

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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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 Consolidated Financial Statements and the related notes in Item 8. Financial Statements and Supplementary Data, and other information in this annual report. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars. The following section generally discusses 2024 and 2023 items and comparisons between 2024 and 2023. Discussions of 2022 items and comparisons between 2023 and 2022 that are not included in this Form 10-K can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7, of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

For purposes of this report, unless the context indicates otherwise, all references herein to "CPKC", "the Company", "we", "our" and "us" refer to Canadian Pacific Kansas City Limited ("CPKC") and its subsidiaries, which includes Kansas City Southern ("KCS") as a consolidated subsidiary on and from April 14, 2023 (the "Control Date"). Prior to the Control Date, the Company's 100% interest in KCS was accounted for and reported as an equity-method investment.

Executive Summary

2024 Results

- Total revenues were \$14,546 million, an increase of 16% compared to \$12,555 million in 2023. The increase was primarily due to the impact of the KCS acquisition, higher volumes as measured by revenue ton-miles ("RTMs"), and higher freight revenue per RTM.
- Diluted earnings per share ("EPS") was \$3.98, a decrease of 5% compared to \$4.21 in 2023.
- Core adjusted combined diluted EPS was \$4.25, an increase of 11% compared to \$3.84 in 2023.
- Operating ratio was 64.4%, a 60 basis point improvement from 65.0% in 2023.
- Core adjusted combined operating ratio was 61.3%, a 70 basis point improvement from 62.0% in 2023.

Core adjusted combined diluted EPS and Core adjusted combined operating ratio are defined and reconciled in the "Non-GAAP Measures" section of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Performance Indicators

For the year ended December 31	2024	2023	% Change
Gross ton-miles ("GTMs") (millions)	388,958	348,447	12
Train miles (thousands)	46,892	41,312	14
Fuel efficiency (U.S. gallons of locomotive fuel consumed /1,000 GTMs)	1.033	1.026	1
Total employees (average)	20,144	18,233	10

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. 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 was primarily due to the impact of the KCS acquisition and higher volumes of Grain, Energy, chemicals and plastics, Potash, Automotive, and Intermodal. This increase was partially offset by lower volumes of Metals, minerals and consumer products and Coal.

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, indicates improved train productivity. The increase in train miles reflected the impact of a 12% increase in workload (GTMs) and a 2% 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 2024 fuel efficiency 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 increase in the average number of total employees was primarily due to the acquisition of KCS.

Results of Operations

Operating Revenues

For the year ended December 31	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$14,223	\$ 12,281	\$ 1,942	16
Non-freight revenues (in millions)	323	274	49	18
Total revenues (in millions)	\$14,546	\$ 12,555	\$ 1,991	16
Carloads (in thousands)	4,370.0	4,045.6	324.4	8
Revenue ton-miles (in millions)	211,458	188,960	22,498	12
Freight revenue per carload (in dollars)	\$ 3,255	\$ 3,036	\$ 219	7
Freight revenue per revenue ton-mile (in cents)	6.73	6.50	0.23	4

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 revenues are generated from leasing certain assets, interline switching, and other arrangements including contracts with passenger service operators, subsurface and mineral rights agreements, and logistical services.

Total Revenues

The increase in Freight revenues was primarily due to the impact of the KCS acquisition of \$1,375 million, higher volumes as measured by RTMs, and higher freight revenue per RTM. The increase in Non-freight revenues was primarily related to a subsurface fibre optic agreement, the impact of the KCS acquisition of \$21 million, and higher leasing revenues.

RTMs

RTMs are defined as the movement of one revenue-producing ton of freight over a distance of one mile. RTMs measure the relative weight and distance of rail freight moved by the Company. The increase in RTMs was primarily due to the impact of the KCS acquisition and higher volumes of Grain, Energy, chemicals and plastics, Potash, Automotive, and Intermodal, partially offset by lower volumes of Metals, minerals and consumer products and Coal.

Freight Revenue per RTM

Freight revenue per RTM is defined as freight revenue per revenue-producing ton of freight over a distance of one mile. This is an indicator of yield. The increase in freight revenue per RTM was primarily due to higher freight rates and the favourable impact of the change in foreign exchange ("FX") of \$94 million, partially offset by the unfavourable impact of lower fuel prices on fuel surcharge revenues of \$184 million.

Lines of Business

Grain

For the year ended December 31	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 3,012	\$ 2,496	\$ 516	21
Carloads (in thousands)	549.6	497.8	51.8	10
Revenue ton-miles (in millions)	58,101	48,592	9,509	20
Freight revenue per carload (in dollars)	\$ 5,480	\$ 5,014	\$ 466	9
Freight revenue per revenue ton-mile (in cents)	5.18	5.14	0.04	1

The increase in Grain revenue was primarily due to the impact of the KCS acquisition, higher volumes of U.S. corn to the U.S. Pacific Northwest, higher volumes of U.S. soybeans and wheat and Canadian grain to Mexico, and an increase in freight revenue per RTM. This increase was partially offset by the unfavourable impact of lower fuel prices on fuel surcharge revenue. 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 of U.S. grain from the U.S. Midwest to the U.S. Pacific Northwest and Mexico, which have longer lengths of haul.

Coal

For the year ended December 31	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 943	\$ 859	\$ 84	10
Carloads (in thousands)	454.3	449.6	4.7	1
Revenue ton-miles (in millions)	22,887	22,095	792	4
Freight revenue per carload (in dollars)	\$ 2,076	\$ 1,911	\$ 165	9
Freight revenue per revenue ton-mile (in cents)	4.12	3.89	0.23	6

The increase in Coal revenue was primarily due to the impact of the KCS acquisition, an increase in freight revenue per RTM, and higher volumes of Canadian coal to Thunder Bay, Ontario and Vancouver, British Columbia ("B.C."). This increase was partially offset by lower volumes of U.S. coal, lower volumes of Canadian coal to Kamloops, B.C., and the unfavourable impact of lower fuel prices on fuel surcharge revenue. 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 of Canadian coal to Thunder Bay and Vancouver, which have longer lengths of haul.

Potash

For the year ended December 31	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 614	\$ 566	\$ 48	8
Carloads (in thousands)	169.3	153.5	15.8	10
Revenue ton-miles (in millions)	17,893	16,904	989	6
Freight revenue per carload (in dollars)	\$ 3,627	\$ 3,687	\$ (60)	(2)
Freight revenue per revenue ton-mile (in cents)	3.43	3.35	0.08	2

The increase in Potash revenue was primarily due to higher volumes of export potash to the U.S. Pacific Northwest due to recovery of operations following an equipment failure at the Port of Portland in 2023, higher volumes of export potash to Thunder Bay, and an increase in freight revenue per RTM. This increase was partially offset by lower volumes of export potash to Vancouver as a result of the International Longshore and Warehouse Union's work stoppage in November 2024, lower volumes of domestic potash, lower volumes of export potash to Chicago, Illinois, and the unfavourable impact of lower fuel prices on fuel surcharge revenue. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX. Carloads increased more than RTMs due to moving higher volumes of export potash to the U.S. Pacific Northwest, which has a shorter length of haul.

Fertilizers and Sulphur

For the year ended December 31	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 406	\$ 385	\$ 21	5
Carloads (in thousands)	67.2	65.9	1.3	2
Revenue ton-miles (in millions)	5,256	5,014	242	5
Freight revenue per carload (in dollars)	\$ 6,042	\$ 5,842	\$ 200	3
Freight revenue per revenue ton-mile (in cents)	7.72	7.68	0.04	1

The increase in Fertilizers and sulphur revenue was primarily due to higher volumes of dry fertilizers and sulphur moving between Chicago and Alberta, higher volumes of wet fertilizers, the impact of the KCS acquisition, and an increase in freight revenue per RTM. This increase was partially offset by the unfavourable impact of lower fuel prices on fuel surcharge revenue. 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 of dry fertilizers and sulphur between Chicago and Alberta, which have longer lengths of haul.

Forest Products

For the year ended December 31	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 816	\$ 696	\$ 120	17
Carloads (in thousands)	139.5	126.0	13.5	11
Revenue ton-miles (in millions)	9,075	8,028	1,047	13
Freight revenue per carload (in dollars)	\$ 5,849	\$ 5,524	\$ 325	6
Freight revenue per revenue ton-mile (in cents)	8.99	8.67	0.32	4

The increase in Forest products revenue was primarily due to the impact of the KCS acquisition, higher volumes of lumber from B.C. and Alberta to Texas and the U.S. Midwest, higher freight rates, and the favourable impact of the change in FX. This increase was partially offset by lower volumes of wood pulp and paperboard and the unfavourable impact of lower fuel prices on fuel surcharge revenue.

Energy, Chemicals and Plastics

For the year ended December 31	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 2,851	\$ 2,301	\$ 550	24
Carloads (in thousands)	581.8	487.0	94.8	19
Revenue ton-miles (in millions)	38,837	33,031	5,806	18
Freight revenue per carload (in dollars)	\$ 4,900	\$ 4,725	\$ 175	4
Freight revenue per revenue ton-mile (in cents)	7.34	6.97	0.37	5

The increase in Energy, chemicals and plastics revenue was primarily due to the impact of the KCS acquisition, higher volumes of fuel oil, conventional crude from Alberta to Chicago, plastics, and ethylene glycol, and an increase in freight revenue per RTM. This increase was partially offset by the unfavourable impact of lower fuel prices on fuel surcharge revenue and lower volumes of DRUbit™ crude to Port Arthur, Texas. 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 year ended December 31	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 1,777	\$ 1,579	\$ 198	13
Carloads (in thousands)	517.6	457.8	59.8	13
Revenue ton-miles (in millions)	19,177	18,247	930	5
Freight revenue per carload (in dollars)	\$ 3,433	\$ 3,449	\$ (16)	—
Freight revenue per revenue ton-mile (in cents)	9.27	8.65	0.62	7

The increase in Metals, minerals and consumer products revenue was primarily due to the impact of the KCS acquisition and an increase in freight revenue per RTM. This increase was partially offset by lower volumes of steel, frac sand to the Bakken and Permian Basin shale formations, and aggregates, and the unfavourable impact of lower fuel prices on fuel surcharge revenue. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX. Carloads increased more than RTMs due to the impact of the KCS acquisition, as the KCS network has a shorter average length of haul, and moving lower volumes of frac sand to the Bakken shale formation, which has a longer length of haul.

Automotive

For the year ended December 31	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 1,280	\$ 934	\$ 346	37
Carloads (in thousands)	247.8	201.4	46.4	23
Revenue ton-miles (in millions)	5,014	3,579	1,435	40
Freight revenue per carload (in dollars)	\$ 5,165	\$ 4,638	\$ 527	11
Freight revenue per revenue ton-mile (in cents)	25.53	26.10	(0.57)	(2)

The increase in Automotive revenue was primarily due to higher volumes from Mexico to various locations in North America, from Vancouver to eastern Canada, and from Ontario to the U.S. Midwest, the impact of the KCS acquisition, and higher freight rates. This increase was partially offset by a decrease in freight revenue per RTM due to the unfavourable impact of lower fuel prices on fuel surcharge revenue. RTMs increased more than carloads due to moving higher volumes from Mexico to the U.S. Midwest and from Vancouver to eastern Canada, which have longer lengths of haul.

Intermodal

For the year ended December 31	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 2,524	\$ 2,465	\$ 59	2
Carloads (in thousands)	1,642.9	1,606.6	36.3	2
Revenue ton-miles (in millions)	35,218	33,470	1,748	5
Freight revenue per carload (in dollars)	\$ 1,536	\$ 1,534	\$ 2	—
Freight revenue per revenue ton-mile (in cents)	7.17	7.36	(0.19)	(3)

The increase in Intermodal revenue was primarily due to the impact of the KCS acquisition, higher international intermodal volumes to and from the Port of Vancouver, including onboarding a new customer, and to and from the Port of Saint John, higher domestic intermodal wholesale volumes, higher freight rates, and the favourable impact of the change in FX. This increase was partially offset by a decrease in freight revenue per RTM, lower domestic intermodal volumes between Mexico and Texas, and lower international intermodal volumes to and from the Port of Montréal. Freight revenue per RTM decreased due to the unfavourable impact of lower fuel prices on fuel surcharge revenue. RTMs increased more than carloads due to moving higher international intermodal volumes to and from the Port of Vancouver, which has a longer length of haul, and moving lower domestic intermodal volumes between Mexico and Texas, which has a shorter length of haul.

Operating Expenses

For the year ended December 31 (in millions of Canadian dollars)	2024	2023	Total Change	% Change
Compensation and benefits	\$ 2,565	\$ 2,332	\$ 233	10
Fuel	1,802	1,681	121	7
Materials	406	346	60	17
Equipment rents	347	277	70	25
Depreciation and amortization	1,900	1,543	357	23
Purchased services and other	2,347	1,988	359	18
Total operating expenses	\$ 9,367	\$ 8,167	\$ 1,200	15

Compensation and Benefits

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

- the impact of the KCS acquisition of \$243 million;
- the impact of wage and benefit inflation; and
- increased volume variable expense as a result of an increase in workload as measured by GTMs.

This increase was partially offset by:

- lower acquisition-related costs incurred by CPKC primarily due to restructuring charges of \$50 million incurred by KCS in 2023;
- a reduction in training costs; and
- a decrease in stock-based compensation (excluding amounts included in the impact of the KCS acquisition, and acquisition-related costs) of \$28 million driven by changes in payout rates and the Common Share price.

Fuel

Fuel expense consists mainly of fuel used by locomotives and includes provincial, state, and federal fuel taxes. The increase in Fuel expense in 2024 was primarily due to the impact of the KCS acquisition of \$179 million and an increase in workload, as measured by GTMs. This was partially offset by the impact of lower fuel prices of \$86 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 Materials expense was primarily due to the impact of the KCS acquisition of \$33 million and higher locomotive material costs due to a new parts agreement insourcing a subset of maintenance work with favorable offset in purchased services and other effective in the fourth quarter of 2024.

Equipment Rents

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

- the impact of the KCS acquisition of \$37 million;
- the impact of cost inflation; and
- lower recoveries from other railways for their use of the Company's locomotives.

This increase was partially offset by greater recoveries from other railways for their use of the Company's freight cars and reduced payments to other railways for the use of their freight cars.

Depreciation and Amortization

Depreciation and amortization expense is the charge associated with the use of track and roadway, rolling stock, buildings, and other depreciable assets, including assets related to a concession granted by the Mexican government, as well as amortization of finite life intangible assets. The increase in Depreciation and amortization expense was primarily due to:

- the impact of the KCS acquisition of \$255 million;
- a higher depreciable asset base as a result of capital program spending in 2024 and 2023; and
- the unfavourable impact of the change in FX of \$13 million.

Purchased Services and Other

Purchased services and other expense encompasses a wide range of third-party costs, including expenses for joint facilities, personal injury and damage claims, provisions for environmental remediation, property taxes, contractor and consulting fees, and insurance premiums. The increase in Purchased services and other expense was primarily due to:

- the impact of the KCS acquisition of \$235 million;
- a 2023 business interruption insurance recovery of \$51 million;
- the impact of cost inflation;
- higher terminal service costs;
- higher casualty incident costs;
- higher environmental management expenses; and
- the unfavourable impact of the change in FX of \$13 million.

This increase was partially offset by:

- a one-time fee of \$34 million (U.S. \$25 million) received in connection with the Company's agreement to waive a departing executive's non-competition agreement with respect to their employment with Norfolk Southern Corporation;
- lower acquisition-related costs incurred by CPKC, including payments made in 2023 to certain communities across the combined network to address the environmental and societal impacts of increased traffic; and
- lower third-party locomotive costs due to insourcing and a new parts agreement embedded in Materials effective in the fourth quarter of 2024.

Other Income Statement Items

Equity Earnings of Kansas City Southern

On April 14, 2023, the Company assumed control of KCS, and ceased recognizing equity earnings of KCS.

The Company recognized \$230 million (U.S. \$170 million) of equity earnings of KCS for the period from January 1 to April 13, 2023. This amount was net of amortization of basis differences of \$48 million (U.S. \$35 million) associated with KCS purchase accounting, and was net of acquisition-related costs (net of tax) incurred by KCS. These basis differences related to depreciable property, plant and equipment, intangible assets with definite lives, and long-term debt, and were amortized over the related assets' remaining useful lives, and the remaining terms to maturity of the debt instruments. 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). KCS U.S. dollar historical results were translated at the average FX rate for the period January 1 to April 13, 2023 of \$1.00 USD = \$1.35 CAD.

Other (Income) Expense

Other (income) expense consists of gains and losses from the change in FX on cash and working capital, the impact of foreign exchange currency forwards, financing costs, shareholder costs, equity earnings, and other non-operating expenditures. Other income was \$42 million, a change of \$94 million, or 181%, from Other expense of \$52 million in 2023. This change was primarily due to:

- higher equity income of \$30 million due to a settlement of a property disposition by an equity investee;
- a lower loss of \$35 million on FX forward contracts to sell Mexican pesos and buy U.S.dollars (see Item 8. Financial Statements and Supplementary Data, Note 17 Financial instruments for details); and
- gains on debt extinguishments of \$22 million (see Item 8. Financial Statements and Supplementary Data, Note 16 Debt for details).

Other Components of Net Periodic Benefit Recovery

Other components of net periodic benefit recovery are 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 \$352 million in 2024, an increase of \$25 million, or 8%, from \$327 million in 2023. The increase was primarily due to a decrease in interest cost on the benefit obligation of \$17 million and an increase in the expected return on plan assets of \$9 million.

Net Interest Expense

Net interest expense includes interest on long-term debt, short-term debt, and finance leases. Net interest expense was \$801 million in 2024, an increase of \$30 million, or 4%, from \$771 million in 2023. The increase was primarily due to interest of \$41 million incurred on debt previously issued by KCS and exchanged with Canadian Pacific Railway Company ("CPRC") following the acquisition of control, and higher interest on commercial paper of \$19 million as a result of higher outstanding borrowings. This increase was partially offset by lower interest expense of \$39 million following the repayment of maturing long-term debt.

Remeasurement 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. Upon assuming 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 2023. This loss was primarily due to the outside basis tax initially recognized at the time of the Company's initial investment in KCS.

Income Tax Expense (Recovery)

Income tax expense was \$1,059 million in 2024, a change of \$8,035 million, or 115%, from an income tax recovery of \$6,976 million in 2023. The change was primarily due to:

- a deferred income tax recovery of \$7,832 million in 2023 on the derecognition of the deferred income tax liability on the outside basis difference of the investment in KCS upon acquiring control;
- the impact of the KCS acquisition of \$103 million;
- higher current income tax expense due to higher taxable earnings;
- a deferred income tax recovery of \$58 million, recorded in 2023, on the revaluation of deferred income tax balances on unitary state apportionment changes; and
- an outside basis deferred income tax recovery of \$23 million, recorded in 2023, arising from the change in the carrying amount of the investment in KCS for financial reporting.

This change was partially offset by an increase in deferred income tax recovery of \$68 million due to state corporate income tax rate changes.

The effective income tax rate for 2024 was 22.19% and 24.14% on a Core adjusted basis. The effective income tax rate for 2023 was 228.50% and 24.01% on a Core adjusted basis. The Company's 2025 Core adjusted effective tax rate is expected to be approximately 24.50%. 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 comparability to past performance. The Company uses the Core adjusted effective tax rate to evaluate CPKC's operating performance and for planning and forecasting future profitability. Core adjusted effective tax rate also excludes equity earnings of KCS (net of tax) and KCS purchase accounting to provide financial statement users with additional transparency by isolating the impact of 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 Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Non-GAAP measures. The outlook for the Company's 2025 Core adjusted 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. These assumptions are discussed further in Item 1A. Risk Factors. Refer also to "Forward-Looking Statements" below for further details.

Impact of Foreign Exchange 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 of KCS recognized for the period from January 1 to April 13, 2023 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 financial 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 2024, the U.S. dollar strengthened to an average rate of \$1.37 Canadian/U.S. dollar and the Mexican Peso weakened to an average rate of Ps.13.32 Mexican Peso/Canadian dollar, compared to \$1.35 Canadian/U.S. dollar and Ps.13.12 Mexican Peso/Canadian dollar in 2023, resulting in an increase in Total revenues of \$95 million, an increase in Total operating expenses of \$48 million, and an increase in Net interest expense of \$11 million.

In 2025, 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 \$76 million (2024 - approximately \$75 million), negatively (or positively) impacts Operating expenses by approximately \$43 million (2024 - approximately \$46 million), and negatively (or positively) impacts Net interest expense by approximately \$6 million (2024 - approximately \$5 million) on an annualized basis.

In 2025, 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 \$6 million (2024 - approximately \$7 million) and negatively (or positively) impacts Operating expenses by approximately \$6 million (2024 - approximately \$7 million) on an annualized basis.

The Company uses U.S. dollar-denominated debt and operating lease liabilities to hedge its net investment in U.S. operations. As at December 31, 2024, the net investment in U.S. operations is greater than the total U.S. denominated debt and operating lease liabilities. Consequently, FX translation on the Company's unhedged net investment in U.S. operations is recognized in Other comprehensive income. There is no additional impact on earnings in Other (income) expense related to the FX translation on the Company's debt and operating lease liabilities.

To manage its exposure to fluctuations in exchange rates between Canadian 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 expenses. 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, as discussed further in Item 1. Business, Operations, Fuel Cost Adjustment Program and Item 1A. Risk Factors, *"The Company is affected by fluctuating fuel prices"*.

The impact of fuel price 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 2024, the unfavourable impact of fuel prices on Operating income was \$98 million. Lower fuel prices and the unfavourable impact from the timing of recoveries under the Company's fuel cost adjustment program, partially offset by increased carbon levy surcharge revenues, resulted in a decrease in Total revenues of \$184 million from 2023. Lower fuel prices resulted in a decrease in Total operating expenses of \$86 million from 2023.

Impact of Share Price on Earnings and Stock-Based Compensation

Fluctuations in the Common Share price affect the Company's Operating expense because stock-based compensation 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 2024, the change in the Company's Common Share price resulted in a stock-based compensation expense recovery of \$13 million, a variance of \$17 million from \$4 million expense in 2023.

Based on information available at December 31, 2024 and expectations for 2025 share-based grants, for every \$1.00 change in the Company's Common Share price, stock-based compensation expense has a corresponding change of approximately \$1.9 million to \$2.7 million. This excludes the impact of changes in Common Share price relative to the S&P/TSX 60 Index, S&P 500 Industrials Index, and to other Class I railways, which may trigger different performance share unit payouts. Stock-based compensation expense may also be impacted by non-market performance conditions.

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 from 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 December 31, 2024, the Company had \$739 million of Cash and cash equivalents compared to \$464 million at December 31, 2023.

During 2024, the Company repaid the remaining balance of U.S. \$1,429 million (\$2,002 million) on its 1.35% 3-year Notes. The Company also repaid U.S. \$48 million (\$66 million) on its 5.41% Senior Secured Notes and repurchased, on the open market, certain of its Senior Notes with principal values of U.S. \$176 million (\$241 million).

Effective June 25, 2024, the Company entered into a third amended and restated revolving credit facility (the "facility") agreement to extend the maturity dates under the facility. The amendment extended the maturity date of the five-year U.S. \$1.1 billion tranche from May 11, 2028 to June 25, 2029. The amendment also extended the maturity date of the two-year U.S. \$1.1 billion tranche from May 11, 2025 to June 25, 2026. As at December 31, 2024, the Company had U.S. \$200 million (\$288 million) drawn on the two-year U.S. \$1.1 billion tranche of its revolving credit facility (December 31, 2023 - undrawn) and was undrawn on the five-year U.S. \$1.1 billion tranche (December 31, 2023 - undrawn).

The Company has a commercial paper program that enables it to issue commercial paper in the form of unsecured promissory notes. The Company's existing commercial paper program is backed by the revolving credit facility. As at December 31, 2024, the Company had total commercial paper borrowings outstanding of U.S. \$1,102 million (\$1,586 million) (December 31, 2023 - U.S. \$800 million (\$1,058 million)).

The Company has bilateral letter of credit facilities with six financial institutions to support its requirement to post letters of credit in the ordinary course of business. Under these agreements, 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 Company's Consolidated Balance Sheets. As at December 31, 2024, the Company did not have any collateral posted on its bilateral letter of credit facilities (December 31, 2023 - \$nil) and had letters of credit drawn of \$95 million (December 31, 2023 - \$93 million) from a total available amount of \$300 million.

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, capital commitments, supplier purchases, leases, and other long term liabilities. Outstanding obligations related to debt and leases can be found in Item 8. Financial Statements and Supplementary Data, Note 16 Debt and Note 19 Leases. Interest obligations related to debt and finance leases amount to \$783 million within the next 12 months, with the remaining amount committed thereafter of \$17,054 million.

Supplier purchase agreements and other long-term liabilities due in the next 12 months are \$971 million and \$73 million, respectively. The remaining amounts committed thereafter are \$2,944 million and \$632 million, respectively. Other long-term liabilities include expected cash payments for environmental remediation, post-retirement benefits, worker's compensation benefits, long-term disability benefits, pension benefit payments for the Company's non-registered supplemental pension plan, and certain other long-term liabilities. Capital commitments are discussed further in Item 8. Financial Statements and Supplementary Data, Note 25 Commitments and contingencies.

Concession Duty

The Company's subsidiary, Kansas City Southern de México, S.A. de C.V. ("CPKCM") has a fifty-year concession (the "Concession"), which will expire in 2047 but is renewable under certain conditions, for additional periods, each up to 50 years. Under the Concession, CPKCM pays annual concession duties equal to 1.25% of its gross revenues. Capital commitments under the Concession are described in Item 8. Financial Statements and Supplementary Data, Note 25 Commitments and contingencies.

Guarantees

Refer to Item 8. Financial Statements and Supplementary Data, Note 26 Guarantees for details.

Operating Activities

Cash provided by operating activities increased \$1,132 million in 2024 compared to 2023. The increase was primarily due to an increase in cash generating income, including the impact of the acquisition of KCS, and an unfavourable change in working capital in 2023.

Investing Activities

Cash used in investing activities increased \$634 million in 2024 compared to 2023. The increase was primarily due to higher additions to properties, including the impact of the acquisition of KCS, and cash acquired on control of KCS in 2023.

Capital Programs

For the year ended December 31
(in millions of Canadian dollars, except for track miles and crossties)

	2024	2023
Additions to capital		
Track and roadway	\$ 1,997	\$ 1,623
Rolling stock	346	273
Buildings	140	112
Other	371	483
Total additions to capital	2,854	2,491
Less:		
Non-cash transactions	29	23
Cash invested in additions to properties	\$ 2,825	\$ 2,468
Track installation capital programs		
Track miles of rail laid	328	323
Track miles of rail capacity expansion	18	24
Crossties installed (thousands)	1,484	1,617

Track and roadway expenditures include the replacement and enhancement of the Company's track infrastructure. Of the \$1,997 million additions to capital in 2024 (2023 - \$1,623 million), approximately \$1,610 million (2023 - \$1,373 million) was invested in the renewal of depleted assets, namely rail, ties, ballast, signals, and bridges. Approximately \$387 million (2023 - \$250 million) was invested in network improvements and growth initiatives.

Rolling stock investments encompass locomotives and railcars. In 2024, expenditures on locomotives were approximately \$335 million (2023 - \$186 million) which were focused on the continued investment in the Company's locomotive fleets. Railcar investment of approximately \$11 million (2023 - \$87 million) was largely focused on the renewal of depleted assets.

In 2024, investments in buildings were approximately \$140 million (2023 - \$112 million) and included the new operations building in Kansas City, facility upgrades, renovations, and shop equipment. Other investments were \$371 million (2023 - \$483 million) and included investments in intermodal equipment, information systems, work equipment, and vehicles.

For 2025, the Company expects to invest approximately \$2.9 billion in its capital programs. Capital programs are expected to be financed with cash generated from operations. Of the planned capital programs, approximately:

- 55% to 60% is expected to be allocated to track and roadway;
- 30% to 35% is expected to be allocated to rolling stock, including railcars and locomotives; and
- 5% to 15% is expected to be allocated to buildings and other investments.

Additional discussion of capital commitments can be found in Item 8. Financial Statements and Supplementary Data, Note 25 Commitments and contingencies.

Financing Activities

The Company remains focused on returning to its long-term leverage ratio, following the acquisition of KCS, with repayments and repurchases of long-term debt remaining stable across the comparative period. Cash used in financing activities increased \$297 million in 2024 compared to 2023. The increase was primarily due to a decrease in net issuances of commercial paper of \$656 million, driven by net issuances of \$439 million in 2024 compared to \$1,095 million in 2023. This was partially offset by an increase of \$274 million in short term borrowings in 2024, driven by drawings on the Company's revolving credit facility.

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 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 December 31, 2024, the Company's credit ratings from Standard & Poor's Rating Services ("Standard & Poor's") remain unchanged from December 31, 2023. During the first quarter of 2024, Moody's Investor Service ("Moody's") upgraded the Company's outlook from stable to positive. The following table shows the ratings issued for the Company by the rating agencies noted as at December 31, 2024 and is being presented as it relates to the Company's cost of funds and liquidity. During the first quarter of 2025, Moody's upgraded the Company's Long-term debt rating to Baa1.

Credit ratings as at December 31, 2024⁽¹⁾

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

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

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".

As of the date of the filing of the Form 10-K, CPRC had U.S. \$12,466 million principal amount of SEC-registered debt securities outstanding due through 2115 issued in the U.S. pursuant to a trust indenture, 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 \$2,300 million principal amount of debt securities outstanding due through 2050 issued in Canada under our Canadian base shelf prospectus for which CPKC 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. More information on the securities under this guarantee structure can be found in Exhibit 22.1 List of Issuers and Guarantor Subsidiaries of this annual report.

Pursuant to Rules 3-01 and 13-01 of the Securities Exchange Commission ("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.

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.

Statement of Income Information

	CPRC (Subsidiary Issuer) and CPKC (Parent Guarantor)	
For the year ended December 31 (in millions of Canadian dollars)	2024	2023
Total revenues	\$ 6,877	\$ 6,577
Total operating expenses	4,300	4,074
Operating income ⁽¹⁾	2,577	2,503
Less: Other ⁽²⁾	516	468
Income before income tax expense	2,061	2,035
Net income	\$ 1,496	\$ 1,480

⁽¹⁾ Includes net lease costs incurred from Non-Guarantor Subsidiaries for the years ended December 31, 2024, and 2023 of \$462 million and \$463 million, respectively.

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

Balance Sheet Information

	CPRC (Subsidiary Issuer) and CPKC (Parent Guarantor)	
As at December 31 (in millions of Canadian dollars)	2024	2023
Assets		
Current assets	\$ 1,237	\$ 1,240
Properties	12,904	12,327
Other non-current assets	4,901	3,562
Liabilities		
Current liabilities	\$ 4,128	\$ 4,359
Long-term debt	19,618	19,169
Other non-current liabilities	3,832	3,412

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

Transactions with Non-Guarantor Subsidiaries

For the year ended December 31 (in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPKC (Parent Guarantor)	
	2024	2023
Dividend income from Non-Guarantor Subsidiaries	\$ 622	\$ 309
Capital contributions to Non-Guarantor Subsidiaries	—	(4,324)
Return of capital from Non-Guarantor Subsidiaries	422	—

Balances with Non-Guarantor Subsidiaries

As at December 31 (in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPKC (Parent Guarantor)	
	2024	2023
Assets		
Accounts receivable, intercompany	\$ 263	\$ 455
Short-term advances to affiliates	197	1,788
Long-term advances to affiliates	11,351	7,072
Liabilities		
Accounts payable, intercompany	\$ 230	\$ 347
Short-term advances from affiliates	130	2,783
Long-term advances from affiliates	3,968	—

Non-GAAP Measures

The Company presents Non-GAAP measures, namely Core adjusted combined operating ratio and Core adjusted combined diluted EPS, to provide an additional basis for evaluating underlying earnings trends in the Company's current period's 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.

These Non-GAAP measures have no standardized meanings 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, Canadian Pacific Railway Limited 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 presents Core adjusted combined measures to provide a comparison to prior period financial information as adjusted to exclude certain significant items and KCS purchase accounting. The most directly comparable GAAP measures to certain Non-GAAP measures already include KCS's net income attributable to shareholders as a result of applying the equity method of accounting following the acquisition of shares of KCS on December 14, 2021. For example, CPKC's year ended December 31, 2023 diluted EPS, which included equity earnings of KCS for the period January 1 through April 13, 2023, is used to reconcile to Core adjusted combined diluted EPS. Conversely, the most directly comparable GAAP measures to the other Non-GAAP measures do not include KCS's equity earnings. For example, the operating ratio, which is used to reconcile to Core adjusted combined operating ratio, did not include KCS's operating ratio for the period January 1 through April 13, 2023, as equity income was recognized within non-operating earnings. These measures are calculated by (1) adding KCS historical GAAP results and giving effect to transaction accounting adjustments in a manner consistent with Regulation S-X Article 11 ("Article 11"), where applicable, and (2) adjusting for KCS purchase accounting and significant items that management believes affect the comparability between periods.

Management believes these Non-GAAP measures provide 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, adjustments to provisions and settlements of Mexican taxes, 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, 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 income tax recovery related to the elimination of the deferred income 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, integration costs including 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, and may include items that are settled in cash. Specifically, due to the magnitude of the acquisition, its significant impact to the Company's business and complexity of integrating the acquired business and operations, the Company expects to incur acquisition-related costs beyond the year of acquisition. 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 EPS 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, amortization of the change in fair value of debt of KCS assumed on the Control Date, and depreciation and amortization of fair value adjustments that are attributable to the non-controlling interest, as recognized within "Depreciation and amortization", "Other (income) expense", "Net interest expense", and "Net loss attributable to non-controlling interest", respectively, in the Company's Consolidated Statements of Income. During the periods prior to the Control Date, 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 of Kansas City Southern" in the Company's 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 the impact of KCS purchase accounting.

Reconciliation of GAAP Performance Measures to Non-GAAP Performance Measures

Core Adjusted Combined Diluted Earnings per Share

Core adjusted combined diluted EPS is calculated using Diluted EPS reported on a GAAP basis adjusted for significant items less KCS purchase accounting. Prior to the Control Date, KCS was accounted for in CPKC's diluted EPS 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 EPS for CPKC, no adjustment is required to pre-control diluted EPS to be comparable on a consolidated basis.

In 2024, there were three significant items included in the Net income attributable to controlling shareholders as reported on a GAAP basis as follows:

- during the course of the year, a deferred income tax recovery of \$81 million on account of changes in tax rates, that favourably impacted Diluted EPS by 9 cents as follows:
 - in the fourth quarter, a deferred income tax recovery of \$78 million due to a decrease in the Louisiana state corporate income tax rate, that favourably impacted Diluted EPS by 9 cents; and
 - in the second quarter, a deferred income tax recovery of \$3 million due to a decrease in the Arkansas state corporate income tax rate, that had minimal impact on Diluted EPS;
- during the course of the year, adjustments to provisions and settlements of Mexican taxes of \$4 million recovery (\$2 million after deferred income tax expense of \$2 million) recognized in "Compensation and benefits", that had minimal impact on Diluted EPS as follows:
 - in the fourth quarter, adjustments to provisions and settlements of Mexican taxes of \$7 million recovery (\$6 million after deferred income tax expense of \$1 million) recognized in "Compensation and benefits", that had minimal impact on Diluted EPS;
 - in the third quarter, adjustments to provisions and settlements of Mexican taxes of \$7 million recovery (\$6 million after deferred income tax expense of \$1 million) recognized in "Compensation and benefits", that favourably impacted Diluted EPS by 1 cent; and
 - in the first quarter, adjustments to provisions and settlements of Mexican taxes of \$10 million expense (\$10 million after deferred income tax recovery) recognized in "Compensation and benefits", that unfavourably impacted Diluted EPS by 1 cent; and

- during the course of the year, acquisition-related costs of \$112 million in connection with the KCS acquisition (\$82 million after current income tax recovery of \$30 million), including an expense of \$18 million recognized in "Compensation and benefits", \$6 million recognized in "Materials", and \$88 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 9 cents as follows:
 - in the fourth quarter, acquisition-related costs of \$22 million in connection with the KCS acquisition (\$17 million after current income tax recovery of \$5 million) including costs of \$1 million recognized in "Compensation and benefits", \$1 million recognized in "Materials", and \$20 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 2 cents;
 - in the third quarter, acquisition-related costs of \$36 million in connection with the KCS acquisition (\$26 million after current income tax recovery of \$10 million) including costs of \$11 million recognized in "Compensation and benefits", \$1 million recognized in "Materials", and \$24 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 3 cents;
 - in the second quarter, acquisition-related costs of \$28 million in connection with the KCS acquisition (\$19 million after current income tax recovery of \$9 million) including costs of \$2 million recognized in "Compensation and benefits", \$2 million recognized in "Materials", and \$24 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 2 cents; and
 - in the first quarter, acquisition-related costs of \$26 million in connection with the KCS acquisition (\$20 million after current income tax recovery of \$6 million) including costs of \$4 million recognized in "Compensation and benefits", \$2 million recognized in "Materials", and \$20 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 2 cents.

In 2023, there were five significant items included in 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;
- during the course of the year, a total current tax expense of \$16 million related to a tax settlement with the Servicio de Administracion Tributaria ("SAT") of \$13 million and a reserve for the estimated impact of potential future audit settlements of \$3 million, that unfavourably impacted Diluted EPS by 2 cents as follows:
 - in the fourth quarter, a current tax expense of \$1 million related to a tax settlement with the SAT that had minimal impact on Diluted EPS; and
 - in the third quarter, a total current tax expense of \$15 million related to a tax settlement with the SAT of \$9 million and reserves for the estimated impact of potential future audit settlements of \$6 million of which \$3 million was settled in the fourth quarter, that unfavourably impacted Diluted EPS by 2 cents;
- during the course of the year, a deferred income tax recovery of \$72 million on account of changes in tax rates and apportionment, that favourably impacted Diluted EPS by 7 cents as follows:
 - in the fourth quarter, a deferred income tax recovery of \$7 million due to CPKC unitary state apportionment changes, that favourably impacted Diluted EPS by 1 cent;
 - in the third quarter, a deferred income tax recovery of \$14 million due to decreases in the Iowa and Arkansas state corporate income tax rates, that favourably impacted Diluted EPS by 2 cents; and
 - in the second quarter, a deferred income tax recovery of \$51 million due to CPKC unitary state apportionment changes, that favourably impacted Diluted EPS by 5 cents;
- during the course of the year, deferred income tax recovery of \$7,855 million on changes in the outside basis difference on the equity investment in KCS, that favourably impacted Diluted EPS by \$8.42 as follows:
 - in the second quarter, a deferred income tax recovery of \$7,832 million related to the elimination of the deferred income 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 income 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
- during the course of the year, acquisition-related costs of \$201 million in connection with the KCS acquisition (\$164 million after current income tax recovery of \$37 million), including an expense of \$71 million recognized in "Compensation and benefits", \$2 million recognized in "Materials", \$111 million recognized in "Purchased services and other", \$6 million recognized in "Other (income) expense", and \$11 million recognized in "Equity earnings of Kansas City Southern", that unfavourably impacted Diluted EPS by 17 cents as follows:
 - in the fourth quarter, acquisition-related costs of \$32 million (\$24 million after current income tax recovery of \$8 million), including costs of \$7 million recognized in "Compensation and benefits", \$1 million recognized in "Materials", and \$24 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 2 cents;
 - in the third quarter, acquisition-related costs of \$24 million (\$18 million after current income tax recovery of \$6 million), including costs of \$1 million recognized in "Compensation and benefits", \$1 million recognized in "Materials", and \$22 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 2 cents;
 - in the second quarter, acquisition-related costs of \$120 million (\$101 million after current income tax recovery of \$19 million), including costs of \$63 million recognized in "Compensation and benefits", \$53 million recognized in "Purchased services and other", \$3 million recognized in "Other (income) expense", and \$1 million recognized in "Equity earnings of Kansas City Southern", that unfavourably impacted Diluted EPS by 11 cents; and
 - in the first quarter, acquisition-related costs of \$25 million (\$21 million after current income tax recovery of \$4 million), including costs of \$12 million recognized in "Purchased services and other", \$3 million recognized in "Other (income) expense", and \$10 million recognized in "Equity earnings of Kansas City Southern", that unfavourably impacted Diluted EPS by 2 cents.

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

2024:

- during the course of the year, KCS purchase accounting of \$352 million (\$256 million after deferred income tax recovery of \$96 million), including costs of \$333 million recognized in "Depreciation and amortization", \$3 million recognized in "Purchased services and other" related to the amortization of equity investments, \$20 million recognized in "Net interest expense", \$3 million recognized in "Other (income) expense", and a recovery of \$7 million recognized in "Net loss attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 27 cents as follows:
 - in the fourth quarter, KCS purchase accounting of \$93 million (\$68 million after deferred income tax recovery of \$25 million), including costs of \$87 million recognized in "Depreciation and amortization", \$1 million recognized in "Purchased services and other" related to the amortization of equity investments, \$6 million recognized in "Net interest expense", \$1 million recognized in "Other (income) expense", and a recovery of \$2 million recognized in "Net loss attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 8 cents;
 - in the third quarter, KCS purchase accounting of \$89 million (\$65 million after deferred income tax recovery of \$24 million), including costs of \$85 million recognized in "Depreciation and amortization", \$4 million recognized in "Net interest expense", \$1 million recognized in "Other (income) expense", and a recovery of \$1 million recognized in "Net loss attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 7 cents;
 - in the second quarter, KCS purchase accounting of \$86 million (\$62 million after deferred income tax recovery of \$24 million), including costs of \$82 million recognized in "Depreciation and amortization", \$1 million recognized in "Purchased services and other" related to the amortization of equity investments, \$5 million recognized in "Net interest expense", and a recovery of \$2 million recognized in "Net loss attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 6 cents; and
 - in the first quarter, KCS purchase accounting of \$84 million (\$61 million after deferred income tax recovery of \$23 million), including costs of \$79 million recognized in "Depreciation and amortization", \$1 million recognized in "Purchased services and other" related to the amortization of equity investments, \$5 million recognized in "Net interest expense", \$1 million recognized in "Other (income) expense", and a recovery of \$2 million recognized in "Net loss attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 7 cents.

2023:

- during the course of the year, KCS purchase accounting of \$297 million (\$228 million after deferred income tax recovery of \$69 million), including costs of \$234 million recognized in "Depreciation and amortization", \$1 million recognized in "Purchased services and other" related to the amortization of equity investments, \$17 million recognized in "Net interest expense", \$2 million recognized in "Other (income) expense", \$48 million recognized in "Equity earnings of Kansas City Southern", and a recovery of \$5 million recognized in "Net loss attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 25 cents as follows:
 - in the fourth quarter, KCS purchase accounting of \$87 million (\$62 million after deferred income tax recovery of \$25 million), including costs of \$85 million recognized in "Depreciation and amortization", \$1 million recognized in "Purchased services and other" related to the amortization of equity investments, \$6 million recognized in "Net interest expense", and a recovery of \$5 million recognized in "Net loss attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 7 cents;
 - in the third quarter, KCS purchase accounting of \$87 million (\$63 million after deferred income tax recovery of \$24 million), including costs of \$81 million recognized in "Depreciation and amortization", \$5 million recognized in "Net interest expense", and \$1 million in recognized in "Other (income) expense", that unfavourably impacted Diluted EPS by 7 cents;
 - in the second quarter, KCS purchase accounting of \$81 million (\$61 million after deferred income 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 (income) expense", and \$6 million recognized in "Equity earnings of Kansas City Southern", that unfavourably impacted Diluted EPS by 6 cents; and
 - in the first quarter, KCS purchase accounting of \$42 million recognized in "Equity earnings of Kansas City Southern", that unfavourably impacted Diluted EPS by 5 cents.

	For the year ended December 31	
	2024	2023
CPKC diluted earnings per share as reported	\$ 3.98	\$ 4.21
Less:		
Significant items (pre-tax):		
Remeasurement loss of Kansas City Southern	—	(7.68)
Acquisition-related costs	(0.12)	(0.21)
KCS purchase accounting	(0.38)	(0.32)
Add:		
Tax effect of adjustments ⁽¹⁾	(0.14)	(0.11)
Adjustments to provisions and settlements of Mexican taxes	—	0.02
Income tax rate changes	(0.09)	(0.07)
Deferred income tax recovery on the outside basis difference of the investment in KCS	—	(8.42)
Core adjusted combined diluted earnings per share	\$ 4.25	\$ 3.84

⁽¹⁾ 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 27.13% for the year ended December 31, 2024 and 1.37% for the year ended December 31, 2023. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the adjustments.

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 manner consistent with Article 11, where applicable, (2) significant items (acquisition-related costs and adjustments to provisions and settlement of Mexican taxes) that are reported within Operating income, and (3) KCS purchase accounting recognized in "Depreciation and amortization" and "Purchased services and other".

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 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 2024:

- during the course of the year, adjustments to provisions and settlements of Mexican taxes of \$4 million recovery recognized in "Compensation and benefits", that had minimal impact on operating ratio as follows:
 - in the fourth quarter, adjustments to provisions and settlements of Mexican taxes of \$7 million recovery recognized in "Compensation and benefits", that favourably impacted operating ratio by 0.2%;
 - in the third quarter, adjustments to provisions and settlements of Mexican taxes of \$7 million recovery recognized in "Compensation and benefits", that favourably impacted operating ratio by 0.2%; and
 - in the first quarter, adjustments to provisions and settlements of Mexican taxes of \$10 million expense recognized in "Compensation and benefits", that unfavourably impacted operating ratio by 0.3%; and
- during the course of the year, acquisition-related costs were \$112 million in connection with the KCS acquisition including costs of \$18 million recognized in "Compensation and benefits", \$6 million recognized in "Materials", and \$88 million recognized in "Purchased services and other", that unfavourably impacted operating ratio on a combined basis by 0.8%:
 - in the fourth quarter, acquisition-related costs of \$22 million including costs of \$1 million recognized in "Compensation and benefits", \$1 million recognized in "Materials", and \$20 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 0.5%;
 - in the third quarter, acquisition-related costs of \$36 million including costs of \$11 million recognized in "Compensation and benefits", \$1 million recognized in "Materials", and \$24 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 1.0%;
 - in the second quarter, acquisition-related costs of \$28 million including costs of \$2 million recognized in "Compensation and benefits", \$2 million recognized in "Materials", and \$24 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 0.7%; and
 - in the first quarter, acquisition-related costs of \$26 million including costs of \$4 million recognized in "Compensation and benefits", \$2 million recognized in "Materials", and \$20 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 0.8%.

In 2023, acquisition-related costs were \$197 million in connection with the KCS acquisition including costs of \$82 million recognized in "Compensation and benefits", \$2 million recognized in "Materials", and \$113 million recognized in "Purchased services and other", that unfavourably impacted operating ratio on a combined basis, calculated in a manner consistent with Article 11, by 1.4%:

- in the fourth quarter, acquisition-related costs of \$32 million including costs of \$7 million recognized in "Compensation and benefits", \$1 million recognized in "Materials", and \$24 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 0.8%;
- in the third quarter, acquisition-related costs of \$24 million including costs of \$1 million recognized in "Compensation and benefits", \$1 million recognized in "Materials", and \$22 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 0.8%;
- in the second quarter, acquisition-related costs of \$116 million including costs of \$63 million recognized in "Compensation and benefits", and \$53 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 3.5%; and
- in the first quarter, acquisition-related costs of \$25 million including costs of \$11 million recognized in "Compensation and benefits", and \$14 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 0.7%.

KCS purchase accounting included in Operating income on a combined basis calculated in a manner consistent with Article 11, where applicable, was as follows:

2024:

- during the course of the year, KCS purchase accounting of \$336 million including \$333 million recognized in "Depreciation and amortization" and \$3 million recognized in "Purchased services and other" related to the amortization of equity investments, that unfavourably impacted operating ratio by 2.3% as follows:
 - in the fourth quarter, KCS purchase accounting of \$88 million including \$87 million recognized in "Depreciation and amortization" and \$1 million recognized in "Purchased services and other" related to the amortization of equity investments, that unfavourably impacted operating ratio by 2.3%;
 - in the third quarter, KCS purchase accounting of \$85 million recognized in "Depreciation and amortization", that unfavourably impacted operating ratio by 2.4%;
 - in the second quarter, KCS purchase accounting of \$83 million including \$82 million recognized in "Depreciation and amortization" and \$1 million recognized in "Purchased services and other" related to the amortization of equity investments, that unfavourably impacted operating ratio by 2.3%; and
 - in the first quarter, KCS purchase accounting of \$80 million including \$79 million recognized in "Depreciation and amortization" and \$1 million recognized in "Purchased services and other" related to the amortization of equity investments, that unfavourably impacted operating ratio by 2.3%.

2023:

- during the course of the year, KCS purchase accounting of \$327 million including \$326 million recognized in "Depreciation and amortization" and \$1 million recognized in "Purchased services and other" related to the amortization of equity investments, that unfavourably impacted operating ratio by 2.4% as follows:
 - in the fourth quarter, KCS purchase accounting of \$86 million including \$85 million recognized in "Depreciation and amortization" and \$1 million recognized in "Purchased services and other" related to the amortization of equity investments, that unfavourably impacted operating ratio by 2.3%;
 - in the third quarter, KCS purchase accounting of \$81 million recognized in "Depreciation and amortization" that unfavourably impacted operating ratio by 2.4%;
 - in the second quarter, KCS purchase accounting of \$80 million recognized in "Depreciation and amortization" that unfavourably impacted operating ratio by 2.4%; and
 - in the first quarter, KCS purchase accounting of \$80 million recognized in "Depreciation and amortization" that unfavourably impacted operating ratio by 2.3%.

	For the year ended December 31	
	2024	2023
CPKC operating ratio as reported	64.4 %	65.0 %
Add:		
KCS operating income as reported prior to Control Date ⁽¹⁾	— %	— %
Pro forma Article 11 transaction accounting adjustments ⁽²⁾	— %	0.8 %
	64.4 %	65.8 %
Less:		
Acquisition-related costs	0.8 %	1.4 %
KCS purchase accounting in Operating expenses	2.3 %	2.4 %
Core adjusted combined operating ratio	61.3 %	62.0 %

⁽¹⁾ KCS's historical amounts in U.S. dollars were translated into Canadian dollars at the Bank of Canada average exchange rate for the period from January 1 to April 13, 2023 with an effective exchange rate of \$1.35.

⁽²⁾ Pro forma Article 11 transaction accounting adjustments for January 1 through April 13, 2023 represent adjustments made in a manner consistent with Article 11. For January 1 through April 13, 2023, depreciation and amortization of differences between the historical carrying values and the fair values of KCS's tangible and intangible assets and investments prior to the Control Date that unfavourably impacted operating ratio by 0.8% 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, 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 SEC on May 15, 2023.

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and judgements that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts and classification of revenues, expenses and other income items during the reporting period. Using the most current information available, the Company reviews estimates on an ongoing basis.

Business Acquisition

As described in Item 8. Financial Statements and Supplementary Data, Note 10 Business acquisition and Note 11 Investment in Kansas City Southern, 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 were measured at their provisional fair values at the Control Date, with certain exceptions, including income taxes and contract liabilities. The results from operations and cash flows have been consolidated prospectively from the Control Date.

A provisional purchase price allocation was determined at the Control Date using the best available information at that time, and the accounting for the acquisition of KCS was completed on April 13, 2024, with the end of the measurement period and the final validation of the fair values assigned to acquired assets and assumed liabilities and non-controlling interest. During the measurement period the provisional purchase price allocation was subject to adjustment as a result of the recognition of additional assets and liabilities reflecting new information obtained about facts and circumstances that existed as of the Control Date that, if known, would have affected the amounts recognized as at that date. Goodwill is the residual value after allocating the fair value of KCS to the assets acquired and liabilities and non-controlling interest assumed, i.e. it represents the excess of the purchase price over the fair value of the identifiable net assets.

Accounting for a business acquisition requires significant judgement to determine the estimated fair value of long-lived assets, intangible assets and assumed liabilities as at the acquisition date. The estimated fair values assigned to tangible and intangible assets acquired and liabilities assumed were based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilized customary valuation procedures and techniques. Estimates and assumptions included, but were not limited to, the cash flows an asset was expected to generate in the future and the appropriate weighted average cost of capital as at the Control Date, including market data, historical and future cash flow estimates, growth rates and discount rates.

The Company believes the fair value of KCS and the fair values of the assets acquired and the liabilities and non-controlling interest assumed were based on reasonable assumptions and known information and estimates as of the Control Date. Characteristics of the assumptions and facts used to generate these estimates include measurement uncertainties. Alternative estimates or assumptions could have been used in the establishment of the fair value of KCS and the fair values of the assets acquired and liabilities assumed, including goodwill.

The table below outlines the sensitivities of key estimates. The table includes estimates of the related impacts to the fair values:

(in billions of Canadian dollars, except percentages)	Fair Value	Sensitivity Range	Value Range
Previously held equity investment in KCS	\$ 37.2		
Revenue growth rate		-1% 1%	\$ 36.2 \$ 38.3
Terminal EBITDA multiple		-0.5x 0.5x	\$ 35.6 \$ 38.8
EBITDA margin		-1% 1%	\$ 36.7 \$ 37.8
Discount rate		-1% 1%	\$ 38.9 \$ 35.6
Intangible assets including Mexican Concession⁽¹⁾	\$ 12.2		
Terminal growth rate		-0.5% 0.5%	\$ 11.4 \$ 13.1
Discount rate		-1% 1%	\$ 14.4 \$ 10.6
Mexican Concession⁽¹⁾	\$ 9.2		
Renewal probability of Mexican Concession ⁽¹⁾		-10% 10%	\$ 8.9 \$ 9.4

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

Goodwill and Intangible Assets

The Company evaluates goodwill and indefinite life intangible assets for impairment at least annually, or sooner if indicators of impairment exist. For intangible assets with finite lives impairment is assessed whenever events or circumstances indicate that their carrying amounts may not be recoverable. In determining if events or circumstances indicate the carrying value of the reporting unit exceeds its fair value, the Company considers relevant events and conditions, including, but not limited to:

- macroeconomic trends;
- industry and market conditions;
- overall financial performance;
- company-specific events; and
- legal and regulatory factors.

When qualitative assessments suggest that the fair value of the Company's reporting unit is more likely than not to be lower than its carrying amount, the Company performs a quantitative impairment test. Measurement of the fair value of a reporting unit requires the use of estimates and assumptions. The fair value of the Company's reporting unit is estimated using a combination of:

- discounted cash flows and earnings multiples which represent amounts at which the reporting unit as a whole could be bought or sold in a current transaction between willing parties;
- present value techniques of estimated future cash flows; and
- valuation techniques based on multiples of earnings or revenue.

Specifically, the determination of fair value using the discounted cash flow technique requires the use of estimates and assumptions and the sensitivities of these estimates and assumptions used in the valuation of KCS are provided in the Business Acquisition section above.

At December 31, 2024, the Company had recorded goodwill of \$19,350 million, all of which is allocated to a single reporting unit represented by the Company's rail transportation operating segment, and intangible assets of \$3,146 million. In addition to these amounts, the Concession rights and related assets held under a concession from the Mexican government, which are recognized within Properties, totalled \$9,836 million at December 31, 2024.

Pensions and Other Benefits

The Company sponsors several defined benefit pension plans, and also provides post-retirement health and life insurance benefits, as well as self-insured workers' compensation benefits in some Canadian provinces. As described in Part II Item 8 Financial Statements and Supplementary Data, Note 2 Summary of significant accounting policies, and Note 22 Pensions and other benefits, management must make a number of economic and demographic assumptions to calculate the present value of these future benefits. Due to the long-term nature of the benefit payments and the necessity for assumptions, there is a degree of estimation uncertainty in the calculations. The key assumptions are the discount rate, the expected rate of return on plan assets, and certain other actuarial assumptions.

Discount Rate

With the assistance of external actuaries, management determines the discount rate assumption at the measurement date based on market interest rates on debt instruments with cash flows that approximately match the timing and amount of the expected benefit payments. The debt instruments that are referenced for this purpose are rated at least AA (at least BBB in the case of self-insured workers' compensation benefits) by a recognized rating agency. The aggregate discount rate across the Company's pension and other benefits plans was 4.68% as at December 31, 2024, and 4.64% as at December 31, 2023. The change in discount rate reflects different interest rates available in the market at the respective measurement dates.

Expected Rate of Return on Plan Assets

To determine the long-term expected rate of return on plan assets assumption, management considers both historical returns and expected long-term future returns obtained from various investment firms for the asset classes that comprise the pension plans' target asset allocations. Expected rates of return for individual asset classes are weighted based on each plan's target allocation in order to set the expected rate of return assumption. On an aggregate basis, the expected long-term rate of return on plan assets assumption was approximately 6.70% in 2024 and will continue to be approximately 6.70% in 2025.

Other Actuarial Assumptions

With the assistance of external actuaries, management makes a number of other assumptions to estimate the obligations and costs of the Company's pension and other benefits plans, including assumptions about mortality rates, retirement ages, and rates of salary increases. To set these assumptions, management considers a variety of factors, including historical experience, industry trends, and expectations specific to the Company's plans.

Net Periodic Benefit (Recovery) Cost

The following table shows, on an aggregate basis for the defined benefit pension and other benefits plans, the Company's estimate of 2025 net periodic benefit (recovery) cost compared to actual amounts for 2024.

For the year ended December 31 (in millions of Canadian dollars)	2025 (estimated)	2024
Current service cost	\$ 98	\$ 97
Other components of net periodic benefit (recovery) cost	(428)	(352)
Net periodic benefit (recovery) cost	\$ (330)	\$ (255)

Sensitivities

The following table illustrates the impact of changes to the discount rate and expected rate of return on plan assets assumptions on the projected benefit obligations as at December 31, 2024 and on the 2025 estimated net periodic benefit (recovery) cost of the defined benefit pension and other benefits plans.

(in millions of Canadian dollars)	Projected benefit obligation as at December 31, 2024	Estimated 2025 Current service cost	Estimated 2025 Other components of net periodic benefit (recovery) cost
0.1% increase in discount rate	(119)	(3)	(5)
0.1% decrease in discount rate	123	3	5
0.1% increase in expected return on plan assets	N/A	N/A	(14)
0.1% decrease in expected return on plan assets	N/A	N/A	14

Properties

The Company follows the group depreciation method under which a single depreciation rate is applied to the total cost in a particular class of property, despite differences in the service life or salvage value of individual properties within the same class. The Company performs depreciation studies of each property asset class approximately every three years to update depreciation rates. The studies are conducted with assistance from third-party specialists and analyzed and reviewed by the Company's management. Depreciation studies for U.S. assets are reviewed and approved by the STB. Depreciation studies for Canadian assets are provided to the Canadian Transportation Agency (the "Agency"), but the Agency does not approve depreciation rates. In determining appropriate depreciation rates, management is required to make judgement and assumptions about a variety of key factors that are subject to future variability due to inherent uncertainties. These include the following:

Key Assumptions	Assessments
<ul style="list-style-type: none"> Whole and remaining asset lives 	<ul style="list-style-type: none"> Statistical analysis of historical retirement patterns; Evaluation of management strategy and its impact on operations and the future use of specific property assets; Assessment of technological advances; Engineering estimates of changes in current operations and analysis of historic, current, and projected future usage; Additional factors considered for track assets: density of traffic and whether rail is new or has been re-laid in a subsequent position; Assessment of policies and practices for the management of assets including maintenance; and Comparison with industry data.
<ul style="list-style-type: none"> Salvage values 	<ul style="list-style-type: none"> Analysis of historical, current, and estimated future salvage values.

The estimates of economic lives are uncertain and can vary due to changes in any of the assessed factors noted in the table above for whole and remaining asset lives. Additionally, the depreciation rates are updated to reflect the change in residual values of the assets in the class.

It is anticipated that there will be changes in the estimates of weighted-average useful lives and net salvage for each property asset class as assets are acquired, used, and retired. Substantial changes in either the useful lives of properties or the salvage assumptions could result in significant changes to depreciation expense. For example, if the estimated average life of track assets, including rail, ties, ballast, and other track material, increased (or decreased) by one year, annual depreciation expense would decrease (or increase) by approximately \$41 million.

Due to the capital intensive nature of the railway industry, depreciation represents a significant part of operating expenses. The estimated useful lives of properties have a direct impact on the amount of depreciation recorded as a component of "Properties" on the Company's Consolidated Balance Sheets.

The fair value of the Concession rights and related assets assigned through the Purchase Price Allocation following the acquisition of KCS and as adjusted through the measurement period, are capitalized and depreciated using the group method of depreciation over the lesser of the current expected concession term, including probable renewal of an additional 50-year term, or the estimated useful lives of the assets and rights. At December 31, 2024, the Concession rights and related assets, net of depreciation and amortization, were \$9,836 million.

Management has assessed that the renewal of the Concession for an additional 50-year term is probable based on the terms of the Concession agreement, current Mexican laws, the Company's performance under the Concession agreement, and the Mexican government's continued provision of rail services through concessions held by private companies. It is not reasonably likely that the probability of renewal will change in the foreseeable future, however, the Business Acquisition section above provides details of the change in the fair value of the Concession at the Control Date based on a 10% change in probability of renewal. In addition, it is also not reasonably likely based on current Mexican laws, that the renewal term would change. However, any change in the renewal term could result in a change in the depreciable lives of the assets and future depreciation expense. For example, if the depreciable life of the Concession rights and related assets, excluding track assets, increased (or decreased) by one year, annual depreciation expense would decrease (or increase) by approximately \$2 million. The impact of a one year change in depreciable lives of the Concession's track assets has been included in the sensitivity discussed above for the Company's total track assets.

Contingent Liabilities

The Company establishes provisions for contingent liabilities, including provisions for environmental remediation, personal injury, and other claims, when it is probable that the Company has incurred losses, and the amounts can be reasonably estimated. The estimates are subject to uncertainty because judgement is required to evaluate the probability that losses have been incurred and the amounts to be accrued. The amount of these provisions and changes therein are disclosed in Item 15. Exhibits, Financial Statement Schedule, (b) Financial Statement Schedule, except for provisions associated with self-insured workers' compensation benefits administered through the Worker's Compensation Board of four specific Canadian provinces, which are included within "Pension and other benefit liabilities".

Methodologies specific to the establishment and calculation of the provision for environmental remediation are described in Item 8. Financial Statements and Supplementary Data, Note 18 Other long-term liabilities. The emergence of new rules or information regarding the environmental condition of the Company's sites, new claims, or an adverse resolution of legal proceedings could have a material adverse impact to the Company's results of operations, financial position, and liquidity.

Contingent liabilities associated with certain legal proceedings are disclosed in Item 8. Financial Statements and Supplementary Data, Note 25 Commitments and contingencies. Specifically, adverse resolutions related to the Lac-Mégantic rail accident, Remington Development Corporation and 2014 Mexico tax assessment legal claims may require material incremental losses to be recognized, as CPKC has not recognized substantial provisions for those contingent liabilities.

All provisions are subject to change as new information becomes known and claims progress through resolution.

Deferred Income Taxes

The Company accounts for deferred income taxes based on the asset and liability method. The provision for deferred income taxes arises from temporary differences in the carrying values of assets and liabilities for financial statement and income tax purposes and the effect of loss carryforwards. The provision amount is sensitive to any changes in book and tax values of assets and liabilities and changes in statutory tax rates. For example, a change in temporary differences of \$10 million would result in an approximate deferred income tax change of \$3 million. It is assumed that such temporary differences will be settled in the future in the deferred income tax assets and liabilities at the balance sheet date.

In determining deferred income taxes, the Company makes estimates and assumptions regarding deferred income tax matters, including estimating the timing of the realization and settlement of deferred income tax assets (including the benefit of tax losses) and liabilities, and estimating unrecognized tax benefits for uncertain tax positions. Deferred income taxes are calculated using enacted federal, provincial, and state future income tax rates, which may differ in future periods. Additionally, the Company estimates whether taxable income in future periods will be sufficient to fully recognize any deferred income tax assets on a more likely than not basis. Valuation allowances are recorded as appropriate to reduce deferred income tax assets to the amount considered more likely than not to be realized.

Deferred income tax expense is reported in "Income tax expense (recovery)" on the Company's Consolidated Statements of Income. Additional disclosures are provided in Item 8. Financial Statements and Supplementary Data, Note 6 Income taxes.

Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and Annual Report on Form 10-K 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 the most directly comparable GAAP measures without unreasonable efforts, due to unknown variables and uncertainty related to future results. These unknown variables may include unpredictable transactions of significant value. In recent years, CPKC has recognized acquisition-related costs, KCS purchase accounting, adjustments to provisions and settlements of Mexican taxes, changes in income tax rates and a change to an uncertain tax item. These or other similar large unforeseen transactions affect CPKC's results on a GAAP basis but may be excluded from CPKC's Non-GAAP financial measures. Additionally, the U.S.-to-Canadian dollar exchange rate is unpredictable and can have a significant impact on CPKC's reported results but may be excluded from CPKC's Non-GAAP financial measures.

This Management's Discussion and Analysis of Financial Condition and Results of Operations and Annual Report on Form 10-K includes forward-looking statements relating, but not limited to statements concerning integration of KCS, forecasted performance factors, the Company's intention to indefinitely reinvest in its foreign investments, the Company's estimated future defined benefit pension expectations, 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, statements regarding future payments including income taxes, statements regarding the Company's greenhouse gas emissions targets, our environmental-, climate- or other sustainability-related strategies and initiatives and other information regarding environmental-, climate- or other sustainability-related actions we plan to take in the future.

The forward-looking statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and Annual Report on Form 10-K are based on current expectations, estimates, projections and assumptions, having regard to the Company's experience and its perception of historical trends, and include, but are not limited to, expectations, estimates, projections and assumptions relating to: change in business strategies; North American and global economic growth; commodity demand growth; sustainable industrial and agricultural production; commodity prices and interest rates; foreign exchange rates (as specified herein); effective tax rates (as specified herein); performance of our assets and equipment; sufficiency of our budgeted capital expenditures in carrying out our business plan; geopolitical conditions; applicable laws, regulations and government policies; the availability and cost of labour, services and infrastructure; labour disruptions; 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.

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 and strategic opportunities; general North American and global social, economic, political, 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 and commodity demand; 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; disruption of fuel supplies; uncertainties of investigations, proceedings or other types of claims and litigation; compliance with environmental regulations; labour disputes; changes in labour costs and labour difficulties; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; sufficiency of budgeted capital expenditures in carrying out business plans; services and infrastructure; the satisfaction by third parties of their obligations; currency and interest rate fluctuations; exchange rates; effects of changes in market conditions and discount rates on the financial position of pension plans and investments; trade restrictions, including the imposition of any tariffs, or other changes to international trade arrangements; the effects of current and future multinational trade agreements on or other developments affecting the level of trade among Canada, the U.S. and Mexico; climate change and the market and regulatory responses to climate change; anticipated in-service dates; success of hedging activities; operational performance and reliability; customer, regulatory and other stakeholder approvals and support; regulatory and legislative decisions and actions; the adverse impact of any termination or revocation by the Mexican government of the Concession; public opinion; various events that could disrupt operations, including severe weather, such as droughts, floods, avalanches, volcanism and earthquakes, and cybersecurity attacks, as well as security threats and governmental response to them, and technological changes; acts of terrorism, war or other acts of violence or crime or risk of such activities; insurance coverage limitations; material adverse changes in economic and industry conditions; 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; disruptions to global supply chains; the realization of anticipated benefits and synergies of the CP-KCS transaction and the timing thereof; the satisfaction of the conditions imposed by the U.S. Surface Transportation Board in its March 15, 2023 decision; the successful integration of KCS into the Company; the focus of management time and attention on the CP-KCS transaction and other disruptions arising from the CP-KCS integration; estimated future dividends; financial strength and flexibility; debt and equity market conditions, including the ability to access capital markets on favourable terms or at all; cost of debt and equity capital; improvement in data collection and measuring systems; industry-driven changes to methodologies; and the ability of the management of CPKC to execute key priorities, including those in connection with the CP-KCS transaction. 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 Annual Report on Form 10-K. These more specific factors are identified and discussed in Item 1A. Risk Factors. Other risks are detailed from time to time in reports filed by the Company with securities regulators in Canada and the U.S., and filed on SEDAR+ (www.sedarplus.ca) and EDGAR (www.sec.gov).

The forward-looking statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and Annual Report on Form 10-K 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information concerning market risk sensitive instruments is set forth under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Impact of Foreign Exchange on Earnings and Foreign Exchange Risk and Impact of Share Price on Earnings and Stock-Based Compensation.

Interest Rate Risk

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 December 31, 2024, 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 protect 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 December 31, 2024 would increase the fair value of the Company's debt as at December 31, 2024 by approximately \$1.7 billion (December 31, 2023 - approximately \$1.9 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 8. Financial Statements and Supplementary Data, Note 17 Financial Instruments.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As at December 31, 2024, 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 at December 31, 2024, to ensure that information required to be disclosed by the Company in reports that they file or submit 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.

Management's Report on Internal Control over Financial Reporting

Management is responsible for the financial statements and for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rules 13a-15(f) and 15d-15(f) of the *Exchange Act*. The Corporation's internal control system was designed to provide reasonable assurance to the Corporation's management and Board of Directors regarding the preparation and fair presentation of published financial statements. Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the Company's internal control over financial reporting in accordance with the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework (2013)*. Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2024. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the reliability of financial reporting and preparation of financial statements in accordance with generally accepted accounting principles.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2024 has been audited by Ernst & Young LLP, the Company's independent registered public accounting firm who audited the Company's Consolidated Financial Statements included in this Form 10-K, as stated in their report, which is included herein.

Changes in Internal Control over Financial Reporting

During the three months ended December 31, 2024, the Company has not identified any changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.