ITEM 1. FINANCIAL STATEMENTS

INTERIM CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

(in millions of Canadian dollars, except share and per share data)	For the three months ended March 31 2023	2022
Revenues (Note 3)		
Freight	**$ 2,217**	$ 1,796
Non-freight	**49**	42
Total revenues	**2,266**	1,838
Operating expenses		
Compensation and benefits	**438**	413
Fuel	**326**	273
Materials	**72**	62
Equipment rents	**30**	35
Depreciation and amortization	**225**	210
Purchased services and other (Note 8)	**346**	310
Total operating expenses	**1,437**	1,303
Operating income	**829**	535
Less:		
Equity earnings of Kansas City Southern (Note 8, 9)	**(204)**	(198)
Other expense (income) (Note 8)	**2**	(1)
Other components of net periodic benefit recovery (Note 12)	**(86)**	(101)
Net interest expense	**154**	160
Income before income tax expense	**963**	675
Income tax expense (Note 4)	**163**	85
Net income	**$ 800**	$ 590
Earnings per share (Note 5)		
Basic earnings per share	**$ 0.86**	$ 0.63
Diluted earnings per share	**$ 0.86**	$ 0.63
Weighted-average number of shares (millions) (Note 5)		
Basic	**930.7**	929.7
Diluted	**933.5**	932.7
Dividends declared per share	**$ 0.190**	$ 0.190

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

(in millions of Canadian dollars)	For the three months ended March 31 **2023**	2022
Net income	**$ 800**	$ 590
Net loss in foreign currency translation adjustments, net of hedging activities	**(27)**	(336)
Change in derivatives designated as cash flow hedges	**2**	1
Change in pension and post-retirement defined benefit plans	**8**	39
Equity accounted investments	**3**	62
Other comprehensive loss before income taxes	**(14)**	(234)
Income tax expense on above items	**(3)**	(36)
Other comprehensive loss (Note 6)	**(17)**	(270)
Comprehensive income	**$ 783**	$ 320

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED BALANCE SHEETS AS AT
(unaudited)

(in millions of Canadian dollars)		March 31 2023		December 31 2022
Assets				
Current assets				
Cash and cash equivalents	**$**	**290**	$	451
Accounts receivable, net (Note 7)		**1,029**		1,016
Materials and supplies		**285**		284
Other current assets		**176**		138
		1,780		1,889
Investment in Kansas City Southern (Note 9)		**44,955**		45,091
Investments		**228**		223
Properties		**22,555**		22,385
Goodwill and intangible assets		**385**		386
Pension asset		**3,186**		3,101
Other assets		**413**		420
Total assets	**$**	**73,502**	$	73,495
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**1,582**	$	1,703
Long-term debt maturing within one year (Note 10, 11)		**1,096**		1,510
		2,678		3,213
Pension and other benefit liabilities		**537**		538
Other long-term liabilities		**484**		520
Long-term debt (Note 10, 11)		**18,066**		18,141
Deferred income taxes		**12,217**		12,197
Total liabilities		**33,982**		34,609
Shareholders' equity				
Share capital		**25,538**		25,516
Additional paid-in capital		**84**		78
Accumulated other comprehensive income (Note 6)		**74**		91
Retained earnings		**13,824**		13,201
		39,520		38,886
Total liabilities and shareholders' equity	**$**	**73,502**	$	73,495

See Contingencies (Note 14).

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in millions of Canadian dollars)	For the three months ended March 31 **2023**	2022
Operating activities		
Net income	**$ 800**	$ 590
Reconciliation of net income to cash provided by operating activities:		
Depreciation and amortization	**225**	210
Deferred income tax expense (recovery) (Note 4)	**24**	(1)
Pension recovery and funding (Note 12)	**(77)**	(72)
Equity earnings of Kansas City Southern (Note 8, 9)	**(204)**	(198)
Dividend from Kansas City Southern (Note 9)	**300**	334
Other operating activities, net	**(47)**	(83)
Change in non-cash working capital balances related to operations	**(140)**	(167)
Cash provided by operating activities	**881**	613
Investing activities		
Additions to properties	**(405)**	(226)
Proceeds from sale of properties and other assets	**4**	15
Other	**—**	5
Cash used in investing activities	**(401)**	(206)
Financing activities		
Dividends paid	**(177)**	(177)
Issuance of Common Shares	**18**	8
Repayment of long-term debt, excluding commercial paper (Note 10)	**(486)**	(542)
Net issuance of commercial paper (Note 10)	**—**	320
Cash used in financing activities	**(645)**	(391)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	**4**	—
Cash position		
(Decrease) increase in cash, cash equivalents, and restricted cash	**(161)**	16
Cash, cash equivalents, and restricted cash at beginning of period	**451**	82
Cash, cash equivalents, and restricted cash at end of period	**$ 290**	$ 98

Supplemental disclosures of cash flow information:		
Income taxes paid	**$ 184**	$ 159
Interest paid	**$ 147**	$ 150

See Notes to Interim Consolidated Financial Statements.

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

	For the three months ended March 31					
(in millions of Canadian dollars except per share data)	Common Shares (in millions)	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
Balance as at January 1, 2023	**930.5**	**$25,516**	**$ 78**	**$ 91**	**$ 13,201**	**$ 38,886**
Net income	**—**	**—**	**—**	**—**	**800**	**800**
Other comprehensive loss (Note 6)	**—**	**—**	**—**	**(17)**	**—**	**(17)**
Dividends declared ($0.190 per share)	**—**	**—**	**—**	**—**	**(177)**	**(177)**
Effect of stock-based compensation expense	**—**	**—**	**10**	**—**	**—**	**10**
Shares issued under stock option plan	**0.4**	**22**	**(4)**	**—**	**—**	**18**
Balance as at March 31, 2023	**930.9**	**$25,538**	**$ 84**	**$ 74**	**$ 13,824**	**$ 39,520**
Balance as at January 1, 2022	929.7	$25,475	$ 66	$ (2,103)	$ 10,391	$ 33,829
Net income	—	—	—	—	590	590
Other comprehensive loss (Note 6)	—	—	—	(270)	—	(270)
Dividends declared ($0.190 per share)	—	—	—	—	(177)	(177)
Effect of stock-based compensation expense	—	—	7	—	—	7
Shares issued for Kansas City Southern acquisition	—	—	(2)	—	—	(2)
Shares issued under stock option plan	0.2	11	(3)	—	—	8
Balance as at March 31, 2022	929.9	$25,486	$ 68	$ (2,373)	$ 10,804	$ 33,985

See Notes to Interim Consolidated Financial Statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2023
(unaudited)

1 Description of business and Basis of presentation

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

These unaudited Interim Consolidated Financial Statements ("Interim Consolidated Financial Statements") do not include KCS and its subsidiaries on a consolidated basis but continue to account for KCS using the equity method while the outstanding shares of KCS were held in a voting trust (see Notes 8, 9 and 15). These Interim Consolidated Financial Statements of CPKC and its subsidiaries (collectively, “CPKC”, or “the Company”), expressed in Canadian dollars, reflect management’s estimates and assumptions that are necessary for their fair presentation in conformity with generally accepted accounting principles in the United States of America (“GAAP”). They do not include all disclosures required under GAAP for annual financial statements and should be read in conjunction with the 2022 annual Consolidated Financial Statements and notes included in CPRL's 2022 Annual Report on Form 10-K. The accounting policies used are consistent with the accounting policies used in preparing CPRL’s 2022 annual Consolidated Financial Statements except as discussed in Note 2.

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

The Company's operations can be affected by seasonal fluctuations such as changes in customer demand and weather-related issues. This seasonality could impact quarter-over-quarter comparisons.

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

2 Accounting changes

Implemented in 2023

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

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

Future changes

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

3 Revenues

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

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

4 Income taxes

The effective tax rate including discrete items for the three months ended March 31, 2023 was 16.90%, compared to 12.67% for the same period of 2022.

For the three months ended March 31, 2023, the effective tax rate was 24.50%, excluding the discrete items of the equity earnings of KCS of $204 million, acquisition-related costs incurred by CPKC of $15 million, and an outside basis deferred tax recovery of $23 million arising from the difference between the carrying amount of CPKC's investment in KCS for financial reporting and the underlying tax basis of this investment.

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

5 Earnings per share

(in millions)	For the three months ended March 31 2023	2022
Net income	**$ 800**	$ 590
Weighted-average basic shares outstanding	**930.7**	929.7
Dilutive effect of stock options	**2.8**	3.0
Weighted-average diluted shares outstanding	**933.5**	932.7
Earnings per share - basic	**$ 0.86**	$ 0.63
Earnings per share - diluted	**$ 0.86**	$ 0.63

For the three months ended March 31, 2023, there were 0.4 million options excluded from the computation of diluted earnings per share because their effects were not dilutive (three months ended March 31, 2022 - nil).

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

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

(1) Amounts are presented net of tax.

7 Accounts receivable, net

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

8 Business acquisition

Kansas City Southern

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

On March 15, 2023, the STB issued a final decision approving the Company and KCS's joint merger application, subject to certain conditions. The Company assumed control of KCS on April 14, 2023 (see Note 15). The Company accounted for its investment in KCS using the equity method of accounting up to the effective date of control of KCS.

During the three months ended March 31, 2023, the Company incurred $15 million in acquisition-related costs, of which $12 million were recorded within "Purchased services and other" and $3 million were recorded within "Other expense (income)". Acquisition-related costs of $10 million incurred by KCS during the three months ended March 31, 2023 were included within "Equity earnings of Kansas City Southern".

During the three months ended March 31, 2022, the Company incurred $20 million in acquisition-related costs, recorded within "Purchased services and other". Acquisition-related costs of $13 million incurred by KCS during the three months ended March 31, 2022 were included within "Equity earnings of Kansas City Southern".

9 Investment in KCS

The investment in KCS of $44,955 million as at March 31, 2023 (December 31, 2022 - $45,091 million) reflects the consideration paid to acquire KCS, the offsetting asset recorded upon recognition of a deferred tax liability computed on an outside basis, the subsequent recognition of equity earnings, the dividends received from KCS, and foreign currency translation based on the quarter-end exchange rates.

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

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

Statement of Income

(in millions of Canadian dollars)[1]	For the three months ended March 31, 2023	For the three months ended March 31, 2022
Total revenues	$ 1,187	$ 986
Total operating expenses	779	617
Operating income	408	369
Less: Other[2]	74	39
Income before income taxes	334	330
Net income	**$ 246**	**$ 238**

[1] Amounts translated at exchange rates averaging $1.00 USD = $1.35 CAD for the three months ended March 31, 2023 and $1.00 USD= $1.27 CAD for the three months ended March 31, 2022.
[2] Includes Equity in net earnings of KCS's affiliates, Interest expense, FX loss, and Other income, net.

10 Debt

During the three months ended March 31, 2023, the Company repaid U.S. $350 million ($479 million) 4.450% 12.5-year Notes at maturity.

Commercial paper program

The Company has a commercial paper program which enables it to issue commercial paper up to a maximum aggregate principal amount of U.S. $1.0 billion in the form of unsecured promissory notes. This commercial paper program is backed by the U.S. $1.3 billion revolving credit facility. As at March 31, 2023 and December 31, 2022, the Company had no commercial paper borrowings outstanding. The Company presents issuances and repayments of commercial paper, all of which have a maturity of less than 90 days, in the Company's Interim Consolidated Statements of Cash Flows on a net basis.

11 Financial instruments

A. Fair values of financial instruments

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

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

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

B. Financial risk management

FX management

Net investment hedge

The effect of the Company's net investment hedge for the three months ended March 31, 2023 was an unrealized FX loss of $1 million (three months ended March 31, 2022 - unrealized FX gain of $98 million) recognized in “Other comprehensive loss”.

12 Pension and other benefits

In the three months ended March 31, 2023, the Company made contributions to its defined benefit pension plans of $4 million (three months ended March 31, 2022 - $3 million).

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

	For the three months ended March 31			
	Pensions		Other benefits	
(in millions of Canadian dollars)	**2023**	2022	**2023**	2022
Current service cost (benefits earned by employees)	**$ 18**	$ 37	**$ 2**	$ 2
Other components of net periodic benefit (recovery) cost:				
Interest cost on benefit obligation	**121**	96	**5**	4
Expected return on plan assets	**(220)**	(240)	**—**	—
Recognized net actuarial loss	**8**	38	**—**	1
Total other components of net periodic benefit (recovery) cost	**(91)**	(106)	**5**	5
Net periodic benefit (recovery) cost	**$ (73)**	$ (69)	**$ 7**	$ 7

13 Stock-based compensation

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

Stock option plans

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

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

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

(1) Represents the period of time that awards are expected to be outstanding. Historical data on exercise behaviour or, when available, specific expectations regarding future exercise behaviour were used to estimate the expected life of the option.
(2) Based on the implied yield available on zero-coupon government issues with an equivalent term commensurate with the expected option life.
(3) Based on the historical volatility of the Company's share price over a period commensurate with the expected term of the option.
(4) Determined by the current annual dividend at the time of grant. The Company does not employ different dividend yields throughout the contractual term of the option.
(5) The Company estimates forfeitures based on past experience. This rate is monitored on a periodic basis.

Performance share unit plans

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

The performance period for PSUs and PDSUs issued in the three months ended March 31, 2023 is January 1, 2023 to December 31, 2025 and the performance factors are Free Cash Flow ("FCF"), Total Shareholder Return ("TSR") compared to the S&P/TSX 60 Index, and TSR compared to the S&P 500 Industrials Index.

The performance period for 489,990 PSUs and 50,145 PDSUs issued in 2020 was January 1, 2020 to December 31, 2022, and the performance factors for these PSUs were Return on Invested Capital ("ROIC"), TSR compared to the S&P/TSX 60 Index, and TSR compared to Class I Railways. The resulting payout was 180% of the outstanding units multiplied by the Company's average share price calculated using the last 30 trading days preceding December 31, 2022. In the first quarter of 2023, payouts occurred on 459,358 PSUs outstanding, including dividends reinvested, totalling $87 million. The 45,058 PDSUs that vested on December 31, 2022 for a total fair value of $11 million, including dividends reinvested and matching units, will payout in the future pursuant to the DSU plan (as described above).

14 Contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions it considers to be adequate for such actions. While the final outcome with respect to actions outstanding or pending at March 31, 2023 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's business, financial position, results of operations, or liquidity. However, an unexpected adverse resolution of one or more of these legal actions could have a material adverse effect on the Company's business, financial position, results of operations, or liquidity in a particular quarter or fiscal year.

Legal proceedings related to Lac-Mégantic rail accident

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

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

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

(1) Québec's Minister of Sustainable Development, Environment, Wildlife and Parks ordered various parties, including the Company, to remediate the derailment site (the "Cleanup Order") and served the Company with a Notice of Claim for $95 million for those costs. The Company appealed the Cleanup Order and contested the Notice of Claim with the Administrative Tribunal of Québec. These proceedings are stayed pending determination of the Attorney General of Québec (“AGQ”) action (paragraph 2 below).

(2) The AGQ sued the Company in the Québec Superior Court claiming $409 million in damages, which was amended and reduced to $315 million (the “AGQ Action”). The AGQ Action alleges that: (i) the Company was responsible for the petroleum crude oil from its point of origin until its delivery to Irving Oil Ltd.; and (ii) the Company is vicariously liable for the acts and omissions of the MMA Group.

(3) A class action in the Québec Superior Court on behalf of persons and entities residing in, owning or leasing property in, operating a business in, or physically present in Lac-Mégantic at the time of the derailment was certified against the Company on May 8, 2015 (the "Class Action"). Other defendants including MMAC and Mr. Thomas Harding ("Harding") were added to the Class Action on January 25, 2017. On November 28, 2019, the plaintiffs' motion to discontinue their action against Harding was granted. The Class Action seeks unquantified damages, including for wrongful death, personal injury, property damage, and economic loss.

(4) Eight subrogated insurers sued the Company in the Québec Superior Court claiming approximately $16 million in damages, which was amended and reduced to approximately $15 million (the “Promutuel Action”), and two additional subrogated insurers sued the Company claiming approximately $3 million in damages (the “Royal Action”). Both actions contain similar allegations as the AGQ Action. The actions do not identify the subrogated parties. As such, the extent of any overlap between the damages claimed in these actions and under the Plans is unclear. The Royal Action is stayed pending determination of the consolidated proceedings described below.

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

(5) Forty-eight plaintiffs (all individual claims joined in one action) sued the Company, MMAC, and Harding in the Québec Superior Court claiming approximately $5 million in damages for economic loss and pain and suffering, and asserting similar allegations as in the Class Action and the AGQ Action. The majority of the plaintiffs opted-out of the Class Action and all but two are also plaintiffs in litigation against the Company, described in paragraph 7 below. This action is stayed pending determination of the consolidated claims described above.

(6) The MMAR U.S. bankruptcy estate representative commenced an action against the Company in November 2014 in the Maine Bankruptcy Court claiming that the Company failed to abide by certain regulations and seeking approximately U.S. $30 million in damages for MMAR’s loss in business value according to a recent expert report filed by the bankruptcy estate. This action asserts that the Company knew or ought to have known that the shipper misclassified the petroleum crude oil and therefore should have refused to transport it. Summary judgment motion was argued and taken under advisement on June 9, 2022, and decision is pending. In the meantime, the Company has filed a motion for leave to file additional arguments on the effect of the decision of the Québec Superior Court in the consolidated claims and motion is set for further case management hearing on May 23, 2023.

(7) The class and mass tort action commenced against the Company in June 2015 in Texas (on behalf of Lac-Mégantic residents and wrongful death representatives) and the wrongful death and personal injury actions commenced against the Company in June 2015 in Illinois and Maine, were all transferred and consolidated in Federal District Court in Maine (the “Maine Actions”). The Maine Actions allege that the Company negligently misclassified and improperly packaged the petroleum crude oil. On the Company’s motion, the Maine Actions were dismissed. The plaintiffs appealed the dismissal decision to the United States First Circuit Court of Appeals, which dismissed the plaintiffs' appeal on June 2, 2021. The plaintiffs further petitioned the United States First Circuit Court of Appeals for a rehearing, which was denied on September 8, 2021. On January 24, 2022, the plaintiffs further appealed to the U.S. Supreme Court on two bankruptcy procedural grounds. On May 31, 2022, the U.S. Supreme Court denied the petition, thereby rejecting the plaintiffs' appeal.

(8) The trustee for the wrongful death trust commenced Carmack Amendment claims against the Company in North Dakota Federal Court, seeking to recover approximately U.S. $6 million for damaged rail cars and lost crude oil and reimbursement for the settlement paid by the consignor and the consignee under the Plans (alleged to be U.S. $110 million and U.S. $60 million, respectively). The Court issued an Order on August 6, 2020 granting and denying in parts the parties' summary judgment motions which has been reviewed and confirmed following motions by the parties for clarification and reconsideration. Final briefs of dispositive motions for summary judgment and for reconsideration on tariff applicability were

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

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

Court decision related to Remington Development Corporation legal claim

On October 20, 2022, the Court of King's Bench of Alberta issued a decision in a claim brought by Remington Development Corporation ("Remington") against the Company and the Province of Alberta ("Alberta") with respect to an alleged breach of contract by the Company in relation to the sale of certain properties in Calgary. In its decision, the Court found the Company had breached its contract with Remington and Alberta had induced the contract breach. The Court found the Company and Alberta liable for damages of approximately $164 million plus interest and costs, and subject to an adjustment to the acquisition value of the property. However, the Court has not provided any indication of how the damages, which are currently estimated to total approximately $200 million before Remington's costs are established, should be apportioned between the Company and Alberta. As a result, at this time, the Company cannot reasonably estimate the amount of damages for which it is liable under the ruling of the Court. The Company has filed an appeal of the Court's decision.

Environmental liabilities

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

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

15 Subsequent events

KCS Acquisition

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

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

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

The estimated provisional fair values of the intangible assets were determined using valuation techniques including, but not limited to, the multi-period excess earnings method, the replacement cost method, the relief from royalty method and the income approach. The significant assumptions used to determine the estimated provisional fair values of the intangible assets include, but are not limited to, the renewal probability and term of the Mexican concession extension, discount rates, earnings before interest, tax, depreciation, and amortization ("EBITDA") margins and terminal growth rates.

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

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

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

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

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

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

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

On a pro forma basis, if the Company had consolidated KCS starting January 1, 2022, the revenue and earnings of the combined entity would be as follows for the three months ended March 31, 2023 and March 31, 2022:

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

(1) Revenues are translated into Canadian dollars at the Bank of Canada daily exchange rate for the three months ended March 31, 2023 and three months ended March 31, 2022 with effective exchange rates of 1.3526 and $1.2668, respectively. All remaining expenses and income are translated at the Bank of Canada monthly average exchange rate for the three months ended March 31, 2023 and three months ended March 31, 2022 with effective exchange rates of $1.3526 and $1.2669, respectively.

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

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

KCS Debt Exchange

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

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

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

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

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

Satisfaction and Discharge of KCS 2023 Notes

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