

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

INDEX TO MANAGEMENT'S DISCUSSION AND ANALYSIS

	Page
Executive Summary	2
Performance Indicators	2
Results of Operations	3
Operating Revenues	3
Operating Expenses	7
Other Income Statement Items	8
Impact of Foreign Exchange on Earnings and Foreign Exchange Risk	10
Impact of Fuel Price on Earnings	10
Impact of Share Price on Earnings and Stock-based Compensation	10
Liquidity and Capital Resources	11
Share Capital	16
Non-GAAP Measures	16
Critical Accounting Estimates	21
Forward-Looking Statements	27

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 2023 and 2022 items and comparisons between 2023 and 2022. Discussions of 2021 items and comparisons between 2022 and 2021 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, 2022.

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 April 14, 2023, the Company's 100% interest in KCS was reported as an equity-method investment.

Executive Summary

2023 Results

- **Financial performance** – In 2023, the Company reported Diluted earnings per share ("EPS") of \$4.21, a 12% increase from \$3.77 in 2022, and Core adjusted combined diluted EPS of \$3.84, a 2% increase from \$3.77 in 2022. The Company reported Operating ratio of 65.0%, a 280 basis point increase from 62.2% in 2022, and Core adjusted combined operating ratio of 62.0%, a 30 basis point increase from 61.7% in 2022. Core adjusted combined diluted EPS and Core adjusted combined operating ratio are defined and reconciled in the Non-GAAP Measures section.

In 2023, equity earnings of KCS prior to the Control Date was \$230 million and net income from KCS from the Control Date to December 31, 2023 was \$682 million compared to equity earnings of KCS of \$1,074 million in 2022. The lower overall contribution from KCS was primarily due to the gain on unwinding of interest rate hedges in 2022 that did not occur in 2023, partially offset by a decrease in net interest expense as a result of the completion of the debt exchange, which is further discussed in the Liquidity and Capital Resources section. In 2023, KCS contributed \$963 million to CPKC's Operating income, which increased CPKC's operating ratio by 2.7%.

- **Total revenues** – The Company's total revenues increased by 42% to \$12,555 million in 2023 from \$8,814 million in 2022, primarily due to the impact of the KCS acquisition, increased freight revenues per revenue ton-mile ("RTM"), and higher volumes as measured by RTMs.

Performance Indicators

For the year ended December 31	2023	2022	% Change
Gross ton-miles ("GTMs") (millions)	348,447	269,134	29
Train miles (thousands)	41,312	28,899	43
Fuel efficiency (U.S. gallons of locomotive fuel consumed /1,000 GTMs)	1.026	0.955	7
Total employees (average)	18,233	12,570	45

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 Canadian grain, Coal and Automotive. This increase was partially offset by lower volumes of U.S grain, Potash, and crude.

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 reflects the impact of a 29% increase in workload (GTMs), and an 8% decrease in average train weights, which was primarily due to the impact of the KCS acquisition.

Fuel efficiency is defined as U.S. gallons of locomotive fuel consumed per 1,000 GTMs. Fuel consumed includes gallons from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities. An improvement in fuel efficiency indicates operational cost

savings. The decrease in fuel efficiency was mainly driven by a decrease in average train weights of 8% primarily due to the impact of the KCS acquisition as a result of the KCS network running lighter trains.

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 due to the acquisition of KCS and to support anticipated volume growth.

Results of Operations

Operating Revenues

For the year ended December 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$12,281	\$ 8,627	\$ 3,654	42
Non-freight revenues (in millions)	274	187	87	47
Total revenues (in millions)	\$12,555	\$ 8,814	\$ 3,741	42
Carloads (in thousands)	4,045.6	2,782.1	1,263.5	45
Revenue ton-miles (in millions)	188,960	148,228	40,732	27
Freight revenue per carload (in dollars)	\$ 3,036	\$ 3,101	\$ (65)	(2)
Freight revenue per revenue ton-mile (in cents)	6.50	5.82	0.68	12

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 of certain assets, interline switching, and other arrangements, including contracts with passenger service operators, fibre optic agreements, and logistical services.

Total Revenues

The increase in Freight revenues was primarily due to the impact of the KCS acquisition of \$3,405 million, increased freight revenue per RTM, and higher volumes as measured by RTMs. The increase in Non-freight revenues was primarily due to the impact of the KCS acquisition of \$62 million, higher interline switching revenue, higher revenue from a fibre optic agreement, and higher leasing revenue.

RTMs

RTMs are defined as the movement of one revenue-producing ton of freight over a distance of one mile. RTMs measure the relative weight and distance of rail freight moved by the Company. The increase in RTMs was primarily due to the impact of the KCS acquisition and higher volumes of Canadian grain, Coal, and Automotive, partially offset by lower volumes of U.S. grain, Potash, and crude. Carloads have increased more than RTMs due to the impact of the KCS acquisition as KCS has a shorter average length of haul.

Freight Revenue per RTM

Freight revenue per RTM is defined as freight revenue per revenue-producing ton of freight over a distance of one mile. This is an indicator of yield. The increase in freight revenue per RTM was primarily due to higher freight rates and the favourable impact of the change in foreign exchange ("FX") of \$165 million, partially offset by the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices of \$200 million.

Lines of Business

Grain

For the year ended December 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 2,496	\$ 1,776	\$ 720	41
Carloads (in thousands)	497.8	382.1	115.7	30
Revenue ton-miles (in millions)	48,592	35,325	13,267	38
Freight revenue per carload (in dollars)	\$ 5,014	\$ 4,648	\$ 366	8
Freight revenue per revenue ton-mile (in cents)	5.14	5.03	0.11	2

The increase in Grain revenue was primarily due to the impact of the KCS acquisition, higher volumes of Canadian grain to Vancouver, British Columbia ("B.C.") and Thunder Bay, Ontario due to prior year drought conditions that impacted the 2021-2022 crop size, and increased freight revenue per RTM. This increase was partially offset by lower volumes of U.S. corn from the U.S. Midwest to western Canada primarily due to an improved Canadian harvest for the 2022-2023 crop year, lower volumes of U.S. soybeans to the U.S. Pacific Northwest driven by a strong South American crop, and the unfavourable impact of fuel surcharge revenue as a result of lower fuel prices. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX. RTMs increased more than carloads due to moving higher volumes of Canadian grain to Vancouver, which has a longer length of haul.

Coal

For the year ended December 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 859	\$ 577	\$ 282	49
Carloads (in thousands)	449.6	269.8	179.8	67
Revenue ton-miles (in millions)	22,095	14,970	7,125	48
Freight revenue per carload (in dollars)	\$ 1,911	\$ 2,139	\$ (228)	(11)
Freight revenue per revenue ton-mile (in cents)	3.89	3.85	0.04	1

The increase in Coal revenue was primarily due to the impact of the KCS acquisition, higher volumes of Canadian coal to Vancouver and Thunder Bay as a result of prior year production challenges at the mines, higher volumes of U.S. coal, and increased freight revenue per RTM. This increase was partially offset by the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices and lower volumes of Canadian coal to Kamloops, B.C. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX.

Potash

For the year ended December 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 566	\$ 581	\$ (15)	(3)
Carloads (in thousands)	153.5	160.0	(6.5)	(4)
Revenue ton-miles (in millions)	16,904	18,176	(1,272)	(7)
Freight revenue per carload (in dollars)	\$ 3,687	\$ 3,631	\$ 56	2
Freight revenue per revenue ton-mile (in cents)	3.35	3.20	0.15	5

The decrease in Potash revenue was primarily due to lower volumes of export potash to Vancouver as a result of the International Longshore and Warehouse Union's strike in July, lower volumes of export potash to the U.S. Pacific Northwest as a result of an equipment failure at the Port of Portland, Oregon, and the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices. This decrease was partially offset by increased freight revenue per RTM and higher volumes of domestic potash. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX. RTMs decreased more than carloads due to moving lower volumes of export potash to Vancouver, which has a longer length of haul.

Fertilizers and Sulphur

For the year ended December 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 385	\$ 332	\$ 53	16
Carloads (in thousands)	65.9	61.8	4.1	7
Revenue ton-miles (in millions)	5,014	4,772	242	5
Freight revenue per carload (in dollars)	\$ 5,842	\$ 5,372	\$ 470	9
Freight revenue per revenue ton-mile (in cents)	7.68	6.96	0.72	10

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

Forest Products

For the year ended December 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 696	\$ 403	\$ 293	73
Carloads (in thousands)	126.0	73.1	52.9	72
Revenue ton-miles (in millions)	8,028	5,741	2,287	40
Freight revenue per carload (in dollars)	\$ 5,524	\$ 5,513	\$ 11	—
Freight revenue per revenue ton-mile (in cents)	8.67	7.02	1.65	24

The increase in Forest products revenue was primarily due to the impact of the KCS acquisition, increased freight revenue per RTM, higher volumes of paperboard from Chicago, Illinois to Alberta, higher volumes of lumber from western Canada to Texas, and higher volumes of wood pulp from Ontario. This increase was partially offset by the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices, lower volumes of panel products from western Canada, and lower volumes of newsprint from Saint John, New Brunswick. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX.

Energy, Chemicals and Plastics

For the year ended December 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 2,301	\$ 1,394	\$ 907	65
Carloads (in thousands)	487.0	297.4	189.6	64
Revenue ton-miles (in millions)	33,031	24,625	8,406	34
Freight revenue per carload (in dollars)	\$ 4,725	\$ 4,687	\$ 38	1
Freight revenue per revenue ton-mile (in cents)	6.97	5.66	1.31	23

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

Metals, Minerals and Consumer Products

For the year ended December 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 1,579	\$ 884	\$ 695	79
Carloads (in thousands)	457.8	248.3	209.5	84
Revenue ton-miles (in millions)	18,247	11,710	6,537	56
Freight revenue per carload (in dollars)	\$ 3,449	\$ 3,560	\$ (111)	(3)
Freight revenue per revenue ton-mile (in cents)	8.65	7.55	1.10	15

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

Automotive

For the year ended December 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 934	\$ 438	\$ 496	113
Carloads (in thousands)	201.4	104.4	97.0	93
Revenue ton-miles (in millions)	3,579	1,736	1,843	106
Freight revenue per carload (in dollars)	\$ 4,638	\$ 4,195	\$ 443	11
Freight revenue per revenue ton-mile (in cents)	26.10	25.23	0.87	3

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

Intermodal

For the year ended December 31	2023	2022	Total Change	% Change
Freight revenues (in millions)	\$ 2,465	\$ 2,242	\$ 223	10
Carloads (in thousands)	1,606.6	1,185.2	421.4	36
Revenue ton-miles (in millions)	33,470	31,173	2,297	7
Freight revenue per carload (in dollars)	\$ 1,534	\$ 1,892	\$ (358)	(19)
Freight revenue per revenue ton-mile (in cents)	7.36	7.19	0.17	2

The increase in Intermodal revenue was primarily due to the impact of the KCS acquisition, higher freight rates, higher international intermodal volumes due to onboarding a new customer and higher volumes imported through the Port of Vancouver, higher domestic wholesale volumes, and the favourable impact of the change in FX. This increase was partially offset by lower intermodal ancillary revenue, lower domestic intermodal volumes due to lower cross-border volumes between Canada and the U.S. and lower retail volumes, lower international intermodal volumes to and from the Port of Saint John, New Brunswick and to and from the Port of Montréal, Québec, and the unfavourable impact to fuel surcharge revenue as a result of lower fuel prices.

Operating Expenses

For the year ended December 31 (in millions of Canadian dollars)	2023	2022	Total Change	% Change
Compensation and benefits	\$ 2,332	\$ 1,570	\$ 762	49
Fuel	1,681	1,400	281	20
Materials	346	260	86	33
Equipment rents	277	140	137	98
Depreciation and amortization	1,543	853	690	81
Purchased services and other	1,988	1,262	726	58
Total operating expenses	\$ 8,167	\$ 5,485	\$ 2,682	49

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 \$645 million, including acquisition-related costs incurred by KCS of \$55 million, which were primarily comprised of restructuring charges of \$50 million;
- the impact of wage and benefit inflation;
- higher incentive compensation;
- reduced labour efficiencies, including the impact of reduced train weights;
- the unfavourable impact of the change in FX of \$16 million;
- higher acquisition-related costs incurred by CPKC, excluding KCS's acquisition-related costs, of \$14 million, including stock-based compensation of \$10 million; and
- increased volume variable expenses as a result of an increase in workload as measured by GTMs.

This increase was partially offset by a reduction of \$77 million in defined benefit pension current service costs and the favourable impact of changes in common share price of \$12 million on stock-based compensation.

Fuel

Fuel expense consists mainly of fuel used by locomotives and includes provincial, state, and federal fuel taxes. The increase in Fuel expense was primarily due to:

- the impact of the KCS acquisition of \$441 million;
- the unfavourable impact of the change in FX of \$42 million; and
- an increase in workload, as measured by GTMs.

This increase was partially offset by the favourable impact of lower fuel prices of \$221 million.

Materials

Materials expense includes the cost of material used for 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 \$89 million and the unfavourable impact of inflation, partially offset by a decrease in locomotive maintenance.

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 \$110 million;
- greater usage of pooled freight cars;
- reduced rental income received from other railways; and
- slower cycle times.

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

Depreciation and Amortization

Depreciation and amortization expense is the charge associated with the use of track and roadway, rolling stock, buildings, and other depreciable assets, including assets related to the Company's concession with 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 \$629 million, including additional depreciation of \$175 million and amortization of \$59 million attributed to fair value adjustments to properties and intangible assets with finite lives recognized upon the acquisition of KCS;
- a higher depreciable asset base as a result of capital program spending in 2023 and recent years; and
- the unfavourable impact of the change in FX of \$8 million.

Purchased Services and Other

For the year ended December 31 (in millions of Canadian dollars)	2023	2022	Total Change	% Change
Support and facilities	\$ 367	\$ 334	\$ 33	10
Track and operations	316	294	22	7
Intermodal	219	225	(6)	(3)
Equipment	111	112	(1)	(1)
Casualty	174	103	71	69
Property taxes	139	133	6	5
Other ⁽¹⁾	665	85	580	682
Land sales (gains) losses	(3)	(24)	21	(88)
Total Purchased services and other	\$ 1,988	\$ 1,262	\$ 726	58

⁽¹⁾ 2023 includes KCS results from April 14 to December 31, 2023.

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

- the impact of the KCS acquisition of \$590 million, including acquisition-related costs incurred by KCS of \$18 million, reported in Other;
- an increased number of casualty incidents and higher personal injury costs, reported in Casualty;
- cost inflation;
- lower gains on land sales;
- higher acquisition-related costs incurred by CPKC, excluding KCS's acquisition-related costs, of \$19 million including payments made to certain communities across the combined network to address the environmental and societal impacts of increased traffic, reported in Other; and
- the unfavourable impact of the change in FX of \$18 million.

This increase was partially offset by a business interruption insurance recovery of \$51 million, reported in Other.

Other Income Statement Items

Equity Earnings of Kansas City Southern

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

For the period from January 1 to April 13, 2023, the Company recognized \$230 million (U.S. \$170 million) of equity earnings of KCS, a decrease of \$844 million or 79%, from \$1,074 million (U.S. \$820 million) in the year ended December 31, 2022. This amount is net of amortization of basis differences of \$48 million (U.S. \$35 million) associated with KCS purchase accounting, a decrease of \$115 million or 71%, from \$163 million (U.S. \$125 million) in the year ended December 31, 2022, and is net of acquisition-related costs (net of tax) incurred by KCS. These basis differences relate to depreciable property, plant and equipment, intangible assets with definite lives, and long-term debt, and are amortized over the related assets' remaining useful lives, and the remaining terms to maturity of the debt instruments. Acquisition-related costs (net of tax) incurred by KCS in the period from January 1 to April 13, 2023 were \$11 million (U.S. \$8 million), a decrease of \$38 million or 78%, from \$49 million (U.S. \$38 million) in the year ended December 31, 2022. These decreases are attributable to the derecognition of KCS as an equity investment following the acquisition of control by CPKC on April 14, 2023. Equity earnings of KCS recognized in 2022 also included KCS's gain on unwinding of interest rate hedges of \$212 million, which is net of the associated purchase accounting basis difference and tax. KCS U.S. dollar historical results were translated at the average FX rate for the period from January 1 to April 13, 2023 and the year ended December 31, 2022 of \$1.00 USD = \$1.35 CAD and \$1.00 USD = \$1.30 CAD, respectively.

Other Expense

Other expense consists of gains and losses from the change in FX on cash and working capital, the impact of foreign currency forwards, financing costs, shareholder costs, equity earnings, and other non-operating expenditures. Other expense was \$52 million in 2023, an increase of \$35 million, or 206%, from \$17 million in 2022. The increase was primarily due to the impact of the KCS acquisition, including foreign exchange losses on forward contracts to sell Mexican pesos and buy U.S.dollars, of \$27 million, and net acquisition-related costs of \$6 million driven by the KCS debt exchange. Additional information concerning the KCS debt exchange is included in Item 8. Financial Statements and Supplementary Data, Note 17 Debt.

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 were \$327 million in 2023, a decrease of \$84 million, or 20%, from \$411 million in 2022. This decrease was primarily due to an increase in interest cost on the benefit obligation of \$109 million and a decrease in the expected return on plan assets of \$77 million, partially offset by a decrease in recognized net actuarial losses of \$103 million.

Net Interest Expense

Net interest expense includes interest on long-term debt and finance leases. Net interest expense was \$771 million in 2023, an increase of \$119 million, or 18%, from \$652 million in 2022. This increase was primarily due to:

- interest of \$106 million incurred on debt issued under the KCS debt exchange;
- the unfavourable impact of the change in FX of \$20 million;
- higher interest on commercial paper of \$19 million as a result of higher interest rates and higher borrowings; and
- the impact of the KCS Purchase Accounting of \$13 million.

This increase was partially offset by lower interest costs of \$19 million following the repayment of maturing long-term debt and higher interest income of \$12 million.

Remeasurement of Kansas City Southern

On April 14, 2023, the Company assumed control of KCS and accounted for its acquisition as a business combination achieved in stages. The Company's investment in KCS was accounted for using the equity method of accounting prior to assuming control. On control, the carrying value of the previously held equity investment in KCS was remeasured to its fair value and upon derecognition, a loss of \$7,175 million was recognized in the Company's Consolidated Statements of Income for the year ended December 31, 2023. This loss was primarily due to the reversal of a value equal to the deferred tax liability on the outside basis difference which was initially recognized with the investment in KCS.

Income Tax (Recovery) Expense

Income tax recovery was \$6,976 million in 2023, a change of \$7,604 million, or 1,211%, from an income tax expense of \$628 million in 2022. This change was primarily due to:

- a deferred tax recovery of \$7,832 million on the derecognition of the deferred tax liability on the outside basis difference of the investment in KCS upon acquiring control;
- a deferred tax recovery of \$58 million on the revaluation of deferred income tax balances on unitary state apportionment changes;
- higher current tax recoveries on acquisition-related costs of \$14 million associated with the KCS acquisition incurred by legacy CP; and
- lower current tax expense due to lower taxable earnings.

This change was partially offset by the impact of the KCS acquisition of \$256 million, including current tax expense related to tax settlements of \$16 million with the Servicio de Administración Tributaria ("SAT") (Mexican tax authority) in relation to taxation years for which audits have closed and the estimated impact of potential future audit settlements, deferred tax recoveries on the amortization relating to purchase accounting fair value adjustments of \$67 million, and current tax recoveries on acquisition-related costs of \$7 million. In addition to the impact of the KCS acquisition, there was also an increase in income tax expense due to a higher effective tax rate and a reversal of an uncertain tax position in 2022 related to a prior period of \$24 million. As a result of the KCS debt exchange an offsetting current tax expense and deferred tax recovery of \$101 million is included in "income tax (recovery) expense".

The effective income tax rate for 2023 was 228.50% and 24.01% on a Core adjusted basis. The effective income tax rate for 2022 was 15.16% and 22.24% on a Core adjusted basis. The Company's 2024 Core adjusted effective tax rate is expected to be between 25.00% to 25.50%. 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 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 Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. The Company's 2024 outlook for its Core adjusted annualized effective income tax rate is based on certain assumptions about events and developments that may or may not materialize, or that may be offset entirely or partially by new events and developments. These assumptions are discussed further in Item 1A. Risk Factors.

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 or losses of KCS are denominated in U.S. dollars. The value of the Canadian dollar is affected by a number of domestic and international factors, including, without limitation, economic performance, commodity prices, and Canadian, U.S., and international monetary policies. Fluctuations in FX affect the Company's results because revenues and expenses denominated in U.S. dollars and Mexican pesos are translated into Canadian dollars. U.S. dollar-denominated revenues and expenses increase (decrease) when the Canadian dollar weakens (strengthens) in relation to the U.S. dollar. Mexican peso-denominated revenues and expenses increase (decrease) when the U.S. dollar weakens (strengthens) in relation to the Mexican peso.

In 2023, the U.S. dollar has strengthened to an average rate of \$1.35 Canadian/U.S. dollar, compared to \$1.30 Canadian/U.S. dollar in 2022, resulting in an increase in Total revenues of \$166 million, an increase in Total operating expenses of \$90 million, and an increase in Net interest expense of \$20 million.

In 2024, 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 \$75 million (2023 – approximately \$37 million excluding the impact of KCS), negatively (or positively) impacts Operating expenses by approximately \$46 million (2023 – approximately \$18 million excluding the impact of KCS), and negatively (or positively) impacts Net interest expense by approximately \$5 million (2023 – approximately \$4 million excluding the impact of KCS) on an annualized basis.

In 2024, 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 \$7 million and negatively (or positively) impacts Operating expenses by 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, 2023, the net investment in U.S. operations is greater than the total U.S. denominated debt and the 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 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 Mexican pesos, the Company may sell or purchase U.S. dollar or Mexican peso forwards at fixed rates in future periods. In addition, changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar and Mexican peso) make the goods transported by the Company more or less competitive in the world marketplace and may in turn positively or negatively affect revenues.

Impact of Fuel Price on Earnings

Fluctuations in fuel prices affect the Company's results because fuel expense constitutes a significant portion of the Company's operating costs. As fuel prices fluctuate, there will be a timing impact on earnings, 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 revenue and expenses, respectively.

In 2023, the favourable impact of fuel prices on Operating income was \$21 million. Lower fuel prices resulted in a decrease in Total operating expenses of \$221 million from 2022. Lower fuel prices, partially offset by the favourable impact of timing of recoveries under the Company's fuel cost adjustment program, resulted in a decrease in Total revenues of \$200 million from 2022.

Impact of Share Price on Earnings and Stock-Based Compensation

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

In 2023, the impact of the change in Common Share price resulted in stock-based compensation expense of \$4 million, a decrease of \$12 million, from \$16 million in 2022.

Based on information available at December 31, 2023 and expectations for 2024 share-based grants, for every \$1.00 change in Common Share price, stock-based compensation expense has a corresponding change of approximately \$1.6 million to \$2.3 million (2022 – approximately \$1.2 million to \$1.8 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 Class I railways, which may trigger different performance share unit payouts. Stock-based compensation may also be impacted by non-market performance conditions.

Additional information concerning stock-based compensation is included in Item 8. Financial Statements and Supplementary Data, Note 24 Stock-based compensation.

Liquidity and Capital Resources

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

As at December 31, 2023, the Company had \$464 million of Cash and cash equivalents compared to \$451 million at December 31, 2022.

Effective May 11, 2023, the Company entered into a second amended and restated credit agreement to extend the maturity dates and increase the total amount available under the revolving credit facility. The amendment increased the amount available of the five-year tranche from U.S. \$1.0 billion to U.S. \$1.1 billion and extended the maturity date from September 27, 2026 to May 11, 2028. The amendment also increased the amount available of the two-year tranche from U.S. \$300 million to U.S. \$1.1 billion and extended the maturity date from September 27, 2023 to May 11, 2025. The Company also terminated the legacy KCS credit facility effective May 11, 2023. As at December 31, 2023 the Company's existing revolving credit facility was undrawn. The revolving credit facility agreement requires the Company to maintain a financial covenant. As at December 31, 2023, the Company was in compliance with all terms and conditions of the credit facility arrangements and satisfied the financial covenant.

Effective March 14, 2022, the Company extended the maturity date of the U.S. \$500 million term facility to September 15, 2022. During the year ended December 31, 2022, the Company repaid in full the outstanding borrowings of U.S. \$500 million (\$636 million) on the term facility. The facility was automatically terminated on September 15, 2022 following the final principal repayment.

The Company has a commercial paper program that enables it to issue commercial paper in the form of unsecured promissory notes. On July 12, 2023, the Company increased the maximum aggregate principal amount of commercial paper available to be issued from U.S. \$1.0 billion to U.S. \$1.5 billion. The Company also terminated the legacy KCS commercial paper program effective May 19, 2023. The Company's existing commercial paper program is backed by the revolving credit facility. As at December 31, 2023, the Company had total commercial paper borrowings outstanding of U.S. \$800 million (December 31, 2022 – U.S. \$nil).

As at December 31, 2023, under its bilateral letter of credit facilities, the Company had letters of credit drawn of \$93 million from a total available amount of \$300 million (December 31, 2022 - \$75 million). Under the bilateral letter of credit facilities, the Company has the option to post collateral in the form of Cash or cash equivalents, equal at least to the face value of the letter of credit issued. These agreements permit the Company to withdraw amounts posted as collateral at any time; therefore, the amounts posted as collateral are presented as "Cash and cash equivalents" on the Company's Consolidated Balance Sheets. As at December 31, 2023, the Company did not have any collateral posted on its bilateral letter of credit facilities (December 31, 2022 – \$nil).

Contractual Commitments

The Company's material cash requirements from known contractual obligations and commitments to make future payments primarily consist of long-term debt and related interest, supplier purchases, capital commitments, 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 17 Debt and Note 20 Leases. Interest obligations related to debt and finance leases amount to \$773 million within the next 12 months, with the remaining amount committed thereafter of \$16,513 million.

Supplier purchase agreements and other long-term liabilities amount to \$235 million and \$71 million within the next 12 months, respectively, with the remaining amount committed thereafter of \$309 million and \$618 million, respectively. Other long-term liabilities include expected cash payments for environmental remediation, post-retirement benefits, worker's compensation benefits, long-term disability benefits, pension benefit payments for the Company's non-registered supplemental pension plan, and certain other long-term liabilities. Pension payments are discussed further in Critical Accounting Estimates of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. Capital commitments are discussed further in in Item 8. Financial Statements and Supplementary Data, Note 26 Commitments and Contingencies.

Concession Duty

Under CPKCM's 50-year Concession, which will expire in 2047 unless extended, CPKCM pays annual concession duty expense of 1.25% of its gross revenues. Capital commitments under the CPKCM concession can be found in Item 8. Financial Statements and Supplementary Data, Note 26 Commitments and contingencies.

Guarantees

Refer to Item 8. Financial Statements and Supplementary Data, Note 27 Guarantees for details.

Operating Activities

Cash provided by operating activities was \$4,137 million in 2023, a decrease of \$5 million compared to \$4,142 million in 2022. The decrease was primarily due to an unfavourable change in working capital driven by an increase in freight and non-freight accounts receivable along with higher tax installments paid in 2023, and the settlement of Mexican tax audits in the third and fourth quarters of 2023 compared to the same period of 2022.

This decrease was partially offset by higher cash generating income, including the impact of the acquisition of KCS.

Investing Activities

Cash used in investing activities was \$2,162 million in 2023, an increase of \$666 million, or 45%, from \$1,496 million in 2022. This increase was primarily due to higher additions to properties, including the impact of the acquisition of KCS. This increase was partially offset by cash acquired on control of KCS.

Capital Programs

For the year ended December 31

(in millions of Canadian dollars, except for track miles and crossties)

	2023	2022
Additions to capital		
Track and roadway	\$ 1,623	\$ 1,048
Rolling stock	273	243
Buildings	112	75
Other	483	199
Total – accrued additions to capital	2,491	1,565
Less:		
Non-cash transactions	23	8
Cash invested in additions to properties (per Consolidated Statements of Cash Flows)	\$ 2,468	\$ 1,557
Track installation capital programs		
Track miles of rail laid (miles)	323	271
Track miles of rail capacity expansion (miles)	24	17
Crossties installed (thousands)	1,617	1,215

Track and roadway expenditures include the replacement and enhancement of the Company's track infrastructure. Of the \$1,623 million additions in 2023 (2022 – \$1,048 million), approximately \$1,373 million (2022 – \$967 million) was invested in the renewal of depleted assets, namely rail, ties, ballast, signals, and bridges. Approximately \$250 million (2022 – \$81 million) was invested in network improvements and growth initiatives.

Rolling stock investments encompass locomotives and railcars. In 2023, expenditures on locomotives were approximately \$186 million (2022 – \$84 million) and were focused on the continued re-investment in the Company's existing locomotive fleet. Railcar investment of approximately \$87 million (2022 – \$159 million) in 2023 was largely focused on the renewal of depleted assets, including the acquisition of new freight cars.

In 2023, investments in buildings were approximately \$112 million (2022 - \$75 million) and included the new operations building in Kansas City, facility upgrades, renovations, and shop equipment. Other investments were \$483 million (2022 – \$199 million) and included investments in intermodal equipment, information systems, work equipment and vehicles.

Cash invested in additions to properties by KCS was \$221 million for the period from January 1 to April 13, 2023 (U.S. \$164 million at average exchange rate of \$1.00 USD = \$1.35 CAD). Expenditures mainly relate to renewal and replacement of track infrastructure and re-investment in existing locomotive fleet.

For 2024, the Company expects to invest approximately \$2.75 billion in its capital programs. Capital programs will be financed with cash generated from operations. Approximately 60% to 70% of the planned capital programs is for track and roadway. Approximately 10% to 15% is expected to be allocated to rolling stock, including railcars and locomotive improvements. Approximately 5% to 10% is expected to be allocated to information services, and 5% is expected to be allocated to buildings. Other investments are expected to be approximately 10%. Additional discussion of capital commitments can be found in Item 8. Financial Statements and Supplementary Data, Note 26 Commitments and Contingencies.

Financing Activities

The Company continues to focus on debt repayments in order to return to its long term leverage ratio following the acquisition of KCS. Cash used in financing activities was \$1,955 million in 2023, a decrease of \$342 million, or 15%, from cash used in financing activities of \$2,297 million in 2022. The decrease was primarily due to an increase of \$1,095 million in net issuances of commercial paper compared to \$415 million of repayments in 2022, and principal repayments of \$636 million (U.S. \$500 million) on a term loan in 2022.

This decrease was partially offset primarily by principal repayments of \$1,000 million 1.589% 2-year Notes, \$479 million (U.S. \$350 million) of 4.45% 12.5-year Notes, \$272 million (U.S. \$199 million) of 3.85% 10-year Senior Notes, and \$592 million (U.S. \$439 million) of 3.00% 10-year Senior Notes, compared to principal repayments of \$125 million 5.10% 10-year Medium Term Notes, \$313 million (U.S. \$250 million) of 4.50% 10-year Notes, and \$97 million (U.S. \$76 million) of the 6.99% Finance lease in 2022.

Credit Measures

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

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

Credit ratings as at December 31, 2023⁽¹⁾

Long-term debt		Outlook
<i>Standard & Poor's</i>	BBB+	stable
<i>Moody's</i>	Baa2	stable
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

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

issuer and CPKC provides a full and unconditional guarantee.

As of the date of the filing of the Form 10-K, CPRC had U.S. \$14,714 million principal amount of debt securities outstanding due through 2115 which includes the debt exchanged for KCS debt as described below, and U.S. \$30 million and GBP £3 million in perpetual 4% consolidated debenture stock, for all of which CPKC is the guarantor subject to Section 13(a) or 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 issued under Canadian Securities Law due through 2050 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.

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

Each series of CPRC Notes has the same interest rates, interest payment dates, maturity dates, and substantively the same optional redemption provisions as the corresponding series of Old Notes.

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

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

Additional information is included in Item 8. Financial Statements and Supplementary Data, Note 17 Debt.

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

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

Summarized Financial Information

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

Statements of Income

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPKC (Parent)	
	For the year ended December 31, 2023	For the year ended December 31, 2022
Total revenues	\$ 6,577	\$ 6,384
Total operating expenses	4,074	4,110
Operating income ⁽¹⁾	2,503	2,274
Less: Other ⁽²⁾	468	234
Income before income tax expense	2,035	2,040
Net income	\$ 1,480	\$ 1,533

⁽¹⁾ Includes net lease costs incurred from non-guarantor subsidiaries for the year ended December 31, 2023, and 2022 of \$463 million and \$410 million, respectively.

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

Balance Sheets

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPKC (Parent)	
	As at December 31, 2023	As at December 31, 2022
Assets		
Current assets	\$ 1,240	\$ 1,395
Properties	12,327	11,791
Other non-current assets	3,562	3,337
Liabilities		
Current liabilities	\$ 4,359	\$ 2,759
Long-term debt	19,169	18,137
Other non-current liabilities	3,412	3,178

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

Transactions with Non-Guarantor Subsidiaries

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPKC (Parent)	
	For the year ended December 31, 2023	For the year ended December 31, 2022
Dividend income from non-guarantor subsidiaries	\$ 309	\$ 133
Capital contributions to non-guarantor subsidiaries	(4,324)	—
Redemption of capital from non-guarantor subsidiaries	—	115

Balances with Non-Guarantor Subsidiaries

(in millions of Canadian dollars)	CPKC (Subsidiary Issuer) and CPKC (Parent)	
	As at December 31, 2023	As at December 31, 2022
Assets		
Accounts receivable, intercompany	\$ 455	\$ 186
Short-term advances to affiliates	1,788	2,209
Long-term advances to affiliates	7,072	7,502
Liabilities		
Accounts payable, intercompany	\$ 347	\$ 199
Short-term advances from affiliates	2,783	2,649
Long-term advances from affiliates	—	88

Share Capital

At February 26, 2024, the latest practicable date prior to the date of this Annual Report on Form 10-K, there were 932,428,454 Common Shares and no preferred shares issued and outstanding, which consisted of 15,190 holders of record of the Common Shares. In addition, the Company has a Management Stock Option Incentive Plan ("MSOIP"), under which key officers and employees are granted options to purchase the Common Shares. All number of options presented herein are shown on the basis of the number of shares subject to the options. At February 26, 2024, 6,992,378 options were outstanding under the MSOIP and stand-alone option agreements entered into with Mr. Keith Creel. There are 20,940,714 options available to be issued by the Company's MSOIP in the future. The Company also has a Director's Stock Option Plan ("DSOP"), under which directors are granted options to purchase Common Shares. There are no outstanding options under the DSOP, which has 1,700,000 options available to be issued in the future.

Non-GAAP Measures

The Company presents Non-GAAP measures, including Core adjusted combined operating ratio and Core adjusted combined diluted earnings per share, to provide an additional basis for evaluating underlying earnings trends in the Company's current periods' financial results that can be compared with the results of operations in prior periods. Management believes these Non-GAAP measures facilitate a multi-period assessment of long-term profitability.

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

Non-GAAP Performance Measures

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

Management believes the use of Non-GAAP measures provides meaningful supplemental information about our operating results because they exclude certain significant items that are not considered indicative of future financial trends either by nature or amount or provide improved comparability to past performance. As a result, these items are excluded for management's assessment of operational performance, allocation of resources, and preparation of annual budgets. These significant items may include, but are not limited to, restructuring and asset impairment charges, individually significant gains and losses from sales of assets, acquisition-related costs, the merger termination payment received, KCS's gain on unwinding of interest rate hedges (net of CPKC's associated purchase accounting basis differences and tax), as recognized within "Equity (earnings) loss 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 tax recovery related to the elimination of the deferred tax liability on the outside basis difference of the investment, settlement of Mexican taxes relating to prior years, changes in income tax rates, changes to an uncertain tax item, and certain items outside the control of management. Acquisition-

related costs include legal, consulting, financing fees, integration 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 earnings per share exclude KCS purchase accounting. KCS purchase accounting represents the amortization of basis differences being the incremental depreciation and amortization in relation to fair value adjustments to properties and intangible assets, incremental amortization in relation to fair value adjustments to KCS's investments, 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 non-controlling interest, as recognized within "Depreciation and amortization", "Other expense", "Net interest expense", and "Net loss attributable to non-controlling interest", respectively, in the Company's Consolidated Statements of Income. During the periods that KCS was equity accounted for, from December 14, 2021 to April 13, 2023, KCS purchase accounting represents the amortization of basis differences, being the difference in value between the consideration paid to acquire KCS and the underlying carrying value of the net assets of KCS immediately prior to its acquisition by the Company, net of tax, as recognized within "Equity (earnings) loss of Kansas City Southern" in the Company's 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

The following tables reconcile the most directly comparable measures presented in accordance with GAAP to the Non-GAAP measures:

Core Adjusted Combined Diluted Earnings per Share

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

In 2023, there were five 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 total current tax expense of \$16 million related to a tax settlement with the 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;
- 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 deferred 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 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 tax recovery of \$14 million due to decreases in the Iowa and Arkansas state tax rates that favourably impacted Diluted EPS by 2 cents; and
 - in the second quarter, a deferred tax recovery of \$51 million due to CPKC unitary state apportionment changes that favourably impacted Diluted EPS by 5 cents;
- during the course of the year, a deferred 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 tax recovery of \$7,832 million related to the elimination of the deferred tax liability on the outside basis difference of the investment in KCS that favourably impacted Diluted EPS by \$8.39; and

- in the first quarter, a deferred tax recovery of \$23 million on changes in the outside basis difference of the equity investment in KCS that favourably impacted Diluted EPS by 3 cents; and
- during the course of the year, acquisition-related costs of \$201 million in connection with the KCS acquisition (\$164 million after current 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 expense", and \$11 million recognized in "Equity (earnings) loss 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 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 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 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 expense", and \$1 million recognized in "Equity (earnings) loss 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 tax recovery of \$4 million), including costs of \$12 million recognized in "Purchased services and other", \$3 million recognized in "Other expense", and \$10 million recognized in "Equity (earnings) loss of Kansas City Southern", that unfavourably impacted Diluted EPS by 2 cents.

In 2022, there were five significant items included in Net income attributable to controlling shareholders as reported on a GAAP basis as follows:

- in the fourth quarter, a gain of \$212 million due to KCS's gain on unwinding of interest rate hedges (net of CPKC's associated purchase accounting basis differences and tax) recognized in "Equity (earnings) loss of Kansas City Southern" that favourably impacted Diluted EPS by 23 cents;
- in the fourth quarter, a deferred tax recovery of \$24 million as a result of a reversal of an uncertain tax item related to a prior period that favourably impacted Diluted EPS by 3 cents;
- in the third quarter, a deferred tax recovery of \$12 million due to a decrease in the Iowa state tax rate that favourably impacted Diluted EPS by 1 cent;
- during the course of the year, a net deferred tax recovery of \$19 million on changes in the outside basis difference of the equity investment in KCS that favourably impacted Diluted EPS by 2 cents as follows:
 - in the fourth quarter, a \$27 million recovery that favourably impacted Diluted EPS by 3 cents;
 - in the third quarter, a \$9 million recovery that favourably impacted Diluted EPS by 1 cent;
 - in the second quarter, a \$49 million expense that unfavourably impacted Diluted EPS by 5 cents; and
 - in the first quarter, a \$32 million recovery that favourably impacted Diluted EPS by 3 cents; and
- during the course of the year, acquisition-related costs of \$123 million in connection with the KCS acquisition (\$108 million after current tax recovery of \$15 million), including costs of \$74 million recognized in "Purchased services and other", and \$49 million recognized in "Equity (earnings) loss of Kansas City Southern" that unfavourably impacted Diluted EPS by 12 cents as follows:
 - in the fourth quarter, acquisition-related costs of \$27 million (\$16 million after current tax recovery of \$11 million), including costs of \$17 million recognized in "Purchased services and other" and \$10 million recognized in "Equity (earnings) loss of Kansas City Southern" that unfavourably impacted Diluted EPS by 3 cents;
 - in the third quarter, acquisition-related costs of \$30 million (\$33 million after current tax expense of \$3 million), including costs of \$18 million recognized in "Purchased services and other" and \$12 million recognized in "Equity (earnings) loss of Kansas City Southern" that unfavourably impacted Diluted EPS by 3 cents;
 - in the second quarter, acquisition-related costs of \$33 million (\$29 million after current tax recovery of \$4 million), including costs of \$19 million recognized in "Purchased services and other" and \$14 million recognized in "Equity (earnings) loss of Kansas City Southern" that unfavourably impacted Diluted EPS by 3 cents; and
 - in the first quarter, acquisition-related costs of \$33 million (\$30 million after current tax recovery of \$3 million), including costs of \$20 million recognized in "Purchased services and other" and \$13 million recognized in "Equity (earnings) loss of Kansas City Southern" that unfavourably impacted Diluted EPS by 3 cents.

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

2023:

- during the course of the year, KCS purchase accounting of \$297 million (\$228 million after deferred 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 expense", \$48 million recognized in "Equity (earnings) loss of KCS", and a recovery of \$5 million recognized in "Net loss attributable to the 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 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 the 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 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 expense", that unfavourably impacted Diluted EPS by 7 cents;
- in the second quarter, KCS purchase accounting of \$81 million (\$61 million after deferred tax recovery of \$20 million), including costs of \$68 million recognized in "Depreciation and amortization", \$6 million recognized in "Net interest expense", \$1 million recognized in "Other expense", and \$6 million recognized in "Equity (earnings) loss of KCS", that unfavourably impacted Diluted EPS by 6 cents; and
- in the first quarter, KCS purchase accounting of \$42 million recognized in "Equity (earnings) loss of KCS" that unfavourably impacted Diluted EPS by 5 cents.

2022:

- during the course of the year, KCS purchase accounting of \$163 million expense recognized in "Equity (earnings) loss of KCS" that unfavourably impacted Diluted EPS by 17 cents as follows:
 - in the fourth quarter, KCS purchase accounting of \$42 million that unfavourably impacted Diluted EPS by 4 cents;
 - in the third quarter, KCS purchase accounting of \$42 million that unfavourably impacted Diluted EPS by 4 cents;
 - in the second quarter, KCS purchase accounting of \$39 million that unfavourably impacted Diluted EPS by 5 cents; and
 - in the first quarter, KCS purchase accounting of \$40 million that unfavourably impacted Diluted EPS by 4 cents.

	For the year ended December 31	
	2023	2022
CPKC diluted earnings per share as reported	\$ 4.21	\$ 3.77
Less:		
Significant items (pre-tax):		
KCS net gain on unwind of interest rate hedges	—	0.23
Remeasurement loss of KCS	(7.68)	—
Acquisition-related costs	(0.21)	(0.14)
KCS purchase accounting	(0.32)	(0.17)
Add:		
Tax effect of adjustments ⁽¹⁾	(0.11)	(0.02)
Settlement of Mexican taxes relating to prior years	0.02	—
Income tax rate changes	(0.07)	(0.01)
Deferred tax recovery on the outside basis difference of the investment in KCS	(8.42)	(0.02)
Reversal of provision for uncertain tax item	—	(0.03)
Core adjusted combined diluted earnings per share⁽²⁾	\$ 3.84	\$ 3.77

⁽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 1.37% for the year ended December 31, 2023 and 20.08% for the year ended December 31, 2022. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the adjustments.

⁽²⁾ The Company previously used the non-GAAP measure Core adjusted diluted earnings per share, which was calculated as diluted earnings per share adjusted for significant items less KCS purchase accounting. Core adjusted diluted earnings per share was \$3.77 for the year ended December 31, 2022, which is the same as the revised measure Core adjusted combined diluted earnings per share, as KCS was equity accounted for within CPKC's results.

Core Adjusted Combined Operating Ratio

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

In 2022, acquisition-related costs were \$168 million in connection with the KCS acquisition including costs of \$55 million recognized in "Compensation and benefits" 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 1.3%:

- in the fourth quarter, acquisition-related costs of \$31 million including costs of \$12 million recognized in "Compensation and benefits", and \$19 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 0.8%;
- in the third quarter, acquisition-related costs of \$33 million including costs of \$14 million recognized in "Compensation and benefits", and \$19 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 0.8%;
- in the second quarter, acquisition-related costs of \$35 million including costs of \$14 million recognized in "Compensation and benefits", and \$21 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 1.1%; and
- in the first quarter, acquisition-related costs of \$69 million including costs of \$15 million recognized in "Compensation and benefits", and \$54 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 2.5%.

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

2023

- during the 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%.

2022

- during the course of the year, KCS purchase accounting of \$310 million recognized in "Depreciation and amortization" that unfavourably impacted operating ratio by 2.3% as follows:
 - in the fourth quarter, KCS purchase accounting of \$80 million that unfavourably impacted operating ratio by 2.2%;
 - in the third quarter, KCS purchase accounting of \$78 million that unfavourably impacted operating ratio by 2.3%;
 - in the second quarter, KCS purchase accounting of \$76 million that unfavourably impacted operating ratio by 2.3%; and
 - in the first quarter, KCS purchase accounting of \$76 million that unfavourably impacted operating ratio by 2.7%.

	For the year ended December 31	
	2023	2022 ⁽³⁾
CPKC operating ratio as reported	65.0 %	62.2 %
Add:		
KCS operating income as reported prior to Control Date ⁽¹⁾	— %	0.5 %
Pro forma Article 11 transaction accounting adjustments ⁽²⁾	0.8 %	2.6 %
	65.8 %	65.3 %
Less:		
Acquisition-related costs	1.4 %	1.3 %
KCS purchase accounting in Operating expenses	2.4 %	2.3 %
Core adjusted combined operating ratio	62.0 %	61.7 %

⁽¹⁾ KCS results were translated into Canadian dollars at the Bank of Canada monthly average rates of \$1.35 and \$1.30 for January 1 through April 13, 2023 and the year ended December 31, 2022, respectively.

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

- For January 1 through April 13, 2023, depreciation and amortization of differences between the historic carrying values and the provisional fair values of KCS's tangible and intangible assets and investments prior to the Control Date 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; and
- For the year ended December 31, 2022, depreciation and amortization of differences between the historic carrying values and the provisional fair values of KCS's tangible and intangible assets and investments prior to the Control Date that unfavourably impacted operating ratio by 2.3%, the estimated transaction costs expected to be incurred by the Company that unfavourably impacted operating ratio by 0.3%, 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 and the year ended December 31, 2022, please see Exhibit 99.1 "Selected Unaudited Combined Summary of Historical Financial Data" of CPKC's Current Report on Form 8-K furnished with the Securities and Exchange Commission ("SEC") on May 15, 2023.

⁽³⁾ The Company previously used the Non-GAAP measure Adjusted operating ratio, which was defined as operating ratio excluding those significant items that are reported within Operating income. Adjusted operating ratio was 61.4% for the year ended December 31, 2022, which was changed to the revised measure Core adjusted combined operating ratio. This change was due to the addition of KCS historical operating income less KCS acquisition-related costs (as defined above) prior to the Control Date. For the year ended December 31, 2023, CPKC has presented the Non-GAAP measure of Core adjusted combined operating ratio, as defined above, to provide a comparison to prior period combined information calculated in a manner consistent with Article 11 as further adjusted to conform to CPKC's core adjusted measures.

Critical Accounting Estimates

To prepare the Consolidated Financial Statements that conform with GAAP, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reported periods. Using the most current information available, the Company reviews estimates on an ongoing basis.

The development, selection and disclosure of these estimates, and this Management's Discussion and Analysis of Financial Condition and Results of Operations, have been reviewed by the Board of Directors' Audit and Finance Committee, which is composed entirely of independent directors.

Business Acquisition

As described in Item 8. Financial Statements and Supplementary Data, Note 11 Business acquisition and Note 12 Investment in KCS, the Company assumed control of KCS and commenced consolidation of KCS on the Control Date, accounting for the acquisition as a business combination achieved in stages.

In accounting for the business combination, the Company's previously held interest in KCS was remeasured to its Control Date fair value. The identifiable assets acquired, and liabilities and non-controlling interest assumed are measured at their provisional fair values at the Control Date, with certain exceptions, including income taxes and contract liabilities. The results from operations and cash flows are consolidated in the financial statements.

The disclosure of the business acquisition presented in Item 8. Financial Statements and Supplementary Data, Note 11 Business acquisition is prepared on a provisional basis using the best available information at this time. A provisional purchase price allocation was determined at the Control Date and has been revised at December 31, 2023 for identified measurement period adjustments. This provisional purchase price allocation may be subject to further adjustment during the remainder of the measurement period resulting in additional assets or liabilities being recognized to reflect new information obtained about facts and circumstances that existed as of the Control Date that, if known, would affect the amounts recognized as of that date. The measurement period is not to exceed a year. Changes to the provisional amounts may impact the amount of goodwill recognized. 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 are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. Estimates and assumptions include, but are not limited to, the cash flows an asset is 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 provisional fair values of the assets acquired and the liabilities and non-controlling interest assumed are based on reasonable assumptions and reflect known information and estimates. Measurement uncertainty in these estimates exists due to the characteristics of the assumptions and facts used to generate these estimates. Changes to assumptions and estimates during the measurement period could materially change the fair value estimates of the assets and liabilities included in the provisional purchase price allocation, and could change the recognized amount of goodwill. In addition, alternative estimates or assumptions could have been used in the establishment of the fair value of KCS and the provisional fair values of the assets acquired and liabilities assumed, including goodwill.

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

(in billions of dollars, except percentages)	Provisional Estimate at Control Date	Sensitivity Range		Value Range	
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 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, 2023, the Company had recorded goodwill of \$17,729 million, all of which is allocated to a single reporting unit represented by the Company's rail transportation operating segment, and intangible assets of \$2,974 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 \$9,079 million at December 31, 2023.

Environmental Liabilities

Environmental remediation accruals cover site-specific remediation programs. The Company's estimates of the probable costs to be incurred in the remediation of properties contaminated by past activities reflect the nature of contamination at individual sites according to typical activities and scale of operations conducted. The Company screens and classifies sites according to typical activities and scale of operations conducted. The Company has developed remediation strategies for each property based on the nature and extent of the contamination, as well as the location of the property and surrounding areas that may be adversely affected by the presence of contaminants. The Company also considers available technologies, treatment and disposal facilities and the acceptability of site-specific plans based on the local regulatory environment. Site-specific plans range from containment and risk management of the contaminants through to the removal and treatment of the contaminants and affected soils and groundwater. The details of the estimates reflect the environmental liability at each property. The Company is committed to fully meeting regulatory and legal obligations with respect to environmental matters.

Some sites include remediation activities that are projected beyond the 10-year period, which the Company is unable to reasonably estimate and determine. Therefore, the Company's provision for environmental remediation is based on an estimate of costs for a rolling 10-year period covered by the environmental program. Payments are expected to be made over 10 years to 2033.

As of December 31, 2023, the Company's provision for remediation at specific environmental sites, including discounting, was \$220 million (2022 - \$83 million). In 2023 an additional provision for environmental remediation costs was recognized upon the acquisition of KCS (Item 8. Financial Statements and Supplementary Data, Note 11 Business acquisitions). CPKC continues to work with environmental consultants evaluating the estimated environmental liability recorded on acquisition of KCS and is performing further detailed assessments. This additional work may result in new information about the nature or extent of contamination on these sites from historic railway use, or may provide new information about appropriate remediation methodologies. To the extent this new information results in a revised estimate of remediation costs this change to the recorded liability will be accounted for as a measurement period adjustment if estimable during the measurement period, otherwise it will be recorded through expense.

Provisions for environmental remediation costs are recorded in "Other long-term liabilities" (refer to Item 8. Financial Statements and Supplementary Data, Note 19 Other long-term liabilities), except for the current portion which is recorded in "Accounts payable and accrued liabilities" (refer to Item 8. Financial Statements and Supplementary Data, Note 16 Accounts payable and accrued liabilities). The accruals for environmental remediation represent the Company's best estimate of its probable future obligations and include both asserted and unasserted claims, without reduction for anticipated recoveries from third parties. Although the recorded accruals include the Company's best estimate of all probable costs, the Company's total environmental remediation costs cannot be predicted with certainty. Accruals for environmental remediation may change from time to time as new information about previously untested sites becomes known, environmental laws and regulations evolve and advances are made in environmental remediation technology. The accruals may also vary as the courts decide legal proceedings against outside parties responsible for contamination. These potential charges, which cannot be quantified at this time, are not expected to be material to the Company's financial position, but may materially affect income in the period in which a charge is recognized.

The environmental liabilities are also sensitive to the increase in cost of materials which would be reflected as increases to "Other long-term liabilities" and "Accounts payable and accrued liabilities" on the Company's Consolidated Balance Sheets and to "Purchased services and other" within Operating expenses on the Company's Consolidated Statements of Income. The Company's cash payments for environmental initiatives were \$15 million in 2023 (2022 - \$8 million) and are estimated to be approximately \$20 million in 2024, \$26 million in 2025, \$24 million in 2026 and approximately \$155 million over the remaining years through 2033. All payments will be funded from general operations.

Pensions and Other Benefits

The Company has defined benefit and defined contribution pension plans. Other benefits include post-retirement health benefits and life insurance, post-employment workers' compensation and long-term disability benefits, and certain other non-pension post-employment benefits. Workers' compensation and long-term disability benefits are discussed in the Personal Injury and Other Claims Liabilities section below.

The obligations and costs for pensions and other benefits are based on the discounted present value of future benefits. The underlying benefits are paid over many years and are estimated based on uncertain demographic and economic assumptions. As a result, the obligations and costs themselves involve a significant amount of estimation uncertainty.

Information concerning the measurement of obligations and costs for pensions and other benefits is discussed in Item 8. Financial Statements and Supplementary Data, Note 2 Summary of significant accounting policies, and Note 23 Pensions and other benefits.

Net Periodic Benefit Costs

The Company estimates net periodic benefit recoveries for defined benefit pensions to be \$292 million in 2024 (\$376 million in other components of net periodic benefit recovery, partially offset by \$84 million in current service cost), and net periodic benefit costs for defined contribution pensions to be approximately \$14 million in 2024. Net periodic benefit costs for post-retirement benefits in 2024 are not expected to differ materially from the 2023 costs. Total net periodic benefit recoveries for all plans are estimated to be approximately \$239 million in 2024 (2023 – \$232 million), comprised of \$350 million (2023 – \$327 million) in other components of net periodic benefit recovery, partially offset by \$111 million (2023 – \$95 million) in current service cost.

Pension Plan Contributions

The Company estimates its aggregate pension contributions, including its defined benefit and defined contribution plans, to be in the range of \$25 million to \$35 million in 2024, and in the range of \$25 million to \$50 million per year from 2025 to 2027.

The Company's main Canadian defined benefit pension plan accounts for nearly all of the Company's pension obligation and can produce significant volatility in pension funding requirements, given the pension fund's size, the many factors that drive the pension plan's funded status, and Canadian statutory pension funding requirements. Between 2009 and 2011, the Company made voluntary prepayments totalling \$1,750 million to the Company's main Canadian defined benefit pension plan. The Company applied \$1,324 million of these voluntary prepayments to reduce its pension funding requirements in 2012–2023, leaving \$426 million of the voluntary prepayments still available at December 31, 2023 to reduce the Company's pension funding requirements in 2024 and future years. The Company continues to have significant flexibility with respect to the rate at which the remaining voluntary prepayments are applied to reduce future years' pension contribution requirements, which allows the Company to manage the volatility of future pension funding requirements. At this time, the Company estimates it will not apply any of the remaining voluntary prepayments against its 2024 pension funding requirements.

Future pension contributions will be highly dependent on the Company's actual experience with respect to variables such as investment returns, interest rate fluctuations, and demographic changes, the rate at which previous years' voluntary prepayments are applied against pension contribution requirements, and any changes in the regulatory environment. The Company will continue to make contributions to its pension plans that, at a minimum, meet pension legislative requirements.

Pension and Other Benefit Plan Risks

Fluctuations in the obligations and net periodic benefit costs for pensions result from favourable or unfavourable investment returns, changes to the outlook for future investment returns, and changes in long-term interest rates. The impact of favourable or unfavourable investment returns is moderated by the use of a market-related asset value for the main Canadian defined benefit pension plan's public equity securities and absolute return strategies. The impact of changes in long-term interest rates on pension obligations is partially offset by their impact on the pension plans' investments in fixed income assets.

The plans' investment policy provides a target allocation of approximately 30% of the plans' assets to be invested in public equity securities. As a result, stock market performance is a key driver in determining the pension plans' asset performance. If the rate of investment return on the plans' public equity securities in 2023 had been 10% higher (or lower) than the actual 2023 rate of investment return on such securities, 2024 net periodic benefit recoveries for pensions would be higher (or lower) by approximately \$16 million.

For computing the net periodic benefit recovery in 2024, the Company is reducing the expected rate of return on the market-related asset value from 6.90% to 6.70% to reflect the Company's current view of future long-term investment returns. Changes to the outlook for future long-term investment returns can result in changes to the expected rate of return on the market-related asset value. If the expected rate of return as at December 31, 2023 had been higher (or lower) by 0.1%, 2024 net periodic benefit recoveries for pensions would be higher (or lower) by approximately \$14 million.

Changes in bond yields can result in changes to discount rates and to the value of fixed income assets. If the discount rate as at December 31, 2023 had been higher (or lower) by 0.1% with no related changes in the value of the pension plans' investments in fixed income assets, 2024 net periodic benefit recoveries for pensions would be higher (or lower) by approximately \$8 million and 2024 current service costs for pensions would be lower (or higher) by approximately \$3 million. However, a change in bond yields would also lead to a change in the value of the pension funds' investments in fixed income assets, and this change would partially offset the impact on net periodic benefit costs noted above.

The Company estimates that an increase in the discount rate of 0.1% would decrease the defined benefit pension plans' projected benefit obligations by approximately \$118 million, and that a decrease in the discount rate of 0.1% would increase the defined benefit pension plans' projected benefit

obligations by approximately \$120 million. Similarly, for every 0.1% that the actual return on assets varies above (or below) the estimated return for the year, the value of the defined benefit pension plans' assets would increase (or decrease) by approximately \$13 million.

Adverse experience with respect to these factors could eventually increase funding and pension expense significantly, while favourable experience with respect to these factors could eventually decrease funding and pension expense significantly.

Fluctuations in the post-retirement benefit obligation also can result from changes in the discount rate used. A 0.1% increase (decrease) in the discount rate would decrease (increase) the obligation by approximately \$4 million.

The Company reviews its pensioner mortality experience to ensure that the mortality assumption continues to be appropriate, or to determine what changes to the assumption are needed.

Property, Plant and Equipment

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 judgments 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 \$33 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, 2023, the Concession rights and related assets, net of depreciation and amortization, were \$9,079 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.

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

Personal Injury and Other Claims Liabilities

The Company estimates the potential liability arising from incidents, claims and pending litigations relating to personal injury claims by employees, third-party claims, certain occupation-related claims, and property damage claims.

Personal Injury

In Canada, employee occupational injuries are governed by provincial workers' compensation legislation. Occupational injury claims in the provinces of Québec, Ontario, Manitoba, and B.C. are self-insured and administered through each Worker's Compensation Board ("WCB"). The future costs related to occupation-related injuries are actuarially determined based on past experience and assumptions associated with the injury, compensation, income replacement, health care, and administrative costs. In the four provinces where the Company is self-insured, a discount rate is applied to the future estimated costs based on market rates for investment-grade corporate bonds to determine the liability. An actuarial study is performed on an annual basis. In the provinces of Saskatchewan and Alberta, the Company is assessed an annual WCB contribution on a premium basis and this amount is not subject to estimation by management. Changes to these assumptions could have a material adverse impact to the Company's results of operations, financial position and liquidity. At December 31, 2023 and 2022, respectively, the WCB liability was \$81 million and \$74 million in "Pension and other benefit liabilities"; \$12 million and \$11 million in "Accounts payable and accrued liabilities", offset by deposits paid to WCB of \$1 million and \$1 million in "Other assets" on the Company's Consolidated Balance Sheets.

Fluctuations in WCB can result from changes in the discount rate used. A 0.1% increase (decrease) in the discount rate would decrease (increase) the obligation by approximately \$1 million.

U.S. railway employees are covered by federal law under the Federal Employers' Liability Act ("FELA") rather than workers' compensation programs. Accruals are set for individual cases based on facts, legal opinion and statistical analysis. U.S. accruals are also set and include alleged occupational exposure or injury.

Mexican railway employees are covered by Instituto Mexicano del Seguro Social (Social Security Institute) ("IMSS"). Similar to the workers' compensation programs in Alberta and Saskatchewan, the Company is assessed an annual contribution to IMSS on a premium basis and this amount is not subject to estimation by management.

Other Claims

A provision for litigation matters, equipment damages or other claims is accrued according to applicable accounting standards and any such accrual is based on an ongoing assessment of the strengths and weaknesses of the litigation or claim and its likelihood of success, together with an evaluation of the damages or other monetary relief sought. The Company accrues a reserve for claims for which the risk of loss is probable, when the facts of an incident become known and investigation results provide a reasonable basis for estimating the liability. The lower end of the range is accrued if the facts and circumstances permit only a range of reasonable estimates and no single amount in that range is a better estimate than any other. Facts and circumstances related to asserted claims can change, and a process is in place to monitor accruals for changes in accounting estimates. The final outcome with respect to actions outstanding or pending at December 31, 2023, or with respect to future claims cannot be predicted with certainty. Material

changes to litigation trends, equipment damages, or other claims could have a material adverse impact to the Company's results of operations, financial position, and liquidity.

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 a GAAP measure without unreasonable efforts, due to unknown variables and uncertainty related to future results.

This Management's Discussion and Analysis of Financial Condition and Results of Operations and Annual Report on Form 10-K includes forward-looking statements relating, but not limited to statements concerning the Company's defined benefit pension expectations for 2024 and through 2027, 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 includes, but is 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.

With respect to the KCS business combination, there can be no guarantee of the satisfaction of the conditions imposed by the STB in its March 15, 2023 final decision, successful integration of KCS or that the combined company will realize the anticipated benefits of the business combination, whether financial, strategic or otherwise, and this may be exacerbated by changes to the economic, political and global environment in which the merged company will operate.

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

There are more specific factors that could cause actual results to differ materially from those described in the forward-looking statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and 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 United States.

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 Changes in 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, 2023, a hypothetical one percentage point change in interest rates on the Company's floating rate debt obligations outstanding is not material. In addition, the present value of the Company's assets and liabilities will also vary with interest rate changes. To manage interest rate exposure, the Company may enter into forward rate agreements such as treasury rate locks or bond forwards that lock in rates for a future date, thereby protecting against interest rate increases. The Company may also enter into swap agreements whereby one party agrees to pay a fixed rate of interest while the other party pays a floating rate. Contingent on the direction of interest rates, the Company may incur higher costs depending on the contracted rate.

The fair value of the Company's fixed rate debt may fluctuate with changes in market interest rates. A hypothetical one percentage point decrease in interest rates as of December 31, 2023, would result in an increase of approximately \$1.9 billion to the fair value of the Company's debt as at December 31, 2023 (December 31, 2022 - approximately \$1.5 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 18 Financial Instruments.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of December 31, 2023, an evaluation was carried out under the supervision of and with the participation of the Company's management, including CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the *Exchange Act*. Based on that evaluation, the CEO and CFO concluded that these disclosure controls and procedures were effective as of December 31, 2023, 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, 2023. 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.

As permitted by SEC guidance, management has excluded its subsidiary, KCS from this evaluation of the system of internal control over financial reporting. The Company assumed control of KCS on April 14, 2023. KCS had assets and revenues representing 41% and 28%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2023. Additional information regarding this acquisition is included in Item 8. Financial Statements and Supplementary Data, Note 11 Business Acquisition. KCS will be included in management's evaluation of internal control over financial reporting for the fiscal year ended December 31, 2024.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2023 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, 2023, the Company has not identified any changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.