, which continue in full force and effect regardless of any subsequent failure to confirm.
- (c) Continuing Confidentiality Obligations. The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the member of the CPKC Group that employs Employee and following the cessation of the Employee's employment for any reason.

5. **Survival.** All obligations and restrictions imposed on the Employee under this Agreement shall survive and continue in full force and effect (i) regardless of any changes to the Employee's terms of employment with the member of the CPKC Group that employs Employee, including changes to the Employee's duties and location of employment; and (ii) following the cessation of the Employee's employment with the member of the CPKC Group that employs Employee for any reason.

6. **Relief/Remedies.** In the event of a breach of this Agreement, the Company may seek and shall be entitled to the following remedies, which are non-exhaustive and non-exclusive and are in addition to any further remedies available to the Company in contract, law or equity:

- (a) Injunction. The Employee agrees that any breach of this Agreement would cause irreparable harm to the Company and the CPKC Group and this harm may not be compensable entirely with monetary damages. If the Employee breaches this Agreement, the Company and the CPKC Group shall be entitled to injunctive relief. Any injunctive relief sought by the Company and the CPKC Group shall be in addition to and not in limitation of any monetary relief or other remedies or rights to which the Company and the CPKC Group are or may be entitled at law, in equity, or under this Agreement.

- (b) Repayment or Return of Benefit. If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after

the effective date of this Agreement (the “**Repayment Period**”), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:

- (i) with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and
- (ii) with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.

For further clarity, the obligation set out above in this Paragraph 6(b) regarding the Repayment Period shall not be interpreted to extend the Employee’s Covenant Period.

- (c) **Forfeiture.** The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.
  - (d) **Accounting.** The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.
  - (e) **Legal Costs.** The Company shall be awarded its reasonable expenses, including attorneys’ fees and costs, incurred in enforcing this Agreement.
7. **Severability.** Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.
  8. **Non-Waiver.** The Company’s decision to not enforce a breach of any part of this Agreement (or the Company’s settlement of any claims for breach) will not prevent the Company from enforcing the Agreement regarding any other breach of this Agreement that the Company discovers, and shall not operate as a waiver against any future enforcement of any part of this Agreement, any other agreement with the Employee or any other agreement with any other employee of the Company.
  9. **No Breach of Obligations to Others.** The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or conflicts with the Employee’s obligations under this Agreement or the Employee’s employment with the member of the CPKC Group that employs Employee. The Employee agrees to indemnify the Company and the CPKC Group in respect of any violation of this representation.
  10. **Disclosure.** The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.

- 11. **Governing Law and Attornment.** This Agreement shall be construed and determined under the laws of the Alberta, and of the laws of Canada applicable in that province. For all legal proceedings, this Agreement will be deemed to have been performed in Alberta and the courts of Alberta will have the exclusive jurisdiction to entertain any action arising under this Agreement. The Employee and the Company each attorns to the jurisdiction of the courts of Alberta, provided nothing in this Agreement prevents the Company from proceeding at its election against the Employee in the courts of any other province or country.
- 12. **Successor and Assigns.** This Agreement binds and inures to the benefit of the Company's successors and assigns.
- 13. **Amendments.** No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.
- 14. **Independent Advice.** The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.
- 15. **Practice of Law.** As it relates to the practice of law after the Employee's employment with the Company has ceased (for any reason), the restrictions described in this Agreement shall be interpreted consistent with the applicable rules of professional responsibility, including but not limited to rules on confidentiality of information, duties to former clients and restrictions on the right to practice.]
- 16. **Entire Agreement.** This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CPKC Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered no oral or written promises, inducements, or representations, and the Employee accepts this Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.
- 17. **Recitals.** The recitals set forth above form part of this Agreement.

The Employee may enter into this Agreement by electronic acceptance via Shareworks, and acknowledges that such electronic signature is intended to authenticate Employee's acceptance and shall have the same force and effect as a manual signature. This Agreement shall be effective and binding upon acceptance by Employee; Employee acknowledges that the Company is not required to execute this Agreement for it to be binding.

Dated: ###ACCEPTANCE\_DATE###

###PARTICIPANT\_NAME###

## **STOCK OPTION AGREEMENT**

[US Form of Agreement]

This Stock Option Agreement (“Option Agreement”) is entered into between Canadian Pacific Kansas City Limited (formerly known as Canadian Pacific Railway Limited) (the “Corporation”) and the Participant<sup>[1]</sup> named below (the “Optionholder”) pursuant to the Canadian Pacific Railway Limited Management Stock Option Incentive Plan as amended from time to time (the “Plan”), a sub-plan under the Canadian Pacific Railway Limited Section 162(m) Incentive Plan (the “162(m) Plan”), and confirms that:

1. on [ ] (the “Grant Date”);
2. the Optionholder, in such individual's capacity as an officer or employee of the Corporation or any Subsidiary;
3. was granted an option (the “Option”) to purchase [ ] Common Shares (the “Optioned Shares”) of the Corporation set out above, exercisable from time to time as to:
  - (a) [ ]% on and after the [ ] anniversary of the [Grant Date]; and
  - (b) [ ]% on and after the [ ] anniversary of the [Grant Date]; and
  - (c) [ ]% on and after the [ ] anniversary of the [Grant Date]; and
  - (d) the remaining [ ]% on and after the [ ] anniversary of the [Grant Date];
4. at a price (the “Exercise Price”) of [ ] (USD) per Common Share, being the market price of the Common Shares on the Grant Date on the New York Stock Exchange; and
5. for a term expiring at 5:00 p.m., Calgary time, on [ ] (the “Expiry Date”);

in accordance with the terms and subject to the conditions set out in the Plan [and the 162(m) Plan] (including, without limitation, the “Early Expiry” provisions in Section 4.7 of the Plan) and in this Option Agreement.

Notwithstanding any other provisions in this Option Agreement, the Option shall be subject to the terms and conditions in the Non-Competition and Non-Solicitation Agreement in Schedule A (without any further notice, compensation in lieu of notice or damages of any kind) if the Optionholder fails to comply with the terms and conditions set out in Schedule A. In addition, the Optionholder agrees to reconfirm the obligations outlined in Schedule A upon request by the Corporation at any time throughout the term of the Optionholder's engagement with the Corporation or upon termination thereof, and failure to provide such confirmation as requested by the Company shall result in the immediate cancellation of the Option granted herein (without any further notice, compensation in lieu of notice or damages of any kind).

By electronically “accepting” this agreement, the Optionholder confirms and acknowledges that he or she has received, read and understood the terms of the Plan [and the 162(m) Plan] and this Option Agreement, and accepts the Option in accordance with the terms of the Plan [and the 162(m) Plan] and this Option Agreement. The Optionholder also confirms and acknowledges that he or she has not been induced to enter into this Option Agreement by expectation of employment or

<sup>[1]</sup> Capitalized terms not defined herein shall have the meanings given to those terms in the Plan.

continued employment with the Corporation or any Subsidiary. The Optionholder also authorizes the Corporation to provide home address information to the Plan Administrator.

IN WITNESS WHEREOF the Corporation and the Optionholder have entered into this Option Agreement as of [ ].

**Canadian Pacific Kansas City Limited**

\_\_\_\_\_  
President and Chief Executive Officer

## SCHEDULE A – NON-COMPETITION AND NON-SOLICITATION AGREEMENT

### NON-COMPETITION AND NON-SOLICITATION AGREEMENT

**THIS AGREEMENT** is made and effective as of the [ ] day of [ ].

#### **BETWEEN:**

Canadian Pacific Kansas City Limited,  
a corporation organized under the laws of Canada,  
(formerly known as Canadian Pacific Railway Limited) (the “**Company**”)

- and -

###PARTICIPANT\_NAME###,  
(the “**Employee**”)

#### **RECITALS**

**WHEREAS**, the Company has offered the Employee the opportunity to participate in one or more of its long term incentive programs which include the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, and the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as each such plan may be amended from time to time (collectively, the “**LTIPs**”);

**AND WHEREAS**, during the course of the Employee’s employment with the member of the CPKC Group (as defined below) that employs Employee, the Employee has access to proprietary and confidential information of the Company and the CPKC Group, thereby making the Company and the CPKC Group uniquely vulnerable to misuse of such information to the detriment of the Company’s and the CPKC Group’s business and interests;

**AND WHEREAS**, any LTIP granting agreement made on or after the effective date of this Agreement and any grant thereunder is subject to the terms of this Agreement, and such terms are required to protect the proprietary interests and value of the Company and the CPKC Group;

**AND WHEREAS**, the Employee wishes to participate in one or more of the LTIPs and be eligible to receive grants under these LTIPs by accepting this Agreement either by signature below or by electronic acceptance through Solium Capital ULC (“**Shareworks**”).

**THEREFORE**, the parties agree as follows:

1. **Consideration.** In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee’s acceptance of the covenants set out in this Agreement.
2. **Protected Rights.** The parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee’s ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator (“**Government Agencies**”) relating to potential violations of law or regulations; or (ii) the Employee’s ability to communicate with Government Agencies or otherwise participate in any investigation or proceeding that may

be conducted by Government Agencies, including providing documents or other information, without notice to the Company.

### 3. **Non-Competition/Non-Solicitation.**

(a) In this Agreement:

- (i) **“Covenant Period”** means the period of the Employee's employment with the member of the CPKC Group that employs Employee and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and
- (ii) **“CPKC Group”** means and includes all parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company which the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

(b) Non-Competition. During the Covenant Period, the Employee shall not, directly or indirectly, anywhere in Canada or the United States, (i) maintain any interest (proprietary, financial or otherwise) in the business of a Class 1 Railroad or (ii) in any manner, accept employment with, become engaged in the business of, or provide services to, a Class 1 Railroad in any position, role, or area of responsibility similar to or greater than those the Employee held with the member of the CPKC Group that employs Employee in his or her last five (5) years of employment with such member of the CPKC Group. This restriction shall still permit the Employee to acquire, directly or indirectly, less than 2% of the outstanding capital stock of any publicly traded company in the business of a Class 1 Railroad.

(c) Non-Solicitation of Customers, Suppliers and Licensors. During the Covenant Period, the Employee shall not, directly or indirectly, solicit any person that:

- (i) is a customer, supplier or licensor of the Company or the CPKC Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;
- (ii) was a customer, supplier or licensor of the Company or the CPKC Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or
- (iii) to the knowledge of the Employee by virtue of the Employee's employment, has been pursued as a prospective customer, supplier or licensor by or on behalf of the Company or the CPKC Group through the submission of a proposal in writing to perform services for that prospective customer, supplier or licensor at any time within twelve (12) months before the cessation of the Employee's employment and regarding whom the Company and the CPKC Group has not determined to cease pursuing,

for the purposes of: (A) terminating or modifying any actual or prospective relationship the customer or prospective customer has with the Company or the CPKC Group or for the purposes of selling any services to, or soliciting services from, that customer or prospective customer where those services are substantially similar to or competitive with the services sold by the Company or the CPKC Group at the cessation of the Employees' employment, or (B) terminating or modifying any actual or prospective relationship the supplier or licensor or prospective supplier or licensor has with the Company or the CPKC Group.

- (d) Non-Solicitation of Employees and Consultants. During the Covenant Period, the Employee shall not directly or indirectly solicit any employee or consultant of the Company or the CPKC Group to leave their employment or engagement. For this Paragraph 3(d), general newspaper and other media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CPKC Group.
- (e) Notwithstanding Paragraphs 3(a)(i) and 5, the Company agrees that Paragraph 3(b) of this Agreement does not apply to the cessation of the Employee's employment if the member of the CPKC Group that employs Employee terminates the Employee's employment as a result of a layoff due to lack of work or elimination of position unrelated to the Employee's performance or conduct.

#### 4. **Acknowledgements.**

- (a) Reasonableness of Covenants, Right to Counsel, and Time for Review. The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CPKC Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defenses to the strict enforcement of those obligations and restrictions. Employee acknowledges that they are advised to consult with counsel prior to signing this Agreement, and further acknowledges and understands that they have fourteen (14) days to review this Agreement prior to signing.
  - (b) Annual Confirmation Process. The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish. However, such confirmation is not necessary to enforce Employee's obligations under this Agreement, which continue in full force and effect regardless of any subsequent failure to confirm.
  - (c) Blue Pencil Doctrine. In the event any of the terms of this Agreement are determined by a court of competent jurisdiction to be unreasonable or overbroad under circumstances then existing, the parties hereto authorize and request the court to apply the "blue pencil doctrine" to modify the unreasonable or overly broad term to make it enforceable against Employee. This Agreement shall not be construed against any party regardless of who was more responsible for its preparation.
  - (d) Continuing Confidentiality Obligations. The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the member of the CPKC Group that employs Employee and following the cessation of the Employee's employment for any reason. Both Employee and Company understand and acknowledge that Employee will not be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that is: (1) made in confidence to a federal, state, or local government official, or to an attorney, solely for the purpose of reporting or investigating a suspected violation of the law; or (2) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding.
5. **Survival.** All obligations and restrictions imposed on the Employee under this Agreement shall survive and continue in full force and effect (i) regardless of any changes to the Employee's terms of employment with the member of the CPKC Group that employs Employee, including changes to the Employee's duties and location of employment; and (ii) following the cessation of the Employee's employment with the member of the CPKC Group that employs Employee for any reason.

6. **Relief/Remedies.** In the event of a breach of this Agreement, the Company may seek and shall be entitled to the following remedies, which are non-exhaustive and non-exclusive and are in addition to any further remedies available to the Company in contract, law or equity:
- (a) **Injunction.** The Employee agrees that any breach of this Agreement would cause irreparable harm to the Company and the CPKC Group and this harm may not be compensable entirely with monetary damages. If the Employee breaches this Agreement, the Company and the CPKC Group shall be entitled to injunctive relief. Any injunctive relief sought by the Company and the CPKC Group shall be in addition to and not in limitation of any monetary relief or other remedies or rights to which the Company and the CPKC Group are or may be entitled at law, in equity, or under this Agreement.
  - (b) **Repayment or Return of Benefit.** If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after the effective date of this Agreement (the “**Repayment Period**”), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:
    - (i) with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and
    - (ii) with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.
- For further clarity, the obligation set out above in this Paragraph 6(b) regarding the Repayment Period shall not be interpreted to extend the Employee’s Covenant Period.
- (c) **Forfeiture.** The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.
  - (d) **Accounting.** The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.
  - (e) **Legal Costs.** The Company shall be awarded its reasonable expenses, including attorneys’ fees and costs, incurred in enforcing this Agreement.
7. **Severability.** Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.
8. **Non-Waiver.** The Company’s decision to not enforce a breach of any part of this Agreement (or the Company’s settlement of any claims for breach) will not prevent the Company from enforcing

the Agreement regarding any other breach of this Agreement that the Company discovers, and shall not operate as a waiver against any future enforcement of any part of this Agreement, any other agreement with the Employee or any other agreement with any other employee of the Company.

9. **No Breach of Obligations to Others.** The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or conflicts with the Employee's obligations under this Agreement or the Employee's employment with the member of the CPKC Group that employs Employee. The Employee agrees to indemnify the Company and the CPKC Group in respect of any violation of this representation.
10. **Disclosure.** The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.
11. **Governing Law and Forum.** This Agreement shall be construed and determined according to the laws of the State of Minnesota, and any disputes arising out of this Agreement shall be determined in a court of appropriate jurisdiction in the state of Minnesota, and the Employee expressly consents to the exclusive jurisdiction of the state and federal courts in Minnesota for any dispute arising under this Agreement. The employee waives the right to claim any other jurisdiction is more convenient or to challenge the jurisdiction of the courts of Minnesota over the Employee.
12. **Successor and Assigns.** This Agreement binds and inures to the benefit of the Company's successors and assigns.
13. **Amendments.** No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.
14. **Independent Advice.** The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.
15. **At-Will Employment.** Nothing in this Agreement is intended to provide nor shall this Agreement provide the Employee with any contractual rights to employment for any period of time. The Employee acknowledges that his/her employment relationship with the member of the CPKC Group that employs Employee is one of at-will employment. This means that either (i) the Employee or (ii) the member of the CPKC Group that employs Employee may terminate the employment relationship at any time and for any reason, with or without cause or notice. The Employee understands he/she is an at-will employee of the member of the CPKC Group that employs Employee and that this Agreement does not modify the Employee's at-will status in any manner.
16. **[Practice of Law.** As it relates to the practice of law after the Employee's employment with the Company has ceased (for any reason), the restrictions described in this Agreement shall be interpreted consistent with the applicable rules of professional responsibility, including but not limited to rules on confidentiality of information, duties to former clients and restrictions on the right to practice.]
17. **Entire Agreement.** This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CPKC Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered

no oral or written promises, inducements, or representations, and the Employee accepts this Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.

**18. Recitals.** The recitals set forth above form part of this Agreement.

The Employee may enter into this Agreement by electronic acceptance via Shareworks, and acknowledges that such electronic signature is intended to authenticate Employee's acceptance and shall have the same force and effect as a manual signature. This Agreement shall be effective and binding upon acceptance by Employee; Employee acknowledges that the Company is not required to execute this Agreement for it to be binding.

Dated: ###ACCEPTANCE\_DATE###

###PARTICIPANT\_NAME###

## **STOCK OPTION AGREEMENT**

[Canadian Form of Agreement]

This Stock Option Agreement (“Option Agreement”) is entered into between Canadian Pacific Kansas City Limited (formerly known as Canadian Pacific Railway Limited) (the “Corporation”) and the Participant<sup>[1]</sup> named below (the “Optionholder”) pursuant to the Canadian Pacific Railway Limited Management Stock Option Incentive Plan as amended from time to time (the “Plan”) and confirms that:

1. on [ ] (the “Grant Date”);
2. the Optionholder, in such individual's capacity as an officer or employee of the Corporation or any Subsidiary;
3. was granted an option (the “Option”) to purchase [ ] Common Shares (the “Optioned Shares”) of the Corporation set out above, exercisable from time to time as to:
  - (a) [ ]% on and after the [ ] anniversary of the [Grant Date]; and
  - (b) [ ]% on and after the [ ] anniversary of the [Grant Date]; and
  - (c) [ ]% on and after the [ ] anniversary of the [Grant Date]; and
  - (d) the remaining [ ]% on and after the [ ] anniversary of the [Grant Date];
4. at a price (the “Exercise Price”) of [ ] (USD) per Common Share, being the market price of the Common Shares on the Grant Date on the Toronto Stock Exchange; and
5. for a term expiring at 5:00 p.m., Calgary time, on [ ] (the “Expiry Date”);

in accordance with the terms and subject to the conditions set out in the Plan (including, without limitation, the “Early Expiry” provisions in Section 4.7 of the Plan) and in this Option Agreement.

If noted below, certain of the Optioned Shares which are issuable on the exercise of the Option granted hereunder may be “non-qualified securities” within the meaning of the *Income Tax Act* (Canada):

“Options Granted Table”

By electronically “accepting” this Agreement, the Option Holder acknowledges that this Agreement constitutes notification in writing from EMPLOYEE\_GROUP\_Entity, the employer of the Option Holder, that the Option for the number of Optioned Shares, as set out above, if any, is in respect of non-qualified securities.

This paragraph is applicable only if, on the Grant Date, the Option Holder was granted, in addition to the Option granted hereunder, another option to purchase Common Shares pursuant to a separate stock option agreement. In such a case, the Corporation hereby designates, pursuant to subsection 110(1.42) of the *Income Tax Act* (Canada), that any stock option agreement with the Option Holder dated as of the Grant Date which is for an Option in respect of non-qualified securities is entered into after the time of any stock option agreement with the Option Holder dated as of the Grant Date which is for an Option in respect of qualified securities.

<sup>[1]</sup> Capitalized terms not defined herein shall have the meanings given to those terms in the Plan.

The Option Holder is encouraged to seek out the advice of his or her financial, tax or legal advisor to understand the tax implications of the Option, including the portion of the Option, if any, that is in respect of non-qualified securities. As a general matter, and although neither the Corporation nor any Subsidiary is providing tax advice to you, the Option Holder should be aware that the 50% tax deduction traditionally associated with the exercise of employee stock options is not available in respect of the portion of the Option that is in respect of non-qualified securities. Consequently, the Option Holder should consider exercising any options, other than options in respect of non-qualified securities, prior to the exercise of any options for non-qualified securities.

Notwithstanding any other provisions in this Agreement, all Options granted (vested or unvested) shall be subject to the terms and conditions in the Non-Competition and Non-Solicitation Agreement in Schedule A (without any further notice, compensation in lieu of notice or damages of any kind) if the Option Holder fails to comply with the terms and conditions set out in Schedule A. In addition, the Option Holder agrees to reconfirm the obligations outlined in Schedule A upon request by the Corporation at any time throughout the term of the Option Holder's engagement with the Corporation or upon termination thereof, and failure to provide such confirmation as requested by the Company shall result in the immediate cancellation of all Options granted herein (without any further notice, compensation in lieu of notice or damages of any kind).

By electronically "accepting" this Agreement, the Option Holder acknowledges that he or she has read and understands the terms of the Plan and this Agreement, and accepts the Option in accordance with the terms of the Plan and this Agreement, including without limitation that the Plan contains provisions which limit the Option Holder's rights to the Optioned Shares following the Date of Termination and that the Option Holder waives any and all right to compensation or damages in consequence of the termination of employment (whether lawfully or whatsoever insofar as those rights arise or may arise from the Option Holder ceasing to have rights or be entitled to receive any Optioned Shares or cash payment under the Plan. The Option Holder also authorizes the Corporation to provide home address information to the Plan Administrator.

IN WITNESS WHEREOF the Corporation and the Optionholder have entered into this Option Agreement as of [ ].

**Canadian Pacific Kansas City Limited**

\_\_\_\_\_  
President and Chief Executive Officer

## SCHEDULE A – NON-COMPETITION AND NON-SOLICITATION AGREEMENT

### NON-COMPETITION AND NON-SOLICITATION AGREEMENT

**THIS AGREEMENT** is made and effective as of the [ ] day of [ ].

#### BETWEEN:

Canadian Pacific Kansas City Limited,  
a corporation organized under the laws of Canada,  
(formerly known as Canadian Pacific Railway Limited) (the “**Company**”)

- and -

###PARTICIPANT\_NAME###,  
(the “**Employee**”)

#### RECITALS

**WHEREAS**, the Company has offered the Employee the opportunity to participate in one or more of its long term incentive programs which include the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, and the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as each such plan may be amended from time to time (collectively, the “**LTIPs**”);

**AND WHEREAS**, during the course of the Employee’s employment with the member of the CPKC Group (as defined below) that employs Employee, the Employee has access to proprietary and confidential information of the Company and the CPKC Group, thereby making the Company and the CPKC Group uniquely vulnerable to misuse of such information to the detriment of the Company’s and the CPKC Group’s business and interests;

**AND WHEREAS**, any LTIP granting agreement made on or after the effective date of this Agreement and any grant thereunder is subject to the terms of this Agreement, and such terms are required to protect the proprietary interests and value of the Company and the CPKC Group;

**AND WHEREAS**, the Employee wishes to participate in one or more of the LTIPs and be eligible to receive grants under these LTIPs by accepting this Agreement either by signature below or by electronic acceptance through Solium Capital ULC (“**Shareworks**”).

**THEREFORE**, the parties agree as follows:

1. **Consideration.** In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee’s acceptance of the covenants set out in this Agreement.
2. **Protected Rights.** The parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee’s ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator (“**Government Agencies**”) relating to potential violations of law or regulations; or (ii) the Employee’s ability to communicate with Government Agencies or otherwise participate in any investigation or proceeding that may

be conducted by Government Agencies, including providing documents or other information, without notice to the Company.

### 3. **Non-Competition/Non-Solicitation.**

(a) In this Agreement:

- (i) **“Covenant Period”** means the period of the Employee's employment with the member of the CPKC Group that employs Employee and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and
- (ii) **“CPKC Group”** means and includes all parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company which the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

(b) Non-Competition. During the Covenant Period, the Employee shall not, directly or indirectly, anywhere in Canada or the United States, (i) maintain any interest (proprietary, financial or otherwise) in the business of a Class 1 Railroad or (ii) in any manner, accept employment with, become engaged in the business of, or provide services to, a Class 1 Railroad in any position, role, or area of responsibility similar to or greater than those the Employee held with the member of the CPKC Group that employs Employee in his or her last five (5) years of employment with such member of the CPKC Group. This restriction shall still permit the Employee to acquire, directly or indirectly, less than 2% of the outstanding capital stock of any publicly traded company in the business of a Class 1 Railroad.

(c) Non-Solicitation of Customers, Suppliers and Licensors. During the Covenant Period, the Employee shall not, directly or indirectly, solicit any person that:

- (i) is a customer, supplier or licensor of the Company or the CPKC Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;
- (ii) was a customer, supplier or licensor of the Company or the CPKC Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or
- (iii) to the knowledge of the Employee by virtue of the Employee's employment, has been pursued as a prospective customer, supplier or licensor by or on behalf of the Company or the CPKC Group through the submission of a proposal in writing to perform services for that prospective customer, supplier or licensor at any time within twelve (12) months before the cessation of the Employee's employment and regarding whom the Company and the CPKC Group has not determined to cease pursuing,

for the purposes of: (A) terminating or modifying any actual or prospective relationship the customer or prospective customer has with the Company or the CPKC Group or for the purposes of selling any services to, or soliciting services from, that customer or prospective customer where those services are substantially similar to or competitive with the services sold by the Company or the CPKC Group at the cessation of the Employees' employment, or (B) terminating or modifying any actual or prospective relationship the supplier or licensor or prospective supplier or licensor has with the Company or the CPKC Group.

- (d) Non-Solicitation of Employees and Consultants. During the Covenant Period, the Employee shall not directly or indirectly solicit any employee or consultant of the Company or the CPKC Group to leave their employment or engagement. For this Paragraph 3(d), general newspaper and other media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CPKC Group.
- (e) Notwithstanding Paragraphs 3(a)(i) and 5, the Company agrees that Paragraph 3(b) of this Agreement does not apply to the cessation of the Employee's employment if the member of the CPKC Group that employs Employee terminates the Employee's employment as a result of a layoff due to lack of work or elimination of position unrelated to the Employee's performance or conduct.

#### 4. **Acknowledgements.**

- (a) Reasonableness of Covenants. The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CPKC Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defences to the strict enforcement of those obligations and restrictions.
- (b) Annual Confirmation Process. The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish. However, such confirmation is not necessary to enforce Employee's obligations under this Agreement, which continue in full force and effect regardless of any subsequent failure to confirm.
- (c) Continuing Confidentiality Obligations. The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the member of the CPKC Group that employs Employee and following the cessation of the Employee's employment for any reason.

5. **Survival.** All obligations and restrictions imposed on the Employee under this Agreement shall survive and continue in full force and effect (i) regardless of any changes to the Employee's terms of employment with the member of the CPKC Group that employs Employee, including changes to the Employee's duties and location of employment; and (ii) following the cessation of the Employee's employment with the member of the CPKC Group that employs Employee for any reason.

6. **Relief/Remedies.** In the event of a breach of this Agreement, the Company may seek and shall be entitled to the following remedies, which are non-exhaustive and non-exclusive and are in addition to any further remedies available to the Company in contract, law or equity:

- (a) Injunction. The Employee agrees that any breach of this Agreement would cause irreparable harm to the Company and the CPKC Group and this harm may not be compensable entirely with monetary damages. If the Employee breaches this Agreement, the Company and the CPKC Group shall be entitled to injunctive relief. Any injunctive relief sought by the Company and the CPKC Group shall be in addition to and not in limitation of any monetary relief or other remedies or rights to which the Company and the CPKC Group are or may be entitled at law, in equity, or under this Agreement.
- (b) Repayment or Return of Benefit. If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after

the effective date of this Agreement (the “**Repayment Period**”), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:

- (i) with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and
- (ii) with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.

For further clarity, the obligation set out above in this Paragraph 6(b) regarding the Repayment Period shall not be interpreted to extend the Employee’s Covenant Period.

- (c) Forfeiture. The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.
  - (d) Accounting. The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.
  - (e) Legal Costs. The Company shall be awarded its reasonable expenses, including attorneys’ fees and costs, incurred in enforcing this Agreement.
7. **Severability.** Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.
8. **Non-Waiver.** The Company’s decision to not enforce a breach of any part of this Agreement (or the Company’s settlement of any claims for breach) will not prevent the Company from enforcing the Agreement regarding any other breach of this Agreement that the Company discovers, and shall not operate as a waiver against any future enforcement of any part of this Agreement, any other agreement with the Employee or any other agreement with any other employee of the Company.
9. **No Breach of Obligations to Others.** The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or conflicts with the Employee’s obligations under this Agreement or the Employee’s employment with the member of the CPKC Group that employs Employee. The Employee agrees to indemnify the Company and the CPKC Group in respect of any violation of this representation.
10. **Disclosure.** The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.

11. **Governing Law and Attornment.** This Agreement shall be construed and determined under the laws of the Alberta, and of the laws of Canada applicable in that province. for all legal proceedings, this agreement will be deemed to have been performed in Alberta and the courts of Alberta will have the exclusive jurisdiction to entertain any action arising under this agreement. the employee and the company each attorns to the jurisdiction of the courts of Alberta, provided nothing in this agreement prevents the company from proceeding at its election against the employee in the courts of any other province or country.
12. **Successor and Assigns.** This Agreement binds and inures to the benefit of the Company's successors and assigns.
13. **Amendments.** No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.
14. **Independent Advice.** The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.
15. **[Practice of Law.** As it relates to the practice of law after the Employee's employment with the Company has ceased (for any reason), the restrictions described in this Agreement shall be interpreted consistent with the applicable rules of professional responsibility, including but not limited to rules on confidentiality of information, duties to former clients and restrictions on the right to practice.]
16. **Entire Agreement.** This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CPKC Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered no oral or written promises, inducements, or representations, and the Employee accepts this Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.
17. **Recitals.** The recitals set forth above form part of this Agreement.

The Employee may enter into this Agreement by electronic acceptance via Shareworks, and acknowledges that such electronic signature is intended to authenticate Employee's acceptance and shall have the same force and effect as a manual signature. This Agreement shall be effective and binding upon acceptance by Employee; Employee acknowledges that the Company is not required to execute this Agreement for it to be binding.

Dated: ###ACCEPTANCE\_DATE###

###PARTICIPANT\_NAME###

## CANADIAN PACIFIC KANSAS CITY LIMITED

### Performance Share Units Notice of Grant and Grant Agreement (“Agreement”)

[US Form of Synergy Award]

Canadian Pacific Kansas City Limited (formerly known as Canadian Pacific Railway Limited) (“the Corporation”) has granted the target number of [ ] PSUs<sup>[1]</sup> (“Target”) to the employee named below (the “Eligible Employee”), in accordance with this Agreement and the provisions of the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited as amended from time to time (the “Plan”), a sub-plan under the Canadian Pacific Railway Limited Section 162(m) Incentive Plan (the “162(m) Plan”).

<b>Grant Date</b>	[ ]
<b>Vest Date</b>	[ ]
<b>Performance Period</b>	[ ] – [ ]
<b>Below Threshold</b>	[ ]% of Target
<b>Threshold</b>	[ ]% of Target
<b>Maximum</b>	[ ]% of Target
Payment in respect of PSUs covered by this Agreement will be based on the extent to which the Performance Criteria (as defined below) set out in <b>Schedule A</b> are satisfied at the end of the Performance Period.	

**By signing this Agreement, the Eligible Employee hereby acknowledges and agrees to the following:**

1. Grant of PSUs

- 1.1 Pursuant to the Plan and in respect of services provided to the Corporation or a Subsidiary by the Eligible Employee the Corporation has granted the number of PSUs (the “Target Number of PSUs”) set out in Solium Capital ULC (“Shareworks”) to the Eligible Employee for the Performance Period set out above and subject to the terms and conditions set out in this Agreement and the Plan.
- 1.2 The grant of PSUs and payment of any amount in respect of any such PSUs are subject to the terms and conditions of the Plan and the Schedules appended to this Agreement, all of which are incorporated into and form an integral part of this Agreement.

2. Vesting

- 2.1 Subject to the terms and conditions of the Plan (including without limitation the conditions related to remaining actively Employed and not ceasing employment), the PSUs granted to the Eligible Employee pursuant to Section 1.1 will become Vested PSUs at the end of the Performance Period in such proportion as may be specified in this Agreement and in Schedule A attached hereto and subject to satisfaction of the conditions set out in Schedule A (the “Performance Criteria”) as provided therein. Notwithstanding anything to the contrary in the Plan, in the event the Eligible Employee ceases to be employed by the Corporation or a subsidiary for any reason, other than death or disability, prior to the end of the Performance Period, no PSUs relating to this grant and no dividend equivalent PSUs in respect of such PSUs shall Vest, and the PSUs shall be forfeited on the date the Eligible Employee ceases to be employed.

<sup>[1]</sup> Capitalized terms not defined herein shall have the meanings given to those terms in the Plan.

2.2 Notwithstanding any other provisions in this Agreement, all PSUs awarded (vested or unvested) shall be subject to the terms and conditions in the Non-Competition and Non-Solicitation Agreement in Schedule B (without any further notice, compensation in lieu of notice or damages of any kind). In addition, the Eligible Employee agrees to reconfirm the obligations outlined in Schedule B upon request by the Corporation at any time throughout the term of the Eligible Employee's employment or upon termination thereof, and failure to provide such confirmation as requested by the Company shall result in the immediate cancellation of all PSUs granted herein (without any further notice, compensation in lieu of notice or damages of any kind).

### 3. Settlement

3.1 Subject to the provisions of the Plan and the provisions of this Agreement, the Eligible Employee shall be entitled to an amount equal to the Market Value on the last day of the Performance Period multiplied by the number of PSUs (which may be whole or fractional) that become Vested in respect of the Performance Period, less such amount as is required to be withheld on account of taxes and other required deductions in accordance with Section 4.1. For participants paid in United States dollars at the time of the grant of PSUs, the Market Value is based on the average closing price per Share on the New York Stock Exchange over the same period.

3.2 For greater certainty, no cash or other compensation shall be paid or payable to any person in respect of any PSUs that are forfeited by the Eligible Employee or otherwise cease to be payable to the Eligible Employee or his or her estate, on account of damages, or otherwise.

### 4. Withholdings

4.1 The Corporation or a Subsidiary may withhold, or cause to be withheld, from any amount payable to the Eligible Employee, either under the Plan or otherwise, such amount as may be necessary so as to ensure that the Corporation or the Subsidiary will be able to comply with the applicable provisions of any federal, provincial, state or other law relating to the withholding of tax or other required deductions

4.2 The Corporation's Chief Executive Officer has discretion, subject to any requires of applicable law, to determine whether the after tax value be delivered in Shares purchased on the open market or cash.

### 5. Personal Information

5.1 The Eligible Employee consents to the holding and processing of personal data provided by the Eligible Employee to the Corporation or any Subsidiary or to any third party service provider for all purposes relating to the operation of the Plan, including (i) administering and maintaining records of the Eligible Employee; (ii) providing information to the Corporation, any Subsidiary, their agents, and any third party administrators of the Plan; and (iii) transferring information about the Eligible Employee to a country or territory outside his or her home country that may not provide the same statutory protection for the information as the Eligible Employee's home country.

### 6. Binding Agreement and Amendment

6.1 This Agreement shall constitute an agreement between the Eligible Employee and the Corporation and will be binding upon the Eligible Employee and the legal representatives of his or her estate and any other person who acquires the Eligible Employee's rights in respect of the PSUs granted hereunder by inheritance or otherwise, provided that in the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. This Agreement shall be governed and constituted in accordance with the laws of the State of Minnesota.

6.2 The Corporation reserves the right to amend or terminate this Grant or the Plan at any time, in which case PSUs that have not previously vested in accordance with Section 2 of this Agreement will not become Vested unless otherwise determined by the Committee.

By electronically “accepting” this agreement, the Eligible Employee hereby confirms and acknowledges the terms of the grant of PSUs as set out above and confirms and acknowledges that he or she has received, read and understood the terms of the Plan. The Eligible Employee also confirms and acknowledges that he or she has not been induced to enter into this Grant Agreement by expectation of employment or continued employment with the Corporation or any Subsidiary.

IN WITNESS WHEREOF the Corporation and the Eligible Employee have entered into this Agreement as of [ ].

**Canadian Pacific Kansas City Limited**

\_\_\_\_\_  
President and Chief Executive Officer

**SCHEDULE A – PERFORMANCE MEASURE AND PERFORMANCE MODIFIER**

## SCHEDULE B – NON-COMPETITION AND NON-SOLICITATION AGREEMENT

### NON-COMPETITION AND NON-SOLICITATION AGREEMENT

**THIS AGREEMENT** is made and effective as of the [ ] day of [ ].

#### BETWEEN:

Canadian Pacific Kansas City Limited,  
a corporation organized under the laws of Canada,  
(formerly known as Canadian Pacific Railway Limited) (the “**Company**”)

- and -

###PARTICIPANT\_NAME###,  
(the “**Employee**”)

#### RECITALS

**WHEREAS**, the Company has offered the Employee the opportunity to participate in one or more of its long term incentive programs which include the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, and the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as each such plan may be amended from time to time (collectively, the “**LTIPs**”);

**AND WHEREAS**, during the course of the Employee’s employment with the member of the CPKC Group (as defined below) that employs Employee, the Employee has access to proprietary and confidential information of the Company and the CPKC Group, thereby making the Company and the CPKC Group uniquely vulnerable to misuse of such information to the detriment of the Company’s and the CPKC Group’s business and interests;

**AND WHEREAS**, any LTIP granting agreement made on or after the effective date of this Agreement and any grant thereunder is subject to the terms of this Agreement, and such terms are required to protect the proprietary interests and value of the Company and the CPKC Group;

**AND WHEREAS**, the Employee wishes to participate in one or more of the LTIPs and be eligible to receive grants under these LTIPs by accepting this Agreement either by signature below or by electronic acceptance through Solium Capital ULC (“**Shareworks**”).

**THEREFORE**, the parties agree as follows:

1. **Consideration.** In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee’s acceptance of the covenants set out in this Agreement.
2. **Protected Rights.** The parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee’s ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator (“**Government Agencies**”) relating to potential violations of law or regulations; or (ii) the Employee’s ability to communicate with Government Agencies or otherwise participate in any investigation or proceeding that may

be conducted by Government Agencies, including providing documents or other information, without notice to the Company.

3. **Non-Competition/Non-Solicitation.**

(a) In this Agreement:

- (i) **“Covenant Period”** means the period of the Employee's employment with the member of the CPKC Group that employs Employee and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and
- (ii) **“CPKC Group”** means and includes all parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company which the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

(b) Non-Competition. During the Covenant Period, the Employee shall not, directly or indirectly, anywhere in Canada or the United States, (i) maintain any interest (proprietary, financial or otherwise) in the business of a Class 1 Railroad or (ii) in any manner, accept employment with, become engaged in the business of, or provide services to, a Class 1 Railroad in any position, role, or area of responsibility similar to or greater than those the Employee held with the member of the CPKC Group that employs Employee in his or her last five (5) years of employment with such member of the CPKC Group. This restriction shall still permit the Employee to acquire, directly or indirectly, less than 2% of the outstanding capital stock of any publicly traded company in the business of a Class 1 Railroad.

(c) Non-Solicitation of Customers, Suppliers and Licensors. During the Covenant Period, the Employee shall not, directly or indirectly, solicit any person that:

- (i) is a customer, supplier or licensor of the Company or the CPKC Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;
- (ii) was a customer, supplier or licensor of the Company or the CPKC Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or
- (iii) to the knowledge of the Employee by virtue of the Employee's employment, has been pursued as a prospective customer, supplier or licensor by or on behalf of the Company or the CPKC Group through the submission of a proposal in writing to perform services for that prospective customer, supplier or licensor at any time within twelve (12) months before the cessation of the Employee's employment and regarding whom the Company and the CPKC Group has not determined to cease pursuing,

for the purposes of: (A) terminating or modifying any actual or prospective relationship the customer or prospective customer has with the Company or the CPKC Group or for the purposes of selling any services to, or soliciting services from, that customer or prospective customer where those services are substantially similar to or competitive with the services sold by the Company or the CPKC Group at the cessation of the Employees' employment, or (B) terminating or modifying any actual or prospective relationship the supplier or licensor or prospective supplier or licensor has with the Company or the CPKC Group.

- (d) Non-Solicitation of Employees and Consultants. During the Covenant Period, the Employee shall not directly or indirectly solicit any employee or consultant of the Company or the CPKC Group to leave their employment or engagement. For this Paragraph 3(d), general newspaper and other media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CPKC Group.
- (e) Notwithstanding Paragraphs 3(a)(i) and 5, the Company agrees that Paragraph 3(b) of this Agreement does not apply to the cessation of the Employee's employment if the member of the CPKC Group that employs Employee terminates the Employee's employment as a result of a layoff due to lack of work or elimination of position unrelated to the Employee's performance or conduct.

#### 4. **Acknowledgements.**

- (a) Reasonableness of Covenants, Right to Counsel, and Time for Review. The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CPKC Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defenses to the strict enforcement of those obligations and restrictions. Employee acknowledges that they are advised to consult with counsel prior to signing this Agreement, and further acknowledges and understands that they have fourteen (14) days to review this Agreement prior to signing.
  - (b) Annual Confirmation Process. The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish. However, such confirmation is not necessary to enforce Employee's obligations under this Agreement, which continue in full force and effect regardless of any subsequent failure to confirm.
  - (c) Blue Pencil Doctrine. In the event any of the terms of this Agreement are determined by a court of competent jurisdiction to be unreasonable or overbroad under circumstances then existing, the parties hereto authorize and request the court to apply the "blue pencil doctrine" to modify the unreasonable or overly broad term to make it enforceable against Employee. This Agreement shall not be construed against any party regardless of who was more responsible for its preparation.
  - (d) Continuing Confidentiality Obligations. The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the member of the CPKC Group that employs Employee and following the cessation of the Employee's employment for any reason. Both Employee and Company understand and acknowledge that Employee will not be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that is: (1) made in confidence to a federal, state, or local government official, or to an attorney, solely for the purpose of reporting or investigating a suspected violation of the law; or (2) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding.
5. **Survival.** All obligations and restrictions imposed on the Employee under this Agreement shall survive and continue in full force and effect (i) regardless of any changes to the Employee's terms of employment with the member of the CPKC Group that employs Employee, including changes to the Employee's duties and location of employment; and (ii) following the cessation of the Employee's employment with the member of the CPKC Group that employs Employee for any reason.

6. **Relief/Remedies.** In the event of a breach of this Agreement, the Company may seek and shall be entitled to the following remedies, which are non-exhaustive and non-exclusive and are in addition to any further remedies available to the Company in contract, law or equity:
- (a) **Injunction.** The Employee agrees that any breach of this Agreement would cause irreparable harm to the Company and the CPKC Group and this harm may not be compensable entirely with monetary damages. If the Employee breaches this Agreement, the Company and the CPKC Group shall be entitled to injunctive relief. Any injunctive relief sought by the Company and the CPKC Group shall be in addition to and not in limitation of any monetary relief or other remedies or rights to which the Company and the CPKC Group are or may be entitled at law, in equity, or under this Agreement.
  - (b) **Repayment or Return of Benefit.** If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after the effective date of this Agreement (the “**Repayment Period**”), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:
    - (i) with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and
    - (ii) with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.
- For further clarity, the obligation set out above in this Paragraph 6(b) regarding the Repayment Period shall not be interpreted to extend the Employee’s Covenant Period.
- (c) **Forfeiture.** The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.
  - (d) **Accounting.** The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.
  - (e) **Legal Costs.** The Company shall be awarded its reasonable expenses, including attorneys’ fees and costs, incurred in enforcing this Agreement.
7. **Severability.** Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.
8. **Non-Waiver.** The Company’s decision to not enforce a breach of any part of this Agreement (or the Company’s settlement of any claims for breach) will not prevent the Company from enforcing

the Agreement regarding any other breach of this Agreement that the Company discovers, and shall not operate as a waiver against any future enforcement of any part of this Agreement, any other agreement with the Employee or any other agreement with any other employee of the Company.

9. **No Breach of Obligations to Others.** The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or conflicts with the Employee's obligations under this Agreement or the Employee's employment with the member of the CPKC Group that employs Employee. The Employee agrees to indemnify the Company and the CPKC Group in respect of any violation of this representation.
10. **Disclosure.** The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.
11. **Governing Law and Forum.** This Agreement shall be construed and determined according to the laws of the State of Minnesota, and any disputes arising out of this Agreement shall be determined in a court of appropriate jurisdiction in the state of Minnesota, and the Employee expressly consents to the exclusive jurisdiction of the state and federal courts in Minnesota for any dispute arising under this Agreement. The employee waives the right to claim any other jurisdiction is more convenient or to challenge the jurisdiction of the courts of Minnesota over the Employee.
12. **Successor and Assigns.** This Agreement binds and inures to the benefit of the Company's successors and assigns.
13. **Amendments.** No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.
14. **Independent Advice.** The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.
15. **At-Will Employment.** Nothing in this Agreement is intended to provide nor shall this Agreement provide the Employee with any contractual rights to employment for any period of time. The Employee acknowledges that his/her employment relationship with the member of the CPKC Group that employs Employee is one of at-will employment. This means that either (i) the Employee or (ii) the member of the CPKC Group that employs Employee may terminate the employment relationship at any time and for any reason, with or without cause or notice. The Employee understands he/she is an at-will employee of the member of the CPKC Group that employs Employee and that this Agreement does not modify the Employee's at-will status in any manner.
16. **Practice of Law.** As it relates to the practice of law after the Employee's employment with the Company has ceased (for any reason), the restrictions described in this Agreement shall be interpreted consistent with the applicable rules of professional responsibility, including but not limited to rules on confidentiality of information, duties to former clients and restrictions on the right to practice.]
17. **Entire Agreement.** This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CPKC Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered

no oral or written promises, inducements, or representations, and the Employee accepts this Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.

**18. Recitals.** The recitals set forth above form part of this Agreement.

The Employee may enter into this Agreement by electronic acceptance via Shareworks, and acknowledges that such electronic signature is intended to authenticate Employee's acceptance and shall have the same force and effect as a manual signature. This Agreement shall be effective and binding upon acceptance by Employee; Employee acknowledges that the Company is not required to execute this Agreement for it to be binding.

Dated: ###ACCEPTANCE\_DATE###

###PARTICIPANT\_NAME###

**CANADIAN PACIFIC KANSAS CITY LIMITED**

**Performance Share Units  
Notice of Grant and Grant Agreement (“Agreement”)**

[Canadian Form of Synergy Award]

Canadian Pacific Kansas City Limited (formerly known as Canadian Pacific Railway Limited) (“the Corporation”) has granted the target number of [ ] PSUs<sup>[1]</sup> (“Target”) to the employee named below (the “Eligible Employee”), in accordance with this Agreement and the provisions of the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited as amended from time to time (the “Plan”).

<b>Grant Date</b>	[ ]
<b>Vest Date</b>	[ ]
<b>Performance Period</b>	[ ] – [ ]
<b>Below Threshold</b>	[ ]% of Target
<b>Threshold</b>	[ ]% of Target
<b>Maximum</b>	[ ]% of Target
Payment in respect of PSUs covered by this Agreement will be based on the extent to which the Performance Criteria (as defined below) set out in <b>Schedule A</b> are satisfied at the end of the Performance Period.	

**By signing this Agreement, the Eligible Employee hereby acknowledges and agrees to the following:**

1. Grant of PSUs

- 1.1 Pursuant to the Plan and in respect of services provided to the Corporation or a Subsidiary by the Eligible Employee the Corporation has granted the number of PSUs (the “Target Number of PSUs”) set out in Solium Capital ULC (“Shareworks”) to the Eligible Employee for the Performance Period set out above and subject to the terms and conditions set out in this Agreement and the Plan.
- 1.2 The grant of PSUs and payment of any amount in respect of any such PSUs are subject to the terms and conditions of the Plan and the Schedules appended to this Agreement, all of which are incorporated into and form an integral part of this Agreement.

2. Vesting

- 2.1 Subject to the terms and conditions of the Plan (including without limitation the conditions related to remaining actively Employed and not ceasing employment), the PSUs granted to the Eligible Employee pursuant to Section 1.1 will become Vested PSUs at the end of the Performance Period in such proportion as may be specified in this Agreement and in Schedule A attached hereto and subject to satisfaction of the conditions set out in Schedule A (the “Performance Criteria”) as provided therein. Notwithstanding anything to the contrary in the Plan, in the event the Eligible Employee ceases to be employed by the Corporation or a subsidiary for any reason, other than death or disability, prior to the end of the Performance Period, no PSUs relating to this grant and no dividend equivalent PSUs in respect of such PSUs shall Vest, and the PSUs shall be forfeited on the date the Eligible Employee ceases to be employed.
- 2.2 Notwithstanding any other provisions in this Agreement, all PSUs awarded (vested or unvested) shall be subject to the terms and conditions in the Non-Competition and Non-Solicitation Agreement in

<sup>[1]</sup> Capitalized terms not defined herein shall have the meanings given to those terms in the Plan.

Schedule B (without any further notice, compensation in lieu of notice or damages of any kind). In addition, the Eligible Employee agrees to reconfirm the obligations outlined in Schedule B upon request by the Corporation at any time throughout the term of the Eligible Employee's employment or upon termination thereof, and failure to provide such confirmation as requested by the Company shall result in the immediate cancellation of all PSUs granted herein (without any further notice, compensation in lieu of notice or damages of any kind).

### 3. Settlement

3.1 Subject to the provisions of the Plan and the provisions of this Agreement, the Eligible Employee shall be entitled to an amount equal to the Market Value on the last day of the Performance Period multiplied by the number of PSUs (which may be whole or fractional) that become Vested in respect of the Performance Period, less such amount as is required to be withheld on account of taxes and other required deductions in accordance with Section 4.1. For participants paid in United States dollars at the time of the grant of PSUs, the Market Value is based on the average closing price per Share on the New York Stock Exchange over the same period.

3.2 For greater certainty, no cash or other compensation shall be paid or payable to any person in respect of any PSUs that are forfeited by the Eligible Employee or otherwise cease to be payable to the Eligible Employee or his or her estate, on account of damages, or otherwise.

### 4. Withholdings

4.1 The Corporation or a Subsidiary may withhold, or cause to be withheld, from any amount payable to the Eligible Employee, either under the Plan or otherwise, such amount as may be necessary so as to ensure that the Corporation or the Subsidiary will be able to comply with the applicable provisions of any federal, provincial, state or other law relating to the withholding of tax or other required deductions.

4.2 The Corporation's Chief Executive Officer has discretion, subject to any requires of applicable law, to determine whether the after tax value be delivered in Shares purchased on the open market or cash.

### 5. Personal Information

5.1 The Eligible Employee consents to the holding and processing of personal data provided by the Eligible Employee to the Corporation or any Subsidiary or to any third party service provider for all purposes relating to the operation of the Plan, including (i) administering and maintaining records of the Eligible Employee; (ii) providing information to the Corporation, any Subsidiary, their agents, and any third party administrators of the Plan; and (iii) transferring information about the Eligible Employee to a country or territory outside his or her home country that may not provide the same statutory protection for the information as the Eligible Employee's home country.

### 6. Binding Agreement and Amendment

6.1 This Agreement shall constitute an agreement between the Eligible Employee and the Corporation and will be binding upon the Eligible Employee and the legal representatives of his or her estate and any other person who acquires the Eligible Employee's rights in respect of the PSUs granted hereunder by inheritance or otherwise, provided that in the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. This Agreement shall be governed and constituted in accordance with the laws of the State of Minnesota.

6.2 The Corporation reserves the right to amend or terminate this Grant or the Plan at any time, in which case PSUs that have not previously vested in accordance with Section 2 of this Agreement will not become Vested unless otherwise determined by the Committee.

By electronically "accepting" this agreement, the Eligible Employee hereby confirms and acknowledges the terms of the grant of PSUs as set out above and confirms and acknowledges that he or she has received, read and understood the terms of the Plan. The Eligible Employee also confirms and

acknowledges that he or she has not been induced to enter into this Grant Agreement by expectation of employment or continued employment with the Corporation or any Subsidiary.

IN WITNESS WHEREOF the Corporation and the Eligible Employee have entered into this Agreement as of [ ].

**Canadian Pacific Kansas City Limited**

\_\_\_\_\_  
President and Chief Executive Officer

**SCHEDULE A – PERFORMANCE MEASURE AND PERFORMANCE MODIFIER**

## SCHEDULE B – NON-COMPETITION AND NON-SOLICITATION AGREEMENT

### NON-COMPETITION AND NON-SOLICITATION AGREEMENT

**THIS AGREEMENT** is made and effective as of the [ ] day of [ ].

#### BETWEEN:

Canadian Pacific Kansas City Limited,  
a corporation organized under the laws of Canada,  
(formerly known as Canadian Pacific Railway Limited) (the “**Company**”)

- and -

###PARTICIPANT\_NAME###,  
(the “**Employee**”)

#### RECITALS

**WHEREAS**, the Company has offered the Employee the opportunity to participate in one or more of its long term incentive programs which include the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, and the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as each such plan may be amended from time to time (collectively, the “**LTIPs**”);

**AND WHEREAS**, during the course of the Employee’s employment with the member of the CPKC Group (as defined below) that employs Employee, the Employee has access to proprietary and confidential information of the Company and the CPKC Group, thereby making the Company and the CPKC Group uniquely vulnerable to misuse of such information to the detriment of the Company’s and the CPKC Group’s business and interests;

**AND WHEREAS**, any LTIP granting agreement made on or after the effective date of this Agreement and any grant thereunder is subject to the terms of this Agreement, and such terms are required to protect the proprietary interests and value of the Company and the CPKC Group;

**AND WHEREAS**, the Employee wishes to participate in one or more of the LTIPs and be eligible to receive grants under these LTIPs by accepting this Agreement either by signature below or by electronic acceptance through Solium Capital ULC (“**Shareworks**”).

**THEREFORE**, the parties agree as follows:

1. **Consideration.** In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee’s acceptance of the covenants set out in this Agreement.
2. **Protected Rights.** The parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee’s ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator (“**Government Agencies**”) relating to potential violations of law or regulations; or (ii) the Employee’s ability to communicate with Government Agencies or otherwise participate in any investigation or proceeding that may

be conducted by Government Agencies, including providing documents or other information, without notice to the Company.

3. **Non-Competition/Non-Solicitation.**

(a) In this Agreement:

- (i) **“Covenant Period”** means the period of the Employee's employment with the member of the CPKC Group that employs Employee and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and
- (ii) **“CPKC Group”** means and includes all parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company which the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

(b) Non-Competition. During the Covenant Period, the Employee shall not, directly or indirectly, anywhere in Canada or the United States, (i) maintain any interest (proprietary, financial or otherwise) in the business of a Class 1 Railroad or (ii) in any manner, accept employment with, become engaged in the business of, or provide services to, a Class 1 Railroad in any position, role, or area of responsibility similar to or greater than those the Employee held with the member of the CPKC Group that employs Employee in his or her last five (5) years of employment with such member of the CPKC Group. This restriction shall still permit the Employee to acquire, directly or indirectly, less than 2% of the outstanding capital stock of any publicly traded company in the business of a Class 1 Railroad.

(c) Non-Solicitation of Customers, Suppliers and Licensors. During the Covenant Period, the Employee shall not, directly or indirectly, solicit any person that:

- (i) is a customer, supplier or licensor of the Company or the CPKC Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;
- (ii) was a customer, supplier or licensor of the Company or the CPKC Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or
- (iii) to the knowledge of the Employee by virtue of the Employee's employment, has been pursued as a prospective customer, supplier or licensor by or on behalf of the Company or the CPKC Group through the submission of a proposal in writing to perform services for that prospective customer, supplier or licensor at any time within twelve (12) months before the cessation of the Employee's employment and regarding whom the Company and the CPKC Group has not determined to cease pursuing,

for the purposes of: (A) terminating or modifying any actual or prospective relationship the customer or prospective customer has with the Company or the CPKC Group or for the purposes of selling any services to, or soliciting services from, that customer or prospective customer where those services are substantially similar to or competitive with the services sold by the Company or the CPKC Group at the cessation of the Employees' employment, or (B) terminating or modifying any actual or prospective relationship the supplier or licensor or prospective supplier or licensor has with the Company or the CPKC Group.

- (d) Non-Solicitation of Employees and Consultants. During the Covenant Period, the Employee shall not directly or indirectly solicit any employee or consultant of the Company or the CPKC Group to leave their employment or engagement. For this Paragraph 3(d), general newspaper and other media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CPKC Group.
- (e) Notwithstanding Paragraphs 3(a)(i) and 5, the Company agrees that Paragraph 3(b) of this Agreement does not apply to the cessation of the Employee's employment if the member of the CPKC Group that employs Employee terminates the Employee's employment as a result of a layoff due to lack of work or elimination of position unrelated to the Employee's performance or conduct.

4. **Acknowledgements.**

- (a) Reasonableness of Covenants, Right to Counsel, and Time for Review. The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CPKC Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defenses to the strict enforcement of those obligations and restrictions. Employee acknowledges that they are advised to consult with counsel prior to signing this Agreement, and further acknowledges and understands that they have fourteen (14) days to review this Agreement prior to signing.
- (b) Annual Confirmation Process. The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish. However, such confirmation is not necessary to enforce Employee's obligations under this Agreement, which continue in full force and effect regardless of any subsequent failure to confirm.
- (c) Continuing Confidentiality Obligations. The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the member of the CPKC Group that employs Employee and following the cessation of the Employee's employment for any reason.

5. **Survival.** All obligations and restrictions imposed on the Employee under this Agreement shall survive and continue in full force and effect (i) regardless of any changes to the Employee's terms of employment with the member of the CPKC Group that employs Employee, including changes to the Employee's duties and location of employment; and (ii) following the cessation of the Employee's employment with the member of the CPKC Group that employs Employee for any reason.

6. **Relief/Remedies.** In the event of a breach of this Agreement, the Company may seek and shall be entitled to the following remedies, which are non-exhaustive and non-exclusive and are in addition to any further remedies available to the Company in contract, law or equity:

- (a) Injunction. The Employee agrees that any breach of this Agreement would cause irreparable harm to the Company and the CPKC Group and this harm may not be compensable entirely with monetary damages. If the Employee breaches this Agreement, the Company and the CPKC Group shall be entitled to injunctive relief. Any injunctive relief sought by the Company and the CPKC Group shall be in addition to and not in limitation of any monetary relief or other remedies or rights to which the Company and the CPKC Group are or may be entitled at law, in equity, or under this Agreement.

- (b) **Repayment or Return of Benefit.** If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after the effective date of this Agreement (the “**Repayment Period**”), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:
- (i) with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and
  - (ii) with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.

For further clarity, the obligation set out above in this Paragraph 6(b) regarding the Repayment Period shall not be interpreted to extend the Employee’s Covenant Period.

- (c) **Forfeiture.** The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.
  - (d) **Accounting.** The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.
  - (e) **Legal Costs.** The Company shall be awarded its reasonable expenses, including attorneys’ fees and costs, incurred in enforcing this Agreement.
7. **Severability.** Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.
8. **Non-Waiver.** The Company’s decision to not enforce a breach of any part of this Agreement (or the Company’s settlement of any claims for breach) will not prevent the Company from enforcing the Agreement regarding any other breach of this Agreement that the Company discovers, and shall not operate as a waiver against any future enforcement of any part of this Agreement, any other agreement with the Employee or any other agreement with any other employee of the Company.
9. **No Breach of Obligations to Others.** The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or conflicts with the Employee’s obligations under this Agreement or the Employee’s employment with the member of the CPKC Group that employs Employee. The Employee agrees to indemnify the Company and the CPKC Group in respect of any violation of this representation.

10. **Disclosure.** The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.
11. **Governing Law and Attornment.** This Agreement shall be construed and determined under the laws of the Alberta, and of the laws of Canada applicable in that province. For all legal proceedings, this Agreement will be deemed to have been performed in Alberta and the courts of Alberta will have the exclusive jurisdiction to entertain any action arising under this Agreement. The Employee and the Company each attorns to the jurisdiction of the courts of Alberta, provided nothing in this Agreement prevents the Company from proceeding at its election against the Employee in the courts of any other province or country.
12. **Successor and Assigns.** This Agreement binds and inures to the benefit of the Company's successors and assigns.
13. **Amendments.** No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.
14. **Independent Advice.** The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.
15. **Practice of Law.** As it relates to the practice of law after the Employee's employment with the Company has ceased (for any reason), the restrictions described in this Agreement shall be interpreted consistent with the applicable rules of professional responsibility, including but not limited to rules on confidentiality of information, duties to former clients and restrictions on the right to practice.]
16. **Entire Agreement.** This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CPKC Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered no oral or written promises, inducements, or representations, and the Employee accepts this Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.
17. **Recitals.** The recitals set forth above form part of this Agreement.

The Employee may enter into this Agreement by electronic acceptance via Shareworks, and acknowledges that such electronic signature is intended to authenticate Employee's acceptance and shall have the same force and effect as a manual signature. This Agreement shall be effective and binding upon acceptance by Employee; Employee acknowledges that the Company is not required to execute this Agreement for it to be binding.

Dated: ###ACCEPTANCE\_DATE###

###PARTICIPANT\_NAME###

### 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 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 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 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.

**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 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: **July 27, 2023**

/s/ KEITH CREEL

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Keith Creel

President and Chief Executive Officer

**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 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: **July 27, 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 Kansas City Limited (the "Company") on Form 10-Q for the period ended June 30, 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: **July 27, 2023**

/s/ KEITH CREEL

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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 Kansas City Limited (the "Company") on Form 10-Q for the period ended June 30, 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: **July 27, 2023**

/s/ NADEEM VELANI

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Nadeem Velani

Executive Vice-President and Chief Financial Officer

## 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 KANSAS CITY  
LIMITED**

(Registrant)

By: /s/ NADEEM VELANI

Nadeem Velani

Executive Vice-President and  
Chief Financial Officer  
(Principal Financial Officer)

Date: July 27, 2023