

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 September 30 | | For the nine months ended September 30 | |
|--|--|----------------|---|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| Revenues (Note 3) | | | | |
| Freight | \$ 3,266 | \$ 2,264 | \$ 8,584 | \$ 6,214 |
| Non-freight | 73 | 48 | 195 | 138 |
| Total revenues | 3,339 | 2,312 | 8,779 | 6,352 |
| Operating expenses | | | | |
| Compensation and benefits (Note 8) | 598 | 393 | 1,695 | 1,154 |
| Fuel | 430 | 358 | 1,153 | 1,001 |
| Materials (Note 8) | 90 | 66 | 260 | 191 |
| Equipment rents | 91 | 33 | 201 | 97 |
| Depreciation and amortization | 451 | 213 | 1,086 | 634 |
| Purchased services and other (Note 8, 16) | 506 | 312 | 1,438 | 935 |
| Total operating expenses | 2,166 | 1,375 | 5,833 | 4,012 |
| Operating income | 1,173 | 937 | 2,946 | 2,340 |
| Less: | | | | |
| Equity earnings of Kansas City Southern (Note 8, 9) | — | (221) | (230) | (627) |
| Other expense (Note 8) | 13 | 7 | 36 | 13 |
| Other components of net periodic benefit recovery (Note 14) | (85) | (102) | (254) | (304) |
| Net interest expense | 207 | 166 | 565 | 486 |
| Remeasurement loss of Kansas City Southern (Note 8) | — | — | 7,175 | — |
| Income (loss) before income tax expense (recovery) | 1,038 | 1,087 | (4,346) | 2,772 |
| Less: | | | | |
| Current income tax expense (Note 4) | 255 | 158 | 674 | 375 |
| Deferred income tax expense (recovery) (Note 4) | 3 | 38 | (7,925) | 151 |
| Income tax expense (recovery) (Note 4) | 258 | 196 | (7,251) | 526 |
| Net income | \$ 780 | \$ 891 | \$ 2,905 | \$ 2,246 |
| Less: Net income attributable to non-controlling interest | — | — | 1 | — |
| Net income attributable to controlling shareholders | \$ 780 | \$ 891 | \$ 2,904 | \$ 2,246 |
| Earnings per share (Note 5) | | | | |
| Basic earnings per share | \$ 0.84 | \$ 0.96 | \$ 3.12 | \$ 2.42 |
| Diluted earnings per share | \$ 0.84 | \$ 0.96 | \$ 3.11 | \$ 2.41 |
| Weighted-average number of shares (millions) (Note 5) | | | | |
| Basic | 931.5 | 930.0 | 931.1 | 929.9 |
| Diluted | 933.9 | 932.9 | 933.7 | 932.8 |
| Dividends declared per share | \$ 0.19 | \$ 0.19 | \$ 0.57 | \$ 0.57 |

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

| (in millions of Canadian dollars) | For the three months ended September 30 | | For the nine months ended September 30 | |
|--|--|-----------------|---|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| Net income | \$ 780 | \$ 891 | \$ 2,905 | \$ 2,246 |
| Net gain (loss) in foreign currency translation adjustments, net of hedging activities | 605 | 1,565 | (33) | 1,948 |
| Change in derivatives designated as cash flow hedges | 2 | 2 | 5 | 5 |
| Change in pension and post-retirement defined benefit plans | 8 | 22 | 13 | 99 |
| Equity accounted investments | — | 47 | 7 | 182 |
| Other comprehensive income (loss) before income taxes | 615 | 1,636 | (8) | 2,234 |
| Income tax recovery (expense) on above items | 15 | 36 | (5) | 2 |
| Other comprehensive income (loss) (Note 6) | 630 | 1,672 | (13) | 2,236 |
| Comprehensive income | \$ 1,410 | \$ 2,563 | \$ 2,892 | \$ 4,482 |
| Comprehensive income attributable to the non-controlling interest | 20 | — | 13 | — |
| Comprehensive income attributable to controlling shareholders | \$ 1,390 | \$ 2,563 | \$ 2,879 | \$ 4,482 |

See Notes to Interim Consolidated Financial Statements.

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

| (in millions of Canadian dollars) | September 30 2023 | December 31 2022 |
|---|----------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 294 | \$ 451 |
| Accounts receivable, net (Note 7) | 1,852 | 1,016 |
| Short-term investments (Note 12) | 273 | — |
| Materials and supplies | 398 | 284 |
| Other current assets | 252 | 138 |
| | 3,069 | 1,889 |
| Investment in Kansas City Southern (Note 9) | — | 45,091 |
| Investments | 549 | 223 |
| Properties | 52,258 | 22,385 |
| Goodwill (Note 10) | 18,147 | 344 |
| Intangible assets (Note 11) | 3,061 | 42 |
| Pension asset | 3,345 | 3,101 |
| Other assets | 568 | 420 |
| Total assets | \$ 80,997 | \$ 73,495 |
| Liabilities and equity | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 2,605 | \$ 1,703 |
| Long-term debt maturing within one year (Note 12, 13) | 1,784 | 1,510 |
| | 4,389 | 3,213 |
| Pension and other benefit liabilities | 568 | 538 |
| Other long-term liabilities | 799 | 520 |
| Long-term debt (Note 12, 13) | 21,762 | 18,141 |
| Deferred income taxes | 11,224 | 12,197 |
| Total liabilities | 38,742 | 34,609 |
| Shareholders' equity | | |
| Share capital | 25,579 | 25,516 |
| Additional paid-in capital | 90 | 78 |
| Accumulated other comprehensive income (Note 6) | 66 | 91 |
| Retained earnings | 15,575 | 13,201 |
| | 41,310 | 38,886 |
| Non-controlling interest (Note 8) | 945 | — |
| Total equity | 42,255 | 38,886 |
| Total liabilities and equity | \$ 80,997 | \$ 73,495 |

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 September 30 | | For the nine months ended September 30 | |
|---|---|---------------|--|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| Operating activities | | | | |
| Net income | \$ 780 | \$ 891 | \$ 2,905 | \$ 2,246 |
| Reconciliation of net income to cash provided by operating activities: | | | | |
| Depreciation and amortization | 451 | 213 | 1,086 | 634 |
| Deferred income tax expense (recovery) (Note 4) | 3 | 38 | (7,925) | 151 |
| Pension recovery and funding (Note 14) | (76) | (74) | (231) | (218) |
| Equity earnings of Kansas City Southern (Note 8, 9) | — | (221) | (230) | (627) |
| Remeasurement loss of Kansas City Southern (Note 8) | — | — | 7,175 | — |
| Dividend from Kansas City Southern (Note 9) | — | 259 | 300 | 593 |
| Settlement of Mexican tax audits (Note 4) | (75) | — | (75) | — |
| Other operating activities, net | 11 | (3) | (8) | (102) |
| Change in non-cash working capital balances related to operations | (67) | (1) | (196) | (255) |
| Cash provided by operating activities | 1,027 | 1,102 | 2,801 | 2,422 |
| Investing activities | | | | |
| Additions to properties | (733) | (422) | (1,767) | (1,018) |
| Additions to Meridian Speedway properties | (19) | — | (27) | — |
| Proceeds from sale of properties and other assets | 12 | 11 | 28 | 37 |
| Cash acquired on control of Kansas City Southern (Note 8) | — | — | 298 | — |
| Investment in government securities (Note 12) | — | — | (267) | — |
| Other | (2) | 1 | (26) | 3 |
| Cash used in investing activities | (742) | (410) | (1,761) | (978) |
| Financing activities | | | | |
| Dividends paid | (177) | (177) | (530) | (530) |
| Issuance of Common Shares | 13 | 9 | 50 | 18 |
| Repayment of long-term debt, excluding commercial paper (Note 12) | (12) | (7) | (1,108) | (559) |
| Repayment of term loan | — | (504) | — | (636) |
| Net repayment (issuance) of commercial paper (Note 12) | (147) | (42) | 403 | 298 |
| Acquisition-related financing fees (Note 12) | (2) | — | (17) | — |
| Other | 1 | — | — | — |
| Cash used in financing activities | (324) | (721) | (1,202) | (1,409) |
| Effect of foreign currency fluctuations on foreign-denominated cash and cash equivalents | 8 | 13 | 5 | 21 |
| Cash position | | | | |
| (Decrease) increase in cash, cash equivalents, and restricted cash | (31) | (16) | (157) | 56 |
| Cash, cash equivalents, and restricted cash at beginning of period | 325 | 154 | 451 | 82 |
| Cash and cash equivalents at end of period | \$ 294 | \$ 138 | \$ 294 | \$ 138 |
| Supplemental disclosures of cash flow information: | | | | |
| Income taxes paid | \$ 205 | \$ 67 | \$ 648 | \$ 319 |
| Interest paid | \$ 152 | \$ 148 | \$ 570 | \$ 467 |

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(unaudited)

| For the three months ended September 30 | | | | | | | | | |
|---|-----------------------------|------------------|----------------------------|---|-------------------|----------------------------|--------------------------|------------------|--|
| (in millions of Canadian dollars except per share data) | Common Shares (in millions) | Share capital | Additional paid-in capital | Accumulated other comprehensive (loss) income | Retained earnings | Total shareholders' equity | Non-controlling interest | Total equity | |
| Balance as at July 1, 2023 | 931.4 | \$ 25,563 | \$ 88 | \$ (544) | \$ 14,972 | \$ 40,079 | \$ 925 | \$ 41,004 | |
| Net income | — | — | — | — | 780 | 780 | — | 780 | |
| Other comprehensive income (Note 6) | — | — | — | 610 | — | 610 | 20 | 630 | |
| Dividends declared (\$0.19 per share) | — | — | — | — | (177) | (177) | — | (177) | |
| Effect of stock-based compensation expense | — | — | 5 | — | — | 5 | — | 5 | |
| Shares issued under stock option plan | 0.3 | 16 | (3) | — | — | 13 | — | 13 | |
| Balance as at September 30, 2023 | 931.7 | \$ 25,579 | \$ 90 | \$ 66 | \$ 15,575 | \$ 41,310 | \$ 945 | \$ 42,255 | |
| Balance as at July 1, 2022 | 930.0 | \$ 25,488 | \$ 73 | \$ (1,539) | \$ 11,392 | \$ 35,414 | \$ — | \$ 35,414 | |
| Net income | — | — | — | — | 891 | 891 | — | 891 | |
| Other comprehensive income (Note 6) | — | — | — | 1,672 | — | 1,672 | — | 1,672 | |
| Dividends declared (\$0.19 per share) | — | — | — | — | (177) | (177) | — | (177) | |
| Effect of stock-based compensation expense | — | — | 5 | — | — | 5 | — | 5 | |
| Shares issued under stock option plan | 0.1 | 10 | (1) | — | — | 9 | — | 9 | |
| Balance as at September 30, 2022 | 930.1 | \$ 25,498 | \$ 77 | \$ 133 | \$ 12,106 | \$ 37,814 | \$ — | \$ 37,814 | |

| For the nine months ended September 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 | |
| Balance at January 1, 2023 | 930.5 | \$ 25,516 | \$ 78 | \$ 91 | \$ 13,201 | \$ 38,886 | \$ — | \$ 38,886 | |
| Net income | — | — | — | — | 2,904 | 2,904 | 1 | 2,905 | |
| Other comprehensive (loss) income (Note 6) | — | — | — | (25) | — | (25) | 12 | (13) | |
| Dividends declared (\$0.57 per share) | — | — | — | — | (530) | (530) | — | (530) | |
| Effect of stock-based compensation expense | — | — | 24 | — | — | 24 | — | 24 | |
| Shares issued under stock option plan | 1.2 | 63 | (12) | — | — | 51 | — | 51 | |
| Non-controlling interest in connection with business acquisition | — | — | — | — | — | — | 932 | 932 | |
| Balance as at September 30, 2023 | 931.7 | \$ 25,579 | \$ 90 | \$ 66 | \$ 15,575 | \$ 41,310 | \$ 945 | \$ 42,255 | |
| Balance at January 1, 2022 | 929.7 | \$ 25,475 | \$ 66 | \$ (2,103) | \$ 10,391 | \$ 33,829 | \$ — | \$ 33,829 | |
| Net income | — | — | — | — | 2,246 | 2,246 | — | 2,246 | |
| Other comprehensive income (Note 6) | — | — | — | 2,236 | — | 2,236 | — | 2,236 | |
| Dividends declared (\$0.57 per share) | — | — | — | — | (531) | (531) | — | (531) | |
| Effect of stock-based compensation expense | — | — | 17 | — | — | 17 | — | 17 | |
| Shares issued for Kansas City Southern acquisition | — | — | (2) | — | — | (2) | — | (2) | |
| Shares issued under stock option plan | 0.4 | 23 | (4) | — | — | 19 | — | 19 | |
| Balance as at September 30, 2022 | 930.1 | \$ 25,498 | \$ 77 | \$ 133 | \$ 12,106 | \$ 37,814 | \$ — | \$ 37,814 | |

See Notes to Interim Consolidated Financial Statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 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 September 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 September 30 | | For the nine months ended September 30 | |
|---|---|-----------------|--|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| Freight | | | | |
| Grain | \$ 600 | \$ 391 | \$ 1,652 | \$ 1,121 |
| Coal | 229 | 156 | 603 | 458 |
| Potash | 133 | 170 | 409 | 445 |
| Fertilizers and sulphur | 91 | 81 | 276 | 244 |
| Forest products | 199 | 109 | 489 | 299 |
| Energy, chemicals and plastics | 643 | 360 | 1,584 | 1,010 |
| Metals, minerals and consumer products | 455 | 246 | 1,128 | 655 |
| Automotive | 266 | 111 | 648 | 322 |
| Intermodal | 650 | 640 | 1,795 | 1,660 |
| Total freight revenues | 3,266 | 2,264 | 8,584 | 6,214 |
| Non-freight excluding leasing revenues | 39 | 28 | 105 | 77 |
| Revenues from contracts with customers | 3,305 | 2,292 | 8,689 | 6,291 |
| Leasing revenues | 34 | 20 | 90 | 61 |
| Total revenues | \$ 3,339 | \$ 2,312 | \$ 8,779 | \$ 6,352 |

4 Income taxes

During the three months ended September 30, 2023, legislation was enacted to decrease the Iowa and Arkansas state corporate income tax rates. As a result of these changes, the Company recorded a deferred tax recovery of \$14 million related to the revaluation of deferred income tax balances.

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

The effective tax rates including discrete items for the three and nine months ended September 30, 2023 were 24.88% and 166.83%, respectively, compared to 18.01% and 18.97%, respectively for the same periods of 2022.

For the three months ended September 30, 2023, the effective tax rate was 24.96%, excluding the discrete items of amortization of business acquisition fair value adjustments of \$87 million, acquisition-related costs incurred by CPKC of \$24 million, a tax settlement with the Servicio de Administración Tributaria ("SAT") (Mexican tax authority) in relation to taxation years for which audits have closed and an estimated reserve for potential future audit settlements totaling \$15 million (see further discussion within the Mexican Tax Audits section below), and a deferred tax recovery of \$14 million on state corporate income tax rate changes as mentioned above.

For the three months ended September 30, 2022, the effective tax rate was 24.25%, excluding the discrete items of the equity earnings of KCS of \$221 million, acquisition-related costs incurred by CPKC of \$18 million, a deferred tax recovery of \$12 million on state corporate income tax rate changes as mentioned above, and an outside basis deferred tax recovery of \$9 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 nine months ended September 30, 2023, the effective tax rate was 24.91%, 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 (see Note 8), remeasurement loss of KCS of \$7,175 million (see Note 8), the equity earnings of KCS of \$230 million, amortization of business acquisition fair value adjustments of \$162 million, acquisition-related costs incurred by CPKC of \$158 million, revaluation of deferred income tax balances on unitary state apportionment changes of \$51 million, 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, a tax settlement with the SAT in relation to taxation years for which audits have closed and an estimated settlement for potential future audit settlements totaling \$15 million (see further discussion

within Mexican Tax Audits section below), and a deferred tax recovery of \$14 million on state corporate income tax rate changes as mentioned above.

For the nine months ended September 30, 2022, the effective tax rate was 24.25%, excluding the discrete items of the equity earnings of KCS of \$627 million, acquisition-related costs incurred by CPKC of \$57 million, a deferred tax recovery of \$12 million on state corporate income tax rate changes as mentioned above, and an outside basis deferred tax expense of \$8 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 Tax Audits

Kansas City Southern de México, S.A. de C.V. (also known as Canadian Pacific Kansas City Mexico) ("CPKCM") closed audit examinations with the SAT for the tax years 2016-2020 in September 2023. The audit examinations were for corporate income tax and value added tax ("VAT"). The settlement of these audits resulted in a payment of \$75 million in September and a \$16 million reduction to the April 14, 2023 refundable VAT balance, which was classified within "Accounts receivable, net". The settlements primarily resulted in an increase to "Goodwill" (see Note 8) and an "Income tax expense" of \$9 million. The estimated impact of potential future audit settlements were substantially reserved as of September 30, 2023, which included a reduction to the April 14, 2023 VAT balance of \$9 million and an income tax expense of \$6 million.

Mexican Value Added Tax

CPKCM is not required to charge its customers 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 SAT, which have not been fully recovered or settled.

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 September 30, 2023 and April 14, 2023, the CPKCM refundable VAT balance was \$10 million and \$55 million, respectively. There was a \$25 million reduction to the April 14, 2023 VAT balance as a result of the Mexican Tax Audit settlements as discussed above. The settlement resulted in impacts to "Goodwill" (see Note 8) and the refundable VAT balance at April 14, 2023. 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 expects to recover the refundable VAT balance as VAT billed to customers exceeds creditable VAT charged by vendors.

5 Earnings per share

| (in millions, except per share data) | For the three months ended September 30 | | For the nine months ended September 30 | |
|---|---|---------|--|----------|
| | 2023 | 2022 | 2023 | 2022 |
| Net income attributable to controlling shareholders | \$ 780 | \$ 891 | \$ 2,904 | \$ 2,246 |
| Weighted-average basic shares outstanding | 931.5 | 930.0 | 931.1 | 929.9 |
| Dilutive effect of stock options | 2.4 | 2.9 | 2.6 | 2.9 |
| Weighted-average diluted shares outstanding | 933.9 | 932.9 | 933.7 | 932.8 |
| Earnings per share - basic | \$ 0.84 | \$ 0.96 | \$ 3.12 | \$ 2.42 |
| Earnings per share - diluted | \$ 0.84 | \$ 0.96 | \$ 3.11 | \$ 2.41 |

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

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

| (in millions of Canadian dollars) | For the three months ended September 30 | | | | |
|--|--|-------------------------------|---|--|-------------------------|
| | Foreign currency net of hedging activities ⁽¹⁾⁽²⁾ | Derivatives ⁽¹⁾⁽²⁾ | Pension and post-retirement defined benefit plans ⁽¹⁾⁽²⁾ | Equity accounted investments ⁽¹⁾⁽²⁾ | Total ⁽¹⁾⁽²⁾ |
| Opening balance, July 1, 2023 | \$ 857 | \$ 2 | \$ (1,406) | \$ 3 | \$ (544) |
| Other comprehensive income before reclassifications | 603 | — | — | — | 603 |
| Amounts reclassified from accumulated other comprehensive income | — | 1 | 6 | — | 7 |
| Net other comprehensive income | 603 | 1 | 6 | — | 610 |
| Closing balance, September 30, 2023 | \$ 1,460 | \$ 3 | \$ (1,400) | \$ 3 | \$ 66 |
| Opening balance, July 1, 2022 | \$ 217 | \$ (2) | \$ (1,856) | \$ 102 | \$ (1,539) |
| Other comprehensive income (loss) before reclassifications | 1,618 | — | (14) | 37 | 1,641 |
| Amounts reclassified from accumulated other comprehensive income | — | 1 | 30 | — | 31 |
| Net other comprehensive income | 1,618 | 1 | 16 | 37 | 1,672 |
| Closing balance, September 30, 2022 | \$ 1,835 | \$ (1) | \$ (1,840) | \$ 139 | \$ 133 |

⁽¹⁾ Amounts are presented net of tax.

⁽²⁾ Amounts presented are those attributable to common shareholders.

| (in millions of Canadian dollars) | For the nine months ended September 30 | | | | |
|--|--|-------------------------------|---|--|-------------------------|
| | Foreign currency net of hedging activities ⁽¹⁾⁽²⁾ | Derivatives ⁽¹⁾⁽²⁾ | Pension and post-retirement defined benefit plans ⁽¹⁾⁽²⁾ | Equity accounted investments ⁽¹⁾⁽²⁾ | Total ⁽¹⁾⁽²⁾ |
| Opening balance, January 1, 2023 | \$ 1,505 | \$ — | \$ (1,410) | \$ (4) | \$ 91 |
| Other comprehensive (loss) income before reclassifications | (45) | — | (9) | 6 | (48) |
| Amounts reclassified from accumulated other comprehensive income | — | 3 | 19 | 1 | 23 |
| Net other comprehensive (loss) income | (45) | 3 | 10 | 7 | (25) |
| Closing balance, September 30, 2023 | \$ 1,460 | \$ 3 | \$ (1,400) | \$ 3 | \$ 66 |
| Opening balance, January 1, 2022 | \$ (182) | \$ (4) | \$ (1,915) | \$ (2) | \$ (2,103) |
| Other comprehensive income (loss) before reclassifications | 2,017 | — | (14) | 140 | 2,143 |
| Amounts reclassified from accumulated other comprehensive income | — | 3 | 89 | 1 | 93 |
| Net other comprehensive income | 2,017 | 3 | 75 | 141 | 2,236 |
| Closing balance, September 30, 2022 | \$ 1,835 | \$ (1) | \$ (1,840) | \$ 139 | \$ 133 |

⁽¹⁾ Amounts are presented net of tax.

⁽²⁾ Amounts presented are those attributable to common shareholders.

7 Accounts receivable, net

| (in millions of Canadian dollars) | As at September 30, 2023 | As at December 31, 2022 |
|---------------------------------------|--------------------------|-------------------------|
| Total accounts receivable | \$ 1,930 | \$ 1,057 |
| Allowance for credit losses | (78) | (41) |
| Total accounts receivable, net | \$ 1,852 | \$ 1,016 |

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 of the previously held equity interest in KCS, and reflects the measurement period adjustments recorded during the third quarter:

| (in millions of Canadian dollars) | Reported at June 30, 2023 | Measurement period adjustments | Reported at September 30, 2023 |
|--|------------------------------|--------------------------------------|-----------------------------------|
| Net assets acquired: | | | |
| Cash and cash equivalents | \$ 298 | \$ — | \$ 298 |
| Net working capital | 51 | (115) | (64) |
| Properties | 28,748 | 1 | 28,749 |
| Intangible assets | 3,022 | — | 3,022 |
| Other long-term assets | 496 | (1) | 495 |
| Long-term debt | (4,545) | — | (4,545) |
| Deferred income taxes | (6,984) | 12 | (6,972) |
| Other long-term liabilities | (406) | 3 | (403) |
| Total identifiable net assets | \$ 20,680 | \$ (100) | \$ 20,580 |
| Goodwill | 17,491 | 100 | 17,591 |
| | \$ 38,171 | \$ — | \$ 38,171 |
| Consideration: | | | |
| Fair value of previously held equity method investment | \$ 37,227 | \$ — | \$ 37,227 |
| Intercompany net balances acquired | 12 | — | 12 |
| Fair value of non-controlling interest | 932 | — | 932 |
| Total | \$ 38,171 | \$ — | \$ 38,171 |

During the three months ended September 30, 2023, measurement period adjustments were recorded as a result of new information that was obtained about facts and circumstances of certain KCS assets and liabilities at the Control date. The new information was primarily in relation to CPKCM's VAT assets and liabilities, discussed further in Note 4. These adjustments to the balance sheet had a negligible impact to income in the third quarter of 2023. The Company continues to assess the facts and circumstances relating to the acquired assets and assumed liabilities of KCS at the Control Date.

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 nine months ended September 30, 2023.

The fair value of net working capital acquired included trade receivables of \$698 million and accounts payable and accrued liabilities of \$943 million.

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.

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 \$17,591 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 nine months ended September 30, 2023 included revenue of \$1,208 million and \$2,206 million and net income attributable to controlling shareholders of \$224 million and \$362 million from KCS from the period of April 14, 2023 to September 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 nine months ended September 30, 2023 and September 30, 2022:

| (in millions of Canadian dollars) | Three Months Ended September 30, 2023 | | Three Months Ended September 30, 2022 | |
|---|--|-------------------|--|-------------------|
| | KCS Historical ⁽¹⁾ | Pro Forma CPKC | KCS Historical ⁽¹⁾ | Pro Forma CPKC |
| Revenue | \$ — | \$ 3,339 | \$ 1,152 | \$ 3,466 |
| Net income attributable to controlling shareholders | — | 780 | 263 | 861 |

⁽¹⁾ KCS's results were translated into Canadian dollars at the Bank of Canada daily exchange rate for the three months ended September 30, 2022 with effective exchange rate of \$1.30.

| (in millions of Canadian dollars) | Nine Months Ended September 30, 2023 | | Nine Months Ended September 30, 2022 | |
|---|---|-------------------|---|-------------------|
| | KCS Historical ⁽¹⁾ | Pro Forma CPKC | KCS Historical ⁽¹⁾ | Pro Forma CPKC |
| Revenue | \$ 1,351 | \$ 10,133 | \$ 3,216 | \$ 9,578 |
| Net income attributable to controlling shareholders | 280 | 2,151 | 748 | 2,879 |

⁽¹⁾ 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 nine months ended September 30, 2022 with effective exchange rates of \$1.35 and \$1.28, respectively.

For the nine months ended September 30, 2023 and three and nine months ended September 30, 2022, 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 nine months ended September 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 \$230 million, \$221 million, and \$627 million for the nine months ended September 30, 2023 and the three and nine months ended September 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 nine months ended September 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 nine months ended September 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 nine months ended September 30, 2023, the Company incurred \$24 million and \$158 million, in acquisition-related costs, respectively, of which:

- \$1 million and \$64 million were recorded in "Compensation and benefits" primarily related to severance costs, retention and synergy related incentive compensation costs;
- \$22 million and \$87 million were recorded within "Purchased services and other" including third party purchased services, and payments made to certain communities across the combined network to address the environmental and social impacts of increased traffic as required by voluntary agreements with communities and conditions imposed by the STB pursuant to the STB's final decision approving the Company and KCS's joint merger application, including, but not limited to, payments related to new crossings, closure of existing crossings and other infrastructure projects;
- \$1 million and \$1 million were recorded within "Materials"; and
- \$nil and \$6 million, were recorded within "Other expense".

Acquisition-related costs of \$nil and \$11 million incurred by KCS during the three and nine months ended September 30, 2023 were included within "Equity earnings of Kansas City Southern".

During the three and nine months ended September 30, 2022, the Company incurred \$18 million and \$57 million, in acquisition-related costs, respectively, recorded within "Purchased services and other". Acquisition-related costs of \$12 million and

\$39 million incurred by KCS during the three and nine months ended September 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 January 1 to April 13, 2023, the Company recognized \$230 million of equity earnings of KCS (nine months ended September 30, 2022 - \$627 million), and received dividends from KCS for the period January 1 to April 13, 2023 of \$300 million (nine months ended September 30, 2022 - \$593 million). The foreign currency translation of the investment in KCS for the period January 1 to April 13, 2023, totaled a loss of \$578 million (nine months ended September 30, 2022 - gain of \$3,445 million). Included within the equity earnings of KCS recognized for the period January 1 to April 13, 2023 was amortization (net of tax) of basis differences of \$48 million (nine months ended September 30, 2022 - \$121 million). These basis differences relate to depreciable property, plant and equipment, intangible assets with definite lives, and long-term debt, and are amortized over the related assets' remaining useful lives and the remaining terms to maturity of the debt instruments.

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

Statement of Income

| (in millions of Canadian dollars) ⁽¹⁾ | For the period January 1 to April 13, 2023 | For the three months ended September 30, 2022 | For the nine months ended September 30, 2022 |
|--|---|---|--|
| Total revenues | \$ 1,351 | \$ 1,152 | \$ 3,216 |
| Total operating expenses | 888 | 728 | 2,024 |
| Operating income | 463 | 424 | 1,192 |
| Less: Other ⁽²⁾ | 83 | 67 | 164 |
| Income before income taxes | 380 | 357 | 1,028 |
| Net income | \$ 280 | \$ 263 | \$ 748 |

⁽¹⁾ Amounts translated at the average FX rate for the three months ended September 30, 2022 of \$1.00 USD = \$1.30 CAD. Also, for the period January 1 to April 13, 2023 and nine months ended September 30, 2022 of \$1.00 USD = \$1.35 CAD and \$1.00 USD = \$1.28 CAD, respectively.

⁽²⁾ 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) | 17,591 |
| Foreign exchange impact | 212 |
| Balance as at September 30, 2023 | \$ 18,147 |

Additions to Goodwill in 2023 represents 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 | — | (40) | (40) |
| Foreign exchange impact | 37 | — | 37 |
| Balance as at September 30, 2023 | \$ 3,125 | \$ (64) | \$ 3,061 |

12 Debt

During the nine months ended September 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 September 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. \$1.5 billion in the form of unsecured promissory notes. On July 12, 2023, the Company increased the maximum aggregate principal amount of commercial paper available to be issued from U.S. \$1.0 billion to U.S. \$1.5 billion. This commercial paper program is backed by the U.S. \$2.2 billion revolving credit facility. As at September 30, 2023, the Company had total commercial paper borrowings outstanding of U.S. \$300 million (\$406 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 September 30, 2023 was 5.54%. 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.

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 |
| Total | \$ 3,014 | 97.3 % | | \$ 3,014 |

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 nine months ended September 30, 2023, the Company incurred \$nil and \$12 million, respectively of

costs associated with the debt exchange, recorded within "Other expense". These charges, along with amounts paid to noteholders upon execution of the debt exchange in the second quarter of 2023, totalling \$2 million and \$17 million for the three and nine months ended September 30, 2023 respectively, 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 September 30, 2023 on the 3.85% Senior Notes maturing November 2023 was U.S. \$202 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, accounts receivable, short-term investments, 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 \$23,140 million as at September 30, 2023 (December 31, 2022 - \$19,651 million), had a fair value of \$20,656 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 nine months ended September 30, 2023 was an unrealized FX loss of \$163 million and \$1 million, respectively (three and nine months ended September 30, 2022 - unrealized FX loss of \$440 million and \$558 million, respectively) recognized in "Other comprehensive income (loss)".

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 pesos. 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 September 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, and have a term of less than one year. 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.

During the three months ended September 30, 2023, the Company recorded a loss of \$nil related to foreign exchange currency forwards. Following the acquisition of control of KCS on April 14, 2023 and through the period ended September 30, 2023, the Company recorded a loss of \$24 million related to foreign exchange currency forwards. As at September 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 nine months ended September 30, 2023, the Company made contributions to its defined benefit pension plans of \$4 million and \$13 million, respectively (three and nine months ended September 30, 2022 - \$5 million and \$12 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 September 30 | | | | | |
|--|---|---------|----------------|------|---------|---------|
| | Pensions | | Other benefits | | Total | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Current service cost (benefits earned by employees) | \$ 18 | \$ 37 | \$ 2 | \$ 3 | \$ 20 | \$ 40 |
| Other components of net periodic benefit (recovery) cost: | | | | | | |
| Interest cost on benefit obligation | 122 | 95 | 5 | 4 | 127 | 99 |
| Expected return on plan assets | (220) | (240) | — | — | (220) | (240) |
| Recognized net actuarial loss | 8 | 39 | — | — | 8 | 39 |
| Total other components of net periodic benefit (recovery) cost | (90) | (106) | 5 | 4 | (85) | (102) |
| Net periodic benefit (recovery) cost | \$ (72) | \$ (69) | \$ 7 | \$ 7 | \$ (65) | \$ (62) |

| (in millions of Canadian dollars) | For the nine months ended September 30 | | | | | |
|--|--|----------|----------------|-------|----------|----------|
| | Pensions | | Other benefits | | Total | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Current service cost (benefits earned by employees) | \$ 53 | \$ 111 | \$ 7 | \$ 8 | \$ 60 | \$ 119 |
| Other components of net periodic benefit (recovery) cost: | | | | | | |
| Interest cost on benefit obligation | 365 | 287 | 16 | 12 | 381 | 299 |
| Expected return on plan assets | (661) | (719) | — | — | (661) | (719) |
| Recognized net actuarial loss | 24 | 115 | — | 1 | 24 | 116 |
| Amortization of prior service costs | 1 | — | 1 | — | 2 | — |
| Total other components of net periodic benefit (recovery) cost | (271) | (317) | 17 | 13 | (254) | (304) |
| Net periodic benefit (recovery) cost | \$ (218) | \$ (206) | \$ 24 | \$ 21 | \$ (194) | \$ (185) |

15 Stock-based compensation

As at September 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 nine months ended September 30, 2023 of \$13 million and \$84 million, respectively (three and nine months ended September 30, 2022 - expense of \$21 million and \$67 million, respectively).

Stock option plans

In the nine months ended September 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:

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

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

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

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

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

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

Performance share unit plans

During the nine months ended September 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 nine months ended September 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 September 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. In a further decision on August 30, 2023, the Court determined that adjustment and set the total damages at \$165 million plus interest and costs. On October 20, 2023, the Court determined the costs payable to Remington, however, the Court has not provided any indication of how the damages, which are currently estimated to total approximately \$215 million, 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 (\$424 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. On September 30, 2023, the evidentiary stage was closed. On October 19, 2023, CPKCM filed their final arguments with the Court. The SAT had until October 23, 2023, to file their final arguments to the Court. A resolution from the Administrative Court is expected by the first quarter of 2024. 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 nine months ended September 30, 2023 was \$2 million and \$6 million, respectively (three and nine months ended September 30, 2022 - \$1 million and \$5 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 September 30, 2023 was \$231 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.

2023 Business Interruption Insurance Settlement

During the third quarter of 2023, the Company realized gain contingencies of \$51 million recorded to "Purchased services and other", as a result of settlements reached with insurers for business interruption losses incurred by the Company related to wildfires and floods in B.C. in 2021.