# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**
# FORM 10-K

**(Mark one)**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

**For fiscal year ended December 31, 2021**
**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**
**Commission File Number 001-01342**

# Canadian Pacific Railway Limited

**(Exact name of registrant as specified in its charter)**

| **Canada** | **98-0355078** |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (IRS Employer Identification No.) |
| **7550 Ogden Dale Road S.E.**<br>**Calgary AB** | **T2C 4X9** |
| (Address of Principal Executive Offices) | (Zip Code) |

**Registrant's Telephone Number, Including Area Code: (403) 319-7000**
**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Trading Symbol(s) | Name of Each Exchange on which Registered |
|---|---|---|
| **Common Shares, without par value, of Canadian Pacific Railway Limited** | **CP** | **New York Stock Exchange**<br>**Toronto Stock Exchange** |
| **Perpetual 4% Consolidated Debenture Stock of Canadian Pacific Railway Company** | **CP/40**<br>**BC87** | **New York Stock Exchange**<br>**London Stock Exchange** |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| Large accelerated filer | ☑ | Accelerated filer | ☐ | Non-accelerated filer | ☐ | Smaller reporting company | ☐ | Emerging growth company | ☐ |
|---|---|---|---|---|---|---|---|---|---|

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of June 30, 2021, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting stock held by non-affiliates of the registrant, in U.S. dollars, was $51,279,545,149, based on the closing sales price per share as reported by the New York Stock Exchange on such date.

As of the close of business on February 22, 2022, there were 929,712,071 shares of the registrant's common shares outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Not applicable.

**EXPLANATORY NOTE**

Canadian Pacific Railway Limited ("CPRL" or the "Company"), a corporation incorporated under the *Canada Business Corporations Act*, qualifies as a foreign private issuer in the U.S. for purposes of *the Securities Exchange Act of 1934*, as amended (the “Exchange Act”). Although as a foreign private issuer the Company is no longer required to do so, the Company currently continues to file annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K with the Securities and Exchange Commission (“SEC”) instead of filing reports on forms available to foreign private issuers.

CPRL prepares and files a management information circular and related material under Canadian requirements. As the Company’s management information circular is not filed pursuant to Regulation 14A, the Company may not incorporate by reference information required by Part III of this Form 10-K from its management information circular. Accordingly, in reliance upon and as permitted by Instruction G(3) to Form 10-K, the Company will be filing an amendment to this Form 10-K containing the Part III information no later than 120 days after the end of the fiscal year covered by this Form 10-K. All references to our websites contained herein do not constitute incorporation by reference of information contained on such websites and such information should not be considered part of this document.

# CANADIAN PACIFIC RAILWAY LIMITED
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# PART I

# ITEM 1. BUSINESS

## Company Overview

Canadian Pacific Railway Limited ("CPRL"), together with its subsidiaries ("CP" or the "Company"), owns and operates a transcontinental freight railway in Canada and the United States ("U.S."). CP provides rail and intermodal transportation services over a network of approximately 13,000 miles, directly serving the principal business centres of Canada from Montréal, Québec, to Vancouver, British Columbia ("B.C."), and the U.S. Northeast and Midwest regions. CP's railway network feeds directly into the U.S. heartland from the East and West coasts. Agreements with other carriers extend the Company's market reach in Canada, through the U.S. and into Mexico. CP transports bulk commodities, merchandise freight and intermodal traffic. For additional information regarding CP's network and geographical locations, refer to Item 2. Properties.

CPRL was incorporated on June 22, 2001, under the *Canada Business Corporations Act* and controls and owns all of the Common Shares of Canadian Pacific Railway Company ("CPRC"), which was incorporated in 1881 by Letters Patent pursuant to an Act of the Parliament of Canada. CPRL's registered, executive and corporate head office is located at 7550 Ogden Dale Road S.E., Calgary, Alberta T2C 4X9. CPRL's Common Shares (the "Common Shares") are listed on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE") under the symbol "CP".

For purposes of this annual report, all references herein to "CP", "the Company", "we", "our" and "us" refer to CPRL, CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL's subsidiaries, as the context may require. All references to currency amounts included in this annual report, including the Consolidated Financial Statements, are in Canadian dollars unless specifically noted otherwise.

## Strategy

Starting in 2012, CP transformed its operations by investing in the network and executing a precision scheduled railroading model that lowers costs, optimizes assets, and provides better, more competitive service.

CP is continuing the journey to become the best railway in North America, with a culture of responsibility and accountability focused on five key foundations:

- **Provide Service:** Providing efficient and consistent transportation solutions for the Company's customers. "Doing what we say we are going to do" is what drives CP in providing a reliable product with a lower cost operating model. Centralized planning aligned with local execution is bringing the Company closer to the customer and accelerating decision-making.
- **Control Costs:** Controlling and removing unnecessary costs from the organization, eliminating bureaucracy and continuing to identify productivity enhancements are the keys to success.
- **Optimize Assets:** Through longer and heavier trains, and improved asset utilization, the Company is moving increased volumes with fewer locomotives and cars while unlocking capacity for future growth potential.
- **Operate Safely:** Each year, CP safely moves millions of carloads of freight across North America while ensuring the safety of our people and the communities through which we operate. Safety is never to be compromised. CP strives for continuous implementation of state-of-the-art safety technology, safety management systems, and safety culture with our employees to ensure safe, efficient operations across our network.
- **Develop People:** CP recognizes that none of the other foundations can be achieved without its people. Every CP employee is a railroader and the Company has established a culture focused on our values of accountability, diversity and pride, in everything we do. Coaching and mentoring all employees into becoming leaders will continue to drive CP forward.

Today, we continue to apply our long-term strategy: leverage our lower cost base, network strengths and improved service to drive sustainable, profitable growth. While the accomplishments during the turnaround were tremendous, CP's journey to become North America's best-performing rail carrier is far from over. As a Company, we will remain focused on our next level of service, productivity, and innovation to continue to generate sustainable value for our customers and results for our shareholders.

## Business Developments

**KCS transaction**

On March 21, 2021, CP announced that it entered into an Agreement and Plan of Merger (the "Original Merger Agreement") with Kansas City Southern ("KCS"), under which CP agreed to acquire KCS in a stock and cash transaction. KCS is a U.S. Class I railway with approximately 7,100 route miles extending from the midwest and southeast portions of the United States south into Mexico and connects with all Class I railways, and primarily moves

Chemical and petroleum, Industrial and consumer products, Agriculture and minerals, Energy, Intermodal and Automotive. KCS is connected to the CP network at Kansas City.

On May 21, 2021, KCS terminated the Original Merger Agreement in order to enter into a merger agreement with Canadian National Railway ("CN") (the "CN Merger Agreement"). As a result, and under the terms of the Original Merger Agreement, KCS concurrently paid a merger termination fee of $845 million (U.S. $700 million) to the Company.

On August 10, 2021, CP submitted a proposal to acquire KCS in a stock and cash transaction representing an enterprise value of approximately U.S. $31 billion, based on the CP closing price on August 9, 2021, which included the assumption of U.S. $3.8 billion of outstanding KCS debt. The terms of the proposal were very similar in nearly every respect to those in the Original Merger Agreement, except for an increase in the share exchange ratio from 2.445 to 2.884. Following the United States Surface Transportation Board's ("STB") decision on August 31, 2021 to refuse CN and KCS's joint motion for voting trust approval in respect of the CN Merger Agreement, and after renewed negotiations with CP, KCS's Board of Directors deemed CP's proposal a "Company Superior Proposal", as defined in the CN Merger Agreement, and terminated the CN Merger Agreement.

On September 15, 2021, upon KCS's termination of the CN Merger Agreement, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with KCS. Pursuant to the terms of the CN Merger Agreement, KCS paid a merger termination fee of U.S. $700 million and refunded the CP merger termination fee of U.S. $700 million to CN (together, the "CN merger termination fees"). In connection with the Merger Agreement, the Company remitted $1,773 million (U.S. $1,400 million) to KCS on September 15, 2021 in connection with KCS's payment of the CN merger termination fees.

On December 14, 2021, following approval of the transaction by the shareholders of both the Company and KCS, receipt of Mexican regulatory approvals, and satisfaction or waiver of customary closing conditions and pursuant to the terms set forth in the Merger Agreement, the acquisition of KCS was consummated and all outstanding stock of KCS was deposited into a voting trust and held by a single trustee as trust stock. KCS's management and Board of Directors will continue to steward KCS while it is in trust, pursuing its independent business plan and growth strategies. The STB review of CP's proposed control of KCS while KCS is in the voting trust is expected to be completed in the fourth quarter of 2022. Under the terms of the Merger Agreement, the Company issued 262.6 million Common Shares to existing KCS common stockholders at the exchange ratio of 2.884 Common Shares per share of KCS common stock and paid cash consideration to existing KCS stockholders of U.S. $90 per share of KCS common stock held and U.S. $37.50 per share of KCS preferred stock held for a total of approximately $10.5 billion (U.S. $8.2 billion). Share consideration, cash consideration, and the above described payments to KCS totaled approximately $36 billion (U.S. $28 billion). For additional information regarding this acquisition, refer to Item 8. Financial Statements and Supplementary Data, Note 11 Business acquisitions.

Upon obtaining control approval from the STB and other remaining approvals of regulatory authorities, the two companies will be combined. Mr. Creel will serve as the Chief Executive Officer of the combined company. The combined entity will be named Canadian Pacific Kansas City ("CPKC"). Calgary, Alberta will be the global headquarters of CPKC, and Kansas City, Missouri will be designated as the U.S. headquarters. The Mexico headquarters will remain in Mexico City and Monterrey. CP's current U.S. headquarters in Minneapolis-St. Paul, Minnesota will remain an important base of operations. Four KCS Directors may join CP's expanded Board at the appropriate time, bringing their experience and expertise in overseeing KCS's multinational operations.

The transaction will combine the two railroads to create the first rail network connecting the U.S., Mexico, and Canada and will deliver dramatically expanded market reach for customers served by CP and KCS, provide new competitive transportation service options, and support North American economic growth.

Specific risk factors related to the KCS acquisition and pending KCS business combination are included in Part I, Item 1A. Risk Factors.

**COVID-19 pandemic**

In 2021, CP's Pandemic Team continued to proactively monitor guidance and orders from governments, public health authorities, and regulatory agencies. Utilizing that guidance while implementing CP protocols and safety measures, the Company safely reintegrated its employees into the workplace where permissible. The Company maintained preventative measures that serve to minimize the risk of exposure to COVID-19, including physical distancing measures, restricting employee business travel, strengthening clean workplace and face covering practices, reinforcing socially responsible sick leave recommendations, limiting visitor and third-party access to Company facilities, and continuously re-evaluating our efforts with safety as a top priority.

Additional information concerning the impact COVID-19 may have to our future business and results of operations is provided in Part I, Item 1A. Risk Factors.

**Change in Executive Officers**

In August 2021, Mr. Michael Redeker retired from his position as Vice-President and Chief Information Officer. Effective July 19, 2021, CP's new Vice-President and Chief Information Officer is Ms. Pam Arpin.

**Other current business developments**

On January 19, 2022, CP announced that, for the first time, it has been included on the Corporate Knights Global 100 Index, an annual ranking of the most sustainable corporations in the world. CP ranked 34th overall on the 2022 index and was the top performing freight transportation company evaluated globally. The Corporate Knights global ranking evaluated 6,914 companies with more than U.S. $1 billion in revenues worldwide on 23 quantitative key performance indicators, weighted to reflect each industry's impact to the overall economy. Performance indicators covered topics including percentage of "clean" revenue and "clean" investment, resource management, emissions, health and safety, diversity and workforce management.

In the fourth quarter of 2021, CP was named to the Dow Jones Sustainability North American Index ("DJSI North America") for 2021. This marked the second consecutive year CP has been listed on the DJSI North America. According to S&P, the DJSI North America comprises North American sustainability leaders as identified through the Corporate Sustainability Assessment. The index represents the top 20% of the largest 600 North American companies in the S&P Global Broad Market Index and measures corporate sustainability leaders' performance based on long-term economic, environmental and social criteria.

On July 26, 2021, CP published its first comprehensive Climate Strategy, outlining the Company's approach to drive innovative climate action and a measured response to emerging climate-related risks impacting the rail sector. The Climate Strategy outlines CP's objectives across strategic pillars, which include establishing a clear understanding of climate-related risks and opportunities; reducing greenhouse gas emissions, and adapting CP operations to the physical risks of climate change. To guide implementation of the Climate Strategy, CP has established two science-based emissions reduction targets that address 100% of CP's Scope 1 and Scope 2 emissions, and more than half of Scope 3 emissions:

- CP seeks to reduce Scope 1, 2 and 3 greenhouse gas ("GHG") emissions intensity of its locomotives by in excess of 38% by 2030 from a 2019 base year. Locomotive operations represent CP's largest source of emissions.
- To support decarbonization across all operations, CP also seeks to reduce absolute Scope 1 and Scope 2 GHG emissions from non-locomotive operations by in excess of 27% by 2030 from a 2019 base year.

Please see *"Climate-Related Risks—The Company has established greenhouse gas (GHG) emission reduction targets to guide the implementation of CP's Climate Strategy. CP's inability to achieve GHG emissions reduction targets could negatively impact both our reputation and financial results"* in Item 1A. Risk Factors for further discussion

Throughout 2021, CP made substantial progress implementing its Hydrogen Locomotive Program. First announced in late 2020, CP intends to develop North America's first hydrogen-powered line-haul freight locomotive by retrofitting a diesel-powered locomotive with a combination of hydrogen fuel cells and battery technology to drive the locomotive's electric traction motors. This initiative builds on the Company's prior experience with testing low-emitting locomotive technologies and aligns with CP's Climate Strategy in seeking to develop a new generation of locomotives with the potential to produce zero GHG emissions. In the first quarter of 2021, CP announced that the Hydrogen Locomotive Program would employ Ballard's hydrogen fuel cell modules. In the fourth quarter of 2021, CP announced it will expand the scope of its Hydrogen Locomotive Program with a $15 million grant from Emissions Reduction Alberta. The grant enables CP to increase the number of hydrogen locomotive conversions in the project from one to three and add hydrogen production and fueling facilities. CP conducted a successful movement test on the first hydrogen locomotive in December 2021. As locomotives become fully operational, CP will conduct rail service trials and qualification testing to evaluate the technology's readiness for the freight-rail sector. We believe this program will create critical industry knowledge and support the growth of a global centre of excellence in hydrogen and freight rail systems in Alberta, Canada.

On April 21, 2021, the five-for-one Share Split of the issued and outstanding Common Shares was approved at the Annual and Special Meeting of Shareholders. On May 13, 2021, the Company's shareholders of record as of May 5, 2021 received four additional Common Shares for every Common Share held. Ex-distribution trading in the Company's Common Shares on a split-adjusted basis commenced on May 14, 2021. Proportional adjustments were also made to outstanding awards under the Company's stock-based compensation plans in order to reflect the share split. All outstanding Common Shares, stock-based compensation awards, and per share amounts herein have been retrospectively adjusted to reflect the share split.

On April 21, 2021, at the Company's Annual and Special Meeting of Shareholders, conducted virtually, all 11 director nominees were elected.

In the first quarter of 2021, CP completed the installation of the solar energy farm at its Calgary headquarters. This sustainability-driven project is one of the largest private solar farms in Alberta and is expected to generate more power than consumed annually by the main headquarters building.

In the first quarter of 2021, CP and the Illinois State Toll Highway Authority closed their transaction regarding western access at O'Hare Airport and at Bensenville Yard, CP's principal rail facility in Chicago, Illinois. The transaction allows for the construction of a new tollway to the west side of O'Hare Airport while protecting CP's ability to serve its customers moving freight through the critical Chicago gateway.

On March 21, 2021, CP's Board of Directors and President and CEO Keith Creel agreed on certain contract amendments to Mr. Creel's incentive compensation that are intended to see him lead the Company until at least early 2026.

## Prior Developments

On December 22, 2020, CP acquired full ownership of the Detroit River Tunnel Partnership ("DRTP"), which owns a 1.6-mile rail tunnel linking Windsor, Ontario, and Detroit, Michigan. The purchase price for the transaction was approximately $398 million, net of cash acquired. CP previously owned a 16.5% interest in the partnership and was its designated operator. For additional information regarding this acquisition, refer to Item 8. Financial Statements and Supplementary Data, Note 11 Business acquisitions.

In the second quarter of 2020, CP completed its previously announced acquisition of Central Maine & Quebec Railway U.S. Inc. ("CMQ U.S."). Together with the December 30, 2019 completion of the acquisition of Central Maine & Québec Railway Canada Inc. ("CMQ Canada"), the acquisition of CMQ U.S. completed CP's purchase of the entire Central Maine & Québec Railway ("CMQ") network originally announced on November 20, 2019, for approximately $174 million (U.S. $133 million). For additional information regarding this acquisition, refer to Item 8. Financial Statements and Supplementary Data, Note 11 Business acquisitions.

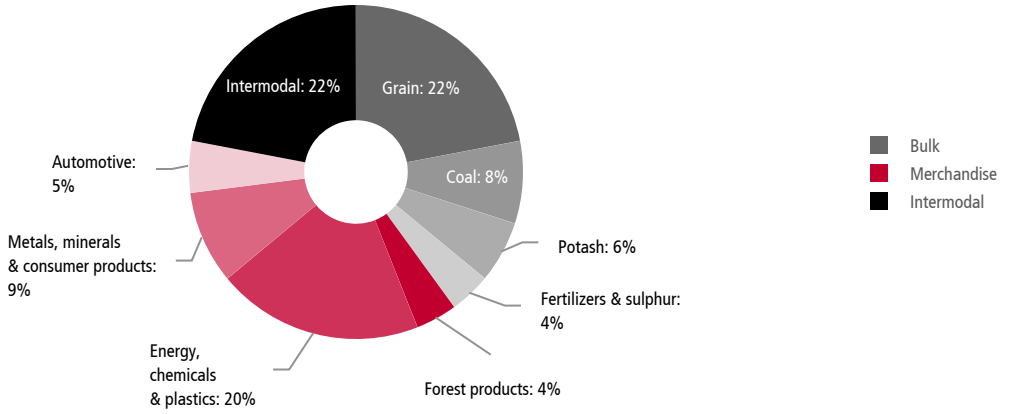
# Operations

The Company operates in only one operating segment: rail transportation. Although the Company provides a breakdown of revenue by business line, the overall financial and operational performance of the Company is analyzed as one segment due to the integrated nature of the rail network. Additional information regarding the Company's business and operations, including revenue and financial information, and information by geographic location is presented in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 8. Financial Statements and Supplementary Data, Note 29 Segmented and geographic information.

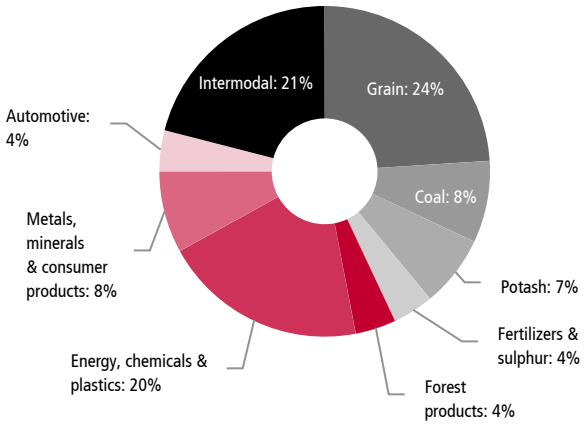
## Lines of Business

The Company transports freight, consisting of bulk commodities, merchandise, and intermodal traffic. Bulk commodities, which typically move in large volumes across long distances, include Grain, Coal, Potash, and Fertilizers and sulphur. Merchandise freight consists of industrial and consumer products, such as Energy, chemicals and plastics, Metals, minerals and consumer products, Automotive, and Forest products. Intermodal traffic consists largely of retail goods in overseas containers that can be transported by train, ship and truck, and in domestic containers that can be moved by train and truck.

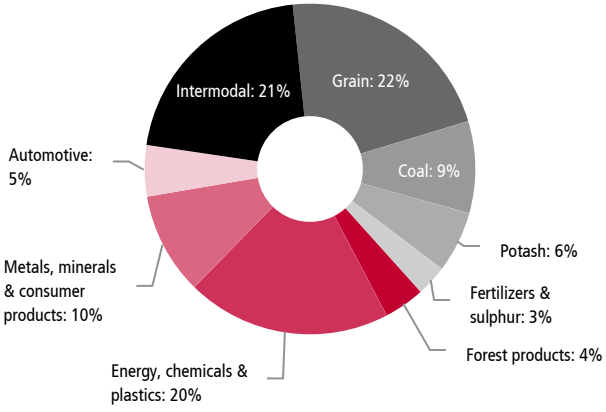
The Company's revenues are primarily derived from transporting freight. The following chart shows the Company's Freight revenue by each line of business in 2021, 2020 and 2019:




**2021 Freight Revenues**

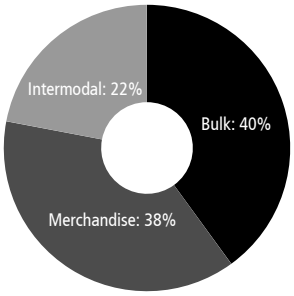



**2020 Freight Revenues**

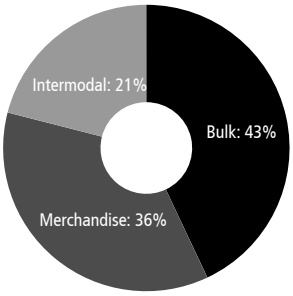



**2019 Freight Revenues**

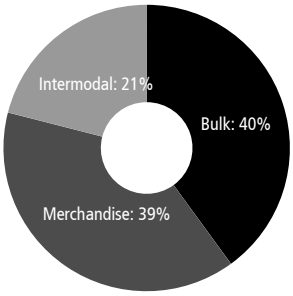
In 2021, the Company generated Freight revenues totalling $7,816 million ($7,541 million in 2020 and $7,613 million in 2019). The following charts compare the percentage of the Company's total Freight revenues derived from each of the three major business lines in 2021, 2020 and 2019:




**2021 Freight Revenues**




**2020 Freight Revenues**

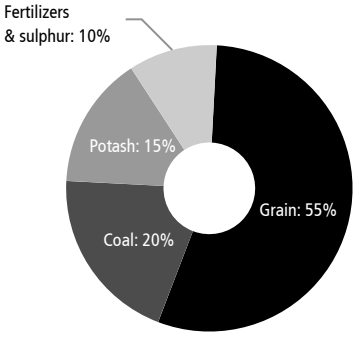



**2019 Freight Revenues**

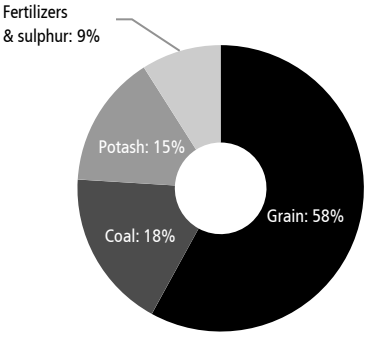
## BULK

The Company's Bulk business represented approximately 40% of total Freight revenues in 2021.

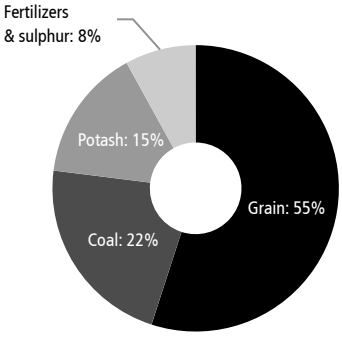
The following charts compare the percentage of the Company's Bulk freight revenues by commodity business in 2021, 2020 and 2019:




**2021 Bulk Revenues**
(40% of Freight Revenues)




**2020 Bulk Revenues**
(43% of Freight Revenues)

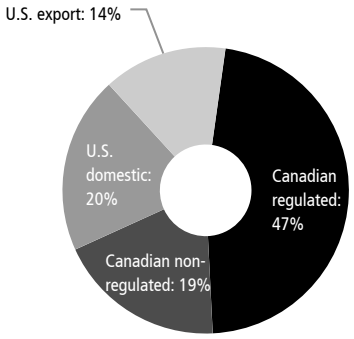



**2019 Bulk Revenues**
(40% of Freight Revenues)

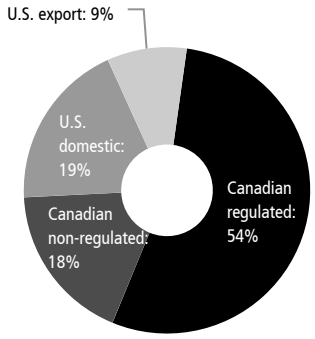
## Grain

The Company's Grain business represented approximately 55% of Bulk revenues, and was 22% of total Freight revenues in 2021.

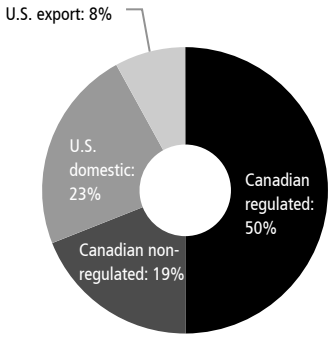
The following charts compare the percentage of the Company's Grain freight revenues generated from Canadian and U.S. shipments in 2021, 2020 and 2019:




**2021 Grain Revenues**
(55% of Bulk Revenues; 22% of Freight Revenues)




**2020 Grain Revenues**
(58% of Bulk Revenues; 24% of Freight Revenues)




**2019 Grain Revenues**
(55% of Bulk Revenues; 22% of Freight Revenues)

CP's Grain network is unique among railways in North America as it is strategically positioned in the heart of grain-producing regions of western Canada and the Northern Plains of the U.S. Canadian grain transported by CP consists of both whole grains, such as wheat, durum, canola, pulses, and barley, and processed products such as oils, meals, and malt. This business is centred in the Canadian Prairies (Saskatchewan, Alberta, and Manitoba), with grain shipped primarily west to the Port of Vancouver and east to the Port of Thunder Bay for export. Grain is also shipped to the U.S., eastern Canada, and Mexico for domestic consumption.

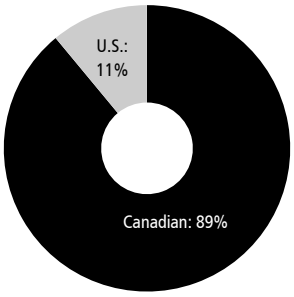
Canadian grain includes a division of business that is regulated by the Canadian government through the *Canada Transportation Act* ("CTA"). This regulated business is subject to a maximum revenue entitlement ("MRE"). Under the CTA, railways can set their own rates for individual movements. However, the MRE governs aggregate revenue earned by the railway based on a formula that factors in the total volumes, length of haul, average revenue per ton, and inflationary adjustments. The regulation applies to western Canadian export grain shipments to the ports of Vancouver and Thunder Bay.

U.S. grain transported by CP consists of both whole grains, such as wheat, corn, soybeans, and durum, and processed products such as feed, meals, oils, and flour. This business is centred in the states of Minnesota, North Dakota, and Iowa. Grain destined for domestic consumption is interchanged with other carriers to the U.S. Midwest, the U.S Northeast via Chicago, and the U.S. Pacific Northwest. CP also delivers direct shipments of U.S. grain to western Canada primarily for animal feed. In partnership with other railways, CP moves U.S. grain to export terminals in the U.S. Pacific Northwest and the Gulf of Mexico. Export U.S. grain traffic is also shipped to the Port of Vancouver and the ports at Superior, Wisconsin and Duluth, Minnesota.

## Coal

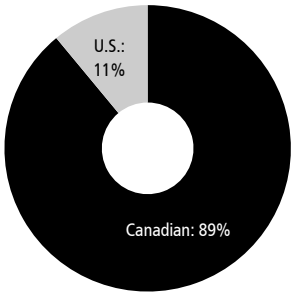
The Company's Coal business represented approximately 20% of Bulk revenues, and was 8% of total Freight revenues in 2021.

The following charts compare the percentage of the Company's Coal freight revenues generated from Canadian and U.S. shipments in 2021, 2020 and 2019:




**2021 Coal Revenues**

(20% of Bulk Revenues; 8% of Freight Revenues)




**2020 Coal Revenues**

(18% of Bulk Revenues; 8% of Freight Revenues)

**2019 Coal Revenues**

(22% of Bulk Revenues; 9% of Freight Revenues)

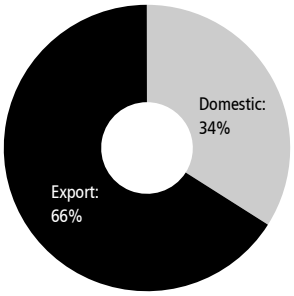
In Canada, CP handles mostly metallurgical coal destined for export for use in the steelmaking process. CP's Canadian coal traffic originates mainly from Teck Resources Limited's mines in southeastern B.C. CP moves coal west from these mines to port terminals for export to world markets (Pacific Rim, Europe and South America), and east for the U.S. Midwest markets.

In the U.S., CP moves primarily thermal coal from connecting railways, serving the thermal coal fields in the Powder River Basin in Montana and Wyoming, which is delivered to power-generating facilities in the U.S. Midwest.

## Potash

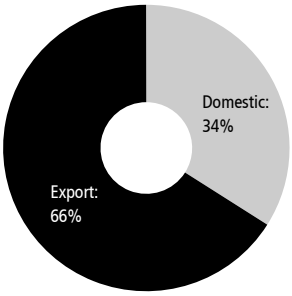
The Company's Potash business represented approximately 15% of Bulk revenues, and was 6% of total Freight revenues in 2021.

The following charts compare the percentage of the Company's Potash freight revenues generated from export and domestic potash shipments in 2021, 2020 and 2019:



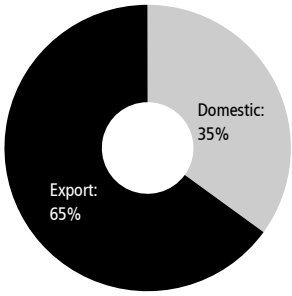

**2021 Potash Revenues**

(15% of Bulk Revenues; 6% of Freight Revenues)




**2020 Potash Revenues**

(15% of Bulk Revenues; 7% of Freight Revenues)




**2019 Potash Revenues**

(15% of Bulk Revenues; 6% of Freight Revenues)

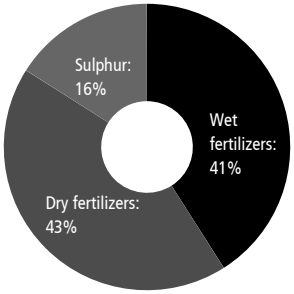
The Company's Potash traffic moves mainly from Saskatchewan to offshore markets through the ports of Vancouver, Portland, and Thunder Bay, and to markets in the U.S. All potash shipments for export beyond Canada and the U.S. are marketed by Canpotex Limited or K+S Potash Canada. Canpotex is an

export company owned in equal shares by Nutrien Ltd. and The Mosaic Company. Independently, The Mosaic Company, Nutrien Ltd., and K+S Potash Canada move domestic potash with CP primarily to the U.S. Midwest for local application.

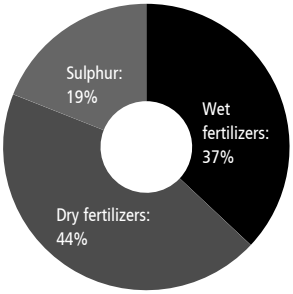
### Fertilizers and Sulphur

The Company's Fertilizers and sulphur business represented approximately 10% of Bulk revenues, and was 4% of total Freight revenues in 2021.

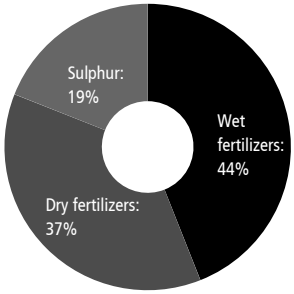
The following charts compare the percentage of the Company's Fertilizers and sulphur freight revenues generated from dry fertilizers, wet fertilizers, and sulphur transportation in 2021, 2020 and 2019:




**2021 Fertilizers & Sulphur Revenues**
(10% of Bulk Revenues; 4% of Freight Revenues)




**2020 Fertilizers & Sulphur Revenues**
(9% of Bulk Revenues; 4% of Freight Revenues)




**2019 Fertilizers & Sulphur Revenues**
(8% of Bulk Revenues; 3% of Freight Revenues)

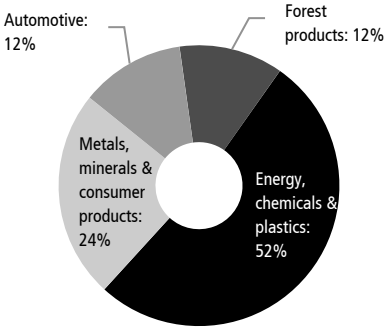
Dry fertilizers include: phosphate, nitrate, urea, and ammonium sulphate. Wet fertilizers are primarily anhydrous ammonia. More than half of CP's fertilizer shipments originate from production facilities in Alberta, where abundant sources of natural gas and other chemicals provide feedstock for fertilizer production.

Most sulphur is produced in Alberta as a byproduct of processing sour natural gas, refining crude oil, and upgrading bitumen produced in the Alberta oil sands. Sulphur is a raw material used primarily in the manufacturing of sulphuric acid, which is used most extensively in the production of phosphate fertilizers.

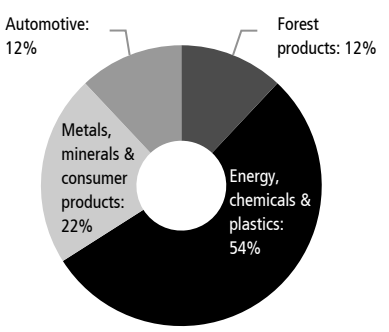
## MERCHANDISE

The Company's Merchandise business represented approximately 38% of total Freight revenues in 2021.

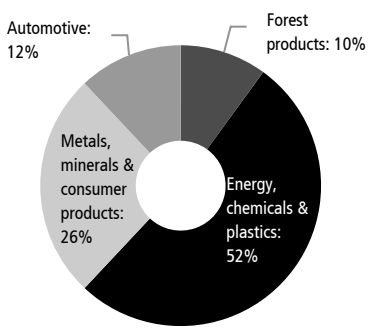
The following charts compare the percentage of the Company's Merchandise freight revenue by commodity business in 2021, 2020 and 2019:




**2021 Merchandise Revenues**
(38% of Freight Revenues)




**2020 Merchandise Revenues**
(36% of Freight Revenues)



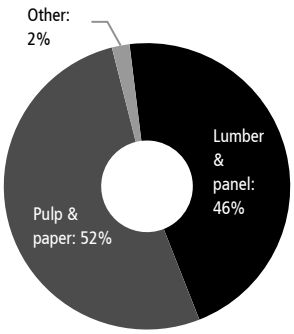

**2019 Merchandise Revenues**
(39% of Freight Revenues)

Merchandise products move in both mixed freight and unit trains, in a variety of car types. Service involves delivering products to many different customers and destinations. In addition to traditional rail service, CP moves merchandise traffic through a network of truck-rail transload facilities, expanding the reach of CP's network to non-rail served facilities.

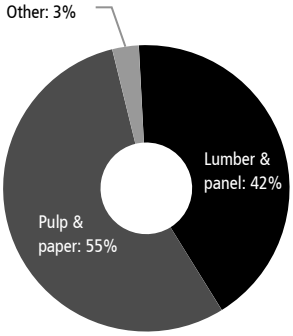
## Forest Products

The Company's Forest products business represented approximately 12% of Merchandise revenues, and was 4% of total Freight revenues in 2021.

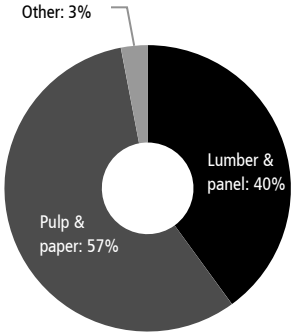
The following charts compare the percentage of the Company's Forest products freight revenues generated from pulp and paper (wood pulp, paperboard, newsprint, and paper), lumber and panel, and other shipments in 2021, 2020 and 2019:




**2021 Forest Products Revenues**
(12% of Merchandise Revenues; 4% of Freight Revenues)




**2020 Forest Products Revenues**
(12% of Merchandise Revenues; 4% of Freight Revenues)



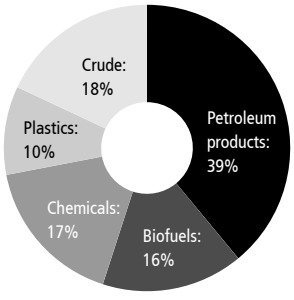

**2019 Forest Products Revenues**
(10% of Merchandise Revenues; 4% of Freight Revenues)

Forest products traffic includes pulp and paper, and lumber and panel shipped from key producing areas in B.C., Ontario, Alberta, Québec, the U.S. Northeast, and New Brunswick, to destinations throughout North America, including the U.S. Midwest, the U.S. Northeast, and to export markets via Vancouver.

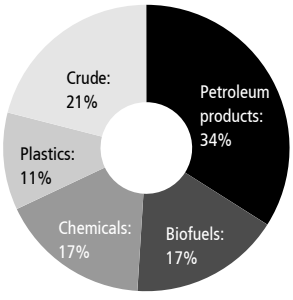
## Energy, Chemicals and Plastics

The Company's Energy, chemicals and plastics business represented approximately 52% of Merchandise revenues, and was 20% of total Freight revenues in 2021.

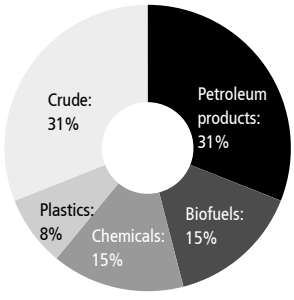
The following charts compare the percentage of the Company's Energy, chemicals and plastics freight revenues generated from petroleum products, crude, chemicals, biofuels, and plastics shipments in 2021, 2020 and 2019:




**2021 Energy, Chemicals & Plastics Revenues**
(52% of Merchandise Revenues; 20% of Freight Revenues)




**2020 Energy, Chemicals & Plastics Revenues**
(54% of Merchandise Revenues; 20% of Freight Revenues)




**2019 Energy, Chemicals & Plastics Revenues**
(52% of Merchandise Revenues; 20% of Freight Revenues)

Petroleum products consist of commodities such as liquefied petroleum gas ("LPG"), fuel oil, asphalt, gasoline, condensate (diluent), and lubricant oils. The majority of the Company's western Canadian energy traffic originates in the Alberta Industrial Heartland, Canada's largest hydrocarbon processing region, and Saskatchewan. The Bakken formation region in Saskatchewan and North Dakota is another source of LPG, asphalt, gasoline, and other refined petroleum. Either directly or via connection with rail interline partners, CP accesses key destinations and export markets in the U.S. Midwest, the U.S. West Coast, the U.S. Northeast, Vancouver, and Mexico, as well as the Texas and Louisiana petrochemical corridor and port connections.

Crude moves from production facilities throughout Alberta, North Dakota, and Saskatchewan. CP provides efficient routes to refining markets in the Gulf Coast, the U.S. Northeast, and the U.S. Pacific Northwest through connections with our railway partners. Within crude, CP also moves DRUbit™, a sustainable heavy crude oil specifically designed for rail transportation and produced using a new and innovative plant known as a Diluent Recovery Unit ("DRU"). This technology enables the safe and economical transportation of crude oil and is cost competitive with pipeline transportation. CP transports DRUbit™ from the Hardisty Rail Terminal in Alberta to the Gulf Coast via interchange in Kansas City.

The Company's chemical traffic includes products such as ethylene glycol, caustic soda, sulphuric acid, methanol, styrene, and soda ash. These shipments originate from western Canada, the Gulf Coast, eastern Canada, and the U.S. Midwest, and move to end markets in the U.S., Canada, and overseas.

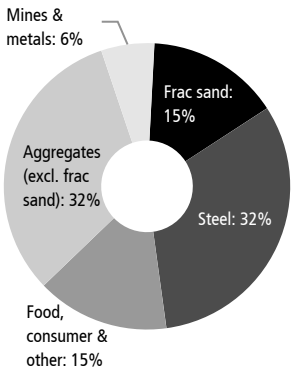
CP's biofuels traffic originates mainly from facilities in the U.S. Midwest, shipping primarily to destinations in the U.S. Northeast.

The most commonly shipped plastics products are polyethylene and polypropylene. Approximately half of the Company's plastics traffic originates in central and northern Alberta and moves to various North American destinations.

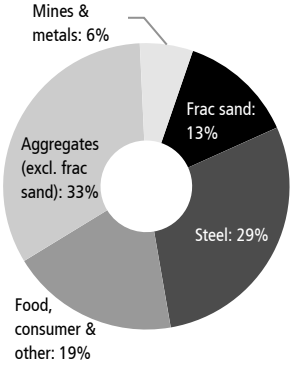
### Metals, Minerals and Consumer Products

The Company's Metals, minerals and consumer products business represented approximately 24% of Merchandise revenues, and was 9% of total Freight revenues in 2021.

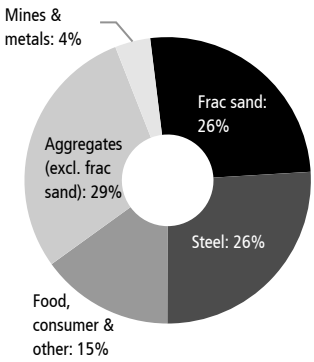
The following charts compare the percentage of the Company's Metals, minerals and consumer products freight revenues generated from steel, aggregates (excluding frac sand), food and consumer products, frac sand, and non-ferrous metals transportation in 2021, 2020 and 2019:




**2021 Metals, Minerals & Consumer Products Revenues**
(24% of Merchandise Revenues; 9% of Freight Revenues)




**2020 Metals, Minerals & Consumer Products Revenues**
(22% of Merchandise Revenues; 8% of Freight Revenues)




**2019 Metals, Minerals & Consumer Products Revenues**
(26% of Merchandise Revenues; 10% of Freight Revenues)

Aggregate products include coarse particulate and composite materials such as cement, limestone, clay, nepheline syenite, and gypsum. Cement is the leading commodity within aggregates, and is shipped directly from production facilities in Alberta, the U.S. Midwest, Ontario, and Québec to energy and construction projects in western Canada, the U.S. Midwest, and the U.S. Pacific Northwest.

The majority of frac sand originates at mines located along the Company's network in Wisconsin and moves to the Bakken, Marcellus Shale, Permian Basin, and other shale formations across North America.

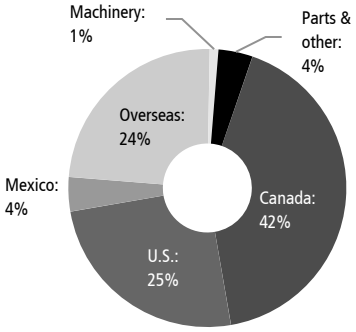
CP transports steel in various forms from mills in the U.S. Midwest, the Canadian Prairies, and Ontario to a variety of industrial users. The Company carries base metals such as aluminum, zinc, and lead. CP also moves ores from mines to smelters and refineries for processing, and the processed metal to automobile and consumer products manufacturers.

Food, consumer, and other products traffic consists of a diverse mix of goods, including food products, railway equipment, building materials, and waste products.

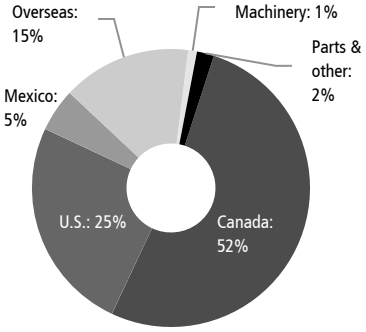
## Automotive

The Company's Automotive business represented approximately 12% of Merchandise revenues, and was 5% of total Freight revenues in 2021.

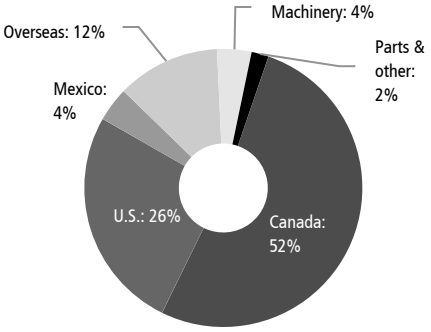
The following charts compare the percentage of the Company's Automotive freight revenues generated by movements of finished vehicles from Canadian, U.S., overseas, and Mexican origins, parts and other, and machinery in 2021, 2020 and 2019:




**2021 Automotive Revenues**
(12% of Merchandise Revenues; 5% of Freight Revenues)




**2020 Automotive Revenues**
(12% of Merchandise Revenues; 4% of Freight Revenues)



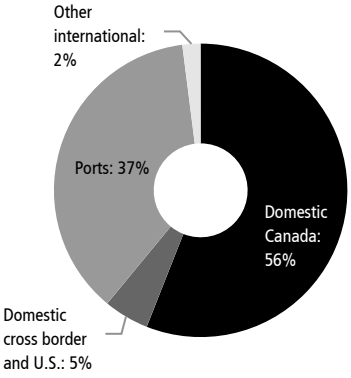

**2019 Automotive Revenues**
(12% of Merchandise Revenues; 5% of Freight Revenues)

CP's Automotive portfolio consists of four finished vehicle traffic components: Canadian-produced vehicles that ship to the U.S. from Ontario production facilities; U.S.-produced vehicles that ship within the U.S. as well as cross border shipments to Canadian markets; vehicles from overseas that move through the Port of Vancouver to eastern Canadian markets; and Mexican-produced vehicles that ship to the U.S. and Canada. In addition to finished vehicles, CP ships pre-owned vehicles, machinery, and automotive parts. A comprehensive network of automotive compounds is utilized to facilitate final delivery of vehicles to dealers throughout Canada and in the U.S.

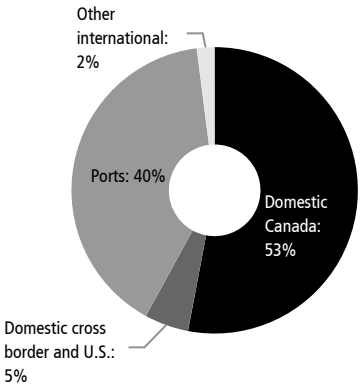
## INTERMODAL

The Company's Intermodal business represented approximately 22% of total Freight revenues in 2021.

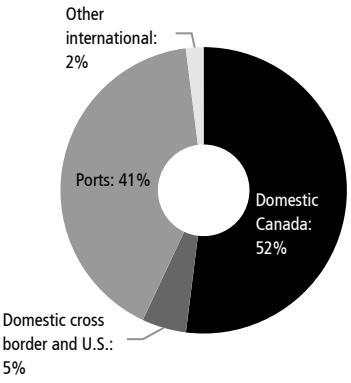
The following charts compare the percentage of the Company's Intermodal freight revenues generated from Canada, ports, cross border transportation, other international, and U.S. in 2021, 2020 and 2019:




**2021 Intermodal Revenues**
(22% of Freight Revenues)




**2020 Intermodal Revenues**
(21% of Freight Revenues)




**2019 Intermodal Revenues**
(21% of Freight Revenues)

Domestic intermodal freight consists primarily of manufactured consumer products that are predominantly moved in 53-foot containers within North America. International intermodal freight moves in marine containers to and from ports and North American inland markets.

CP's domestic intermodal business moves goods from a broad spectrum of industries including wholesale, retail, food, and various other commodities. Key service factors in domestic intermodal include consistent on-time delivery, the ability to provide door-to-door service, and the availability of value-added services. The majority of the Company's domestic intermodal business originates in Canada, where CP markets its services directly to retailers and manufacturers, providing complete door-to-door service and maintaining direct relationships with its customers. In the U.S., the Company's service is delivered mainly through intermodal marketing companies.

CP's international intermodal business consists primarily of containerized traffic moving between the ports of Vancouver, Montréal, Saint John, and inland points across Canada and the U.S. Import traffic from the Port of Vancouver is mainly long-haul business destined for eastern Canada and the U.S. Midwest. CP works closely with the Port of Montréal, a major year-round East Coast gateway to Europe, to serve markets primarily in Canada and the U.S. Midwest. CP's access to the Port of Saint John provides the fastest rail service from the east coast to the Canadian and U.S. Midwest markets for import and export cargo from Europe, South America, and Asia.

### Fuel Cost Adjustment Program

The short-term volatility in fuel prices may adversely or positively impact revenues. CP employs a fuel cost adjustment program designed to respond to fluctuations in fuel prices and help reduce volatility to changing fuel prices. Fuel surcharge revenues are earned on individual shipments and are based primarily on the price of On-Highway Diesel. As such, fuel surcharge revenues are a function of freight volumes and fuel prices. Fuel surcharge revenues accounted for approximately 7% of the Company's Freight revenues in 2021. The Company is also subject to carbon taxation systems and levies in some jurisdictions in which it operates, the costs of which are passed on to the shipper. As such, fuel surcharge revenue includes carbon taxes and levy recoveries.

Freight revenues included fuel surcharge revenues of $535 million in 2021, an increase of $238 million, or 80%, from $297 million in the same period of 2020. This increase was primarily due to higher fuel prices and increased carbon tax recoveries. This increase was partially offset by the timing of recoveries from CP's fuel cost adjustment program.

### Non-freight Revenues

Non-freight revenues accounted for approximately 2% of the Company's Total revenues in 2021. Non-freight revenues are generated from leasing certain assets; other arrangements, including contracts with passenger service operators and logistical services; and switching fees.

### Significant Customers

For each of the years ended December 31, 2021, 2020 and 2019, the company's revenues and operations were not dependent on any major customers.

## Competition

The Company is in the ground transportation and logistics business. The Company sees competition in this segment from other railways, motor carriers, ship and barge operators, and pipelines. Depending on the specific market, competing railways, motor carriers, and other competitors may exert pressure on price and service levels. The Company continually evaluates the market needs and the competition. The Company responds as it deems appropriate to provide competitive services to the market. This includes developing new offerings such as transload facilities, new train services, and other logistics services.

## Seasonality

Volumes and revenues from certain goods are stronger during different periods of the year. First-quarter revenues are typically lower mainly due to winter weather conditions, closure of the Port of Thunder Bay, and reduced transportation of retail goods. Second and third quarter revenues generally improve compared to the first quarter, as fertilizer volumes are typically highest during the second quarter and demand for construction-related goods is generally highest in the third quarter. Revenues are typically strongest in the fourth quarter, primarily as a result of the transportation of grain after the harvest, fall fertilizer programs, and increased demand for retail goods moved by rail. Operating income is also affected by seasonal fluctuations. Operating income is typically lowest in the first quarter, due to lower freight revenue and higher operating costs associated with winter conditions.

# Government Regulation

The Company's railway operations are subject to extensive federal laws, regulations, and rules in both Canada and the U.S., which directly affect how operations and business activities are managed.

## Economic Regulation - Canada

The Company's rail operations in Canada are subject to economic regulation by the Canadian Transportation Agency (the "Agency") as delegated by the CTA. The CTA indirectly regulates rates by providing remedies for freight rates, including ancillary charges, remedies for level of service, long-haul interswitching rates, and regulated interswitching rates in Canada. The Agency administers the MRE program for the movement of export grain and makes determinations in relation to the construction and abandonment of railways, commuter and passenger access, and noise and vibration-related disputes.

In 2018, the Transportation Modernization Act became law. The legislation amended the Canada Transportation Act and the Railway Safety Act ("RSA"), among other Acts, to (1) replace the previous 160 kilometre extended interswitching limit and the competitive line rate provisions with a new long-haul interswitching regime; (2) modify the existing Level of Service remedy for shippers by instructing the Agency to determine, upon receipt of a complaint, if a railway company is fulfilling its common carrier obligation to the "highest level of service that is reasonable in the circumstances"; (3) allow the existing Service Level Agreement arbitration remedy to include the consideration of reciprocal financial penalties; (4) increase the threshold for summary Final Offer Arbitration from $750,000 to $2 million; (5) bifurcate the Volume-Related Composite Price Index component of the annual MRE determination for transportation of regulated grain, to encourage hopper car investment by CP and Canadian National Railway ("CN"); (6) mandate the installation of locomotive voice and video recorders ("LVVRs"), with statutory permission for random access by railway companies and Transport Canada ("TC") to the LVVR data in order to proactively strengthen railway safety in Canada; and (7) compel railways to provide additional data to the federal government.

## Economic Regulation - U.S.

The Company's U.S. rail operations are subject to economic regulation by the STB. The STB provides economic regulatory oversight and administers Title 49 of the United States Code and related Code of Federal Regulations. The STB has jurisdiction over railroad rate and service issues and proposed railroad mergers and other transactions.

The STB Reauthorization Act of 2015 resulted in numerous changes to the structure and composition of the STB, removing it from under the Department of Transport and establishing the STB as an independent U.S. agency, as well as increasing STB Board membership from three to five members. Notably, the law vests in the STB certain limited enforcement powers, by authorizing it to investigate rail carrier violations on the STB Board's own initiative. The law also requires the STB to establish a voluntary binding arbitration process to resolve rail rate and practice disputes.

## Safety Regulation - Canada

The Company's operations in Canada are subject to safety regulatory oversight by TC pursuant to the RSA. The RSA regulates safety-related aspects of railway operations in Canada, including the delegation of inspection, investigation and enforcement powers to TC. TC is also responsible for overseeing the transportation of dangerous goods as set out under the Transportation of Dangerous Goods Act ("TDGA").

In 2015, An Act to amend the Canada Transportation Act and the Railway Safety Act became law. The legislation sets out minimum insurance requirements for federally regulated railways based on amounts of crude and toxic inhalation hazards ("TIH") or poisonous inhalation hazards moved. It also imposes strict liability; limits railway liability to the minimum insurance level; mandates the creation of a fund paid for by levies on crude shipments, to be utilized for damages beyond a railway's liability; allows railways and insurers to maintain rights to pursue other parties (subrogation); and prevents shifting liability to shippers from railways except through written agreement.

The Company is continuing to allocate resources, including working with public and private rail crossing owners, to meet the *Grade Crossings Regulations*, under the Railway Safety Act ("RSA"), which came into force in 2014. The regulations require existing crossings to meet specified safety standards by November 2021. Based on stakeholder input, including public and private rail crossing owners, TC has proposed changes to the regulations that will revise the scope and compliance deadlines using a risk-based approach. For crossings considered to be high priority, the deadline would be extended by one year (until November 28, 2022), and for all other crossings (i.e. crossings that do not meet the threshold criteria for low-risk or high priority) by three years (until November 28, 2024). The proposed regulatory changes are pending and will need to be published in Part II of the Canada Gazette for them to come into force.

On November 25, 2020, the Minister of Transport approved updated *Duty and Rest Period Rules for Railway Operating Employees*. The new rules, founded on modern-day fatigue management principles, reduce the length of a duty period and increase the length of the minimum rest period between shifts. The rules establish limits on the total number of duty hours, 60 hours in a seven-day period, 192 hours in a 28-day period and require the implementation of a Fatigue Management Plan and Fitness of Duty Provision. These requirements must be phased in by May 25, 2023. CP is working to address the requirements.

On July 11, 2021, the Minister of Transport issued an Order in response to the B.C. wildfires. The Order mandated prescriptive requirements that railway companies must comply with including conducting at least 10 fire detection patrols every 24 hours on regularly used track, an Extreme Weather Fire Risk Mitigation Plan, minimum emergency response requirements and locomotive inspection requirements. The requirements of the Order remain in effect until fire risk reduction measures are incorporated on a permanent basis into the existing regulatory framework governing railway operations in Canada.

On October 29, 2021, the Minister of Transport issued an Order mandating COVID-19 vaccinations. That Order required railway companies to implement their own company-wide vaccine policy by October 30, 2021 requiring all employees to receive their first dose of vaccine by November 15, 2021 and their second dose by January 24, 2022 or implement a set of more prescribed standards for operating employees. CP is complying with this Order and continuing to evaluate the potential impacts to the Company.

Additionally, the Company is working with TC on revisions to multiple rules to improve rail safety, including addressing specific requirements mandated under various Orders issued by the Minister of Transport. This includes changes to the *Canadian Rail Operating Rules*; *Rules Respecting Key Trains* and *Key Routes*; *Railway Locomotive Inspection* and *Safety Rules and Rules Respecting Track Safety*.

On February 5, 2022, TC published a Notice of Intent in the Canada Gazette Part I that it would be progressing work to develop a regulatory framework to establish requirements to implement Enhanced Train Control ("ETC") technologies in Canada to help ensure that railway signals are consistently recognized and followed. The Notice of Intent describes an approach that is based on extensive work conducted with railways and labour representatives. The proposed framework would require railway companies to assess the levels of safety risk on their networks and implement systems that are commensurate with the identified levels of risk. Highest risk corridors would need to be equipped with Automatic Train Protection equipment, similar to Positive Train Control ("PTC") in the US; lower risk corridors would need to be equipped with Driver Advisory System equipment that would alert crews to take action; and very low risk corridors could retain conventional train control approaches. The formal regulatory process has not commenced and railway companies will have opportunities to provide input into the proposed regulatory framework as it progresses. At this time, TC has not provided timelines for issuing proposed ETC regulatory requirements or an implementation date.

### Safety Regulation - U.S.

The Company's U.S. operations are subject to safety regulations enforced by the Federal Railroad Administration ("FRA"), and the Pipelines and Hazardous Materials Safety Administration ("PHMSA"). The FRA regulates safety-related aspects of the Company's railway operations in the U.S. under the *Federal Railroad Safety Act*, as well as rail portions of other safety statutes. The PHMSA regulates the safe transportation of all hazardous materials by rail.

Various other regulators directly and indirectly affect the Company's operations in areas such as health, safety, security, environmental, and other matters.

## Environmental Laws and Regulations

The Company's operations and real estate assets are subject to extensive federal, provincial, state, and local environmental laws and regulations governing air pollutants, GHG emissions, management and remediation of historical contaminant sites, discharges to waters and the handling, storage, transportation, and disposal of waste and other materials. If the Company is found to have violated such laws or regulations, it could have a material adverse effect on the Company's business, financial condition, or operating results. In addition, in operating a railway, it is possible that releases of hazardous materials during derailments or other accidents may occur that could cause harm to human health or to the environment. Costs of remediation, damages and changes in regulations could materially affect the Company's operating results, financial condition, and reputation.

The Company has implemented an Environmental Management System to facilitate the reduction of environmental risk. Specific environmental programs are in place to address areas such as locomotive air emissions, GHG reporting, management of vegetation, wastewater, chemicals and waste, storage tanks, and fueling facilities. CP has also undertaken environmental impact assessments and risk assessments to identify, prevent, and mitigate environmental risks. There is continued focus on preventing spills and other incidents that have a negative impact on the environment. There is an established strategic emergency response contractor network, and spill equipment kits are located across Canada and the U.S. to ensure a rapid and efficient response in the event of an environmental incident. In addition, emergency preparedness and response plans are regularly updated and tested.

The Company has developed an environmental audit program that comprehensively, systematically, and regularly assesses the Company's facilities for compliance with legal requirements and the Company's policies for conformance to accepted industry standards. Included in this is a corrective action follow-up process and review by senior management.

CP focuses on key strategies, identifying tactics and actions to support and operationalize our environmental commitments. The Company's strategies include:

- Implementing measures to minimize or prevent environmental impacts from our operations and facilities, and to ensure compliance with applicable environmental laws and regulations;

- Maintaining an Environmental Management System to provide consistent, effective guidance and resources to CP employees in regard to the management of air emissions, dangerous goods and waste materials, emergency preparedness and response, petroleum products management, and water and wastewater systems;
- Reducing environmental and safety risk through business processes to identify and mitigate potential environmental impacts related to all CP operations and activities;
- Ensuring that new or altered operations and other business activities are evaluated, planned, permitted in accordance with applicable regulations, and executed to mitigate environmental risk;
- Engaging with relevant stakeholders to consider and discuss CP's environmental management practices and environmental issues and concerns associated with our operations;
- Employing best practices, proven technologies, and safe operating standards for activities involving elevated environmental risk;
- Planning and preparing for emergency responses to ensure all appropriate steps are taken in the event of a derailment, spill, or other incident involving a release to the environment; and
- Implementing CP's comprehensive Climate Strategy to reduce GHG emissions and adapt CP's operations to the physical risks of climate change. To guide implementation of the Climate Strategy, CP has established two science-based emissions reduction targets that address 100% of CP's Scope 1 and Scope 2 emissions, and more than half of CP's Scope 3 emissions.

## Security

CP is subject to statutory and regulatory directives in Canada and the U.S. that address security concerns. CP plays a critical role in the North American transportation system. Rail lines, facilities and equipment, including railcars carrying hazardous materials, could be direct targets or indirect casualties of terrorist attacks, actions by criminal and non-criminal organizations, and activities by individuals. Regulations by the U.S. Department of Transportation and the Department of Homeland Security in the U.S. include speed restrictions, chain of custody and security measures, which can impact service and increase costs for the transportation of hazardous materials, especially TIH materials. New regulations published by TC under the TGDA have added requirements for railway companies to take actions to mitigate security risks of transporting dangerous goods by rail. In addition, insurance premiums for some or all of the Company's current coverage could increase significantly, or certain coverage may not be available to the Company in the future. While CP will continue to work closely with Canadian and U.S. government agencies, future decisions by these agencies on security matters or decisions by the industry in response to security threats to the North American rail network could have a material adverse effect on the Company's business, financial condition, or operating results.

CP takes the following security measures:

- CP employs its own police service that works closely with communities and other law enforcement and government agencies to promote railway safety and infrastructure security. As a railway law enforcement agency, CP Police Services is headquartered in Calgary, with police officers assigned to over 25 field offices responsible for railway police operations in six Canadian provinces and 14 U.S. states. CP Police Services operates on the CP rail network as well as in areas where CP has non-railway operations;
- CP's Public Safety Communication Centre ("PSCC") operates 24 hours a day. PSCC receives reports of emergencies, dangerous or potentially dangerous conditions, and other safety and security issues from our employees, the public, and law enforcement and other government officials. PSCC ensures that proper emergency responders are notified as well as governing bodies;
- CP's Security Management Plan is a comprehensive, risk-based plan modelled on and developed in conjunction with the security plan prepared by the Association of American Railroads post-September 11, 2001. Under this plan, CP routinely examines and prioritizes railway assets, physical and cyber vulnerabilities, and threats, as well as tests and revises measures to provide essential railway security. To address cyber security risks, CP implements mitigation programs that evolve with the changing technology threat environment. The Company has also worked diligently to establish backup sites to ensure a seamless transition in the event that the Company's operating systems are the target of a cyber-attack. By doing so, CP is able to maintain network fluidity; and
- CP security efforts consist of a wide variety of measures including employee training, periodic security assessments, engagement with our customers, and training of emergency responders.

## Focus on Sustainability

Sustainability at CP is rooted in a long-standing legacy of building for the future. We recognize that integrating sustainability into our business processes is imperative to future growth and long-term success as an organization. As one of North America's top-performing railways, we seek to continue to innovate and advance practices to meet the evolving needs and increasing engagement of all of CP's stakeholders, including employees, customers, shareholders, suppliers, communities and society.

### CP's Sustainability Priorities

### Sustainability Governance

CP's Board of Directors, through its committees, is responsible for the monitoring, measurement and oversight of CP's key risks, strategies and sustainability topics. The Risk and Sustainability Committee of the Board reviews performance against short-term and long-term sustainability objectives and results of stakeholder engagement to ensure alignment with CP's strategic planning. CP's cross-functional management Sustainability Steering Committee guides decisions on CP's day-to-day sustainability tasks, programs and priorities, and reports progress and recommendations to the Risk and Sustainability Committee. The Disclosure Policy Committee gives direction and support to the Sustainability Steering Committee concerning how CP communicates information concerning material sustainability topics.

CP leadership and employee engagement at all levels of the business is foundational to the success of our sustainability program. Through ongoing engagement across and beyond our organization, CP continues to refine a sustainability program driven by our values and based on a shared sense of business, community and vision for the future. As we take strides to deliver on our commitments and goals, we constantly challenge ourselves to improve our practices.

### Climate Change

Climate change represents a significant global challenge and CP is committed to adapting our business and operations. CP published its first Climate Strategy in 2021, outlining our approach to managing potential climate-related impacts, reducing our carbon footprint and seeking to position CP as an industry leader in the transition to a low-carbon future. As part of the Climate Strategy, CP established science-based GHG emissions reductions targets covering 100% of Scope 1 and 2 emissions and more than half of our Scope 3 emissions.

CP has already taken action and made progress on climate change and to further support the execution of our Climate Strategy, we are strengthening roles and responsibilities for climate governance. CP's President and CEO holds the highest level of responsibility for organizational management,

including oversight of the Sustainability Steering Committee and performance related to climate change, while the Risk and Sustainability Committee of the Board provides oversight and reviews climate-related risks and opportunities. To lead our focus on decarbonization, we have established a Carbon Reduction Task Force, composed of CP's industry-leading engineers and operations experts. The Carbon Reduction Task Force reports to the Sustainability Steering Committee and will evaluate, recommend and implement climate action measures to reduce our GHG emissions and drive performance in the direction of our science-based targets.

In 2021, CP significantly expanded its Hydrogen Locomotive Program, aiming to build North America's first line-haul hydrogen-powered locomotive using fuel cells and batteries to power the locomotive's electric traction motor. CP is increasing the number of hydrogen locomotive conversions from one to three and adding hydrogen production and fueling facilities. This project will demonstrate and evaluate the technical performance in real-world operations and generate critical industry knowledge and experience that will inform commercialization and future development.

In 2021, we aligned our reporting to include the recommendations from the Task Force on Climate-related Financial Disclosure ("TCFD") and issued our first TCFD Index to demonstrate CP's full alignment to the recommendations. In addition, we regularly report on climate-related efforts through CDP and supplemental sustainability disclosures.

### Indigenous Relations

We strive to maintain strong relationships with Indigenous communities and uphold policies that outline our commitment to human rights. We incorporate elements of the Canadian Council for Aboriginal Business' Progressive Aboriginal Relations program into our practices and aim to strengthen relationships, develop opportunities and provide education and cross-cultural awareness.

CP recognizes the constitutionally protected rights of Indigenous people and is committed to interacting with Indigenous communities in a safe, respectful and responsible manner. Various CP teams collaborate to make certain that we effectively communicate and engage with communities that may be impacted by our practices and projects.

## Human Capital Management

CP is focused on attracting, developing, and retaining a resilient, high-performing workforce that delivers on providing service for our customers. CP's culture is guided by three core values: Accountability, Diversity, and Pride. These values drive our actions. Everything we do is grounded in precision scheduled railroading and our five foundations of Provide Service, Control Costs, Optimize Assets, Operate Safely, and Develop People.

At CP, our approximately 12,000-strong team of railroaders across North America underpins CP's success and brings value to our customers and shareholders. Accordingly, Develop People is one foundation of how we do business, illustrating our focus and energy towards empowering our people, providing an engaging culture and cultivating an industry leading team.

## Total Employees and Workforce

An employee is defined by the Company as an individual currently engaged in full-time, part-time, or seasonal employment with CP. The total number of employees as of December 31, 2021, was 11,834, a decrease of 56 compared to 11,890 as at December 31, 2020.

Workforce is defined as total employees plus contractors and consultants. The total workforce as at December 31, 2021 was 11,872, a decrease of 32 compared to 11,904 as at December 31, 2020.

## Unionized Workforce

Class I railways are party to collective bargaining agreements with various labour unions. The majority of CP's employees belong to labour unions and are subject to these agreements. CP manages collaborative relationships with union members in both Canada and the U.S.

CP employs approximately 12,000 active employees across North America with three-quarters based in Canada and the remainder in the United States. Unionized employees represent nearly 73% of our workforce and are represented by 36 active bargaining units.

### Canada

Within Canada there are eight bargaining units representing approximately 6,600 Canadian unionized active employees. From time to time, we negotiate to renew collective agreements with various unionized groups of employees. In such cases, the collective agreements remain in effect until the bargaining process has been exhausted (pursuant to the *Canada Labour Code*). One agreement is open for renewal and negotiations are underway as at December 31, 2021. Agreements are in place with the other seven bargaining units in Canada. Four collective agreements are effective until December 31, 2022 with the remaining three effective until December 31, 2023, 2025 and 2026.

### U.S.

In the U.S., there are currently 28 active bargaining units on four subsidiary railroads representing nearly 2,100 unionized active employees. 24 agreements are open for amendment and under negotiation as at December 31, 2021. Negotiations have been concluded with respect to three agreements which will expire beyond 2022 while one remaining agreement will be open for amendment in 2022.

## Health and Safety

CP is an industry leader in rail safety and we are committed to protecting our employees, our communities, our environment, and our customers' goods. In spite of 2021 being a very challenging year for our operation, CP remained an industry leader in train accident statistics for the 16th consecutive year. 2021 was also a record breaking year with respect to personal injuries as CP had the lowest injury frequency in its history and is now among the Class I leaders. CP's leadership approach has been the most impactful driver of the strong safety performance metrics and we are committed to continually improving on them. Aside from running trains, many of our employees work in yards, terminals and shops across our network with machinery and heavy equipment, or in extreme weather conditions. Their safety and security are of utmost importance to CP and are integral to the way we view employee safety education and training. Operate Safely is one of our five foundations of successful railroading and it starts with knowing and following the rules.

CP HomeSafe is an initiative designed to improve our safety culture by tapping into the human side of safety and promoting both safety engagement and feedback. HomeSafe puts everyone on the same level and empowers all employees to begin a safety conversation, no matter the rank or position. We intend to continue strengthening our strong HomeSafe foundation in 2022 through active peer engagement and awareness initiatives. Despite the ongoing pandemic in 2021, CP has continued to maintain a safe operation by diligently promoting our pandemic response initiatives including a set of practical strategies and best practices designed to keep all employees safe and healthy at work.

Safety performance is disclosed publicly on a quarterly basis using standardized metrics set out by the FRA. Additional information on FRA safety measures is included in Performance Indicators in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

## Talent Management

CP's approach for talent management begins with our Human Resources department, which oversees recruitment, development, engagement, and retention with the current and future workforce and leadership of CP.

The Management Resources and Compensation Committee of the Board of Directors reviews and informs CP's compensation plan and programming, and makes recommendations to the Board on succession planning for senior management and processes to identify, develop, and retain executive talent. Additionally, as part of CP's succession planning program, senior leaders are actively engaged in building the pool of future leaders, and present their development plans to the Board.

CP maintains a number of internal policies and processes related to recruitment, relocation, compensation, employment equity, and diversity and inclusion. The effective implementation of these policies alongside our ongoing workforce initiatives ensures CP's attraction and recruitment, employee development, succession, engagement, and diversity and inclusion practices are consistent and aligned with CP's commitments, foundations and values.

### Attraction and Recruitment

With a rail network spanning Canada and the U.S., we employ a number of recruitment strategies and retention tactics to attract and retain talent across North America. CP offers many rewarding career opportunities in a variety of roles within the organization in both operating and support functions. We base our recruitment strategy on workforce planning needs, and our focus is on ensuring that we have a diverse candidate pool to fill our open positions.

CP recognizes the valuable skills and experience that veterans have gained from serving their country. Our veteran program was recognized as part of Canada's Best Diversity Employers® of 2021 and we were named part of the top 10 Military Friendly® employers in the U.S. for 2021.

CP tracks recruitment performance and success rates to better understand which tactics, benefits, and strategic partnerships are most successful in bringing in and retaining new talent.

### Talent Development & Succession

As part of our core foundation and commitment to Develop People, we encourage all employees to take an active role in their career planning and development. We believe that investing in our employees leads to improved workplace morale and fosters a supportive working environment.

### Training and Development

One of CP's five foundations is to Develop People, which is integral to the way we do business at the railway. Our strategy involves delivering specialized training, best practices, and skill-broadening opportunities to all employees.

CP offers a variety of training opportunities, providing both technical/on-the-job training, role-specific offerings as well as optional courses. Training includes instructor-led classes and online on-demand, self-directed online learning.

Non-union employees also complete annual performance management and development action plans with their leaders to set individual goals tied to CP's five key foundations and track progress against Company expectations as well as career development goals.

## Diversity and Inclusion

Diversity is one of our core values at CP. We believe that different backgrounds, experiences, and perspectives enhance creativity and innovation and encourage diversity of thought in the workplace. Fostering an inclusive environment where all employees feel empowered to strive for and achieve success supports our high-performance culture and is integral to our growth and success as an organization. Our Diversity and Inclusion team with support from senior leadership is responsible for developing programs and initiatives to achieve our diversity commitments. We are continually working on programs and opportunities to ensure we are attracting, retaining and developing the best people and skill sets for CP. CP is committed to increasing diversity throughout all levels of the organization.

CP recognizes the importance of Board member diversity as a critical component of objective oversight and continuous improvement. As of December 31, 2021, five of the 11 directors (45%) are women. Additionally, one of our male directors is a visible minority, which makes the majority of the Board of Directors (54.5%) members of "designated groups" as defined in the Employment Equity Act of Canada.

CP has regulatory requirements to report on workforce diversity representation in Canada (Employment Equity Act) and the U.S. (Equal Employment Opportunity Commission). CP currently collects diversity data on the following categories: women, persons with disabilities, minorities (visible minorities), and Indigenous peoples (Canada) from employees through voluntary self-disclosure. CP continues to focus our efforts on attracting, recruiting, and developing a diverse workforce. This data is shared in various disclosures and government reporting, internally with employees and leaders as well as our Board of Directors.

### Year over Year Diversity Representation

| **Canada and U.S. Diversity Percentages**[1] | **2021** | 2020 | 2019 |
|---|---|---|---|
| Women | **10%** | 10% | 10% |
| Persons with disabilities | **3%** | 3% | 3% |
| Minorities (visible minorities)[2] | **14%** | 13% | 13% |
| Indigenous peoples (Canada only) | **3%** | 3% | 4% |

[1] Percentages are based on total workforce (total number of active employees) at year-end.

[2] Minority is a term used in the U.S., Visible Minority is a term used in Canada.

CP continues to work collaboratively with our employees, communities along our network, and partner organizations in Canada and the U.S. to progress and support CP's commitment toward a more representative and inclusive workplace. Some of our initiatives include:

- Establishing three diversity councils (Indigenous, Gender and Racial). Each council is chaired by a CP executive and represents a diverse group of employees. The councils work to ensure we consider diversity and inclusion when we make decisions, provide feedback on corporate directions and promote initiatives that relate to each council's area of focus;
- Continuing our existing partnerships with associations and organizations that attract, recruit, and support skilled immigrants, transitioning veterans, persons with disabilities, and women;
- Working with Indigenous groups to develop relationships that are more meaningful, create targeted outreach programs and employment opportunities, and better understand their history, culture, and opportunities for collaboration;
- Supporting the development and advancement of women at CP; and
- Increasing employee awareness regarding CP's workplace diversity and inclusion practices through communications, education, and training.

Further, in 2020 CP published a Diversity Commitment. This commitment re-enforces the efforts we have made, and will continue to make, in our journey to becoming a more diverse and inclusive company, one that we and those we do business with are proud to be a part.

We pride ourselves on offering a diverse workplace with a variety of careers in both our corporate and field locations. We recruit and hire talent based on relevant skills and experience, and seek to attract the highest quality candidates regardless of gender, age, cultural heritage, or ethnic origin. One of our primary objectives is attracting, recruiting, retaining, and developing a workforce representative of the communities in which we operate.

## Available Information

CP makes available on or through its website www.cpr.ca free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the *Exchange Act* as soon as reasonably practicable after such reports are filed with or furnished to the U.S. Securities and Exchange Commission ("SEC"). Our website also contains charters for each of the committees of our Board of Directors, our corporate governance guidelines and our Code of Business Ethics. This Form 10-K and other SEC filings made by CP are also accessible through the SEC's website at www.sec.gov.

All references to our websites contained herein do not constitute incorporation by reference of information contained on such websites and such information should not be considered part of this document.

# ITEM 1A. RISK FACTORS

The risks set forth in the following risk factors could have a materially adverse effect on the Company's business, financial condition, results of operations, and liquidity, and could cause those results to differ materially from those expressed or implied in the Company's forward-looking statements and forward-looking information (collectively, "forward-looking statements").

The information set forth in this Item 1A. Risk Factors should be read in conjunction with the rest of the information included in this annual report, including Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data.

## Business and Operational Risks

**The COVID-19 pandemic has negatively affected and may continue to negatively affect the Company's business and operating results.** The effects of the COVID-19 pandemic on consumer demand resulted in lower volumes in several of the Company's lines of business, including Energy, chemicals and plastics, Metals, minerals and consumer products, and Automotive. The future impacts of COVID-19 on the Company's business or operating and financial results are unpredictable and cannot be identified or assessed with certainty at this time. The COVID-19 pandemic has adversely affected the global economy and resulted in a widespread economic downturn which has adversely impacted and could continue to adversely impact demand for our services and otherwise cause interruptions, including fluctuations to commodity prices, disruptions or restrictions on the ability to transport freight in the ordinary course, temporary closures of facilities and ports, or the facilities and ports of our customers, partners, suppliers or other third-party service providers, and/or changes to export/import restrictions. The pandemic caused by COVID-19 has impacted and may continue to impact the seasonal trends that typically characterize our revenues and operating income. There is no assurance that the outbreak will not continue to have a material and adverse impact on our business or results of operations. Additionally, our operations could be further negatively affected if a significant number of our employees are unable to perform their normal duties, including because of contracting COVID-19 or based on further direction from governments, public health authorities or regulatory agencies. The extent of the impact, if any, will depend on developments, many of which are beyond our control, including actions taken by governments, financial institutions, monetary policy authorities, and public health authorities to contain and respond to public health concerns and general economic conditions as a result of the pandemic. The COVID-19 pandemic may also result in continued substantial market volatility and declines, which could adversely impact future net periodic benefit costs and funding requirements of CP's pension plans. Furthermore, certain impacts of the COVID-19 pandemic, including demand for our services and to economic conditions generally, could continue following the pandemic or the expiration or termination of government actions in respect of the pandemic.

We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required or recommended by federal, provincial, state or local authorities, or that we determine are in the best interests of our employees, customers, partners, suppliers, shareholders and other stakeholders. We cannot be certain of potential effects that any such alterations or modifications may have on our business or operating and financial results in future fiscal periods.

To the extent COVID-19 adversely affects our business or operating and financial results, it may also have the effect of heightening many of the other risks described above and below. In addition, we could be materially and adversely affected by other public health crises, including another widespread epidemic or pandemic.

**COVID-19 vaccine mandates could negatively impact our ability to retain employees and could increase our operational costs, which could in turn adversely affect our profitability and growth.** On October 29, 2021, the Minister of Transport issued an Order mandating COVID-19 vaccinations. That Order requires railway companies in Canada to implement their own company-wide vaccine policy by October 30, 2021 requiring all employees receive their first dose of COVID-19 vaccine by November 15, 2021 and their second dose by January 24, 2022 or implement a set of more prescribed standards for operating employees. The Order also requires that railway companies place non-compliant employees on unpaid leave. CP is complying with this Order and continuing to evaluate the potential impacts to the company.

President Biden's COVID-19 Action Plan announced in September 2021 instructed the U.S. Department of Labor's Occupational Safety and Health Administration ("OSHA") to develop a rule that would require all employers with 100 or more employees to ensure their workforce is fully vaccinated or subjected to weekly testing. On January 13, 2022, the U.S. Supreme Court stayed implementation of OSHA's vaccine or test requirement. As a result, OSHA withdrew its vaccination and testing emergency standards. However, there could be similar vaccination mandates in the U.S. in the future which could negatively impact our ability to retain employees, and increase our operational costs. An increase in expenses and operational costs could materially and adversely affect our growth and profitability.

COVID-19 vaccine mandates may affect employee availability due to absences to get vaccinated and/or unpaid leaves, coping with side-effects, union work stoppages and/or employee resignations due to refusal to comply with a mandate. COVID-19 vaccine mandates in Canada could negatively impact our ability to retain employees, and increase our operational costs. An increase in expenses and operational costs could materially and adversely affect our growth and profitability.

**As a common carrier in Canada and the U.S., the Company is required by law to transport dangerous goods and hazardous materials, which could expose the Company to significant costs and claims.** Railways, including CP, are legally required to transport dangerous goods and hazardous materials as part of their common carrier obligations regardless of risk or potential exposure to loss. CP transports dangerous goods and hazardous materials, including but not limited to crude oil, ethanol and TIH materials such as chlorine gas and anhydrous ammonia. A train accident involving hazardous materials could result in significant claims against CP arising from personal injury, property or natural resource damage, environmental penalties and remediation obligations. Such claims, if insured, could exceed the existing insurance coverage commercially available to CP, which could have a material adverse effect on CP's financial condition, operating results, and liquidity. CP is also required to comply with rules and regulations regarding the handling of dangerous goods and hazardous materials in Canada and the U.S. Noncompliance with these rules and regulations can subject the Company to significant penalties and could factor in litigation arising out of a train accident. Changes to these rules and regulations could also increase operating costs, reduce operating efficiencies and impact service delivery.

**The Company faces competition from other transportation providers and failure to compete effectively could adversely affect financial results.** The Company faces significant competition for freight transportation in Canada and the U.S., including competition from other railways, motor carriers, ship and barge operators, and pipelines. Competition is based mainly on quality of service, freight rates and access to markets. Other transportation modes generally use public rights-of-way that are built and maintained by government entities, while CP and other railways must use internal resources to build and maintain their rail networks. Competition with the trucking industry is generally based on freight rates, flexibility of service and transit time performance. Any future improvements or expenditures materially increasing the quality or reducing the cost of alternative modes of transportation, or legislation that eliminates or significantly reduces the burden of the size or weight limitations currently applicable to trucking carriers, could have a material adverse effect on CP's financial results.

The operations of carriers with which the Company interchanges may adversely affect operations. The Company's ability to provide rail services to customers in Canada and the U.S. also depends upon its ability to maintain cooperative relationships with connecting carriers with respect to, among other matters, revenue division, car supply and locomotive availability, data exchange and communications, reciprocal switching, interchange, and trackage rights. Deterioration in the operations or services provided by connecting carriers, or in the Company's relationship with those connecting carriers, could result in CP's inability to meet customers' demands or require the Company to use alternate train routes, which could result in significant additional costs and network inefficiencies and adversely affect our business, operating results, and financial condition.

**The Company may be affected by acts of terrorism, war, or risk of war.** CP plays a critical role in the North American transportation system and therefore could become the target for acts of terrorism or war. CP is also involved in the transportation of hazardous materials, which could result in CP's equipment or infrastructure being direct targets or indirect casualties of terrorist attacks. Acts of terrorism, or other similar events, any government response thereto, and war or risk of war could cause significant business interruption to CP and may adversely affect the Company's results of operations, financial condition and liquidity.

**The Company may be affected by fluctuating fuel prices.** Fuel expense constitutes a significant portion of the Company's operating costs. Fuel prices can be subject to dramatic fluctuations, and significant price increases could have a material adverse effect on the Company's results of operations. The Company currently employs a fuel cost adjustment program to help reduce volatility in changing fuel prices, but the Company cannot be certain that it will always be able to fully mitigate rising or elevated fuel costs through this program. Factors affecting fuel prices include worldwide oil demand, international politics, weather, refinery capacity, supplier and upstream outages, unplanned infrastructure failures, environmental and sustainability policies, and labour and political instability.

**The Company relies on technology and technological improvements to operate its business and we are subject to cybersecurity risks.** Information technology is critical to all aspects of CP's business, and the Company relies on technology systems operated by us or under control of third parties. Although the Company devotes significant resources to protect its technology systems and proprietary data, there can be no assurance that the systems we have designed to prevent or limit the effects of cyber incidents or attacks will be sufficient to prevent or detect such incidents or attacks, or to avoid a material adverse impact on our systems after such incidents or attacks do occur. The Company is continually evaluating attackers' techniques and tactics, and the Company is diligent in its monitoring, training, planning, and prevention. However, due to the increasing sophistication of cyber-attacks and greater complexity in our IT supply chain, the Company may be unable to anticipate or implement appropriate preventive measures to detect and respond to a security breach. This includes the raising rates of reported ransomware events, increased human error, or other cyber-attack methods disrupting CP's systems or the systems of third parties. If the Company or third parties whose technology systems we rely on were to experience a significant disruption or failure of one or more of their information technology or communications systems (either as a result of an intentional cyber or malicious act, or an unintentional error) it could result in significant service interruptions or other failures, safety failures, other operational difficulties unauthorized access to, the loss of access to or misappropriation of competitively sensitive, confidential or other critical information or systems, loss of customers, financial losses, regulatory fines, and misuse or corruption of critical data and proprietary information, which could have a material adverse effect on the Company's results of operations, financial condition, and liquidity. The Company also may experience security breaches that could remain undetected for an extended period and, therefore, have a greater impact on the services we offer. In addition, if CP is unable to acquire or implement new technology in general, the Company may suffer a competitive disadvantage, which could also have an adverse effect on its results of operations, financial condition, and liquidity.

## Human Capital Risks

**The availability of qualified personnel could adversely affect the Company's operations.** Changes in employee demographics, training requirements and the availability of qualified personnel, particularly locomotive engineers and trainpersons, could negatively impact the Company's ability to meet demand for rail services. Unpredictable increases in the demand for rail services may increase the risk of having insufficient numbers of trained personnel, which could have a material adverse effect on the Company's results of operations, financial condition and liquidity. In addition, changes in operations and other technology improvements may significantly impact the number of employees required to meet the demand for rail services.

**Strikes or work stoppages could adversely affect the Company's operations.** Class I railways are party to collective bargaining agreements with various labour unions. The majority of CP's employees belong to labour unions and are subject to these agreements. Disputes with regard to the terms of these agreements or the Company's potential inability to negotiate acceptable contracts with these unions could result in, among other things, strikes, work stoppages, slowdowns or lockouts, which could cause a significant disruption of the Company's operations and have a material adverse effect on the Company's results of operations, financial condition and liquidity. Additionally, future national labour agreements, or provisions of labour agreements related to health care, could significantly increase the Company's costs for health and welfare benefits, which could have a material adverse impact on its financial condition and liquidity.

## Legal and Regulatory Risks

**The Company is subject to significant governmental legislation and regulation over commercial, operating and environmental matters.** The Company's railway operations are subject to extensive federal laws, regulations and rules in both Canada and the U.S. Operations are subject to economic and safety regulations in Canada primarily by the Agency and TC. The Company's U.S. operations are subject to economic and safety regulation by the STB and the FRA. The STB regulates routes, fuel surcharges, conditions of service, rates for non-exempt traffic, acquisitions of control over rail common carriers and the transfer, extension or abandonment of rail lines, among other railroad activities. Any new rules from the STB regarding these matters could have a material adverse effect on the Company's financial condition, results of operations and liquidity as well as its ability to invest in enhancing and maintaining vital infrastructure. Various other regulators, including the FRA, and its sister agency within the U.S. Department of Transportation ("DOT"), the PHMSA, directly and indirectly affect the Company's operations in areas such as health, safety, security, environmental and other matters. Together, FRA and PHMSA have broad jurisdiction over railroad operating standards and practices, including track, freight cars, locomotives and hazardous materials requirements. In addition, the U.S. Environmental Protection Agency ("EPA") has regulatory authority with respect to matters that impact the Company's properties and operations. Additional regulation of the rail industry by these regulators or the Canadian and U.S. federal and state or provincial legislative bodies, whether under new or existing laws, may result in increased capital expenditures and operating costs and could have a significant negative impact on the Company's ability to determine prices for rail services and result in a material adverse effect in the future on the Company's business, financial position, results of operations, and liquidity in a particular year or quarter. This potential material adverse effect could also result in reduced capital spending on the Company's rail network or in abandonment of lines.

**The Company is subject to environmental laws and regulations that may result in significant costs.** The Company's operations are subject to extensive federal, state, provincial (Canada) and local environmental laws concerning, among other matters, emissions to the air, land and water and the handling of hazardous materials and wastes. Violation of these laws and regulations can result in significant fines and penalties, as well as other potential impacts on CP's operations. These laws can impose strict, and in some circumstances, joint and several liability on both current and former owners, and on operators of facilities. Such environmental liabilities may also be raised by adjacent landowners or third parties. In addition, in operating a railway, it is possible that releases of hazardous materials during derailments or other accidents may occur that could cause harm to human health or to the environment. Costs of remediation, damages and changes in regulations could materially affect the Company's operating results and reputation. The Company has been, and may in the future be, subject to allegations or findings to the effect that it has violated, or is strictly liable under, environmental laws or regulations. The Company currently has obligations at existing sites for investigation, remediation and monitoring, and will likely have obligations at other sites in the future. The actual costs associated with both current and long-term liabilities may vary from the Company's estimates due to a number of factors including, but not limited to changes in: the content or interpretation of environmental laws and regulations; required remedial actions; technology associated with site investigation or remediation; and the involvement and financial viability of other parties that may be responsible for portions of those liabilities.

**The Company may be subject to litigation and other claims that could result in significant expenditures.** By nature of its operations, the Company is exposed to potential for litigation and other claims, including personal injury claims, labour and employment disputes, commercial and contract disputes, environmental liability, freight claims and property damage claims. Accruals are made in accordance with applicable accounting standards and based on an ongoing assessment of the likelihood of success of the claim together with an evaluation of the damages or other monetary relief sought. Material changes to litigation trends, a catastrophic rail incident or series of incidents involving freight loss, property damage, personal injury, environmental liability, or other claims, and other significant matters could have a material adverse impact to the Company's results of operations, financial position and liquidity, in each case, to the extent not covered by insurance.

## Supply Chain Risks

**Disruptions within the supply chain could negatively affect the Company's operational efficiencies and increase costs.** The North American transportation system is integrated. CP's operations and service may be negatively impacted by service disruptions of other transportation links,

such as ports, handling facilities, customer facilities and other railways. A prolonged service disruption at one of these entities could have a material adverse effect on the Company's results of operations, financial condition, and liquidity.

**The Company is dependent on certain key suppliers of core railway equipment and materials that could result in increased price volatility or significant shortages of materials, which could adversely affect results of operations, financial condition, and liquidity.** Due to the complexity and specialized nature of core railway equipment and infrastructure (including rolling stock equipment, locomotives, rail and ties), there can be a limited number of suppliers of rail equipment and materials available. Should these specialized suppliers cease production or experience capacity or supply shortages, this concentration of suppliers could result in CP experiencing cost increases or difficulty in obtaining rail equipment and materials, which could have a material adverse effect on the Company's results of operations, financial condition and liquidity. Additionally, CP's operations are dependent on the availability of diesel fuel. A significant fuel supply shortage arising from production decreases, increased demand in existing or emerging foreign markets, disruption of oil imports, disruption of domestic refinery production, damage to refinery or pipeline infrastructure, political unrest, war or other factors could have a material adverse effect on the Company's results of operations, financial position and liquidity in a particular year or quarter.

## Risks Related to the Kansas City Southern Transaction

**Following the closing of the KCS acquisition into a voting trust, although the Company does not control KCS, KCS's operational and financial performance could have an adverse effect on the Company's financial condition or results of operations.** On December 14, 2021, the KCS acquisition closed into a voting trust, whereby the Company indirectly acquired a 100% beneficial ownership interest in KCS but does not control KCS. KCS's voting stock was deposited into a voting trust that insulates KCS from control by the Company. The Company will not control KCS until STB control approval is obtained. Until that time, KCS will be managed by its own executive team overseen by its own board of directors and the voting trust.

The voting trust precludes the Company from exercising control over the business strategy or other operational aspects of KCS. The Company's investment in this unconsolidated entity was considered significant under Rule 3-09 of Regulation S-X for the year ended December 31, 2021. The Company cannot provide assurance that KCS will operate in a manner that will increase the value of the Company's investments, that the Company's income or losses from KCS will continue at the current level in the future or that the Company will not incur losses from KCS. Write-downs to the carrying amount of the Company's equity interest could adversely impact the Company's results of operations.

**The Company incurred substantial indebtedness in connection with consummation of the acquisition, which may pose risks and/or intensify existing risks.** Prior to the closing into voting trust that occurred on December 14, 2021, the Company incurred additional indebtedness of approximately U.S. $6.7 billion and $2.2 billion notes and a U.S. $500 million term loan to indirectly fund the acquisition.

The foregoing indebtedness, as well as any additional indebtedness we may incur, could have the effect, among other things, of reducing our liquidity and may limit our flexibility in responding to other business opportunities and increasing our vulnerability to adverse economic and industry conditions.

Our ability to make payments of principal and interest on our indebtedness depends upon our future performance, which will be subject to general economic, financial and business conditions, sufficient cash flow from KCS during the period in which it is in the voting trust, the implementation of the integration with KCS (if the STB approves our assuming control of KCS) and other factors affecting our operations, many of which are beyond our control.

Our increased indebtedness could also reduce funds available for working capital, capital expenditures, acquisitions and other general corporate purposes and may create competitive disadvantages relative to other companies with lower debt levels. If we obtain control of KCS but we do not achieve the expected benefits and cost savings from the combination, or if the financial performance of the combined company does not meet current expectations, then our ability to service our indebtedness may be adversely impacted.

The agreements that govern the indebtedness that has been incurred in connection with the KCS acquisition, contain various affirmative and negative covenants that may, subject to certain customary exceptions, restrict our ability to, among other things, create liens over our property, change our line of business and/or merge or consolidate with any other person or sell or convey certain of our assets to another person. In addition, some of the agreements that govern our debt financings contain a financial covenant that will require us to maintain certain financial ratios. Various risks, uncertainties and events beyond our control could affect our ability to comply with these covenants and failure to comply with them could result in an event of default, which, if not cured or waived, could accelerate our repayment obligations. Under these circumstances, we may not have sufficient funds or other resources to satisfy all of our obligations.

Moreover, we may be required to raise substantial additional financing to fund working capital, capital expenditures, acquisitions or other general corporate requirements. Our ability to arrange additional financing or refinancing will depend on, among other factors, our financial position and performance, as well as prevailing market conditions and other factors beyond our control. There can be no assurance that we will be able to obtain additional financing or refinancing on terms acceptable to us or at all.

**The pendency of the STB's regulatory review of the combination could have an adverse effect on the Company's businesses, results of operations, financial condition, cash flows or the market value of the Company's common stock and debt securities.** The pendency of the regulatory review of the combination could disrupt the Company's businesses, and uncertainty about the outcome of that review may have an adverse effect on the Company or the combined company. The attention of the Company's management may be directed towards obtaining final approval from the STB and addressing related requests from the third parties for conditions on STB approval and may be diverted from the day-to-day business operations of the Company. Matters related to the combination may require commitments of time and resources that could otherwise have been devoted to other opportunities that might have been beneficial to the Company. Further, the combination may give rise to potential liabilities, including as a result of pending and future shareholder lawsuits relating to the combination. In addition, the Company has incurred, and expects to incur additional, material non-recurring expenses in connection with the completion of the combination. Any of these matters could adversely affect the businesses of, or harm the results of operations, financial condition or cash flows of the Company and the market value of the Company's common stock.

**The combination is subject to final approval by the STB, and there can be no assurance as to whether and when it may be approved or if such approval will be granted with conditions applicable to the parties; accordingly, the combination may be delayed, jeopardized or prevented entirely and the anticipated benefits of the combination could be reduced.** The STB has the authority to impose conditions on its approval of a control transaction to alleviate competitive and other public interest harm. If such conditions were imposed, the anticipated benefits of the combination might be reduced. There is no assurance that final approval from the STB will be obtained or obtained on terms acceptable to the Company.

In addition, the STB's review process allows railroad competitors of the Company and KCS and other interested parties to intervene to oppose the STB application or seek conditions in the event approval by the STB is granted, which might delay the approval process or reduce the anticipated benefits of the combination. On January 12, 2022, CN submitted a notice of intent to file a responsive application on February 28, 2022, with the STB. According to CN, its responsive application will ask the STB to condition any approval of a CP-KCS combination on the divestiture of KCS lines from Kansas City, Missouri to Springfield and East St. Louis, Illinois to CN, pursuant to the STB's statutory authority to order "the divestiture of parallel tracks" as a merger condition. Furthermore, if the STB does not provide final approval or imposes conditions on its approval in a final order, and the Company and KCS decide to appeal such final order from the STB, any such appeal might not be resolved for a substantial period of time after the entry of such order by the STB.

If we determine in our reasonable judgment that the STB final approval will not be sought or has not or will not be received prior to March 25, 2023, then we will be required to redeem all of the outstanding 2.450% notes due 2031 and 3.000% notes due 2041 at a special mandatory redemption price equal to 101% of the aggregate principal amount of the applicable notes plus accrued and unpaid interest, if any. The Company may not have sufficient funds or other resources to satisfy such repurchase obligation, which could have a significant adverse impact on the business and financial condition of the Company.

If either (i) final approval from the STB has not been obtained by December 31, 2023 or (ii) the STB has, by a final and non-appealable order, refused to provide final approval (an "STB denial"), the Company would be required to dispose of its investment in KCS. Similarly, if the STB imposes onerous conditions on its final approval, the Company may choose to dispose of its investment in KCS rather than agreeing to the conditions imposed by the STB. In either case, the Company would be obligated under the voting trust agreement to directly or indirectly divest the trust stock in a manner that is acceptable to the STB. In the case of a divestiture, the market and divestiture alternatives for the trust stock might be limited, and such a disposition could cause the Company to incur significant losses and expenses in connection with the transaction, which could have a significant adverse impact on the business and financial condition of the Company.

**The Company may be unable to integrate KCS successfully, and the Company may not experience the growth being sought from the combination.** The Company and KCS have operated and, until the receipt of final approval from the STB, will continue to operate, independently. Integrating KCS with CP following STB approval of CP control will involve operational, technological and personnel-related challenges, which may be made more difficult in light of the COVID-19 pandemic. This process will be time-consuming and expensive, may disrupt the businesses of either or both of the companies and may reduce the growth opportunities sought from the combination.

## Climate-Related Risks

**The Company has established greenhouse gas (GHG) emission reduction targets to guide the implementation of CP's Climate Strategy. CP's inability to achieve GHG emissions reduction targets could negatively impact both our reputation and financial results.** CP has established two science-based GHG emissions reduction targets to address a substantial portion of the Company's Scope 1, Scope 2 and Scope 3 emissions by 2030. The primary risks associated with achieving these commitments include but are not limited to future investments in and the availability of GHG emissions-reduction tools and technologies, CP's ability to work with governments and third parties to mitigate the impacts of climate change, domestic and international economic conditions, including exchange rates, the effects of competition and regulation, uncertainties in the financial markets, capital spending, actions of vendors, the willingness of customers to acquire our services, cost of network expansion, maintenance and retrofits, and physical impact of climate change on our business. Our targets are subject to the successful implementation of the actions and plans outlined in the Climate Strategy as well as the accuracy of the assumptions in the science-based methodology used to calculate these targets. We cannot assure that CP's plans to reduce GHG emissions will be viable or successful. Inability to meet GHG emissions reduction targets could have a material adverse effect on CP's reputation, results of operations or financial position.

**Changing climate conditions, severe weather or natural disasters could result in significant business interruptions and costs to the Company.** CP is exposed to severe weather conditions and natural disasters, including earthquakes, hurricanes, floods, fires, avalanches, mudslides, extreme temperatures and significant precipitation that may cause track outages, severe damage to infrastructure and business interruptions that can adversely affect the Company's entire rail network. For example, the atmospheric river rain storm in British Columbia in November 2021 resulted in damage at more than 30 locations across CP's Thompson and Cascade subdivision with 20 locations experiencing a significant loss of infrastructure. These events can result in substantial costs to respond during the event and recover following the event. Costs can include modifications to existing infrastructure or implementation of new infrastructure to prevent future impacts to our business.

Impacts from these types of events are highly variable based on the severity and length of the event and scope of network impact. Climate-related changes such as higher temperatures, more intense and frequent rainfall and extreme storms can increase physical climate risk potentially compounding impacts to the business and operations. Such events have had and in the future could have a material adverse effect on the Company's results of operations, financial condition, and liquidity.

Insurance maintained by the Company to protect against loss of business and other related consequences resulting from these natural occurrences is subject to coverage limitations, depending on the nature of the risk insured. This insurance may not be sufficient to cover all of the Company's damages or damages to others, and may not continue to be available at commercially reasonable rates. Even with insurance, if any natural occurrence leads to a catastrophic interruption of services, the Company may not be able to restore services without a significant interruption in operations.

**An escalating price on carbon emissions could materially increase direct costs related to fuel purchases and indirect expenses related to purchased goods, materials, and electricity required to operate our business.** As a fuel-intensive operation, CP is exposed to both emerging and escalating carbon pricing regulations. CP is regulated under multiple carbon taxation systems and cap and trade market mechanisms in the Canadian provinces in which we operate. Approximately 75% of CP's Scope 1 and Scope 2 GHG emissions are generated through our operations in Canada and are impacted by carbon pricing mechanisms.

In most provinces, energy providers and utilities are directly regulated through carbon pricing programs. CP's carbon costs are generally assessed by our primary fuel suppliers based on fuel purchase transactions. The amount collected by our suppliers follows current regulatory carbon pricing rates multiplied by the total volume of fuel purchased. CP's carbon costs are also paid to a province as part of tax returns in some locations, based on reported locomotive fuel consumption in a specific region. CP is further exposed to carbon pricing through electricity purchases, where electric utilities pass on carbon costs to customers. Introduction of, or changes to, regulations by government bodies in response to climate change that increase the cost of carbon emissions could result in a significant increase in expenses and could adversely affect our business performance, results of operations, financial position and liquidity.

**A number of the sectors CP serves have the potential to be significantly impacted by climate-related transitional risks, including increased regulations, technology changes and shifts in consumer preferences.** CP's business is based on transporting a wide variety of commodities from suppliers to the marketplace. CP regularly transports energy commodities that serve refineries, processing locations and end-users across North America and global markets. CP's business lines include thermal and metallurgical coal, crude oil and petroleum products, including liquefied petroleum gas, fuel oil, asphalt, gasoline, condensate (diluent) and lubricant oils.

Shifting consumer demand to lower-carbon products and increased climate-focused regulations, such as carbon pricing and fuel regulations, may instigate a broad transition in the energy sector. Programs that place a price on carbon emissions or other government restrictions on certain market sectors may further impact current and potential freight rail customers in the thermal coal, petroleum, crude oil and renewable fuel sectors. A comprehensive transition in the energy sector could significantly impact the markets of CP's energy customers or lead to market differentiation through geographic variation in policies and demand trends. A portion of CP's business could be materially affected by such a transition, including thermal coal, crude oil and petroleum products. Potential future changes and instability in these markets represent a significant transition risk to these business lines.

## General Risk Factors

### Global Risks

**Global economic conditions could negatively affect demand for commodities and other freight transported by the Company.** A decline or disruption in domestic, cross border or global economic conditions that affect the supply or demand for the commodities that CP transports may decrease CP's freight volumes and may result in a material adverse effect on CP's financial or operating results and liquidity. Economic conditions resulting in bankruptcies of one or more large customers could have a significant impact on CP's financial position, results of operations, and liquidity in a particular year or quarter.

### Liquidity Risks

**The state of capital markets could adversely affect the Company's liquidity.** Weakness in the capital and credit markets could negatively impact the Company's access to capital. From time to time, the Company relies on the capital markets to provide some of its capital requirements, including the issuance of long-term debt instruments and commercial paper. Significant instability or disruptions of the capital markets and the credit markets, or deterioration of the Company's financial condition due to internal or external factors could restrict or eliminate the Company's access to, and/or significantly increase the cost of, various financing sources, including bank credit facilities and issuance of corporate bonds. Instability or disruptions of the capital markets and deterioration of the Company's financial condition, alone or in combination, could also result in a reduction in the Company's credit rating to below investment grade, which could also further prohibit or restrict the Company from accessing external sources of short-term and long-term debt financing, and/or significantly increase the associated costs.

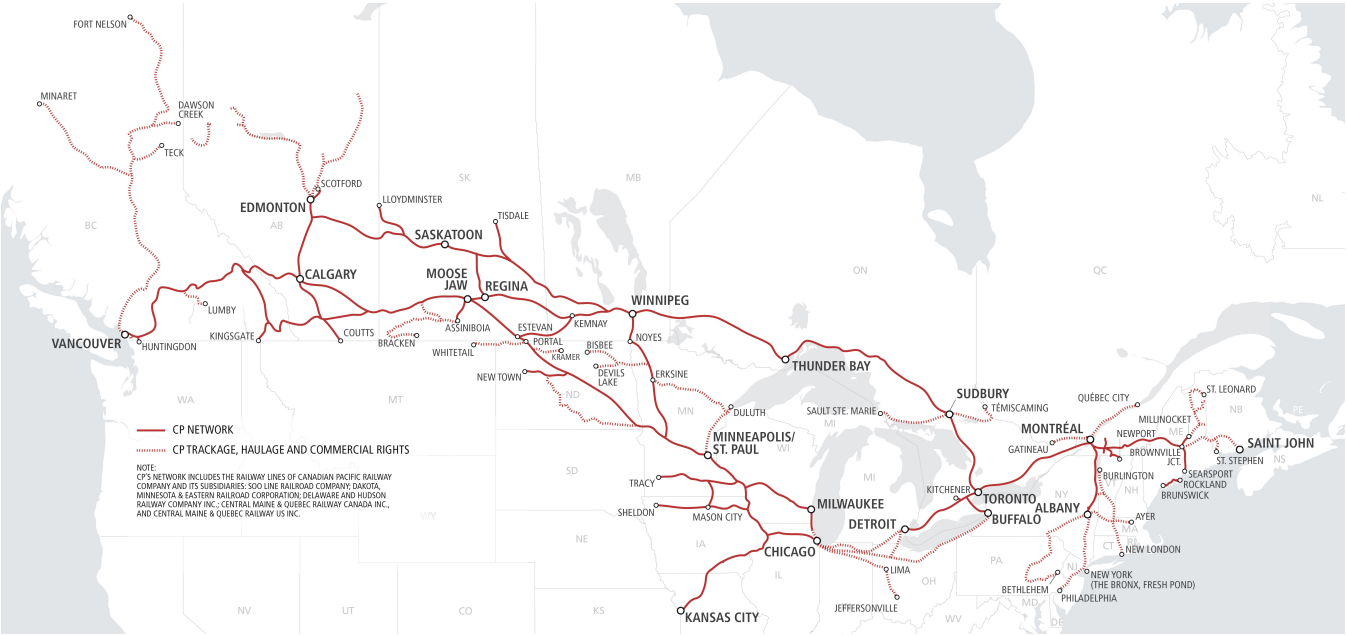
# ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

# ITEM 2. PROPERTIES

## Network Geography

The Company's network in Canada extends from the Port of Vancouver, B.C. on Canada's Pacific Coast to the Port of Montréal, Québec and eastern Québec and to the Port of Saint John, New Brunswick via a haulage agreement, and to the U.S. industrial centres of Chicago, Illinois; Detroit, Michigan; Buffalo and Albany, New York; Kansas City, Missouri; and Minneapolis, Minnesota.




The Company's network is composed of three primary corridors: Western, Central and Eastern.

## The Western Corridor: Vancouver to Thunder Bay

**Overview** – The Western Corridor links Vancouver with Thunder Bay, which is the Western Canadian terminus of the Company's Eastern Corridor. With service through Calgary, the Western Corridor is an important part of the Company's routes between Vancouver and the U.S. Midwest, and between Vancouver and eastern Canada. The Western Corridor provides access to the Port of Thunder Bay, Canada's primary Great Lakes bulk terminal.

**Products** – The Western Corridor is the Company's primary route for bulk and resource products traffic from western Canada to the Port of Vancouver for export. CP also handles significant volumes of international intermodal containers and domestic general merchandise traffic.

**Feeder Lines** – CP supports its Western Corridor with four significant feeder lines: the "Coal Route", which links southeastern B.C. coal deposits to the Western Corridor and to coal terminals at the Port of Vancouver; the "Edmonton-Calgary Route", which provides rail access to Alberta's Industrial

Heartland (north of Edmonton, Alberta) in addition to the petrochemical facilities in central Alberta; the "Pacific CanAm Route", which connects Calgary and Medicine Hat in Alberta with Pacific Northwest rail routes at Kingsgate, B.C. via the Crowsnest Pass in Alberta; and the "North Main Line Route" that provides rail service to customers between Portage la Prairie, Manitoba, and Wetaskiwin, Alberta, including intermediate stations at Yorkton and Saskatoon in Saskatchewan. This line is an important collector of Canadian grain and fertilizer, serving the potash mines located east and west of Saskatoon and many high-throughput grain elevators and processing facilities. In addition, this line provides direct access to refining and upgrading facilities at Lloydminster, Alberta, and western Canada's largest pipeline terminal at Hardisty, Alberta.

**Connections** – The Company's Western Corridor connects with the Union Pacific Railroad ("UP") at Kingsgate and with Burlington Northern Santa Fe Railway ("BNSF") at Coutts, Alberta, and at New Westminster and Huntingdon in B.C. This corridor also connects with CN at many locations including Thunder Bay, Winnipeg, Manitoba, Regina and Saskatoon in Saskatchewan, Red Deer, Camrose, Calgary and Edmonton in Alberta, Kamloops and several locations in the Greater Vancouver area in B.C.

**Yards and Repair Facilities** – CP supports rail operations on the Western Corridor with main rail yards at Vancouver, Calgary, Edmonton, Moose Jaw in Saskatchewan, Winnipeg and Thunder Bay. The Company has locomotive and railcar repair facilities at Golden in B.C., Vancouver, Calgary, Moose Jaw and Winnipeg. CP also has major intermodal terminals at Vancouver, Calgary, Edmonton, Regina and Winnipeg.

## The Central Corridor: Moose Jaw and Winnipeg to Chicago and Kansas City

**Overview** – The Central Corridor connects with the Western Corridor at Moose Jaw and Winnipeg. By running south to Chicago and Kansas City, through the Twin Cities of Minneapolis and St. Paul, Minnesota, and through Milwaukee, Wisconsin, CP provides a direct, single-carrier route between western Canada and the U.S. Midwest, providing access to Great Lakes and Mississippi River ports. From La Crosse, Wisconsin, the Central Corridor continues south towards Kansas City via the Quad Cities (Davenport and Bettendorf in Iowa, and Rock Island and Moline in Illinois), providing an efficient route for traffic destined for southern U.S. and Mexican markets. CP's Kansas City line also has a direct connection into Chicago and by extension to points east on CP's network such as Toronto, Ontario and the Port of Montréal.

**Products** – Traffic transported on the Central Corridor includes intermodal containers from the Port of Vancouver, fertilizers, chemicals, crude, frac sand, Automotive, and Grain and other agricultural products.

**Feeder Lines** – The Company has operating rights over BNSF tracks between Minneapolis and St. Paul along with connectivity to the twin ports of Duluth and Superior. CP maintains its own yard facilities that provide an outlet for grain from the U.S. Midwest to the grain terminals at these ports. This is a strategic entry point for large dimensional shipments that can be routed via CP's network to locations such as Alberta's Industrial Heartland to serve the needs of the oil sands and energy industry. CP's route from Winona, Minnesota, to Tracy, Minnesota, provides access to key agricultural and industrial commodities. CP's feeder line between Drake and New Town in North Dakota is geographically situated in a highly strategic region for Bakken oil production. CP also owns two significant feeder lines in North Dakota and western Minnesota operated by the Dakota Missouri Valley and Western Railroad and the Northern Plains Railroad, respectively. Both of these short lines are also active in providing service to agricultural and Bakken-oil-related customers.

**Connections** – The Company's Central Corridor connects with all major railways at Chicago. Outside of Chicago, CP has major connections with BNSF at Minneapolis, Minot, North Dakota, and the Duluth-Superior Terminal and with UP at St. Paul and Mankato, Minnesota. CP connects with CN at Milwaukee and Chicago. At Kansas City, CP connects with KCS, BNSF, Norfolk Southern Railway ("NS") and UP. CP's Central Corridor also links to several short-line railways that primarily serve grain and coal producing areas in the U.S., and extend CP's market reach in the rich agricultural areas of the U.S. Midwest. A haulage arrangement with Genesee & Wyoming Inc., provides Intermodal service to Jeffersonville, Ohio.

**Yards and Repair Facilities** – The Company supports rail operations on the Central Corridor with main rail yards in Chicago, Milwaukee, St. Paul and Glenwood in Minnesota, and Mason City and Davenport in Iowa. In addition, CP has a major locomotive repair facility at St. Paul and car repair facilities at St. Paul and Chicago. CP shares a yard with KCS in Kansas City. CP owns 49% of the Indiana Harbor Belt Railroad, a switching railway serving Greater Chicago and northwest Indiana. CP is also part owner of the Belt Railway Company of Chicago, which is the largest intermediate switching terminal railroad in the U.S. CP has major intermodal terminals in Minneapolis and Chicago as well as a dried distillers' grains transload facility that complements the service offering in Chicago.

## The Eastern Corridor: Thunder Bay to Eastern Québec, Detroit and Albany

**Overview** – The Eastern Corridor extends from Thunder Bay through to the Port of Montréal, Searsport, Maine and the Port of Saint John, via a haulage agreement, and from Toronto to Chicago via Detroit or Buffalo. The Company's Eastern Corridor provides shippers direct rail service from Toronto, Montréal, and Saint John to Calgary and Vancouver via the Company's Western Corridor and to the U.S. via the Central Corridor. This is a key element of the Company's transcontinental intermodal service. The corridor also supports the Company's market position at the Port of Montréal by providing one of the shortest rail routes for European cargo destined to the U.S. Midwest, using the CP-owned route between Montréal and Detroit, coupled with a trackage rights arrangement on NS tracks between Detroit and Chicago or the CP-owned route between Montréal and Buffalo coupled with a haulage arrangement on CSX Corporation ("CSX") tracks between Buffalo and Chicago. CP's 2019 acquisition of CMQ Canada and the 2020 acquisition of CMQ

U.S. extends access through southern and eastern Québec to Saint John, New Brunswick, via a haulage agreement, and to the U.S. Northeast including Searsport, Maine. In 2020, CP acquired full ownership of the DRTP. The 1.6-mile tunnel linking Windsor and Detroit will continue to be operated by CP.

**Products** – Major traffic categories transported in the Eastern Corridor include Forest products, chemicals and plastics, crude, ethanol, Metals, minerals and consumer products, Intermodal, automotive products and general merchandise.

**Feeder Lines** – A major feeder line serves the steel industry at Hamilton, Ontario and provides connections with both CSX and NS at Buffalo. The Delaware & Hudson Railway Company, Inc. ("D&H") feeder line extends from Montréal to Albany.

**Connections** – The Eastern Corridor connects with a number of short-line railways including routes from Montréal to Québec City, Québec and Brownsville Junction, Maine to Saint John, New Brunswick. Connections are also made with Pan Am Southern, LLC at Mechanicville, New York, for service to the Boston and New England areas, the Vermont Railway at Whitehall, New York, and at Northern Main Junction. Through haulage arrangements, CP has service to Fresh Pond, New York, to connect with New York & Atlantic Railway as well as direct access to the Bronx and Queens, New York. CP can also access Philadelphia as well as a number of short-lines in Pennsylvania. Connections are also made with CN at a number of locations, including Sudbury, North Bay, Windsor, London, Hamilton and Toronto in Ontario, and Montréal in Québec. CP also connects in New York with the two eastern Class I railways; NS and CSX at Buffalo, NS at Schenectady and CSX at Albany.

**Yards and Repair Facilities** – CP supports its rail operations in the Eastern Corridor with major rail yards at Sudbury, Toronto, London and Montréal. The Company has locomotive repair facilities at Montréal and Toronto and car repair facilities at Thunder Bay, Toronto and Montréal. The Company's largest intermodal facility is located in the northern Toronto suburb of Vaughan and serves the Greater Toronto and southwestern Ontario areas. CP also operates intermodal terminals at Montréal and Detroit. CP also has transload facilities in Agincourt, Milton, and Hamilton, Ontario and in Montréal, Québec to meet a variety of commodity needs in these areas.

### Right-of-Way

The Company's rail network is standard gauge, which is used by all major railways in Canada, the U.S. and Mexico. Continuous welded rail is used on the core main line rail network.

CP uses different train control systems on portions of the Company's owned track, depending on the volume of rail traffic. Remotely controlled centralized traffic control signals are used in various corridors to authorize the movement of trains. CP has implemented PTC on 2,117 miles of its U.S. network.

In other corridors, train movements are directed by written instructions transmitted electronically and by radio from rail traffic controllers to train crews. In some specific areas of intermediate traffic density, CP uses an automatic block signalling system in conjunction with written instructions from rail traffic controllers.

### Network Investment

The Company continually assesses its network to ensure appropriate capacity to meet market demand. As part of CP's annual capital program, the Company has made substantial investments to support current and future volumes, including upgrading the network to handle longer and heavier trains, such as extending sidings to accommodate new train lengths. The Company's operating metrics, such as average train speed, length, and weight, demonstrate efficient utilization of network capacity, discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Performance Indicators.

## Track and Infrastructure

CP operates on a network of approximately 13,000 miles of first main track, of which 2,300 miles CP accesses under trackage rights. The Company's owned track miles include leases with wholly owned subsidiaries where the term of the lease exceeds 99 years. CP's track miles do not include approximately 7,100 miles of tracks owned and operated by KCS and its subsidiaries. CP's track network represents the size of the Company's operations that connects markets, customers and other railways. Of the total mileage operated, approximately 5,400 miles are located in western Canada, 2,500 miles in eastern Canada (including CMQ Canada), 4,500 miles in the U.S. Midwest and 700 miles in the U.S. Northeast. CP's network accesses the U.S. markets directly through four wholly owned subsidiaries: Soo Line Railroad Company ("Soo Line"), a Class I railway operating in the U.S. Midwest; the Dakota, Minnesota & Eastern Railroad ("DM&E"), which operates in the U.S. Midwest; the D&H, which operates between eastern Canada and the U.S. Northeast; and the CMQ U.S., which operates in the U.S. Northeast.

At December 31, 2021, the breakdown of CP operated track miles is as follows:

| | Total |
|---|---|
| First main track | 13,046 |
| Second and other main track | 1,046 |
| Passing sidings and yard track | 4,262 |
| Industrial and way track | 879 |
| **Total track miles** | **19,233** |

## Rail Facilities

CP operates numerous facilities including: terminals for intermodal, transload, automotive and other freight; classification rail yards for train-building and switching, storage-in-transit and other activities; offices to administer and manage operations; dispatch centres to direct traffic on the rail network; crew quarters to house train crews along the rail line; shops and other facilities for fuelling; maintenance and repairs of locomotives; and facilities for maintenance of freight cars and other equipment. The Company continues to invest in terminal upgrades and new facilities to accommodate incremental growth in volumes, such as new transload facilities in Vancouver and Montreal. Typically in all of our major yards, CP Police Services has offices to ensure the safety and security of the yards and operations.

The following table includes the major yards, terminals and transload facilities on CP's network:

| Classification Yards | Intermodal Terminals | Transload Facilities |
|---|---|---|
| Vancouver, British Columbia | Vancouver, British Columbia | Vancouver, British Columbia |
| Calgary, Alberta | Calgary, Alberta | Toronto, Ontario |
| Edmonton, Alberta | Edmonton, Alberta | Hamilton, Ontario |
| Moose Jaw, Saskatchewan | Regina, Saskatchewan | Côte Saint-Luc, Québec |
| Winnipeg, Manitoba | Winnipeg, Manitoba | |
| Toronto, Ontario | Vaughan, Ontario | |
| Montréal, Québec | Lachine, Québec | |
| Chicago, Illinois | Chicago, Illinois | |
| St. Paul, Minnesota | Minneapolis, Minnesota | |

## Equipment

CP's equipment includes: owned and leased locomotives and railcars; heavy maintenance equipment and machinery; other equipment and tools in our shops, offices and facilities; and vehicles for maintenance, transportation of crews, and other activities. In this section, owned equipment includes units acquired by CP, equipment leased to third parties, and units held under finance leases, and leased equipment includes units under a short-term or long-term operating lease.

The Company's locomotive fleet is composed of largely high-adhesion alternating current locomotives that are more fuel efficient and reliable and have superior hauling capacity as compared with standard direct current locomotives. The Company has entered into locomotive leases in the past to ensure there is appropriate capacity to meet market demand. The Company continued a modernization program on several of the oldest locomotives in the fleet in order to improve reliability and availability, as well as to introduce new technology to the fleet. CP's locomotive productivity, defined as the daily average GTMs divided by daily average operating horsepower, for the years ended December 31, 2021, 2020, and 2019, was 201, 207, and 202 GTMs per Operating horsepower, respectively. Operating horsepower excludes units offline, tied up or in storage, or in use on other railways, and includes foreign units online. As of December 31, 2021, the Company had 304 locomotives in storage. As of December 31, 2021, CP owned or leased the following locomotive units:

| Locomotives | Owned | Leased | Total | Average Age (in years) |
|---|---|---|---|---|
| Line haul | 768 | 56 | 824 | 14 |
| Road switcher | 562 | 8 | 570 | 31 |
| **Total locomotives** | **1,330** | **64** | **1,394** | **21** |

CP's average in-service utilization percentage for freight cars, for the years ended December 31, 2021, 2020, and 2019, was 83%, 81%, and 81%, respectively. Average in-service utilization is defined as average active fleet for the year divided by total cars, excluding company service cars and tank cars as these are utilized only as required for non-revenue movements. As of December 31, 2021, CP owned and leased the following units of freight cars:

| Freight cars | Owned | Leased | Total | Average Age (in years) |
|---|---|---|---|---|
| Box car | 2,361 | 422 | 2,783 | 31 |
| Covered hopper | 9,938 | 5,386 | 15,324 | 16 |
| Flat car | 1,407 | 1,119 | 2,526 | 27 |
| Gondola | 3,605 | 1,611 | 5,216 | 21 |
| Intermodal | 1,265 | 150 | 1,415 | 17 |
| Multi-level autorack | 2,752 | 1,105 | 3,857 | 27 |
| Company service car | 2,408 | 176 | 2,584 | 46 |
| Open top hopper | 11 | — | 11 | 33 |
| Tank car | 30 | 8 | 38 | 18 |
| **Total freight cars** | **23,777** | **9,977** | **33,754** | **22** |

As of December 31, 2021, CP owned and leased the following units of intermodal equipment:

| Intermodal equipment | Owned | Leased | Total | Average Age (in years) |
|---|---|---|---|---|
| Containers | 8,229 | — | 8,229 | 7 |
| Chassis | 6,992 | 109 | 7,101 | 11 |
| **Total intermodal equipment** | **15,221** | **109** | **15,330** | **9** |

## Headquarters Office Building

CP owns and operates a multi-building campus in Calgary encompassing the head office building, a data centre, training facility and other office and operational buildings.

The Company's main dispatch centre is located in Calgary, and is the primary dispatching facility in Canada. Rail traffic controllers coordinate and dispatch crews, and manage the day-to-day locomotive management along the network, 24 hours a day, and seven days a week. The operations centre has a complete backup system in the event of any power disruption.

In addition to fully operational redundant systems, CP has a fully integrated Business Continuity Centre, should CP's operations centre be affected by any natural disaster, fire, cyber-attack or hostile threat.

CP also maintains a secondary dispatch centre located in Minneapolis, where a facility similar to the one in Calgary exists. It services the dispatching needs of locomotives and train crews working in the U.S.

## Capital Expenditures

The Company incurs expenditures to expand and enhance its rail network, rolling stock and other infrastructure. These expenditures are aimed at improving efficiency and safety of our operations. Such investments are also an integral part of the Company's multi-year capital program and support growth initiatives. For further details, refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources.

## Encumbrances

Refer to Item 8. Financial Statements and Supplementary Data, Note 18 Debt, for information on the Company's finance lease obligations and assets held as collateral under these agreements.

# ITEM 3. LEGAL PROCEEDINGS

For further details, refer to Item 8. Financial Statements and Supplementary Data, Note 27 Commitments and contingencies.

SEC regulations require the disclosure of any proceeding under environmental laws to which a government authority is a party unless the registrant reasonably believes it will not result in sanctions over a certain threshold. The Company uses a threshold of U.S. $1 million for the purposes of determining proceedings requiring disclosure.

# ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

# INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Our executive officers are appointed by the Board of Directors and they hold office until their successors are appointed, subject to resignation, retirement or removal by the Board of Directors. There are no family relationships among our officers, nor any arrangement or understanding between any officer and any other person pursuant to which the officer was selected. As of the date of this filing, the executive officers' names, ages and business experience are:

| Name, Age and Position | Business Experience |
|---|---|
| Keith Creel, 53<br>President and Chief Executive Officer | Mr. Creel became President and CEO of CP on January 31, 2017. Previously, he was President and Chief Operating Officer ("COO") from February 5, 2013, to January 30, 2017.<br><br>Prior to joining CP, Mr. Creel was Executive Vice-President and COO at CN from January 2010 to February 2013. During his time at CN, Mr. Creel held various positions including Executive Vice-President, Operations, Senior Vice-President Eastern Region, Senior Vice-President Western Region, and Vice-President of the Prairie Division.<br><br>Mr. Creel began his railroad career at Burlington Northern Railway in 1992 as an intermodal ramp manager in Birmingham, Alabama. He also spent part of his career at Grand Trunk Western Railroad as a superintendent and general manager, and at Illinois Central Railroad as a trainmaster and director of corridor operations, prior to its merger with CN in 1999. Mr. Creel holds a Bachelor of Science in marketing from Jacksonville State University and completed the Advanced Management Program at Harvard Business School. |
| Nadeem Velani, 49<br>Executive Vice-President and Chief Financial Officer | Mr. Velani has been Executive Vice-President and CFO of CP since October 17, 2017. Previous to this appointment, he was the Vice-President and CFO of CP from October 19, 2016, to October 16, 2017, Vice-President, Investor Relations from October 28, 2015, and Assistant Vice-President, Investor Relations from March 11, 2013.<br><br>Prior to joining CP, Mr. Velani spent 15 years at CN where he worked in a variety of positions in Strategic and Financial Planning, Investor Relations, Sales and Marketing, and the Office of the President and CEO.<br><br>Mr. Velani holds a Bachelor of Economics degree from Western University and an MBA in Finance/International Business from McGill University. |
| John Brooks, 51<br>Executive Vice-President and Chief Marketing Officer | Mr. Brooks has been Executive Vice-President and Chief Marketing Officer ("CMO") of CP since February 14, 2019. Previous to this appointment, he was the Senior Vice-President and CMO of CP from February 14, 2017, to February 13, 2019. He has worked in senior marketing roles at CP since he joined the Company in 2007, most recently as Vice-President, Marketing – Bulk and Intermodal.<br><br>Mr. Brooks began his railroading career with UP and later helped start I&M Rail Link, LLC, which was purchased by DM&E in 2002. Mr. Brooks was Vice-President, Marketing at DM&E prior to it being acquired by CP in 2007.<br><br>With more than 20 years in the railroading business, Mr. Brooks brings a breadth of experience to the CMO role that is pivotal to CP's continued and future success. |
| Mark Redd, 51<br>Executive Vice-President, Operations | Mr. Redd has been Executive Vice-President Operations since September 1, 2019. Before this appointment, he was Senior Vice-President Operations Western Region from February 2, 2017, to August 31, 2019, and Vice-President Operations Western Region from April 20, 2016, to February 1, 2017.<br><br>Previous to these roles, he was General Manager Operations U.S. West and General Manager Operations Central Division. He was named CP's 2016 Railroader of the Year. Prior to joining CP in October 2013, Mr. Redd worked for over 20 years at Kansas City Southern Railway where he held a variety of leadership positions in network and field operations. Mr. Redd holds a Bachelor and Master of Science in Management from the University of Phoenix and an Executive MBA from the University of Missouri – Kansas City. |

| | |
|---|---|
| Jeffrey Ellis, 54<br>Chief Legal Officer and Corporate Secretary | Mr. Ellis has been Chief Legal Officer and Corporate Secretary of CP since November 23, 2015. Mr. Ellis is accountable for the overall strategic leadership, oversight and performance of the legal, corporate secretarial, government relations and public affairs functions of CP in Canada and the U.S.<br><br>Prior to joining CP in 2015, Mr. Ellis was the U.S. General Counsel at BMO Financial Group ("BMO"). Before joining BMO in 2006, Mr. Ellis was with the law firm of Borden Ladner Gervais LLP in Toronto, Ontario.<br><br>Mr. Ellis has Bachelor of Arts and Master's of Arts degrees from the University of Toronto, Juris Doctor and Master of Laws degrees from Osgoode Hall Law School, and an MBA from the Richard Ivey School of Business, Western University. Mr. Ellis is a member of the bars of New York, Illinois, Ontario and Alberta. |
| Laird Pitz, 77<br>Senior Vice-President and Chief Risk Officer | Mr. Pitz has been Senior Vice-President and Chief Risk Officer ("CRO") of CP since October 17, 2017. Previously, he was the Vice-President and CRO of CP from October 29, 2014, to October 16, 2017, and the Vice-President, Security and Risk Management of CP from April 2014 to October 2014.<br><br>Prior to joining CP, Mr. Pitz was retired from March 2012 to April 2014, and Vice-President, Risk Mitigation of CN from September 2003 to March 2012.<br><br>Mr. Pitz, a Vietnam War veteran and former Federal Bureau of Investigation special agent, is a 40-year career professional who has directed strategic and operational risk mitigation, security and crisis management functions for companies operating in a wide range of fields, including defence, logistics and transportation. |
| James Clements, 52<br>Senior Vice-President, Strategic Planning and Technology Transformation | Mr. Clements has been Senior Vice-President, Strategic Planning and Technology Transformation since September 1, 2019. Before this appointment, he was the Vice-President, Strategic Planning and Transportation Services of CP from 2014. Mr. Clements has responsibilities that include strategic network issues, Network Service Centre operations and Information Services.<br><br>Mr. Clements has been at CP for 27 years and his previous experience and leadership roles covers a wide range of areas of CP's business, including car management, finance, joint facilities agreements, logistics, grain marketing and sales in both Canada and the U.S., as well as marketing and sales responsibility for various other lines of business at CP.<br><br>Mr. Clements holds an MBA in International Business and Finance from McGill University and a Bachelor of Science in Computer Science and Mathematics from McMaster University. |
| Mike Foran, 48<br>Vice-President, Market Strategy and Asset Management | Mr. Foran has been Vice-President, Market Strategy and Asset Management of CP since February 14, 2017. His prior roles with CP include Vice-President Network Transportation from 2014 to 2017, Assistant Vice-President Network Transportation from 2013 to 2014, and General Manager – Asset Management from 2012 to 2013. In over 20 years at CP, Mr. Foran has worked in operations, business development, marketing and general management.<br><br>Mr. Foran holds an Executive MBA from the Ivey School of Business at Western University and a Bachelor of Commerce from the University of Calgary. |

| | |
|---|---|
| Chad Rolstad, 45<br>Vice-President, Human Resources and Chief Culture Officer | Mr. Rolstad has been Vice-President, Human Resources since February 14, 2019, and the Chief Culture Officer since September 1, 2019. Previous to this appointment, he was Assistant Vice-President, Human Resources of CP from August 1, 2018, to February 13, 2019, and Assistant Vice-President, Strategic Procurement of CP from April 10, 2017, to July 31, 2018.<br><br>Prior to joining CP, Mr. Rolstad held various leadership positions at BNSF Railway in marketing and operations.<br><br>Mr. Rolstad has a Bachelor of Science from the Colorado School of Mines and an MBA from Duke University. |
| Pam Arpin, 46<br>Vice-President and Chief Information Officer | Ms. Arpin has been Vice-President and Chief Information Officer since July 19, 2021. Previous to this appointment, she was the Company's first Vice-President Innovation & Business Transformation. a portfolio she retains in her current role. Ms. Arpin is accountable for redefining CP's digital strategy and information services roadmap, enabling CP's strategic business goals with the right investments in technology.<br><br>Ms. Arpin has navigated an extensive and varied career at CP, and has 20-plus years of experience covering a wide range of areas including commercial, operations, finance and customer service roles. She was named the 2019 Railway Woman of the Year by the League of Railway Women and was named one of Canada's Most Powerful Women: Top 100 by the Women's Executive Network that same year.<br><br>Ms. Arpin holds a Bachelor of Commerce from the University of Saskatchewan. |

# PART II

# ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Share Information

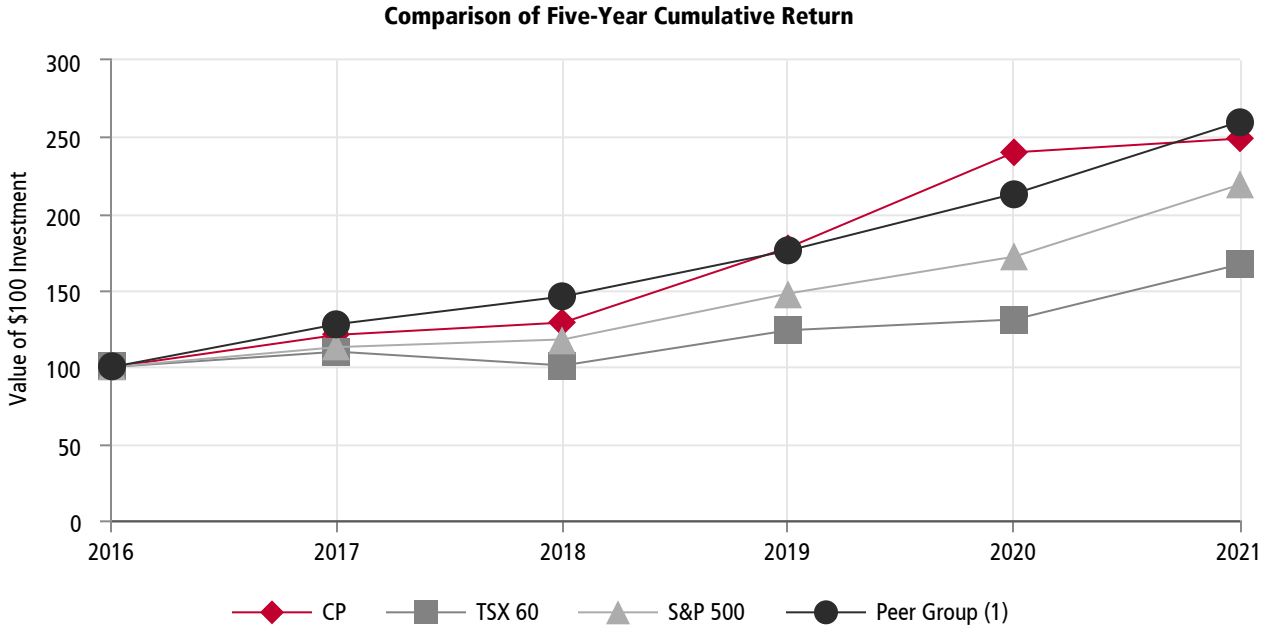
The Common Shares are listed on the TSX and on the NYSE under the symbol "CP".

## Share Capital

At February 22, 2022, the latest practicable date prior to the date of this Annual Report on Form 10-K, there were 929,712,071 Common Shares and no preferred shares issued and outstanding, which consists of 15,332 holders of record of the Common Shares. In addition, CP has a Management Stock Option Incentive Plan ("MSOIP"), under which key officers and employees are granted options to purchase the Common Shares. Options issued prior to the share split further described in Item 1. Business, Business Developments now each provide rights over five shares. For consistency, all number of options presented herein are shown on the basis of the number of shares subject to the options. At February 22, 2022, 8,144,004 options were outstanding under the MSOIP and stand-alone option agreements entered into with Mr. Keith Creel. There are 2,504,311 options available to be issued by the Company's MSOIP in the future. CP 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.

## Stock Performance Graph

The following graph provides an indicator of cumulative total shareholder return on the Common Shares, of an assumed investment of $100, as compared to the TSX 60 Index ("TSX 60"), the Standard & Poor's 500 Stock Index ("S&P 500"), and the peer group index (comprising CN, UP, NS and CSX) on December 31 for each of the years indicated. The values for the assumed investments depicted on the graph and in the table have been calculated assuming that any dividends are reinvested.




(1) KCS was excluded from the peer group index in 2021 as shares were no longer publicly listed effective December 14, 2021. Comparative periods were restated to conform with the current year presentation.

## Issuer Purchase of Equity Securities

CP established a share repurchase program which is further described in Item 8. Financial Statements and Supplementary Data, Note 22 Shareholders' equity. As at December 31, 2021, the Company had not purchased any Common Shares under this program.

# **ITEM 6.** [RESERVED]

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

## INDEX TO MANAGEMENT'S DISCUSSION AND ANALYSIS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The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to enhance a reader's understanding of the Company's results of operations and financial condition. The MD&A is provided as a supplement to, and should be read in conjunction with the Company's Consolidated Financial Statements and the related notes in Item 8. Financial Statements and Supplementary Data, and other information in this annual report. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars.

For purposes of this report, all references herein to "CP", "the Company", "we", "our" and "us" refer to Canadian Pacific Railway Limited ("CPRL"), CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL's subsidiaries, as the context may require.

# Executive Summary

## 2021 Results

- **Financial performance** – In 2021, CP reported Diluted earnings per share ("EPS") of $4.18, a 16% increase from $3.59 in 2020. Adjusted diluted EPS increased by 7% to $3.76 in 2021 from $3.53 in 2020. CP's commitment to service and operational efficiency produced an Operating ratio of 59.9% and an Adjusted operating ratio of 57.6%. Adjusted diluted EPS and Adjusted operating ratio are defined and reconciled in Non-GAAP Measures and discussed further in Results of Operations of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

- **Total revenues** – CP's Total revenues increased by 4% to $7,995 million in 2021 from $7,710 million in 2020, driven primarily by higher freight rates, partially offset by lower volumes as measured by revenue ton-miles ("RTMs").

- **Operating performance** – Average train weight increased by 3% to 9,967 tons and average train length increased by 3% to 8,200 feet due to improvements in operating plan efficiency, in each case compared to 2020. These metrics are discussed further in Performance Indicators of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following table compares 2021 outlook to actual results:

| | RTM growth | Adjusted diluted EPS[(1)] | Capital expenditures |
|---|---|---|---|
| **Outlook** | High-single-digit growth<br><br>Revised quarterly and updated during the fourth quarter to be approximately flat | Double-digit growth<br><br>Revised quarterly and updated during the fourth quarter to high single-digit growth | Approximately $1.55 billion |
| **Actual outcomes** | RTMs decreased by 2,205 million, or 1% | Adjusted diluted EPS growth of 7% to $3.76 | $1.53 billion |

[(1)] Adjusted diluted EPS is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The update in RTM growth expectation was based on the impact of severe weather from the drought conditions on Canadian grain and the British Columbia ("B.C.") floods. The update in Adjusted diluted EPS expectation was also based on the impacts of the accelerated timeline of the Kansas City Southern ("KCS") acquisition closing into trust.

## Performance Indicators

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

| For the year ended December 31 | 2021 | 2020 | 2019 | % Change 2021 vs. 2020 | % Change 2020 vs. 2019 |
|---|---|---|---|---|---|
| **Operations Performance** | | | | | |
| Gross ton-miles ("GTMs") (millions) | **271,921** | 272,360 | 280,724 | — | (3) |
| Train miles (thousands) | **29,397** | 30,324 | 32,924 | (3) | (8) |
| Average train weight – excluding local traffic (tons) | **9,967** | 9,707 | 9,129 | 3 | 6 |
| Average train length – excluding local traffic (feet) | **8,200** | 7,929 | 7,388 | 3 | 7 |
| Average terminal dwell (hours) | **7.2** | 6.5 | 6.4 | 11 | 2 |
| Average train speed (miles per hour, or "mph") | **21.6** | 22.0 | 22.2 | (2) | (1) |
| Locomotive productivity (GTMs / operating horsepower, or "GTMs/OHP") | **201** | 207 | 202 | (3) | 2 |
| Fuel efficiency (U.S. gallons of locomotive fuel consumed /1,000 GTMs) | **0.931** | 0.942 | 0.955 | (1) | (1) |
| **Total Employees and Workforce** | | | | | |
| Total employees (average) | **12,337** | 12,168 | 13,103 | 1 | (7) |
| Total employees (end of period) | **11,834** | 11,890 | 12,694 | — | (6) |
| Workforce (end of period) | **11,872** | 11,904 | 12,732 | — | (7) |
| **Safety Indicators** | | | | | |
| FRA personal injuries per 200,000 employee-hours | **0.92** | 1.11 | 1.42 | (17) | (22) |
| FRA train accidents per million train-miles | **1.10** | 0.96 | 1.06 | 15 | (9) |

## Operations Performance

These key measures are used by management as comparisons to historical operating results and in the planning process to facilitate decisions that continue to drive further productivity improvements in the Company's operations. Results of these key measures reflect how effective CP's management is at controlling costs and executing the Company's operating plan and strategy. Continued monitoring of these key measures ensures that the Company can take appropriate actions to ensure the delivery of superior service and be able to 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. GTMs for 2021 were 271,921 million, a slight decrease compared with 272,360 million in 2020. This decrease was mainly attributable to lower volumes of Grain and Potash. This decrease was partially offset by increased volumes of Metals, minerals and consumer products, Energy, chemicals and plastics, and Automotive.

GTMs in 2020 were 272,360 million, a 3% decrease compared with 280,724 million in 2019. This decrease was primarily driven by decreased volumes of crude, Coal, and frac sand. This decrease was partially offset by increased volumes of Grain, Potash, and Fertilizers and sulphur.

**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. Train miles for 2021 were 29,397 thousands, a decrease of 3% compared with 30,324 thousands in 2020. This decrease reflects the impact of a slight decrease in workload (GTMs), as well as the impact of a 3% increase in average train weights.

Train miles in 2020 were 30,324, an decrease of 8% compared with 32,924 thousands in 2019. This decrease reflects the impact of a 3% decrease in workload (GTMs), as well as a 6% increase in average train weights.

**Average train weight** is defined as the average gross weight of CP trains, both loaded and empty. This excludes trains in short-haul service, work trains used to move CP's track equipment and materials, and the haulage of other railways' trains on CP's network. An increase in average train weight indicates improved asset utilization and may also be the result of moving heavier commodities. Average train weight of 9,967 tons in 2021 increased by 260 tons, or 3% compared with 9,707 tons in 2020. This increase was a result of improvements in operating plan efficiency and continued improvements

in bulk train efficiency due to moving longer and heavier Grain and export potash trains. This increase was partially offset by lower volumes of heavier bulk commodities. Improvements for Grain trains were driven by the High Efficiency Product ("HEP") train model, which is an 8,500-foot train model that features the new high-capacity grain hopper cars and increased grain carrying capacity.

Average train weight of 9,707 tons in 2020 increased by 578 tons, or 6% compared with 9,129 tons in 2019. This increase was a result of improvements in operating plan efficiency, continued improvements in operational efficiency due to moving longer and heavier export potash and Grain trains, and improved winter operating conditions in the first quarter of 2020. This increase was partially offset by moving lower volumes of heavier commodities such as Canadian coal and crude. Improvements for Grain trains were driven by the 8,500-foot HEP train model.

**Average train length** is defined as the average total length of CP trains, both loaded and empty. This includes all cars and locomotives on the train and is calculated as the sum of each car or locomotive's length multiplied by the distance travelled, divided by train miles. This excludes trains in short-haul service, work trains used to move CP's track equipment and materials, and the haulage of other railroads' trains on CP's network. An increase in average train length indicates improved asset utilization. Average train length of 8,200 feet in 2021 increased by 271 feet, or 3%, compared with 7,929 feet in 2020. This increase was a result of improvements in operating plan efficiency and continued improvements in bulk train efficiency due to moving longer Grain and export potash trains. Improvements for Grain trains were driven by the 8,500-foot HEP train model.

Average train length of 7,929 feet in 2020 increased by 541 feet, or 7%, compared with 7,388 feet in 2019. This increase was a result of improvements in operating plan efficiency and continued improvements in operational efficiency due to moving longer Grain and export potash trains. This increase was partially offset by moving lower volumes of commodities such as Canadian coal, which move in longer trains. Improvements for Grain trains were driven by the 8,500-foot HEP train model.

**Average terminal dwell** is defined as the average time a freight car resides within terminal boundaries expressed in hours. The timing starts with a train arriving at the terminal, a customer releasing the car to the Company, or a car arriving at interchange from another railroad. The timing ends when the train leaves, a customer receives the car from CP, or the freight car is transferred to another railroad. Freight cars are excluded if they are being stored at the terminal or used in track repairs. A decrease in average terminal dwell indicates improved terminal performance resulting in faster cycle times and improved railcar utilization. Average terminal dwell of 7.2 hours in 2021 increased by 11% from 6.5 hours in 2020. This unfavourable increase was a result of aligning the operating plan to demand in order to maintain network efficiencies, as well as the impacts of the B.C. wildfires in the third quarter and B.C. floods in the fourth quarter of 2021. Aligning the operating plan to demand resulted in increased average train weight and average train length.

Average terminal dwell of 6.5 hours in 2020 increased by 2% from 6.4 hours in 2019. This unfavourable increase was a result of aligning the operating plan to demand in order to maintain network efficiencies in the last three quarters of 2020. Aligning the operating plan to demand resulted in increased average train weight, average train length, and increased locomotive productivity.

**Average train speed** is defined as a measure of the line-haul movement from origin to destination including terminal dwell hours. It is calculated by dividing the total train miles travelled by the total train hours operated. This calculation does not include delay time related to customers or foreign railways and excludes the time and distance travelled by: i) trains used in or around CP's yards; ii) passenger trains; and iii) trains used for repairing track. An increase in average train speed indicates improved on-time performance resulting in improved asset utilization. Average train speed was 21.6 mph in 2021, a decrease of 2%, from 22.0 mph in 2020. This decrease in speed was driven primarily by harsh winter operating conditions in the first quarter of 2021 as well as the impact of the B.C. wildfires in the third quarter of 2021.

Average train speed in 2020 was 22.0 mph, a decrease of 1%, from 22.2 mph in 2019. This decrease in speed was a result of aligning the operating plan to demand in order to maintain network efficiencies in the last three quarters of 2020, partially offset by improved winter operating conditions in the first quarter of 2020. Aligning the operating plan to demand resulted in increased average train weight, average train length, and increased locomotive productivity.

**Locomotive productivity** is defined as the daily average GTMs divided by daily average operating horsepower. Operating horsepower excludes units offline, tied up or in storage, or in use on other railways, and includes foreign units online. An increase in locomotive productivity indicates more efficient locomotive utilization and may also be the result of moving heavier commodities. Locomotive productivity was 201 GTMs/OHP in 2021, a decrease of 6 GTMs/OHP, or 3%, compared to 207 GTMs/OHP in 2020. This decrease was primarily due to moving higher volumes of merchandise, which are lighter than bulk commodities, as well the impacts of the B.C. floods in the fourth quarter of 2021.

Locomotive productivity was 207 GTMs/OHP in 2020, an increase of 5 GTMs/OHP, or 2%, compared to 202 GTMs/OHP in 2019. This increase was primarily due to improvements in operating plan efficiency as a result of aligning the operating plan to demand.

**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 and CP's commitment to corporate sustainability through a reduction of greenhouse gas emissions intensity. Fuel efficiency for 2021 was 0.931 U.S. gallons/1,000 GTMs, an improvement of 1% compared to 0.942 U.S. gallons/1,000 GTMs in 2020. This improvement was due to running longer and

heavier trains as a result of improvements in the operating plan. Fuel efficiency for 2020 was 0.942 U.S. gallons/1,000 GTMs, an improvement of 1% compared to 0.955 U.S. gallons/1,000 GTMs in 2019. This improvement was primarily due to improved winter operating conditions in the first quarter of 2020.

## Total Employees and Workforce

An **employee** is defined as an individual currently engaged in full-time, part-time, or seasonal employment with CP while **workforce** is defined as total employees plus contractors and consultants. The Company monitors employment and workforce levels in order to efficiently meet service and strategic requirements. The number of employees is a key driver to total compensation and benefits costs.

The average number of total employees for 2021 was 12,337, an increase of 169, or 1%, compared to 12,168 in 2020. This increase was driven by the return to work of employees furloughed in the prior year as a result of the economic downturn caused by COVID-19. The total number of employees as at December 31, 2021 was 11,834, a decrease of 56 compared to 11,890 as at December 31, 2020.

The average number of total employees for 2020 was 12,168, a decrease of 935, or 7%, compared to 13,103 in 2019. This decrease was primarily due to more efficient resource planning, including furloughs associated with the economic downturn caused by COVID-19, partially offset by the addition of Central Maine & Quebec Railway U.S. Inc. employees. The total number of employees as at December 31, 2020 was 11,890, a decrease of 804, or 6%, compared to 12,694 as at December 31, 2019, due to reduced workload as measured in GTMs and more efficient resource planning.

The total workforce as at December 31, 2021 was 11,872, a decrease of 32, compared to 11,904 as at December 31, 2020.

The total workforce as at December 31, 2020 was 11,904, a decrease of 828, or 7%, compared to 12,732 as at December 31, 2019, due to more efficient resource planning.

## Safety Indicators

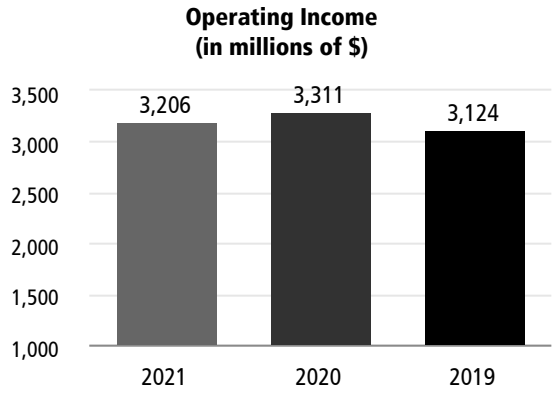
Safety is a key priority and core strategy for CP's management, employees, and Board of Directors. Personal injuries and train accidents are indicators of the effectiveness of the Company's safety systems, and are used by management to evaluate and, as necessary, alter the Company's safety systems, procedures, and protocols. Each measure follows U.S Federal Railroad Administration ("FRA") reporting guidelines, which can result in restatement after initial publication to reflect new information available within specified periods stipulated by the FRA but that exceed the Company's financial reporting timeline.

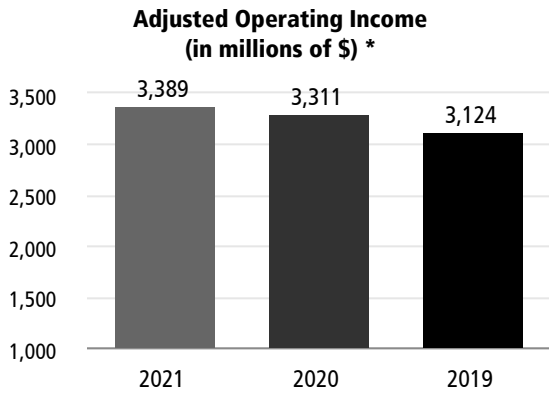
The **FRA personal injuries per 200,000 employee-hours** frequency is the number of personal injuries, multiplied by 200,000 and divided by total employee hours. Personal injuries are defined as injuries that require employees to lose time away from work, modify their normal duties or obtain medical treatment beyond minor first aid. FRA employee-hours are the total hours worked, excluding vacation and sick time, by all employees, excluding contractors. The FRA personal injuries per 200,000 employee-hours frequency for CP was 0.92 in 2021, compared with 1.11 in 2020 and 1.42 in 2019.

The **FRA train accidents per million train-miles** frequency is the number of train accidents, multiplied by 1,000,000 and divided by total train miles. Train accidents included in this metric meet or exceed the FRA reporting threshold of U.S. $11,200 in damage in 2021 and U.S. $10,700 in damage for 2020 and 2019. The FRA train accidents per million train-miles frequency for CP was 1.10 in 2021 , compared with 0.96 in 2020 and 1.06 in 2019.

# Results of Operations

## Income




* Adjusted operating income is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Operating income was $3,206 million in 2021, a decrease of $105 million, or 3%, from $3,311 million in 2020. This decrease was primarily due to:

- acquisition-related costs of $183 million associated with the KCS acquisition that were recognized in Purchased services and other;
- lower volumes as measured by RTMs;
- the unfavourable impact of the change in foreign exchange ("FX") of $117 million;
- a gain of $68 million recognized in 2020 as a result of the remeasurement to fair value of the previously held equity investment in the Detroit River Tunnel Partnership ("DRTP");
- higher depreciation and amortization of $46 million (excluding FX);
- cost inflation; and
- higher defined benefit ("DB") pension and post-retirement benefits current service cost of $32 million.

This decrease was partially offset by:

- higher freight rates;
- a gain on the exchange of property and construction easements in Chicago of $50 million and higher gains on land sales primarily in B.C. of $29 million;
- lower stock-based compensation of $39 million primarily driven by the impact of changes in share price; and
- the efficiencies generated from improved operating performance and asset utilization.

Adjusted operating income, defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, was $3,389 million in 2021, an increase of $78 million, or 2%, from $3,311 million in 2020. This increase was primarily due to:

- higher freight rates;
- a gain on the exchange of property and construction easements in Chicago of $50 million and higher gains on land sales primarily in B.C. of $29 million;
- lower stock-based compensation of $39 million primarily driven by the impact of changes in share price; and
- the efficiencies generated from improved operating performance and asset utilization.

This increase was partially offset by:

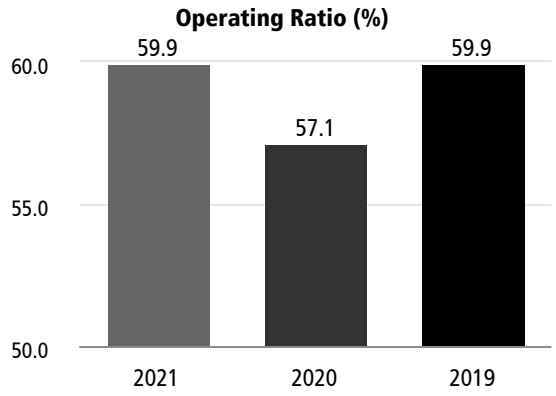
- lower volumes as measured by RTMs;
- the unfavourable impact of the change in FX of $117 million;
- a gain of $68 million recognized in 2020 as a result of the remeasurement to fair value of the previously held equity investment in DRTP;
- higher depreciation and amortization of $46 million (excluding FX);
- cost inflation; and
- higher DB pension and post-retirement benefits current service cost of $32 million.

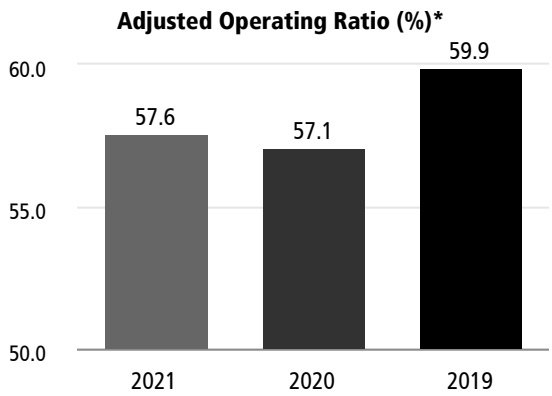
Operating income was $3,311 million in 2020, an increase of $187 million, or 6%, from $3,124 million in 2019. This increase was primarily due to:
- liquidated damages, including customer volume commitments, and higher freight rates;
- the efficiencies generated from improved operating performance and asset utilization;
- a gain of $68 million as a result of the remeasurement to fair value of the previously held equity investment in DRTP;
- the impact of harsher winter operating conditions in 2019; and
- decreased operating expense associated with lower casualty costs incurred in 2020.

This increase was partially offset by:
- lower volumes as measured by RTMs;
- higher depreciation and amortization of $71 million (excluding FX);
- cost inflation; and
- higher stock-based compensation of $37 million primarily driven by an increase in stock price.

There were no adjustments to operating income in 2020 and 2019.

## Operating Ratio




*Adjusted operating ratio is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Operating ratio provides the percentage of revenues used to operate the railway. A lower percentage normally indicates higher efficiency in the operation of the railway. The Company's Operating ratio was 59.9% in 2021, a 280 basis point increase from 57.1% in 2020. This increase was primarily due to:
- acquisition-related costs associated with the KCS acquisition that were recognized in Purchased services and other;
- the unfavourable impact of changes in fuel prices, net of recoveries;
- lower volumes as measured by RTMs;
- a gain recognized in 2020 as a result of the remeasurement to fair value of the previously held equity investment in DRTP;
- higher depreciation and amortization (excluding FX); and
- cost inflation.

This increase was partially offset by higher freight rates and a gain on the exchange of property and construction easements in Chicago and higher gains on land sales primarily in B.C.

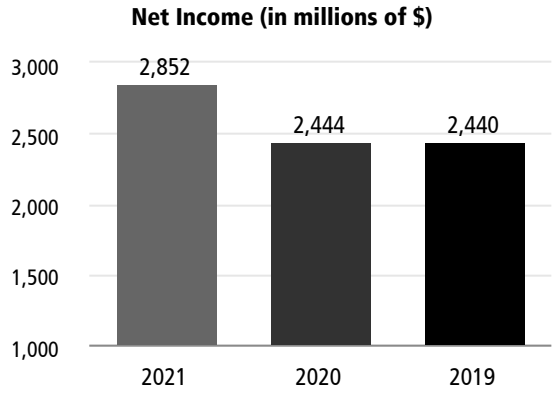
Adjusted operating ratio was 57.6% in 2021, a 50 basis point increase from 57.1% in 2020. This increase reflects the same factors discussed above for the increase in Operating ratio, except that Adjusted operating ratio in 2021 excludes the acquisition-related costs associated with the KCS acquisition that were recognized in Purchased services and other.

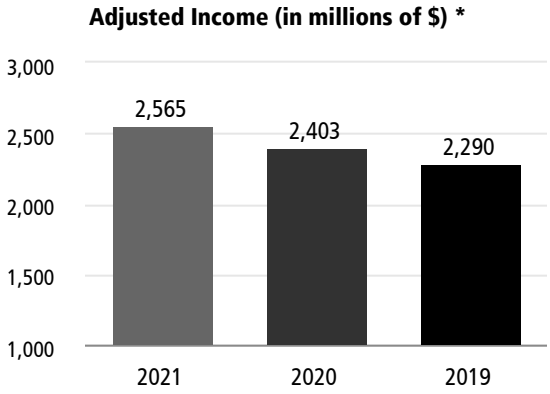
The Company's Operating ratio was 57.1% in 2020, a 280 basis point improvement from 59.9% in 2019. This improvement was primarily due to:
- liquidated damages, including customer volume commitments, and higher freight rates;
- the favourable impact of changes in fuel prices;
- the efficiencies generated from improved operating performance and asset utilization; and
- a gain as a result of the remeasurement to fair value of the previously held equity investment in DRTP.

This improvement was partially offset by:
- higher depreciation and amortization;
- cost inflation; and
- higher stock-based compensation.

There were no adjustments to the operating ratio in 2020 and 2019.

## Net Income




*Adjusted income is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Net income was $2,852 million in 2021, an increase of $408 million, or 17%, from $2,444 million in 2020. This increase was primarily due to the $845 million merger termination payment received in connection with KCS's termination of the Original Merger Agreement and higher freight rates.

This increase was partially offset by:
- acquisition-related costs of $599 million associated with the KCS acquisition including $169 million costs incurred by KCS recognized in Equity loss of KCS;
- lower volumes as measured by RTMs; and
- the unfavourable impact of the change in FX of $90 million.

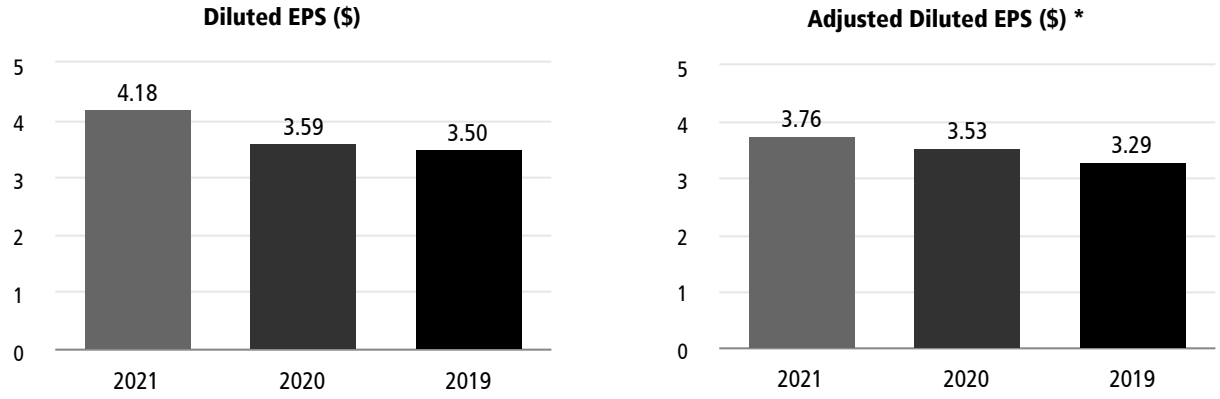
Net income was $2,444 million in 2020, an increase of $4 million, from $2,440 million in 2019. This increase was primarily due to:
- higher Operating income;
- a deferred tax recovery relating to a tax return filing election for the state of North Dakota; and
- a provision for an uncertain tax item of a prior period in 2019.

This increase was partially offset by:
- an income tax recovery associated with changes in tax rates in 2019;
- lower FX translation gain on U.S. dollar-denominated debt and lease liabilities compared to 2019; and
- lower other components of net periodic benefit recovery.

Adjusted income, defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, was $2,565 million in 2021, an increase of $162 million, or 7%, from $2,403 million in 2020. This increase was primarily due to higher Adjusted operating income and higher other components of net periodic benefit recovery.

Adjusted income was $2,403 million in 2020, an increase of $113 million, or 5%, from $2,290 million in 2019. This increase was primarily due to higher Operating income, partially offset by lower other components of net periodic benefit recovery.

## Diluted Earnings per Share




*Adjusted diluted EPS is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Diluted EPS was $4.18 in 2021, an increase of $0.59, or 16%, from $3.59 in 2020. This increase was due to a higher Net income.

Diluted EPS was $3.59 in 2020, an increase of $0.09, or 3%, from $3.50 in 2019. This increase was due to a lower average number of outstanding Common Shares due to the Company's share repurchase program, and higher Net income.

Adjusted diluted EPS, defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, was $3.76 in 2021, an increase of $0.23, or 7%, from $3.53 in 2020. This increase was due to higher Adjusted income.

Adjusted diluted EPS was $3.53 in 2020, an increase of $0.24, or 7%, from $3.29 in 2019. This increase was due to higher Adjusted income and lower average number of outstanding Common Shares due to the Company's share repurchase program.

## Return on Average Shareholders' Equity and Adjusted Return on Invested Capital

Return on average shareholders' equity and Adjusted return on invested capital ("Adjusted ROIC") are measures used by management to determine how productively the Company uses its long-term capital investments, representing critical indicators of good operating and investment decisions. Adjusted ROIC is also an important performance criteria in determining certain elements of the Company's long-term incentive plan.

Return on average shareholders' equity was 13.9% in 2021, a 2,010 basis point decrease compared to 34.0% in 2020. This decrease was due to higher average shareholders' equity driven by shares issued for the KCS acquisition and accumulated Net income, partially offset by higher Net income.

Return on average shareholders' equity was 34.0% in 2020, a 160 basis point decrease compared to 35.6% in 2019. This decrease was due to higher average shareholders' equity due to accumulated Net income, partially offset by the impact of the Company's share repurchase program.

Adjusted ROIC was 8.2% in 2021, an 850 basis point decrease compared to 16.7% in 2020. This decrease was primarily due to higher average long-term debt and shares issued for the KCS acquisition and accumulated Adjusted income.

Adjusted ROIC was 16.7% in 2020, a 20 basis point decrease compared to 16.9% in 2019. This decrease was primarily due to higher average long-term debt, partially offset by higher Operating income.

Adjusted ROIC is a Non-GAAP measure, which is defined and reconciled from Return on average shareholders' equity, the most comparable measure calculated in accordance with GAAP, in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

## Impact of Foreign Exchange on Earnings

Fluctuations in FX affect the Company's results because U.S. dollar-denominated revenues and expenses 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.

On February 18, 2022, the noon buying rate certified for customs purposes by the U.S. Federal Reserve Bank of New York was U.S. $1.00 = $1.27 Canadian dollars.

The following tables set forth, for the periods indicated, the average exchange rate between the Canadian dollar and the U.S. dollar expressed in the Canadian dollar equivalent of one U.S. dollar, the period end exchange rates, and the high and low exchange rates for the periods indicated. Average exchange rates are calculated by using the exchange rates on the last day of each full month during the relevant period. These rates are based on the noon buying rate certified for customs purposes by the U.S. Federal Reserve Bank of New York set forth in the H.10 statistical release of the Federal Reserve Board.

| Average exchange rates (Canadian/U.S. dollar) | **2021** | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| For the year ended – December 31 | **$ 1.25** | $ 1.34 | $ 1.33 | $ 1.30 | $ 1.30 |
| For the three months ended – December 31 | **$ 1.26** | $ 1.30 | $ 1.32 | $ 1.32 | $ 1.27 |

| Exchange rates (Canadian/U.S. dollar) | **2021** | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| Beginning of year – January 1 | **$ 1.28** | $ 1.30 | $ 1.36 | $ 1.25 | $ 1.34 |
| Beginning of quarter – April 1 | **$ 1.26** | $ 1.41 | $ 1.33 | $ 1.29 | $ 1.33 |
| Beginning of quarter – July 1 | **$ 1.24** | $ 1.36 | $ 1.31 | $ 1.32 | $ 1.30 |
| Beginning of quarter – October 1 | **$ 1.27** | $ 1.33 | $ 1.32 | $ 1.29 | $ 1.25 |
| End of year – December 31 | **$ 1.28** | $ 1.28 | $ 1.30 | $ 1.36 | $ 1.25 |

| High/Low exchange rates (Canadian/U.S. dollar) | **2021** | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| High | **$ 1.29** | $ 1.45 | $ 1.36 | $ 1.37 | $ 1.37 |
| Low | **$ 1.20** | $ 1.27 | $ 1.30 | $ 1.23 | $ 1.21 |

In 2021, the impact of a weaker U.S. dollar resulted in a decrease in Total revenues of $228 million, a decrease in Total operating expenses of $111 million and a decrease in Net interest expense of $27 million. In 2020, the impact of a stronger U.S. dollar resulted in an increase in Total revenues of $33 million, an increase in Total operating expenses of $23 million and an increase in Net interest expense of $4 million.

The impact of fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar on the Company's results is discussed further in Item 7A. Quantitative and Qualitative Disclosures About Market Risk, Foreign Exchange Risk.

## Impact of Fuel Price on Earnings

Fluctuations in fuel prices affect the Company's results because fuel expense constitutes a significant portion of CP'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, Fuel Cost Volatility.

| Average Fuel Price (U.S. dollars per U.S. gallon) | **2021** | 2020 | 2019 |
|---|---|---|---|
| For the year ended – December 31 | **$ 2.70** | $ 1.90 | $ 2.49 |
| For the three months ended – December 31 | **$ 3.03** | $ 1.91 | $ 2.53 |

The impact of fuel price on earnings includes the impacts of provincial and federal carbon taxes and levies recovered and paid, on revenues and expenses, respectively.

In 2021, the unfavourable impact of fuel prices on Operating income was $7 million. Higher fuel prices resulted in an increase in Total operating expenses of $243 million. Higher fuel prices and increased carbon tax recoveries, partially offset by the timing of recoveries from CP's fuel cost adjustment program, resulted in an increase in Total revenues of $236 million from 2020. In 2020, the impact of lower fuel prices resulted in a decrease in Total revenues of $170 million and a decrease in Total operating expenses of $195 million.

## Impact of Share Price on Earnings

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". As a result of the five-for-one share split of the Company's issued and outstanding Common Shares, which began trading on a post-split basis on May 14, 2021, per share amounts and all outstanding Common Shares for periods prior to Q2 2021 have been retrospectively adjusted. The following tables indicate the opening and closing Common Share price on the TSX and the NYSE for each quarter, on a post-split basis, and the change in the price of the Common Shares on the TSX and the NYSE for the years ended December 31, 2021, 2020 and 2019:

| Toronto Stock Exchange (in Canadian dollars) | | **2021** | | 2020 | | 2019 |
|---|---|---|---|---|---|---|
| Opening Common Share price, as at January 1 | **$** | **88.31** | $ | 66.21 | $ | 48.45 |
| Ending Common Share price, as at March 31 | **$** | **96.00** | $ | 62.11 | $ | 55.07 |
| Ending Common Share price, as at June 30 | **$** | **95.32** | $ | 69.06 | $ | 61.69 |
| Ending Common Share price, as at September 30 | **$** | **82.71** | $ | 81.01 | $ | 58.88 |
| Ending Common Share price, as at December 31 | **$** | **90.98** | $ | 88.31 | $ | 66.21 |
| Change in Common Share price for the year ended December 31 | **$** | **2.67** | $ | 22.10 | $ | 17.76 |

| New York Stock Exchange (in U.S. dollars) | | **2021** | | 2020 | | 2019 |
|---|---|---|---|---|---|---|
| Opening Common Share price, as at January 1 | **$** | **69.34** | $ | 50.99 | $ | 35.52 |
| Ending Common Share price, as at March 31 | **$** | **75.86** | $ | 43.92 | $ | 41.21 |
| Ending Common Share price, as at June 30 | **$** | **76.91** | $ | 51.07 | $ | 47.05 |
| Ending Common Share price, as at September 30 | **$** | **65.07** | $ | 60.89 | $ | 44.49 |
| Ending Common Share price, as at December 31 | **$** | **71.94** | $ | 69.34 | $ | 50.99 |
| Change in Common Share price for the year ended December 31 | **$** | **2.60** | $ | 18.35 | $ | 15.47 |

In 2021, the impact of the change in Common Share prices resulted in an increase in stock-based compensation expense of $11 million compared to $58 million in 2020, and $42 million in 2019.

The impact of share price on stock-based compensation is discussed further in Item 7A. Quantitative and Qualitative Disclosures About Market Risk, Share Price Impact on Stock-Based Compensation.

## Operating Revenues

| For the year ended December 31 | 2021 | 2020 | 2019 | 2021 vs. 2020 Total Change | 2021 vs. 2020 % Change | 2021 vs. 2020 FX Adjusted % Change[2] | 2020 vs. 2019 Total Change | 2020 vs. 2019 % Change | 2020 vs. 2019 FX Adjusted % Change[2] |
|---|---|---|---|---|---|---|---|---|---|
| Freight revenues (in millions)[1] | **$ 7,816** | $ 7,541 | $ 7,613 | $ 275 | 4 | 7 | $ (72) | (1) | (1) |
| Non-freight revenues (in millions) | **179** | 169 | 179 | 10 | 6 | 7 | (10) | (6) | (6) |
| Total revenues (in millions) | **$ 7,995** | $ 7,710 | $ 7,792 | $ 285 | 4 | 7 | $ (82) | (1) | (1) |
| Carloads (in thousands) | **2,735.5** | 2,708.4 | 2,766.4 | 27.1 | 1 | N/A | (58.0) | (2) | N/A |
| Revenue ton-miles (in millions) | **149,686** | 151,891 | 154,378 | (2,205) | (1) | N/A | (2,487) | (2) | N/A |
| Freight revenue per carload (in dollars) | **$ 2,857** | $ 2,784 | $ 2,752 | $ 73 | 3 | 6 | $ 32 | 1 | 1 |
| Freight revenue per revenue ton-mile (in cents) | **5.22** | 4.96 | 4.93 | 0.26 | 5 | 8 | 0.03 | 1 | — |

[1] Freight revenues include fuel surcharge revenues of $535 million in 2021, $297 million in 2020 and $464 million in 2019. Fuel surcharge revenues include recoveries of carbon taxes, levies, and obligations under cap-and-trade programs.

[2] FX adjusted % change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX adjusted % change is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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, crew costs, and equipment rents. Non-freight revenue is generated from leasing of certain assets; other arrangements, including contracts with passenger service operators and logistical services; and switching fees.

### Freight Revenues

Freight revenues were $7,816 million in 2021, an increase of $275 million, or 4%, from $7,541 million in 2020. This increase was primarily due to increased freight revenue per RTM. This increase was partially offset by lower volumes as measured by RTMs.

Freight revenues were $7,541 million in 2020, a decrease of $72 million, or 1%, from $7,613 million in 2019. This decrease was primarily due to lower volumes as measured by RTMs. This decrease was partially offset by higher freight revenue per RTM.

### 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. RTMs for 2021 were 149,686 million, a decrease of 2,205 million, or 1%, compared with 151,891 million in 2020. This decrease was mainly attributable to lower volumes of Grain and Potash. This decrease was partially offset by higher volumes of Metals, minerals and consumer products, Energy, chemicals and plastics, and Automotive.

RTMs for 2020 were 151,891 million, a decrease of 2,487 million, or 2%, compared with 154,378 million in 2019. This decrease was mainly attributable to lower volumes of crude, Coal and frac sand. This decrease was partially offset by higher volumes of Grain, Potash, and Fertilizers and sulphur.

### 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. Freight revenue per RTM was 5.22 cents in 2021, an increase of 0.26 cents, or 5%, from 4.96 cents in 2020. This increase was primarily due to higher fuel surcharge revenue as a result of higher fuel prices of $236 million, higher freight rates, and moving higher volumes of Automotive, which has a higher freight revenue per RTM compared to the corporate average. This increase was partially offset by the unfavourable impact of the change in FX of $226 million.

Freight revenue per RTM was 4.96 cents in 2020, an increase of 0.03 cents, or 1%, from 4.93 cents in 2019. This increase was primarily due to higher liquidated damages, including customer volume commitments, higher freight rates, and the favourable impact of the change in FX of $33 million. This increase was partially offset by the unfavourable impact of lower fuel surcharge revenue as a result of lower fuel prices of $170 million and moving lower volumes of Automotive, which has a higher freight revenue per RTM compared to the corporate average.

### Carloads

Carloads are defined as revenue-generating shipments of containers and freight cars. Carloads were 2,735.5 thousand in 2021, an increase of 27.1 thousand, or 1%, from 2,708.4 thousand in 2020. This increase was primarily due to higher volumes of Coal, Metals, minerals and consumer products, Intermodal, and Energy, chemicals and plastics. This increase was partially offset by lower volumes of Grain and Potash.

Carloads were 2,708.4 thousand in 2020, a decrease of 58.0 thousand, or 2%, from 2,766.4 thousand in 2019. This decrease was primarily due to lower volumes of crude, Coal, and frac sand. This decrease was partially offset by higher volumes of Grain and Potash.

### Freight revenue per carload

Freight revenue per carload is defined as freight revenue per revenue-generating shipment of containers or freight cars. This is an indicator of yield. Freight revenue per carload was $2,857 in 2021, an increase of $73, or 3%, from $2,784 in 2020. This increase was primarily due to higher fuel surcharge revenue as a result of higher fuel prices of $236 million and higher freight rates. This increase was partially offset by the unfavourable impact of the change in FX of $226 million.

Freight revenue per carload was $2,784 in 2020, an increase of $32, or 1%, from $2,752 in 2019. This increase was primarily due to higher liquidated damages, including customer volume commitments, higher freight rates, and the favourable impact of the change in FX of $33 million. This increase was partially offset by the unfavourable impact of lower fuel surcharge revenue as a result of lower fuel prices of $170 million.

### Non-freight Revenues

Non-freight revenues were $179 million in 2021, an increase of $10 million, or 6%, from $169 million in 2020. This increase was primarily due to revenue recognized for construction easements in Chicago of $13 million, higher leasing revenues, and higher revenue from passenger service operators, partially offset by lower revenue from logistical services and switching fees.

Non-freight revenues were $169 million in 2020, a decrease of $10 million, or 6%, from $179 million in 2019. This decrease was primarily due to lower revenue from passenger service operators.

## Lines of Business

### Grain

| | | | | 2021 vs. 2020 | | | 2020 vs. 2019 | | |
|---|---|---|---|---|---|---|---|---|---|
| For the year ended December 31 | **2021** | 2020 | 2019 | Total Change | % Change | FX Adjusted % Change[(1)] | Total Change | % Change | FX Adjusted % Change[(1)] |
| Freight revenues (in millions) | **$ 1,684** | $ 1,829 | $ 1,684 | $ (145) | (8) | (5) | $ 145 | 9 | 8 |
| Carloads (in thousands) | **426.2** | 480.1 | 431.4 | (53.9) | (11) | N/A | 48.7 | 11 | N/A |
| Revenue ton-miles (in millions) | **37,999** | 41,747 | 36,941 | (3,748) | (9) | N/A | 4,806 | 13 | N/A |
| Freight revenue per carload (in dollars) | **$ 3,951** | $ 3,810 | $ 3,904 | $ 141 | 4 | 6 | $ (94) | (2) | (3) |
| Freight revenue per revenue ton-mile (in cents) | **4.43** | 4.38 | 4.56 | 0.05 | 1 | 4 | (0.18) | (4) | (4) |

[(1)] FX adjusted % change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX adjusted % change is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Grain revenue was $1,684 million in 2021, a decrease of $145 million, or 8%, from $1,829 million in 2020. The decrease was primarily due to lower volumes of Canadian grain to Vancouver and eastern Canada primarily as a result of drought conditions and the unfavourable impact of the change in FX. This decrease was partially offset by higher volumes of U.S. corn to western Canada and the U.S. Pacific Northwest and increased freight revenue per RTM. Freight revenue per RTM increased due to higher freight rates and higher fuel surcharge revenue as a result of higher fuel prices. Carloads decreased more than RTMs due to moving higher volumes of U.S. corn to western Canada and the U.S. Pacific Northwest, which have longer lengths of haul.

Grain revenue was $1,829 million in 2020, an increase of $145 million, or 9%, from $1,684 million in 2019. This increase was primarily due to moving record volumes of Canadian grain, primarily to Vancouver and Thunder Bay, higher volumes of U.S. soybeans and corn to the U.S. Pacific Northwest, higher freight rates, and the favourable impact of the change in FX. This increase was partially offset by decreased freight revenue per RTM. Freight revenue per RTM decreased due to moving proportionately higher volumes of long haul soybeans and corn to the U.S. Pacific Northwest, which also caused RTMs to increase more than carloads, and lower fuel surcharge revenue as a result of lower fuel prices.

## Coal

| For the year ended December 31 | 2021 | 2020 | 2019 | 2021 vs. 2020 Total Change | 2021 vs. 2020 % Change | 2021 vs. 2020 FX Adjusted % Change[1] | 2020 vs. 2019 Total Change | 2020 vs. 2019 % Change | 2020 vs. 2019 FX Adjusted % Change[1] |
|---|---|---|---|---|---|---|---|---|---|
| Freight revenues (in millions) | **$ 625** | $ 566 | $ 682 | $ 59 | 10 | 11 | $ (116) | (17) | (17) |
| Carloads (in thousands) | **291.5** | 260.4 | 304.3 | 31.1 | 12 | N/A | (43.9) | (14) | N/A |
| Revenue ton-miles (in millions) | **18,345** | 18,510 | 21,820 | (165) | (1) | N/A | (3,310) | (15) | N/A |
| Freight revenue per carload (in dollars) | **$ 2,144** | $ 2,174 | $ 2,241 | $ (30) | (1) | (1) | $ (67) | (3) | (3) |
| Freight revenue per revenue ton-mile (in cents) | **3.41** | 3.06 | 3.13 | 0.35 | 11 | 12 | (0.07) | (2) | (2) |

[1] FX adjusted % change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX adjusted % change is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Coal revenue was $625 million in 2021, an increase of $59 million, or 10%, from $566 million in 2020. This increase was primarily due to increased freight revenue per RTM, higher volumes of Canadian coal to Kamloops, B.C., and higher volumes of U.S. coal to the U.S. Midwest. This increase was partially offset by lower volumes of Canadian coal to Vancouver and the unfavourable impact of the change in FX. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices. RTMs decreased while carloads increased due to moving lower volumes of Canadian coal to Vancouver, which has a longer length of haul, and moving higher volumes of Canadian coal to Kamloops, B.C., which has a shorter length of haul.

Coal revenue was $566 million in 2020, a decrease of $116 million, or 17%, from $682 million in 2019. This decrease was primarily due to lower volumes of Canadian coal primarily to Vancouver, driven by supply chain challenges at both the mines and the ports, lower volumes of U.S. coal to Wisconsin, and decreased freight revenue per RTM. Freight revenue per RTM decreased due to lower fuel surcharge revenue as a result of lower fuel prices.

## Potash

| For the year ended December 31 | 2021 | 2020 | 2019 | 2021 vs. 2020 Total Change | 2021 vs. 2020 % Change | 2021 vs. 2020 FX Adjusted % Change[1] | 2020 vs. 2019 Total Change | 2020 vs. 2019 % Change | 2020 vs. 2019 FX Adjusted % Change[1] |
|---|---|---|---|---|---|---|---|---|---|
| Freight revenues (in millions) | **$ 463** | $ 493 | $ 462 | $ (30) | (6) | (3) | $ 31 | 7 | 6 |
| Carloads (in thousands) | **150.9** | 162.9 | 149.3 | (12.0) | (7) | N/A | 13.6 | 9 | N/A |
| Revenue ton-miles (in millions) | **16,671** | 18,784 | 17,297 | (2,113) | (11) | N/A | 1,487 | 9 | N/A |
| Freight revenue per carload (in dollars) | **$ 3,068** | $ 3,026 | $ 3,094 | $ 42 | 1 | 5 | $ (68) | (2) | (3) |
| Freight revenue per revenue ton-mile (in cents) | **2.78** | 2.62 | 2.67 | 0.16 | 6 | 9 | (0.05) | (2) | (2) |

[1] FX adjusted % change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX adjusted % change is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Potash revenue was $463 million in 2021, a decrease of $30 million, or 6%, from $493 million in 2020. This decrease was primarily due to lower volumes of export potash to Vancouver and the U.S. Pacific Northwest as a result of construction at the Port of Vancouver and the Port of Portland, lower volumes of domestic potash, and the unfavourable impact of the change in FX. This decrease was partially offset by increased freight revenue per RTM due to higher fuel surcharge revenue as a result of higher fuel prices and higher freight rates. RTMs decreased more than carloads due to moving lower volumes of export potash, which has a longer length of haul.

Potash revenue was $493 million in 2020, an increase of $31 million, or 7%, from $462 million in 2019. This increase was primarily due to higher volumes of export potash following resolved international contract negotiations, higher freight rates, and the favourable impact of the change in FX. This increase was partially offset by decreased freight revenue per RTM due to lower fuel surcharge revenue as a result of lower fuel prices.

## Fertilizers and Sulphur

| For the year ended December 31 | 2021 | 2020 | 2019 | 2021 vs. 2020 Total Change | 2021 vs. 2020 % Change | 2021 vs. 2020 FX Adjusted % Change[1] | 2020 vs. 2019 Total Change | 2020 vs. 2019 % Change | 2020 vs. 2019 FX Adjusted % Change[1] |
|---|---|---|---|---|---|---|---|---|---|
| Freight revenues (in millions) | **$ 305** | $ 290 | $ 250 | $ 15 | 5 | 11 | $ 40 | 16 | 15 |
| Carloads (in thousands) | **64.4** | 61.6 | 57.0 | 2.8 | 5 | N/A | 4.6 | 8 | N/A |
| Revenue ton-miles (in millions) | **4,845** | 4,683 | 3,846 | 162 | 3 | N/A | 837 | 22 | N/A |
| Freight revenue per carload (in dollars) | **$ 4,736** | $ 4,708 | $ 4,386 | $ 28 | 1 | 6 | $ 322 | 7 | 6 |
| Freight revenue per revenue ton-mile (in cents) | **6.30** | 6.19 | 6.50 | 0.11 | 2 | 7 | (0.31) | (5) | (5) |

[1] FX adjusted % change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX adjusted % change is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Fertilizers and sulphur revenue was $305 million in 2021, an increase of $15 million, or 5%, from $290 million in 2020. This increase was primarily due to higher volumes of wet and dry fertilizer and increased freight revenue per RTM. This increase was partially offset by the unfavourable impact of the change in FX and lower volumes of sulphur. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices and higher freight rates. Carloads increased more than RTMs due to moving higher volumes of dry fertilizer within western Canada, which has a shorter length of haul.

Fertilizers and sulphur revenue was $290 million in 2020, an increase of $40 million, or 16%, from $250 million in 2019. This increase was primarily due to higher volumes of dry fertilizers, sulphur, and wet fertilizers, as well as the favourable impact of the change in FX. This increase was partially offset by decreased freight revenue per RTM due to lower fuel surcharge revenue as a result of lower fuel prices. RTMs increased more than carloads due to moving lower volumes of wet and dry fertilizers within Alberta, which has a shorter length of haul.

## Forest Products

| For the year ended December 31 | 2021 | 2020 | 2019 | 2021 vs. 2020 Total Change | 2021 vs. 2020 % Change | 2021 vs. 2020 FX Adjusted % Change[1] | 2020 vs. 2019 Total Change | 2020 vs. 2019 % Change | 2020 vs. 2019 FX Adjusted % Change[1] |
|---|---|---|---|---|---|---|---|---|---|
| Freight revenues (in millions) | **$ 348** | $ 328 | $ 304 | $ 20 | 6 | 12 | $ 24 | 8 | 7 |
| Carloads (in thousands) | **73.6** | 71.6 | 71.5 | 2.0 | 3 | N/A | 0.1 | — | N/A |
| Revenue ton-miles (in millions) | **5,718** | 5,491 | 4,974 | 227 | 4 | N/A | 517 | 10 | N/A |
| Freight revenue per carload (in dollars) | **$ 4,728** | $ 4,581 | $ 4,252 | $ 147 | 3 | 9 | $ 329 | 8 | 7 |
| Freight revenue per revenue ton-mile (in cents) | **6.09** | 5.97 | 6.11 | 0.12 | 2 | 8 | (0.14) | (2) | (3) |

[1] FX adjusted % change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX adjusted % change is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forest products revenue was $348 million in 2021, an increase of $20 million, or 6%, from $328 million in 2020. This increase was primarily due to higher volumes of lumber and panel products and increased freight revenue per RTM. This increase was partially offset by the unfavourable impact of the change in FX. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices and higher freight rates.

Forest products revenue was $328 million in 2020, an increase of $24 million, or 8%, from $304 million in 2019. This increase was primarily due to higher volumes of lumber and wood pulp, higher freight rates, and the favourable impact of the change in FX. This increase was partially offset by decreased freight revenue per RTM due to lower fuel surcharge revenue as a result of lower fuel prices. RTMs increased more than carloads due to moving higher volumes of panel products and wood pulp from Canada to the U.S., which has a longer length of haul.

## Energy, Chemicals and Plastics

| | | | | 2021 vs. 2020 | | | 2020 vs. 2019 | | |
|---|---|---|---|---|---|---|---|---|---|
| For the year ended December 31 | **2021** | 2020 | 2019 | Total Change | % Change | FX Adjusted % Change[1] | Total Change | % Change | FX Adjusted % Change[1] |
| Freight revenues (in millions) | **$ 1,563** | $ 1,519 | $ 1,534 | $ 44 | 3 | 7 | $ (15) | (1) | (1) |
| Carloads (in thousands) | **320.1** | 308.8 | 358.1 | 11.3 | 4 | N/A | (49.3) | (14) | N/A |
| Revenue ton-miles (in millions) | **25,469** | 24,172 | 29,356 | 1,297 | 5 | N/A | (5,184) | (18) | N/A |
| Freight revenue per carload (in dollars) | **$ 4,883** | $ 4,919 | $ 4,284 | $ (36) | (1) | 3 | $ 635 | 15 | 15 |
| Freight revenue per revenue ton-mile (in cents) | **6.14** | 6.28 | 5.23 | (0.14) | (2) | 1 | 1.05 | 20 | 20 |

[1] FX adjusted % change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX adjusted % change is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Energy, chemicals and plastics revenue was $1,563 million in 2021, an increase of $44 million, or 3%, from $1,519 million in 2020. This increase was primarily due to higher volumes of liquefied petroleum gas ("LPG") and other petroleum products as a result of demand recovery from the impact of the COVID-19 pandemic in the prior year, higher fuel surcharge revenue as a result of higher fuel prices, and higher freight rates. The increase was partially offset by decreased freight revenue per RTM due to the unfavourable impact of the change in FX.

Energy, chemicals and plastics revenue was $1,519 million in 2020, a decrease of $15 million, or 1%, from $1,534 million in 2019. This decrease was primarily due to lower volumes of crude, LPG, and biofuels as a result of the COVID-19 pandemic and lower fuel surcharge revenue as a result of lower fuel prices. The decrease was partially offset by increased freight revenue per RTM and higher volumes of plastics. Freight revenue per RTM increased primarily due to higher liquidated damages, including customer volume commitments, and higher freight rates. RTMs decreased more than carloads due to moving lower volumes of crude, which has a longer length of haul.

## Metals, Minerals and Consumer Products

| | | | | 2021 vs. 2020 | | | 2020 vs. 2019 | | |
|---|---|---|---|---|---|---|---|---|---|
| For the year ended December 31 | **2021** | 2020 | 2019 | Total Change | % Change | FX Adjusted % Change[1] | Total Change | % Change | FX Adjusted % Change[1] |
| Freight revenues (in millions) | **$ 728** | $ 629 | $ 752 | $ 99 | 16 | 22 | $ (123) | (16) | (17) |
| Carloads (in thousands) | **236.7** | 207.3 | 234.3 | 29.4 | 14 | N/A | (27.0) | (12) | N/A |
| Revenue ton-miles (in millions) | **11,170** | 9,325 | 10,684 | 1,845 | 20 | N/A | (1,359) | (13) | N/A |
| Freight revenue per carload (in dollars) | **$ 3,076** | $ 3,034 | $ 3,210 | $ 42 | 1 | 7 | $ (176) | (5) | (6) |
| Freight revenue per revenue ton-mile (in cents) | **6.52** | 6.75 | 7.04 | (0.23) | (3) | 2 | (0.29) | (4) | (5) |

[1] FX adjusted % change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX adjusted % change is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Metals, minerals and consumer products revenue was $728 million in 2021, an increase of $99 million, or 16%, from $629 million in 2020. This increase was primarily due to higher volumes of steel and frac sand, higher fuel surcharge revenue as a result of higher fuel prices, and higher freight rates. This increase was partially offset by decreased freight revenue per RTM due to the unfavourable impact of the change in FX. RTMs increased more than carloads due to moving proportionately higher volumes of frac sand, which has a longer length of haul.

Metals, minerals and consumer products revenue was $629 million in 2020, a decrease of $123 million, or 16%, from $752 million in 2019. This decrease was primarily due to lower volumes of frac sand as a result of the COVID-19 pandemic and decreased freight revenue per RTM. This decrease was partially offset by the favourable impact of the change in FX. Freight revenue per RTM decreased due to lower fuel surcharge revenue as a result of lower fuel prices.

## Automotive

| For the year ended December 31 | 2021 | 2020 | 2019 | 2021 vs. 2020 Total Change | 2021 vs. 2020 % Change | 2021 vs. 2020 FX Adjusted % Change[1] | 2020 vs. 2019 Total Change | 2020 vs. 2019 % Change | 2020 vs. 2019 FX Adjusted % Change[1] |
|---|---|---|---|---|---|---|---|---|---|
| Freight revenues (in millions) | **$ 376** | $ 324 | $ 352 | $ 52 | 16 | 22 | $ (28) | (8) | (9) |
| Carloads (in thousands) | **109.2** | 106.1 | 114.4 | 3.1 | 3 | N/A | (8.3) | (7) | N/A |
| Revenue ton-miles (in millions) | **1,765** | 1,321 | 1,427 | 444 | 34 | N/A | (106) | (7) | N/A |
| Freight revenue per carload (in dollars) | **$ 3,443** | $ 3,054 | $ 3,077 | $ 389 | 13 | 18 | $ (23) | (1) | (2) |
| Freight revenue per revenue ton-mile (in cents) | **21.30** | 24.53 | 24.67 | (3.23) | (13) | (9) | (0.14) | (1) | (1) |

[1] FX adjusted % change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX adjusted % change is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Automotive revenue was $376 million in 2021, an increase of $52 million, or 16%, from $324 million in 2020. This increase was primarily due to higher volumes as a result of onboarding customers moving to and from Vancouver, prior year manufacturing plant shutdowns in the second quarter of 2020 across North America as a result of the COVID-19 pandemic, higher fuel surcharge revenue as a result of higher fuel prices, and higher freight rates. This increase was partially offset by decreased freight revenue per RTM due to moving proportionately higher volumes from Vancouver to eastern Canada, which has a longer length of haul, and the unfavourable impact of the change in FX.

Automotive revenue was $324 million in 2020, a decrease of $28 million, or 8%, from $352 million in 2019. This decrease was primarily due to lower volumes caused by manufacturing plant shutdowns in the second quarter of 2020 across North America as a result of the COVID-19 pandemic, and decreased freight revenue per RTM. This decrease was partially offset by the onboarding of customers moving to and from Vancouver, higher freight rates, and the favourable impact of the change in FX. Freight revenue per RTM decreased due to lower fuel surcharge revenue as a result of lower fuel prices.

## Intermodal

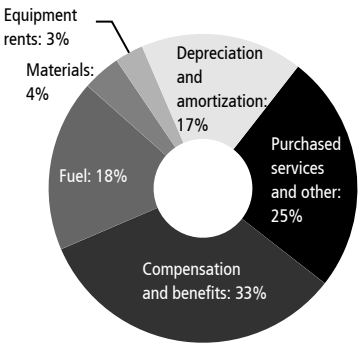
| For the year ended December 31 | 2021 | 2020 | 2019 | 2021 vs. 2020 Total Change | 2021 vs. 2020 % Change | 2021 vs. 2020 FX Adjusted % Change[1] | 2020 vs. 2019 Total Change | 2020 vs. 2019 % Change | 2020 vs. 2019 FX Adjusted % Change[1] |
|---|---|---|---|---|---|---|---|---|---|
| Freight revenues (in millions) | **$ 1,724** | $ 1,563 | $ 1,593 | $ 161 | 10 | 12 | $ (30) | (2) | (2) |
| Carloads (in thousands) | **1,062.9** | 1,049.6 | 1,046.1 | 13.3 | 1 | N/A | 3.5 | — | N/A |
| Revenue ton-miles (in millions) | **27,704** | 27,858 | 28,033 | (154) | (1) | N/A | (175) | (1) | N/A |
| Freight revenue per carload (in dollars) | **$ 1,622** | $ 1,489 | $ 1,523 | $ 133 | 9 | 11 | $ (34) | (2) | (2) |
| Freight revenue per revenue ton-mile (in cents) | **6.22** | 5.61 | 5.68 | 0.61 | 11 | 13 | (0.07) | (1) | (2) |

[1] FX adjusted % change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX adjusted % change is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

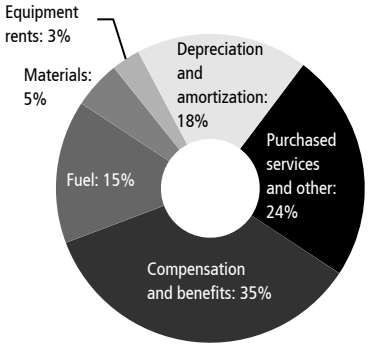
Intermodal revenue was $1,724 million in 2021, an increase of $161 million, or 10%, from $1,563 million in 2020. This increase was primarily due to increased freight revenue per RTM, onboarding new international intermodal customers, and higher domestic retail and wholesale intermodal volumes. This increase was partially offset by the completion of an international intermodal customer contract and the unfavourable impact of the change in FX. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices and higher freight rates. Carloads increased while RTMs decreased due to moving lower volumes of international intermodal to and from the Port of Vancouver, which has a longer length of haul.

Intermodal revenue was $1,563 million in 2020, a decrease of $30 million, or 2%, from $1,593 million in 2019. This decrease was primarily due to decreased freight revenue per RTM and lower volumes of international intermodal driven by the completion of a customer contract. This decrease was partially offset by the onboarding of a new international intermodal customer, higher freight rates, and the favourable impact of the change in FX. Freight revenue per RTM decreased due to lower fuel surcharge revenues as a result of lower fuel prices.

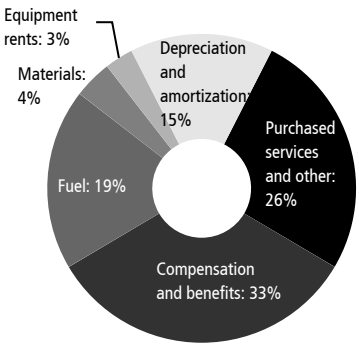
## Operating Expenses




**2021 Operating Expenses**




**2020 Operating Expenses**




**2019 Operating Expenses**

| | | | | 2021 vs. 2020 | | | 2020 vs. 2019 | | |
|---|---|---|---|---|---|---|---|---|---|
| For the year ended December 31 (in millions of Canadian dollars) | **2021** | 2020 | 2019 | Total Change | % Change | FX Adjusted % Change[(1)] | Total Change | % Change | FX Adjusted % Change[(1)] |
| Compensation and benefits | **$ 1,570** | $ 1,560 | $ 1,540 | $ 10 | 1 | 2 | $ 20 | 1 | 1 |
| Fuel | **854** | 652 | 882 | 202 | 31 | 37 | (230) | (26) | (27) |
| Materials | **215** | 216 | 210 | (1) | — | 1 | 6 | 3 | 3 |
| Equipment rents | **121** | 142 | 137 | (21) | (15) | (10) | 5 | 4 | 2 |
| Depreciation and amortization | **811** | 779 | 706 | 32 | 4 | 6 | 73 | 10 | 10 |
| Purchased services and other | **1,218** | 1,050 | 1,193 | 168 | 16 | 19 | (143) | (12) | (12) |
| **Total operating expenses** | **$ 4,789** | $ 4,399 | $ 4,668 | $ 390 | 9 | 12 | $ (269) | (6) | (6) |

[(1)] FX adjusted % change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX adjusted % change is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Operating expenses were $4,789 million in 2021, an increase of $390 million, or 9%, from $4,399 million in 2020. This increase was primarily due to:

- the unfavourable impact of higher fuel prices of $243 million;
- acquisition-related costs of $183 million associated with the KCS acquisition that were recognized in Purchased services and other;
- a gain of $68 million recognized in 2020 as a result of the remeasurement to fair value of the previously held equity investment in DRTP;
- higher depreciation and amortization of $46 million (excluding FX);
- impact of cost inflation; and
- higher DB pension and post-retirement benefits current service cost of $32 million.

This increase was partially offset by:

- the favourable impact of the change in FX of $111 million;
- a gain on the exchange of property and construction easements in Chicago of $50 million and higher gains on land sales primarily in B.C. of $29 million;
- lower stock-based compensation of $39 million primarily driven by the impact of changes in share price; and
- efficiencies generated from improved operating performance and asset utilization.

Operating expenses were $4,399 million in 2020, a decrease of $269 million, or 6%, from $4,668 million in 2019. This decrease was primarily due to:

- the favourable impact of lower fuel price of $195 million;
- efficiencies generated from improved operating performance and asset utilization;
- a gain of $68 million as a result of the remeasurement to fair value of the previously held equity investment in DRTP;
- reduced variable expenses from lower volumes;
- the impact of harsher winter operating conditions in 2019; and
- lower casualty costs incurred in 2020.

This decrease was partially offset by:
- higher depreciation and amortization of $71 million (excluding FX);
- cost inflation;
- higher stock-based compensation of $37 million primarily driven by an increase in stock price; and
- the unfavourable impact of the change in FX of $23 million.

### Compensation and Benefits

Compensation and benefits expense includes employee wages, salaries, fringe benefits, and stock-based compensation. Compensation and benefits expense was $1,570 million in 2021, an increase of $10 million, or 1%, from $1,560 million in 2020. This increase was primarily due to:
- the impact of wage and benefit inflation;
- higher DB pension and post-retirement benefits current service cost of $32 million; and
- increased training costs driven by recovery from the economic downturn caused by COVID-19 in the prior year.

This increase was partially offset by:
- lower stock-based compensation of $39 million primarily driven by the impact of changes in share price;
- the favourable impact of the change in FX of $27 million; and
- prior year bonus paid to frontline employees of $17 million.

Compensation and benefits expense was $1,560 million in 2020, an increase of $20 million, or 1% from $1,540 million in 2019. This increase was primarily due to:
- the impact of wage and benefit inflation;
- higher stock-based compensation of $37 million primarily driven by an increase in stock price;
- higher DB pension and post-retirement benefits current service cost of $33 million;
- a bonus paid to frontline employees of $17 million; and
- the unfavourable impact of the change in FX of $5 million.

This increase was partially offset by:
- labour efficiencies generated from improved operating performance and asset utilization;
- reduced training costs;
- lower volume variable expense as a result of decreased workload as measured by GTMs; and
- the impact of weather related costs as a result of harsh winter operating conditions in the first quarter of 2019.

### Fuel

Fuel expense consists mainly of fuel used by locomotives and includes provincial, state, and federal fuel taxes. Fuel expense was $854 million in 2021, an increase of $202 million, or 31%, from $652 million in 2020. This increase was primarily due to the unfavourable impact of higher fuel prices of $243 million.

This increase was partially offset by:
- the favourable impact of the change in FX of $29 million;
- an increase in fuel efficiency of 1% from improvements in the operating plan resulting in running longer and heavier trains; and
- a decrease in workload, as measured by GTMs.

Fuel expense was $652 million in 2020, a decrease of $230 million, or 26%, from $882 million in 2019. This decrease was primarily due to:
- the favourable impact of lower fuel prices of $195 million;
- a decrease in workload, as measured by GTMs; and
- an improvement in fuel efficiency of 1% from improved winter operating conditions in the first quarter of 2020.

This decrease was partially offset by the unfavourable impact of the change in FX of $8 million.

### Materials

Materials expense includes the cost of material used for maintenance of track, locomotives, freight cars, and buildings as well as software sustainment. Materials expense was $215 million in 2021, a decrease of $1 million, from $216 million in 2020. This decrease was primarily due to the favorable impact of the change in FX of $3 million and a decrease in freight car maintenance, partially offset by an increase in fuel costs.

Materials expense was $216 million in 2020, an increase of $6 million, or 3%, from $210 million in 2019. This increase was primarily due to higher spending on locomotive maintenance and overhauls, and track maintenance.

### Equipment Rents

Equipment rents expense includes the cost associated with using other companies' freight cars, intermodal equipment, and locomotives, net of rental income received from other railways for the use of CP's equipment. Equipment rents expense was $121 million in 2021, a decrease of $21 million, or 15%, from $142 million in 2020. This decrease was primarily due to:

- higher receipts for CP freight cars used by other railways;
- price incentives received on intermodal cars; and
- the favourable impact of the change in FX of $8 million.

This decrease was partially offset by greater usage of pooled freight cars.

Equipment rents expense was $142 million in 2020, an increase of $5 million, or 4%, from $137 million in 2019. This increase was primarily due to lower receipts for CP freight cars used by other railways and the unfavourable impact of the change in FX of $2 million, partially offset by lower usage of pooled freight cars as a result of lower volumes.

### Depreciation and Amortization

Depreciation and amortization expense represents the charge associated with the use of track and roadway, buildings, rolling stock, information systems, and other depreciable assets. Depreciation and amortization expense was $811 million for 2021, an increase of $32 million, or 4%, from $779 million in 2020. This increase was primarily due to a higher asset base, as a result of the capital program spending in 2021 and recent years, and the impact of depreciation studies. This was partially offset by the favourable impact of the change in FX of $14 million.

Depreciation and amortization expense was $779 million for 2020, an increase of $73 million, or 10%, from $706 million in 2019. This increase was primarily due to:

- a higher asset base, as a result of the capital program spending in 2020;
- the impact of depreciation studies and other adjustments made in 2019; and
- the unfavourable impact of the change in FX of $2 million.

### Purchased Services and Other

| For the year ended December 31 (in millions of Canadian dollars) | **2021** | 2020 | 2019 | 2021 vs. 2020 Total Change | 2021 vs. 2020 % Change | 2020 vs. 2019 Total Change | 2020 vs. 2019 % Change |
|---|---|---|---|---|---|---|---|
| Support and facilities | **$ 293** | $ 271 | $ 278 | $ 22 | 8 | $ (7) | (3) |
| Track and operations | **260** | 282 | 278 | (22) | (8) | 4 | 1 |
| Intermodal | **205** | 209 | 222 | (4) | (2) | (13) | (6) |
| Equipment | **105** | 113 | 125 | (8) | (7) | (12) | (10) |
| Casualty | **125** | 116 | 149 | 9 | 8 | (33) | (22) |
| Property taxes | **128** | 126 | 133 | 2 | 2 | (7) | (5) |
| Other | **191** | (57) | 29 | 248 | (435) | (86) | (297) |
| Land sales | **(89)** | (10) | (21) | (79) | 790 | 11 | (52) |
| **Total Purchased services and other** | **$ 1,218** | $ 1,050 | $ 1,193 | $ 168 | 16 | $ (143) | (12) |

Purchased services and other expense encompasses a wide range of third-party costs, including contractor and consulting fees, locomotive and freight car repairs performed by third parties, property and other taxes, intermodal pickup and delivery services, casualty expense, expenses for joint facilities, and gains on land sales. Purchased services and other expense was $1,218 million in 2021, an increase of $168 million, or 16%, from $1,050 million in 2020. This increase was primarily due to:

- the acquisition-related costs of $183 million related to the KCS acquisition, reported in Other;
- a gain in 2020 of $68 million as a result of the remeasurement to fair value of the previously held equity investment in DRTP, reported in Other;
- higher expenses primarily due to an increased number and severity of casualty incidents, reported in Casualty;

- expenses due to the wildfire response in B.C., reported in Support and facilities, and Track and operations; and
- an increase in legal and consulting fees, reported in Support and facilities.

This increase was partially offset by:
- a gain on the exchange of property and construction easements in Chicago of $50 million and higher gains on land sales primarily in B.C. of $29 million;
- the favourable impact of the change in FX of $30 million;
- a $16 million legal claim recovery, reported in Other; and
- a $7 million arbitration settlement, reported in Track and operations.

Purchased services and other expense was $1,050 million in 2020, a decrease of $143 million, or 12%, from $1,193 million in 2019. This decrease was primarily due to:
- a gain of $68 million as a result of the remeasurement to fair value of the previously held equity investment in DRTP, reported in Other.
- lower expenses primarily due to reduced number and severity of casualty incidents, reported in Casualty;
- reduced business travel and event cost due to COVID-19, reported in primarily Support and facilities and Track and operations;
- a decrease in charges associated with contingencies of $10 million, reported in Other; and
- reduced variable expenses from lower volumes, reported in Intermodal and Equipment.

This decrease was partially offset by lower gains on land sales of $11 million in 2020, reported in Land sales and the unfavourable impact of the change in FX of $6 million.

## Other Income Statement Items

### Equity Loss of Kansas City Southern

On December 14, 2021, following the consummation of the KCS acquisition, the shares of KCS were placed into a voting trust while the United States Surface Transportation Board ("STB") considers the Company's control application. In 2021, the Company recognized a $141 million equity loss from the date of acquisition of KCS closing into the voting trust to December 31, 2021 in the Company's Consolidated Statements of Income. The equity loss was attributable to the acquisition-related costs incurred during this period. No similar equity loss existed in the same period of 2020.

### Other Expense (Income)

Other expense (income) consists of gains and losses from the change in FX on debt and lease liabilities and working capital, costs related to financing, shareholder costs, equity income, and other non-operating expenditures. Other expense was $237 million in 2021, a change of $244 million, or 3,486%, from income of $7 million in 2020. This change was primarily due to acquisition-related costs of $247 million which include losses on interest rate hedges of $264 million and bridge facility and backstop revolver fees of $52 million, partially offset by gains on cash held for the KCS acquisition of $56 million and gains on FX hedges of $13 million.

Other income was $7 million in 2020, a decrease of $82 million, or 92%, from $89 million in the same period of 2019. This decrease was primarily due to a lower FX translation gain on U.S. dollar-denominated debt and lease liabilities of $80 million.

FX translation gains and losses on debt and lease liabilities and acquisition-related costs are discussed further in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Merger Termination Fee

On May 21, 2021, KCS terminated the Agreement and Plan of Merger (the "Original Merger Agreement") with CP to enter into a definitive agreement with Canadian National Railway. At the same time and in accordance with the terms of the Original Merger Agreement, KCS paid CP a termination fee of $845 million (U.S. $700 million). This amount is reported as "Merger termination fee" in the Company's Consolidated Statements of Income in 2021. No similar items were received in the same period of 2020.

### Other Components of Net Periodic Benefit Recovery

Other components of net periodic benefit recovery is related to the Company's pension and other post-retirement and post-employment benefit plans. It includes interest cost on benefit obligations, expected return on fund assets, recognized net actuarial losses, and amortization of prior service costs. Other components of net periodic benefit recovery were $387 million in 2021, an increase of $45 million, or 13%, from $342 million in 2020. This increase was primarily due to a decrease in the interest cost on the benefit obligation of $56 million and an increase in expected return on fund assets of $14 million, partially offset by an increase in recognized net actuarial losses of $24 million.

Other components of net periodic benefit recovery were $342 million in 2020, a decrease of $39 million or 10%, from $381 million in 2019. This decrease was primarily due to an increase in recognized net actuarial losses of $85 million and a decrease in expected return on fund assets of $2 million, partially offset by a decrease in the interest cost on the benefit obligation of $47 million.

### Net Interest Expense

Net interest expense includes interest on long-term debt and finance leases. Net interest expense was $440 million in 2021, a decrease of $18 million, or 4%, from $458 million in 2020. This decrease was primarily due to a change in FX of $27 million and a reduction of interest on long-term debt of $15 million as the result of a lower effective interest rate, partially offset by an increase in interest on long-term debt from debt issuances related to the KCS acquisition in the last quarter of 2021.

Net interest expense was $458 million in 2020, an increase of $10 million, or 2%, from $448 million in 2019. This increase was primarily due to the unfavourable impacts of an increase in debt levels of $34 million and the change in FX of $4 million. This increase was partially offset by a reduction in interest related to long-term debt of $29 million as the result of a lower effective interest rate following the Company's debt refinancing completed in 2019 and 2020.

### Income Tax Expense

Income tax expense was $768 million in 2021, an increase of $10 million, or 1%, from $758 million in 2020. The increase was primarily a result of higher taxable earnings due to the $845 million (U.S. $700 million) merger termination payment received in connection with KCS's termination of the Original Merger Agreement, partially offset by acquisition-related costs associated with the KCS acquisition and a lower effective tax rate.

Income tax expense was $758 million in 2020, an increase of $52 million, or 7%, from $706 million in 2019. The increase was primarily due to higher taxable earnings and lower net income tax recoveries in 2020. In 2020, a tax filing election lowered the North Dakota rate resulting in net income tax recoveries of $29 million compared to 2019 when net income tax recoveries were $88 million as a result of an Alberta corporate tax rate decrease, partially offset by a 2019 tax expense for an unrecognized tax benefit of $24 million.

The effective income tax rate for 2021 was 21.23% on reported income and 23.85% on Adjusted income. The effective income tax rate for 2020 was 23.66% on reported income and 24.61% on Adjusted income. The effective income tax rate for 2019 was 22.43% on reported income and 24.96% on Adjusted income. Adjusted income is a Non-GAAP measure, which is 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 expected 2022 effective tax rate is between 24% and 24.5%, which excludes the impact of the change in the equity investment in KCS and associated deferred tax on the outside basis difference during the year. The Company’s 2022 outlook for its effective 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.

## 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.

During 2021, the Company obtained commitments for a 364-day senior unsecured facility (the “bridge facility”) in the amount of U.S. $8.5 billion to bridge debt financing required to fund a portion of the cash component of the KCS acquisition. This bridge facility was terminated on December 2, 2021 upon the issuance of debt. On December 14, 2021, the Company issued 262.6 million Common Shares to KCS common stockholders at the exchange ratio of 2.884 Common Shares per share of KCS common stock to fund the remaining component of the KCS acquisition.

As at December 31, 2021, the Company had $69 million of Cash and cash equivalents compared to $147 million at December 31, 2020.

As at December 31, 2021, the Company's revolving credit facility was undrawn, unchanged from December 31, 2020, from a total available amount of U.S. $1.3 billion. Effective April 9, 2021, the Company amended its revolving credit facility to modify certain provisions relating to the calculation of the financial covenant ratio in its revolving credit facility. Effective September 24, 2021, the Company entered into an amendment to extend the two-year tranche and the five-year tranche of its revolving credit facility to September 27, 2023 and September 27, 2026, respectively. Effective September 29, 2021, the Company entered into a further amendment to its revolving credit facility in order to provide financial covenant flexibility for the anticipated acquisition financing pertaining to the KCS acquisition, which is in place for a two-year period from the date the acquisition closed. In 2021, the Company also entered into a U.S. $500 million unsecured non-revolving term credit facility with a maturity date of March 15, 2022. As at December 31, 2021, the unsecured non-revolving term credit facility was fully drawn. The credit facility agreements require the Company to maintain a financial covenant. As at

December 31, 2021, the Company was in compliance with all terms and conditions of the credit facility arrangements and satisfied the financial covenants.

The Company has a commercial paper program that enables it to issue commercial paper up to a maximum aggregate principal amount of U.S. $1.0 billion in the form of unsecured promissory notes. This commercial paper program is backed by the revolving credit facility. As at December 31, 2021, total commercial paper borrowings were U.S. $265 million (December 31, 2020 – U.S. $644 million).

As at December 31, 2021, under its bilateral letter of credit facilities, the Company had letters of credit drawn of $58 million from a total available amount of $300 million (December 31, 2020 - $59 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. As at December 31, 2021, the Company did not have any collateral posted on its bilateral letter of credit facilities (December 31, 2020 – $nil).

## Contractual Commitments

The Company's material cash requirements from known contractual obligations and commitments to make future payments primarily consist of long-term debt and related interest, supplier purchases, leases, and other long term liabilities. Outstanding obligations related to debt and leases can be found in Item 8. Financial Statements and Supplementary Data, Note 18 Debt and Note 21 Leases. Interest obligations related to debt and finance leases amount to $634 million within the next 12 months, with the remaining amount committed thereafter of $13,503 million.

Supplier purchase agreements and other long-term liabilities amount to $676 million and $56 million within the next 12 months, respectively, with the remaining amount committed thereafter of $914 million and $435 million, respectively. Other long-term liabilities includes 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.

## Guarantees

Refer to Item 8. Financial Statements and Supplementary Data, Note 28 Guarantees for details.

## Operating Activities

Cash provided by operating activities was $3,688 million in 2021, an increase of $886 million, or 32%, compared to $2,802 million in 2020. This increase was primarily due to higher cash generating income as a result of the $845 million merger termination payment received from KCS in the second quarter of 2021.

Cash provided by operating activities was $2,802 million in 2020, a decrease of $188 million, or 6%, compared to $2,990 million in 2019. This decrease was primarily due to lower receipts from customers in advance of performing services, compared to 2019.

## Investing Activities

Cash used in investing activities was $13,730 million in 2021, an increase of $11,700 million, or 576%, from $2,030 million in 2020. This increase was primarily due to cash payments made to KCS and their stockholders for the acquisition of KCS, compared to the acquisition of DRTP in 2020, as well as lower additions to properties during 2021.

Cash used in investing activities was $2,030 million in 2020, an increase of $227 million, or 13%, from $1,803 million in 2019. This increase was primarily due to the acquisition of DRTP in 2020, compared to the acquisition of CMQ in 2019.

### Capital Programs

| For the year ended December 31<br>(in millions of Canadian dollars, except for track miles and crossties) | 2021 | 2020 | 2019 |
|---|---|---|---|
| **Additions to capital** | | | |
| Track and roadway | **$ 970** | $ 1,161 | $ 1,004 |
| Rolling stock | **297** | 253 | 393 |
| Information systems software | **47** | 45 | 55 |
| Buildings | **105** | 103 | 58 |
| Other | **132** | 126 | 154 |
| **Total – accrued additions to capital** | **1,551** | 1,688 | 1,664 |
| Less: | | | |
| Non-cash transactions | **19** | 17 | 17 |
| **Cash invested in additions to properties (per Consolidated Statements of Cash Flows)** | **$ 1,532** | $ 1,671 | $ 1,647 |
| **Track installation capital programs** | | | |
| Track miles of rail laid (miles) | **284** | 301 | 246 |
| Track miles of rail capacity expansion (miles) | **9** | 28 | 11 |
| Crossties installed (thousands) | **1,222** | 1,417 | 1,122 |

Track and roadway expenditures include the replacement and enhancement of the Company's track infrastructure. Of the $970 million additions in 2021 (2020 – $1,161 million), approximately $907 million (2020 – $1,008 million) was invested in the renewal of depleted assets, namely rail, ties, ballast, signals, and bridges. Approximately $10 million (2020 – $25 million) was spent on Positive Train Control compliance requirements and $53 million (2020 – $128 million) was invested in network improvements and growth initiatives.

Rolling stock investments encompass locomotives and railcars. In 2021, expenditures on locomotives were approximately $121 million (2020 – $126 million) and were focused on the continued re-investment in CP's existing locomotive fleet. Railcar investment of approximately $176 million (2020 – $127 million) was largely focused on renewal of depleted assets, including the acquisition of covered hoppers for grain transportation.

In 2021, CP invested approximately $47 million (2020 – $45 million) in information systems software primarily focused on rationalizing and enhancing business systems and providing real-time data. Investments in buildings were approximately $105 million (2020 - $103 million) and included items such as facility upgrades, renovations and shop equipment. Other items were $132 million (2020 – $126 million) and included investments in containers, work equipment and vehicles.

For 2022, CP expects to invest approximately $1.55 billion in its capital programs, which will be financed with cash generated from operations. Approximately 60% to 70% of the planned capital programs is for track and roadway. Approximately 15% to 20% is expected to be allocated to rolling stock, including railcars and locomotive improvements. Approximately 5% is expected to be allocated to information services, and 5% is expected to be allocated to buildings. Other investments is expected to be 5% to 10%. Additional discussion of capital commitments can be found in Item 8. Financial Statements and Supplementary Data, Note 27 Commitments and Contingencies.

## Free Cash

CP generated positive Free cash of $1,793 million in 2021, an increase of $636 million, or 55%, from $1,157 million in 2020. This increase was primarily due to an increase in cash provided by operating activities, before the Merger termination fee and Acquisition-related costs from KCS, and lower capital additions.

CP generated positive Free cash of $1,157 million in 2020, a decrease of $200 million, or 15%, from $1,357 million in 2019. This decrease was primarily due to a decrease in cash provided by operating activities.

Free cash is affected by seasonal fluctuations and by other factors including the size of the Company's capital programs. The 2021 capital programs are discussed above. Free cash is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

## Financing Activities

Cash provided by financing activities was $9,936 million in 2021, a change of $10,700 million, or 1401%, from cash used in financing activities of $764 million in 2020. This change was primarily due to issuances of U.S $6.7 billion and $2.2 billion notes and a U.S. $500 million term loan to fund the cash consideration component of the KCS acquisition, as well as a pause on payments to buy back shares under the Company's share repurchase program due to the KCS acquisition.

This was partially offset by:

- issuances of U.S. $500 million 2.050% notes due March 5, 2030 and $300 million 3.050% notes due March 9, 2050 in 2020;
- net repayments of commercial paper during 2021 compared to net issuances during 2020;
- principal repayment of U.S. $250 million of the Company's 9.450% notes at maturity in August 2021;
- acquisition-related financing fees; and
- higher dividends paid in 2021.

Cash used in financing activities was $764 million in 2020, a decrease of $347 million, or 31%, from $1,111 million in 2019. This decrease was primarily due to the issuances of U.S. $500 million 2.050% notes due March 5, 2030 and $300 million 3.050% notes due March 9, 2050 in 2020, compared to the issuance of $400 million 3.150% notes due March 13, 2029 in 2019, as well as the principal repayment of U.S. $350 million of the Company's 7.250% notes at maturity in May 2019. This was partially offset by higher payments to buy back shares under the Company's share repurchase program, lower net issuances of commercial paper during 2020, and higher dividends paid during 2020.

### 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.

A strong investment-grade credit rating is an important measure in assessing the Company's ability to maintain access to public financing and to minimize the cost of capital. It also affects the ability of the Company to engage in certain collateralized business activities on a cost-effective basis.

Credit ratings and outlooks are based on the rating agencies' methodologies and can change from time to time to reflect their views of CP. 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, 2021, CP's credit ratings from Standard & Poor's Rating Services ("Standard & Poor's") remain unchanged from December 31, 2020. During the first quarter of 2021, Moody's Investor Service ("Moody's") downgraded CP's credit rating to Baa2 from Baa1 due to the announcement of the KCS transaction.

*Credit ratings as at December 31, 2021*[(1)]

| **Long-term debt** | | | Outlook |
|---|---|---|---|
| ***Standard & Poor's*** | | | |
| | Long-term corporate credit | **BBB+** | stable |
| | Senior secured debt | **A** | stable |
| | Senior unsecured debt | **BBB+** | stable |
| ***Moody's*** | | | |
| | Senior unsecured debt | **Baa2** | stable |
| | | | |
| **Commercial paper program** | | | |
| ***Standard & Poor's*** | | **A-2** | N/A |
| ***Moody's*** | | **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.

## Financial Ratios

The Long-term debt to Net income ratio was 7.1 in 2021, compared with 4.0 in 2020 and 3.6 in 2019. These increases were primarily due to higher debt.

The Adjusted net debt to Adjusted earnings before interest, tax, depreciation, and amortization ("EBITDA") ratio was 4.8 in 2021, compared with 2.5 in 2020 and 2.4 in 2019. The increase in the ratio from 2020 to 2021 was primarily due to a higher debt balance in connection with the KCS acquisition. The increase from 2019 to 2020 was primarily due to a higher debt balance, partially offset by an increase in Adjusted EBITDA. Adjusted net debt to Adjusted EBITDA ratio is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. Over the long term, CP targets an Adjusted net debt to Adjusted EBITDA ratio of 2.0 to 2.5.

Although CP has provided a target Non-GAAP measure (Adjusted net debt to Adjusted EBITDA ratio), management is unable to reconcile, without unreasonable efforts, the target Adjusted net debt to Adjusted EBITDA ratio to the most comparable GAAP measure (Long-term debt to Net income ratio), due to unknown variables and uncertainty related to future results. These unknown variables may include unpredictable transactions of significant value. In recent years, CP has recognized acquisition-related costs (including legal, consulting, and financing fees, 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, and transaction costs (net of tax) incurred by KCS which were recognized within the Equity loss of KCS), the merger termination payment received, changes in the outside basis tax difference between the carrying amount of CP's equity investment in KCS and its tax basis of the investment, changes in income tax rates, and a change to an uncertain tax item. KCS has also recognized significant transaction costs and FX gains and losses. These or other similar, large unforeseen transactions affect Net income but may be excluded from CP's Adjusted EBITDA. Additionally, the U.S.-to-Canada dollar exchange rate is unpredictable and can have a significant impact on CP's reported results but may be excluded from CP's Adjusted EBITDA. In particular, CP excludes the FX impact of translating the Company's debt and lease liabilities, interest and taxes from Adjusted EBITDA. Please see Forward-Looking Statements in this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion.

## Dividend Payout Ratio

The dividend payout ratio was 18.2% in 2021, compared with 19.8% in 2020 and 17.9% in 2019. The decrease in the ratio from 2020 to 2021 was due to higher diluted EPS, partially offset by higher dividends declared per share. The increase in the ratio from 2019 to 2020 was due to higher dividends declared per share, partially offset by higher diluted EPS.

The Adjusted dividend payout ratio was 20.2% in 2021, compared with 20.1% in 2020 and 19.1% in 2019. These increases were due to higher dividends declared per share, partially offset by higher Adjusted diluted EPS. Adjusted dividend payout ratio is defined and reconciled in Non-GAAP Measures of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. Over the long term, CP targets an Adjusted dividend payout ratio of 25.0% to 30.0%.

Although CP has provided a target Non-GAAP measure (Adjusted dividend payout ratio), management is unable to reconcile, without unreasonable efforts, the target Adjusted dividend payout ratio to the most comparable GAAP measure (Dividend payout ratio), due to unknown variables and uncertainty related to future results. These unknown variables may include unpredictable transactions of significant value. In recent years, CP has recognized acquisition-related costs (including legal, consulting, and financing fees, 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, and transaction costs (net of tax) incurred by KCS which were recognized within the Equity loss of KCS), the merger termination payment received, outside basis tax differences related to KCS equity earnings or loss, changes in income tax rates, and a change to an uncertain tax item. KCS has also recognized significant transaction costs and FX gains and losses. These or other similar, large unforeseen transactions affect Diluted EPS but may be excluded from CP's Adjusted diluted EPS. Additionally, the U.S.-to-Canada dollar exchange rate is unpredictable and can have a significant impact on CP's reported results but may be excluded from CP's Adjusted diluted EPS. In particular, CP excludes the FX impact of translating the Company's debt and lease liabilities from Adjusted diluted EPS. Please see Forward-Looking Statements in this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion.

## Supplemental Guarantor Financial Information

Canadian Pacific Railway Company ("CPRC"), a 100%-owned subsidiary of Canadian Pacific Railway Limited ("CPRL"), is the issuer of certain securities which are fully and unconditionally guaranteed by CPRL 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 CPRL provides a full and unconditional guarantee.

As of the date of the filing of the Form 10-K, CPRC had U.S. $12,050 million principal amount of debt securities outstanding due through 2115, and U.S. $30 million and GBP £3 million in perpetual 4% consolidated debenture stock, for all of which CPRL 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 $3,300 million principal amount of debt securities issued under Canadian Securities Law due through 2050 for which CPRL is the guarantor and not subject to the Exchange Act.

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

CPRL 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.

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 CPRL (Parent Guarantor) on a combined basis after elimination of (i) intercompany transactions and balances among CPRC and CPRL; (ii) equity in earnings from and investments in the Non-Guarantor Subsidiaries; and (iii) intercompany dividend income.

### Statements of Income

| | CPRC (Subsidiary Issuer) and CPRL (Parent Guarantor) | |
|---|---|---|
| (in millions of Canadian dollars) | **For the year ended December 31, 2021** | For the year ended December 31, 2020 |
| Total revenues | **$ 5,924** | $ 5,797 |
| Total operating expenses | **3,712** | 3,263 |
| Operating income [1] | **2,212** | 2,534 |
| Less: Other [2] | **(522)** | 127 |
| Income before income tax expense | **2,734** | 2,407 |
| **Net income** | **$ 2,548** | $ 1,792 |

[1] Includes net lease costs incurred from non-guarantor subsidiaries for the year ended December 31, 2021 and 2020 of $431 million and $435 million, respectively.
[2] Includes Other expense (income), Merger termination fee, Other components of net periodic benefit recovery, and Net interest expense.

### Balance Sheets

| | CPRC (Subsidiary Issuer) and CPRL (Parent Guarantor) | |
|---|---|---|
| (in millions of Canadian dollars) | **As at December 31, 2021** | As at December 31, 2020 |
| **Assets** | | |
| Current assets | **$ 963** | $ 907 |
| Properties | **11,342** | 10,865 |
| Other non-current assets | **2,536** | 1,151 |
| | | |
| **Liabilities** | | |
| Current liabilities | **$ 2,789** | $ 2,290 |
| Long-term debt | **18,574** | 8,585 |
| Other non-current liabilities | **3,008** | 2,981 |

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

**Cash Transactions with Non-Guarantor Subsidiaries**

| | CPRC (Subsidiary Issuer) and CPRL (Parent Guarantor) | |
|---|---|---|
| (in millions of Canadian dollars) | **For the year ended December 31, 2021** | For the year ended December 31, 2020 |
| Dividend income from non-guarantor subsidiaries | **$ 297** | $ 163 |
| Capital contributions to non-guarantor subsidiaries | **(134)** | — |
| Return of capital from non-guarantor subsidiaries | **1,370** | 198 |

**Balances with Non-Guarantor Subsidiaries**

| | CPRC (Subsidiary Issuer) and CPRL (Parent Guarantor) | |
|---|---|---|
| (in millions of Canadian dollars) | **As at December 31, 2021** | As at December 31, 2020 |
| **Assets** | | |
| Accounts Receivable, intercompany | **$ 344** | $ 327 |
| Short-term advances to affiliates | **2,859** | 20 |
| Long-term advances to affiliates | **7,616** | 9 |
| | | |
| **Liabilities** | | |
| Accounts payable, intercompany | **$ 212** | $ 179 |
| Short-term advances from affiliates | **2,777** | 3,658 |
| Long-term advances from affiliates | **82** | 82 |

## Share Capital

At February 22, 2022, the latest practicable date prior to the date of this Annual Report on Form 10-K, there were 929,712,071 Common Shares and no preferred shares issued and outstanding, which consists of 15,332 holders of record of the Common Shares. In addition, CP has a Management Stock Option Incentive Plan ("MSOIP"), under which key officers and employees are granted options to purchase the Common Shares. Options issued prior to the share split further described in Results of Operations of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations now each provide rights over five shares. For consistency, all number of options presented herein are shown on the basis of the number of shares subject to the options. At February 22, 2022, 8,144,004 options were outstanding under the MSOIP and stand-alone option agreements entered into with Mr. Keith Creel. There are 2,504,311 options available to be issued by the Company's MSOIP in the future. CP 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 to provide a basis for evaluating underlying earnings and liquidity trends in the Company's business that can be compared with the results of operations in prior periods. In addition, these Non-GAAP measures facilitate a multi-period assessment of long-term profitability, allowing management and other external users of the Company's consolidated financial information to compare profitability on a long-term basis, including assessing future profitability, with that of the Company's peers.

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

The Company uses adjusted earnings results including Adjusted income, Adjusted diluted earnings per share, Adjusted operating income, and Adjusted operating ratio to evaluate the Company's operating performance and for planning and forecasting future business operations and future profitability.

These Non-GAAP measures are discussed further in other sections of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. These Non-GAAP measures provide meaningful supplemental information regarding operating results because they exclude certain significant items that are not considered indicative of future financial trends either by nature or amount. As a result, these items are excluded for management 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 (including legal, consulting, and financing fees, 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, and transaction costs (net of tax) incurred by KCS which were recognized within the Equity loss of KCS), the merger termination payment received, the FX impact of translating the Company's debt and lease liabilities (including borrowings under the credit facility), discrete tax items, changes in the outside basis tax difference between the carrying amount of CP's equity investment in KCS and its tax basis of this investment, changes in income tax rates, changes to an uncertain tax item, and certain items outside the control of management. These items may not be non-recurring. However, excluding these significant items from GAAP results allows for a consistent understanding of the Company's consolidated financial performance when performing a multi-period assessment including assessing the likelihood of future results. Accordingly, these Non-GAAP financial measures may provide insight to investors and other external users of the Company's consolidated financial information.

In 2021, there were four significant items included in Net income as follows:

- in the fourth quarter, a deferred tax recovery of $33 million on changes in the outside basis difference of the equity investment in KCS that favourably impacted Diluted EPS by 5 cents;
- in the second quarter, merger termination payment received of $845 million ($748 million after current taxes) in connection with KCS's termination of the Original Merger Agreement effective May 21, 2021, that favourably impacted Diluted EPS by $1.11;
- during the course of the year, acquisition-related costs of $599 million in connection with the KCS acquisition ($500 million after current tax recovery of $107 million net of deferred tax expense of $8 million), including an expense of $183 million recognized in Purchased services and other, $169 million recognized in Equity loss of KCS, and $247 million recognized in Other expense (income), that unfavourably impacted Diluted EPS by 75 cents as follows:
  - in the fourth quarter, acquisition-related costs of $157 million ($157 million after current tax recovery of $13 million net of deferred tax expense of $13 million), including costs of $36 million recognized in Purchased services and other, $169 million in Equity loss of KCS, and a $48 million recovery recognized in Other (income) expense, that unfavourably impacted Diluted EPS by 22 cents;
  - in the third quarter, acquisition-related costs of $98 million ($80 million after current tax recovery of $61 million net of deferred tax expense of $43 million), including costs of $15 million recognized in Purchased services and other and $83 million recognized in Other expense (income), that unfavourably impacted Diluted EPS by 12 cents;
  - in the second quarter, acquisition-related costs of $308 million ($236 million after current taxes of $25 million and deferred taxes of $47 million), including costs of $99 million recognized in Purchased services and other and $209 million recognized in Other expense (income), that unfavourably impacted Diluted EPS by 35 cents; and
  - in the first quarter, acquisition-related costs of $36 million ($27 million after current taxes of $8 million and deferred taxes of $1 million), including costs of $33 million recognized in Purchased services and other and $3 million recognized in Other expense (income), that unfavourably impacted Diluted EPS by 4 cents; and
- during the course of the year, a net non-cash gain of $7 million ($6 million after deferred tax) due to FX translation of debt and lease liabilities that favourably impacted Diluted EPS by 1 cent as follows:
  - in the fourth quarter, a $32 million loss ($28 million after deferred tax) that unfavourably impacted Diluted EPS by 4 cents;
  - in the third quarter, a $46 million loss ($40 million after deferred tax) that unfavourably impacted Diluted EPS by 6 cents;
  - in the second quarter, a $52 million gain ($45 million after deferred tax) that favourably impacted Diluted EPS by 7 cents; and
  - in the first quarter, a $33 million gain ($29 million after deferred tax) that favourably impacted Diluted EPS by 4 cents.

In 2020, there were two significant items included in Net income as follows:

- in the fourth quarter, a deferred tax recovery of $29 million due to a change relating to a tax return filing election for the state of North Dakota that favourably impacted Diluted EPS by 5 cents; and
- during the course of the year, a net non-cash gain of $14 million ($12 million after deferred tax) due to FX translation of debt and lease liabilities that favourably impacted Diluted EPS by 2 cents as follows:
  - in the fourth quarter, a $103 million gain ($90 million after deferred tax) that favourably impacted Diluted EPS by 13 cents;
  - in the third quarter, a $40 million gain ($38 million after deferred tax) that favourably impacted Diluted EPS by 6 cents;
  - in the second quarter, an $86 million gain ($82 million after deferred tax) that favourably impacted Diluted EPS by 12 cents; and
  - in the first quarter, a $215 million loss ($198 million after deferred tax) that unfavourably impacted Diluted EPS by 28 cents.

In 2019, there were three significant items included in Net income as follows:

- in the fourth quarter, a deferred tax expense of $24 million as a result of a provision for an uncertain tax item of a prior period that unfavourably impacted Diluted EPS by 3 cents;
- in the second quarter, a deferred tax recovery of $88 million due to the change in the Alberta provincial corporate income tax rate that favourably impacted Diluted EPS by 13 cents; and

- during the course of the year, a net non-cash gain of $94 million ($86 million after deferred tax) due to FX translation of debt and lease liabilities that favourably impacted Diluted EPS by 12 cents as follows:
  - in the fourth quarter, a $37 million gain ($32 million after deferred tax) that favourably impacted Diluted EPS by 4 cents;
  - in the third quarter, a $25 million loss ($22 million after deferred tax) that unfavourably impacted Diluted EPS by 3 cents;
  - in the second quarter, a $37 million gain ($34 million after deferred tax) that favourably impacted Diluted EPS by 4 cents; and
  - in the first quarter, a $45 million gain ($42 million after deferred tax) that favourably impacted Diluted EPS by 6 cents.

In 2018, there were two significant items included in Net income as follows:

- in the second quarter, a deferred tax recovery of $21 million due to reductions in the Missouri and Iowa state tax rates that favourably impacted Diluted EPS by 3 cents; and
- during the course of the year, a net non-cash loss of $168 million ($150 million after deferred tax) due to FX translation of debt that unfavourably impacted Diluted EPS by 21 cents as follows:
  - in the fourth quarter, a $113 million loss ($103 million after deferred tax) that unfavourably impacted Diluted EPS by 14 cents;
  - in the third quarter, a $38 million gain ($33 million after deferred tax) that favourably impacted Diluted EPS by 5 cents;
  - in the second quarter, a $44 million loss ($38 million after deferred tax) that unfavourably impacted Diluted EPS by 5 cents; and
  - in the first quarter, a $49 million loss ($42 million after deferred tax) that unfavourably impacted Diluted EPS by 6 cents.

In 2017, there were five significant items included in Net income as follows:

- in the second quarter, a charge on hedge roll and de-designation of $13 million ($10 million after deferred tax) that unfavourably impacted Diluted EPS by 2 cents;
- in the second quarter, an insurance recovery of a legal settlement of $10 million ($7 million after current tax) that favourably impacted Diluted EPS by 1 cent;
- in the first quarter, a management transition recovery of $51 million related to the retirement of Mr. E. Hunter Harrison as CEO of CP ($39 million after deferred tax) that favourably impacted Diluted EPS by 5 cents;
- during the course of the year, a net deferred tax recovery of $541 million as a result of changes in income tax rates that favourably impacted Diluted EPS by 75 cents as follows:
  - in the fourth quarter, a deferred tax recovery of $527 million, primarily due to the U.S. tax reform, that favourably impacted Diluted EPS by 73 cents;
  - in the third quarter, a deferred tax expense of $3 million as a result of the change in the Illinois state corporate income tax rate change that had no impact to Diluted EPS; and
  - in the second quarter, a deferred tax recovery of $17 million as a result of the change in the Saskatchewan provincial corporate income tax rate that favourably impacted Diluted EPS by 3 cents; and
- during the course of the year, a net non-cash gain of $186 million ($162 million after deferred tax) due to FX translation of debt that favourably impacted Diluted EPS by 22 cents as follows:
  - in the fourth quarter, a $14 million loss ($12 million after deferred tax) that unfavourably impacted Diluted EPS by 2 cents;
  - in the third quarter, a $105 million gain ($91 million after deferred tax) that favourably impacted Diluted EPS by 12 cents;
  - in the second quarter, a $67 million gain ($59 million after deferred tax) that favourably impacted Diluted EPS by 8 cents; and
  - in the first quarter, a $28 million gain ($24 million after deferred tax) that favourably impacted Diluted EPS by 4 cents.

## 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 as discussed further in other sections of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations:

Adjusted income is calculated as Net income reported on a GAAP basis adjusted for significant items.

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| (in millions of Canadian dollars) | **2021** | 2020 | 2019 | 2018 | 2017 |
| **Net income as reported** | **$ 2,852** | $ 2,444 | $ 2,440 | $ 1,951 | $ 2,405 |
| Less significant items (pre-tax): | | | | | |
| Insurance recovery of legal settlement | **—** | — | — | — | 10 |
| Charge on hedge roll and de-designation | **—** | — | — | — | (13) |
| Management transition recovery | **—** | — | — | — | 51 |
| Acquisition-related costs | **(599)** | — | — | — | — |
| Merger termination fee | **845** | — | — | — | — |
| Impact of FX translation gain (loss) on debt and lease liabilities | **7** | 14 | 94 | (168) | 186 |
| Add: | | | | | |
| Tax effect of adjustments[1] | **(1)** | 2 | 8 | (18) | 36 |
| Deferred tax recovery on the outside basis difference of the investment in KCS | **(33)** | — | — | — | — |
| Income tax rate changes | **—** | (29) | (88) | (21) | (541) |
| Provision for uncertain tax item | **—** | — | 24 | — | — |
| **Adjusted income** | **$ 2,565** | $ 2,403 | $ 2,290 | $ 2,080 | $ 1,666 |

[1] The tax effect of adjustments was calculated as the pre-tax effect of the adjustments multiplied by the applicable tax rate for the above items of 0.51%, 13.58%, 8.55%, 10.64% and 15.27% for the years presented, respectively. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the significant items.

Adjusted diluted earnings per share is calculated using Adjusted income, as defined above, divided by the weighted-average diluted number of Common Shares outstanding during the period as determined in accordance with GAAP.

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| | **2021** | 2020 | 2019 | 2018 | 2017 |
| **Diluted earnings per share as reported** | **$ 4.18** | $ 3.59 | $ 3.50 | $ 2.72 | $ 3.29 |
| Less significant items (pre-tax): | | | | | |
| Insurance recovery of legal settlement | **—** | — | — | — | 0.01 |
| Charge on hedge roll and de-designation | **—** | — | — | — | (0.02) |
| Management transition recovery | **—** | — | — | — | 0.07 |
| Acquisition-related costs | **(0.88)** | — | — | — | — |
| Merger termination fee | **1.24** | — | — | — | — |
| Impact of FX translation gain (loss) on debt and lease liabilities | **0.01** | 0.02 | 0.13 | (0.23) | 0.25 |
| Add: | | | | | |
| Tax effect of adjustments[1] | **—** | — | 0.01 | (0.02) | 0.05 |
| Deferred tax recovery on the outside basis difference of the investment in KCS | **(0.05)** | — | — | — | — |
| Income tax rate changes | **—** | (0.04) | (0.13) | (0.03) | (0.75) |
| Provision for uncertain tax item | **—** | — | 0.04 | — | — |
| **Adjusted diluted earnings per share** | **$ 3.76** | $ 3.53 | $ 3.29 | $ 2.90 | $ 2.28 |

[1] The tax effect of adjustments was calculated as the pre-tax effect of the adjustments multiplied by the applicable tax rate for the above items of 0.51%, 13.58%, 8.55%, 10.64% and 15.27% for the years presented, respectively. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the significant items.

Adjusted operating income is calculated as Operating income reported on a GAAP basis less significant items.

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| (in millions of Canadian dollars) | **2021** | 2020 | 2019 | 2018 | 2017 |
| **Operating income as reported** | **$ 3,206** | $ 3,311 | $ 3,124 | $ 2,831 | $ 2,519 |
| Less significant item: | | | | | |
| Management transition recovery | **—** | — | — | — | 51 |
| Acquisition-related costs | **(183)** | — | — | — | — |
| **Adjusted operating income** | **$ 3,389** | $ 3,311 | $ 3,124 | $ 2,831 | $ 2,468 |

Operating ratio is calculated as operating expenses divided by revenues. Adjusted operating ratio excludes those significant items that are reported within Operating income.

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| | **2021** | 2020 | 2019 | 2018 | 2017 |
| **Operating ratio as reported** | **59.9 %** | 57.1 % | 59.9 % | 61.3 % | 61.6 % |
| Less significant item: | | | | | |
| Management transition recovery | **—** | — | — | — | (0.8) |
| Acquisition-related costs | **2.3** | — | — | — | — |
| **Adjusted operating ratio** | **57.6 %** | 57.1 % | 59.9 % | 61.3 % | 62.4 % |

## Adjusted ROIC

Return on average shareholders' equity is calculated as Net income divided by average shareholders' equity, averaged between the beginning and ending balance over a rolling 12-month period. Adjusted ROIC is calculated as Adjusted return divided by Adjusted average invested capital. Adjusted return is defined as Net income adjusted for interest expense, tax effected at the Company's adjusted annualized effective tax rate, and significant items in the Company's Consolidated Financial Statements, tax effected at the applicable tax rate. Adjusted average invested capital is defined as the sum of total Shareholders' equity, Long-term debt, and Long-term debt maturing within one year, as presented in the Company's Consolidated Financial Statements, each averaged between the beginning and ending balance over a rolling 12-month period, adjusted for the impact of significant items, tax effected at the applicable tax rate, on closing balances as part of this average. Adjusted ROIC excludes significant items reported in the Company's Consolidated Financial Statements, as these significant items are not considered indicative of future financial trends either by nature or amount, and excludes interest expense, net of tax, to incorporate returns on the Company's overall capitalization. Adjusted ROIC is a performance measure that measures how productively the Company uses its long-term capital investments, representing critical indicators of good operating and investment decisions made by management, and is an important performance criteria in determining certain elements of the Company's long-term incentive plan. Adjusted ROIC, which is reconciled below from Return on average shareholders' equity, the most comparable measure calculated in accordance with GAAP, is discussed further in Results of Operations of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Calculation of Return on average shareholders' equity

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| (in millions of Canadian dollars, except for percentages) | **2021** | 2020 | 2019 | 2018 | 2017 |
| **Net income as reported** | **$ 2,852** | $ 2,444 | $ 2,440 | $ 1,951 | $ 2,405 |
| Average shareholders' equity | **$ 20,574** | $ 7,194 | $ 6,853 | $ 6,537 | $ 5,539 |
| **Return on average shareholders' equity** | **13.9%** | 34.0% | 35.6% | 29.8% | 43.4% |

## Reconciliation of Net Income to Adjusted Return

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| (in millions of Canadian dollars) | **2021** | 2020 | 2019 | 2018 | 2017 |
| **Net income as reported** | **$ 2,852** | $ 2,444 | $ 2,440 | $ 1,951 | $ 2,405 |
| Add: | | | | | |
| Net interest expense | **440** | 458 | 448 | 453 | 473 |
| Tax on interest[1] | **(106)** | (113) | (112) | (112) | (126) |
| Significant items (pre-tax): | | | | | |
| Insurance recovery of legal settlement | **—** | — | — | — | (10) |
| Charge on hedge roll and de-designation | **—** | — | — | — | 13 |
| Management transition recovery | **—** | — | — | — | (51) |
| Acquisition-related costs | **599** | — | — | — | — |
| Merger termination fee | **(845)** | — | — | — | — |
| Impact of FX translation (gain) loss on debt and lease liabilities | **(7)** | (14) | (94) | 168 | (186) |
| Tax on significant items[2] | **(1)** | 2 | 8 | (18) | 36 |
| Deferred tax recovery on the outside basis difference of the investment in KCS | **(33)** | — | — | — | — |
| Income tax rate changes | **—** | (29) | (88) | (21) | (541) |
| Provision for uncertain tax item | **—** | — | 24 | — | — |
| **Adjusted return** | **$ 2,899** | $ 2,748 | $ 2,626 | $ 2,421 | $ 2,013 |

[1] Tax was calculated at the adjusted annualized effective tax rate of 23.85%, 24.61%, 24.96%, 24.55%, and 26.42% for each of the above items for the years presented, respectively.
[2] Tax was calculated as the pre-tax effect of the adjustments multiplied by the applicable tax rate of 0.51%, 13.58%, 8.55%, 10.64%, and 15.27% for each of the above items for the years presented, respectively. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the significant items.

## Reconciliation of Average shareholders' equity to Adjusted average invested capital

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| (in millions of Canadian dollars) | **2021** | 2020 | 2019 | 2018 | 2017 |
| **Average shareholders' equity** | **$ 20,574** | $ 7,194 | $ 6,853 | $ 6,537 | $ 5,539 |
| Average Long-term debt, including long-term debt maturing within one year | **14,949** | 9,264 | 8,726 | 8,427 | 8,422 |
| | **$ 35,523** | $ 16,458 | $ 15,579 | $ 14,964 | $ 13,961 |
| Less: | | | | | |
| Significant items (pre-tax): | | | | | |
| Insurance recovery of legal settlement | **—** | — | — | — | 5 |
| Charge on hedge roll and de-designation | **—** | — | — | — | (7) |
| Management transition recovery | **—** | — | — | — | 26 |
| Acquisition-related costs | **(300)** | — | — | — | — |
| Merger termination fee | **423** | — | — | — | — |
| Tax on significant items[1] | **1** | — | — | — | (5) |
| Deferred tax recovery on the outside basis difference of the investment in KCS | **16** | — | — | — | — |
| Income tax rate changes | **—** | 15 | 44 | 11 | 270 |
| Provision for uncertain tax item | **—** | — | (12) | — | — |
| **Adjusted average invested capital** | **$ 35,383** | $ 16,443 | $ 15,547 | $ 14,953 | $ 13,672 |

[1] Tax was calculated as the pre-tax effect of the adjustments multiplied by the applicable tax rate of 0.90% and 15.27% for 2021 and 2017, respectively. The applicable tax rate reflects the taxable jurisdictions and nature, being on account of capital or income, of the significant items.

### Calculation of Adjusted ROIC

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| (in millions of Canadian dollars, except for percentages) | **2021** | 2020 | 2019 | 2018 | 2017 |
| Adjusted return | **$ 2,899** | $ 2,748 | $ 2,626 | $ 2,421 | $ 2,013 |
| Adjusted average invested capital | **$ 35,383** | $ 16,443 | $ 15,547 | $ 14,953 | $ 13,672 |
| **Adjusted ROIC** | **8.2%** | 16.7% | 16.9% | 16.2% | 14.7% |

## Free Cash

Free cash is calculated as Cash provided by operating activities, less Cash used in investing activities, adjusted for changes in cash and cash equivalents balances resulting from FX fluctuations, cash settlement of hedges settled upon issuance of debt, the operating cash flow impacts of acquisition-related costs associated with the KCS transaction including settlement of cash flow hedges upon debt issuance and FX gain on U.S. dollar-denominated cash held to fund the KCS acquisition, the merger termination payment received related to KCS's termination of the Original Merger Agreement, and the acquisitions of KCS, Central Maine & Québec Railway ("CMQ"), and DRTP. Free cash is a measure that management considers to be a valuable indicator of liquidity. Free cash is useful to investors and other external users of the Company's Consolidated Financial Statements as it assists with the evaluation of the Company's ability to generate cash to satisfy debt obligations and discretionary activities such as dividends, share repurchase programs, and other strategic opportunities. The cash settlement of forward starting swaps that occurred in conjunction with the issuance of long-term debt, the acquisition-related costs associated with the KCS acquisition, and the merger termination payment received related to KCS's termination of the Original Merger Agreement are not indicative of operating trends and have been excluded from Free cash. Similarly, the acquisitions of KCS, CMQ, and DRTP are not indicative of investment trends and have also been excluded from Free cash. Free cash should be considered in addition to, rather than as a substitute for, Cash provided by operating activities. Free cash is discussed further in Liquidity and Capital Resources of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Reconciliation of Cash Provided by Operating Activities to Free Cash

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| (in millions of Canadian dollars) | **2021** | 2020 | 2019 | 2018 | 2017 |
| **Cash provided by operating activities** | **$ 3,688** | $ 2,802 | $ 2,990 | $ 2,712 | $ 2,182 |
| Cash used in investing activities | **(13,730)** | (2,030) | (1,803) | (1,458) | (1,295) |
| Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents | **41** | 6 | (4) | 11 | (13) |
| Less: | | | | | |
| Settlement of forward starting swaps on debt issuance | **—** | — | — | (24) | — |
| Acquisition-related costs[(1)] | **(340)** | — | — | — | — |
| Merger termination fee | **845** | — | — | — | — |
| Investment in Kansas City Southern | **(12,299)** | — | — | — | — |
| Investment in Central Maine & Québec Railway | **—** | 19 | (174) | — | — |
| Investment in Detroit River Tunnel Partnership | **—** | (398) | — | — | — |
| **Free cash** | **$ 1,793** | $ 1,157 | $ 1,357 | $ 1,289 | $ 874 |

[(1)] Including settlement of cash flow hedges upon debt issuance of $226 million for the year ended December 31, 2021.

## Foreign Exchange Adjusted % Change

FX adjusted % change allows certain financial results to be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons in the analysis of trends in business performance. Financial result variances at constant currency are obtained by translating the comparable period of the prior year results denominated in U.S. dollars at the foreign exchange rates of the current period.

FX adjusted % changes in revenues are further used in calculating FX adjusted % change in freight revenue per carload and RTM. These items are presented in Operating Revenues of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

| | | | | 2021 vs. 2020 | | | 2020 vs. 2019 | | |
|---|---|---|---|---|---|---|---|---|---|
| (in millions of Canadian dollars) | **Reported 2021** | Reported 2020 | Reported 2019 | Variance due to FX | FX Adjusted 2020 | FX Adj. % Change | Variance due to FX | FX Adjusted 2019 | FX Adj. % Change |
| Freight revenues by line of business | | | | | | | | | |
| Grain | **$ 1,684** | $ 1,829 | $ 1,684 | $ (48) | $ 1,781 | (5) | $ 8 | $ 1,692 | 8 |
| Coal | **625** | 566 | 682 | (4) | 562 | 11 | 1 | 683 | (17) |
| Potash | **463** | 493 | 462 | (16) | 477 | (3) | 2 | 464 | 6 |
| Fertilizers and sulphur | **305** | 290 | 250 | (14) | 276 | 11 | 2 | 252 | 15 |
| Forest products | **348** | 328 | 304 | (18) | 310 | 12 | 3 | 307 | 7 |
| Energy, chemicals and plastics | **1,563** | 1,519 | 1,534 | (53) | 1,466 | 7 | 3 | 1,537 | (1) |
| Metals, minerals, and consumer products | **728** | 629 | 752 | (31) | 598 | 22 | 7 | 759 | (17) |
| Automotive | **376** | 324 | 352 | (15) | 309 | 22 | 3 | 355 | (9) |
| Intermodal | **1,724** | 1,563 | 1,593 | (27) | 1,536 | 12 | 4 | 1,597 | (2) |
| Freight revenues | **7,816** | 7,541 | 7,613 | (226) | 7,315 | 7 | 33 | 7,646 | (1) |
| Non-freight revenues | **179** | 169 | 179 | (2) | 167 | 7 | — | 179 | (6) |
| **Total revenues** | **$ 7,995** | $ 7,710 | $ 7,792 | $ (228) | $ 7,482 | 7 | $ 33 | $ 7,825 | (1) |

FX adjusted % changes in operating expenses are discussed in Operating Expenses of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

| | | | | 2021 vs. 2020 | | | 2020 vs. 2019 | | |
|---|---|---|---|---|---|---|---|---|---|
| (in millions of Canadian dollars) | **Reported 2021** | Reported 2020 | Reported 2019 | Variance due to FX | FX Adjusted 2020 | FX Adj. % Change | Variance due to FX | FX Adjusted 2019 | FX Adj. % Change |
| Compensation and benefits | **$ 1,570** | $ 1,560 | $ 1,540 | $ (27) | $ 1,533 | 2 | $ 5 | $ 1,545 | 1 |
| Fuel | **854** | 652 | 882 | (29) | 623 | 37 | 8 | 890 | (27) |
| Materials | **215** | 216 | 210 | (3) | 213 | 1 | — | 210 | 3 |
| Equipment rents | **121** | 142 | 137 | (8) | 134 | (10) | 2 | 139 | 2 |
| Depreciation and amortization | **811** | 779 | 706 | (14) | 765 | 6 | 2 | 708 | 10 |
| Purchased services and other | **1,218** | 1,050 | 1,193 | (30) | 1,020 | 19 | 6 | 1,199 | (12) |
| **Total operating expenses** | **$ 4,789** | $ 4,399 | $ 4,668 | $ (111) | $ 4,288 | 12 | $ 23 | $ 4,691 | (6) |

## Dividend Payout Ratio and Adjusted Dividend Payout Ratio

Dividend payout ratio is calculated as dividends declared per share divided by Diluted EPS. Adjusted dividend payout ratio is calculated as dividends declared per share divided by Adjusted diluted EPS, as defined above. This ratio is a measure of shareholder return and provides information on the Company's ability to declare dividends on an ongoing basis, excluding significant items. Dividend payout ratio and Adjusted dividend payout ratio are discussed further in Liquidity and Capital Resources of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Calculation of Dividend Payout Ratio

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| (in dollars, except for percentages) | **2021** | 2020 | 2019 | 2018 | 2017 |
| Dividends declared per share | **$ 0.7600** | $ 0.7120 | $ 0.6280 | $ 0.5025 | $ 0.4375 |
| Diluted EPS | **4.18** | 3.59 | 3.50 | 2.72 | 3.29 |
| **Dividend payout ratio** | **18.2%** | 19.8% | 17.9% | 18.5% | 13.3% |

### Calculation of Adjusted Dividend Payout Ratio

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| (in dollars, except for percentages) | **2021** | 2020 | 2019 | 2018 | 2017 |
| Dividends declared per share | **$ 0.7600** | $ 0.7120 | $ 0.6280 | $ 0.5025 | $ 0.4375 |
| Adjusted diluted EPS | **3.76** | 3.53 | 3.29 | 2.90 | 2.28 |
| **Adjusted dividend payout ratio** | **20.2%** | 20.1% | 19.1% | 17.3% | 19.2% |

## Adjusted Net Debt to Adjusted EBITDA Ratio

Adjusted net debt to Adjusted earnings before interest, tax, depreciation and amortization ("EBITDA") ratio is calculated as Adjusted net debt divided by Adjusted EBITDA. The Adjusted net debt to Adjusted EBITDA ratio is a key credit measure used to assess the Company's financial capacity. The ratio provides information on the Company's ability to service its debt and other long-term obligations from operations, excluding significant items. The Adjusted net debt to Adjusted EBITDA ratio, which is reconciled below from the Long-term debt to Net income ratio, the most comparable measure calculated in accordance with GAAP, and is also discussed further in Liquidity and Capital Resources of this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Calculation of Long-term Debt to Net Income Ratio

Long-term debt to Net income ratio is calculated as long-term debt, including long-term debt maturing within one year, divided by Net income.

| (in millions of Canadian dollars, except for ratios) | **2021** | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| Long-term debt including long-term debt maturing within one year as at December 31 | **$ 20,127** | $ 9,771 | $ 8,757 | $ 8,696 | $ 8,159 |
| Net income for the year ended December 31 | **2,852** | 2,444 | 2,440 | 1,951 | 2,405 |
| **Long-term debt to Net income ratio** | **7.1** | 4.0 | 3.6 | 4.5 | 3.4 |

## Reconciliation of Long-term Debt to Adjusted Net Debt

Adjusted net debt is defined as Long-term debt, Long-term debt maturing within one year and Short-term borrowing as reported on the Company's Consolidated Balance Sheets adjusted for pension plans deficit, operating lease liabilities recognized on the Company's Consolidated Balance Sheets, and Cash and cash equivalents. Adjusted net debt is used as a measure of debt and long-term obligations as part of the calculation of Adjusted Net Debt to Adjusted EBITDA.

| (in millions of Canadian dollars) | **2021** | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| **Long-term debt including long-term debt maturing within one year as at December 31** | **$ 20,127** | $ 9,771 | $ 8,757 | $ 8,696 | $ 8,159 |
| Add: | | | | | |
| Pension plans deficit[1] | **263** | 328 | 294 | 266 | 278 |
| Operating lease liabilities | **283** | 311 | 354 | 387 | 281 |
| Less: | | | | | |
| Cash and cash equivalents | **69** | 147 | 133 | 61 | 338 |
| **Adjusted net debt as at December 31** | **$ 20,604** | $ 10,263 | $ 9,272 | $ 9,288 | $ 8,380 |

[1] Pension plans deficit is the total funded status of the Pension plans in deficit only.

## Reconciliation of Net Income to EBIT, Adjusted EBIT and Adjusted EBITDA

Earnings before interest and tax ("EBIT") is calculated as Net income before Net interest expense and Income tax expense. Adjusted EBIT excludes significant items reported in both Operating income and Other (income) expense. Adjusted EBITDA is calculated as Adjusted EBIT plus operating lease expense and Depreciation and amortization, less Other components of net periodic benefit recovery. Adjusted EBITDA is used as a measure of liquidity derived from operations, excluding significant items, as part of the calculation of Adjusted Net Debt to Adjusted EBITDA.

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| (in millions of Canadian dollars) | **2021** | 2020 | 2019 | 2018 | 2017 |
| **Net income as reported** | **$ 2,852** | $ 2,444 | $ 2,440 | $ 1,951 | $ 2,405 |
| Add: | | | | | |
| Net interest expense | **440** | 458 | 448 | 453 | 473 |
| Income tax expense | **768** | 758 | 706 | 637 | 93 |
| **EBIT** | **4,060** | 3,660 | 3,594 | 3,041 | 2,971 |
| Less significant items (pre-tax): | | | | | |
| Insurance recovery of legal settlement | **—** | — | — | — | 10 |
| Charge on hedge roll and de-designation | **—** | — | — | — | (13) |
| Management transition recovery | **—** | — | — | — | 51 |
| Acquisition-related costs | **(599)** | — | — | — | — |
| Merger termination fee | **845** | — | — | — | — |
| Impact of FX translation gain (loss) on debt and lease liabilities | **7** | 14 | 94 | (168) | 186 |
| **Adjusted EBIT** | **3,807** | 3,646 | 3,500 | 3,209 | 2,737 |
| Add: | | | | | |
| Operating lease expense | **72** | 78 | 83 | 97 | 104 |
| Depreciation and amortization | **811** | 779 | 706 | 696 | 661 |
| Less: | | | | | |
| Other components of net periodic benefit recovery | **387** | 342 | 381 | 384 | 274 |
| **Adjusted EBITDA** | **$ 4,303** | $ 4,161 | $ 3,908 | $ 3,618 | $ 3,228 |

### Calculation of Adjusted Net Debt to Adjusted EBITDA Ratio

| (in millions of Canadian dollars, except for ratios) | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| Adjusted net debt as at December 31 | **$ 20,604** | $ 10,263 | $ 9,272 | $ 9,288 | $ 8,380 |
| Adjusted EBITDA for the year ended December 31 | **4,303** | 4,161 | 3,908 | 3,618 | 3,228 |
| **Adjusted net debt to Adjusted EBITDA ratio** | **4.8** | 2.5 | 2.4 | 2.6 | 2.6 |

## 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, including those related to environmental liabilities, pensions and other benefits, property, plant and equipment, deferred income taxes, and personal injury and other claims liabilities.

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.

### Environmental Liabilities

Environmental remediation accruals cover site-specific remediation programs. CP 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. CP 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. CP 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 CP is unable to reasonably estimate and determine. Therefore, CP's accruals of the environmental liabilities are 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 2031.

As of December 31, 2021 and 2020 the Company's provision for specific environmental sites was as follows:

| (in millions of Canadian dollars) | 2021 | 2020 |
|---|---|---|
| Beginning of the year | **$ 80** | $ 77 |
| Accruals and other | **10** | 10 |
| Payments | **(10)** | (6) |
| Foreign Exchange | **(1)** | (1) |
| End of the year | **$ 79** | $ 80 |
| Current portion – end of the year | **$ 11** | $ 9 |

Provisions for environmental remediation costs are recorded in "Other long-term liabilities" (refer to Item 8. Financial Statements and Supplementary Data, Note 20 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 17 Accounts payable and accrued liabilities). The accruals for environmental remediation represent CP'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 CP's best estimate of all probable costs, CP'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. CP's cash payments for environmental initiatives were $6 million in 2020, $10 million in 2021 and are estimated to be approximately $11 million in 2022, $9 million in 2023, $8 million in 2024 and a total of approximately $53 million over the remaining years through 2031. All payments will be funded from general operations.

## Pensions and Other Benefits

CP has defined benefit and defined contribution pension plans. Other benefits include post-retirement medical and life insurance for pensioners, and some post-employment workers' compensation and long-term disability benefits in Canada. 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 1 Summary of significant accounting policies and Note 24 Pensions and other benefits. Note 24 Pensions and other benefits includes three years of results for obligations, costs and significant actuarial assumptions.

### Net Periodic Benefit Costs

The Company reports the current service cost component of net periodic benefit cost in "Compensation and benefits" for pensions and post-retirement benefits and in "Purchased services and other" for self-insured workers' compensation and long-term disability benefits on the Company's Consolidated Statements of Income. The Other components of net periodic benefit recovery are reported as a separate line item outside of Operating income on the Company's Consolidated Statements of Income. Components of the net periodic benefit costs (credits) are as follows:

| | **2021** | | | 2020 | | |
|---|---|---|---|---|---|---|
| (in millions of Canadian dollars) | **Current service cost** | **Other components** | **Total** | Current service cost | Other components | Total |
| Defined benefit pensions | **$ 171** | **$ (402)** | **$ (231)** | $ 140 | $ (363) | $ (223) |
| Defined contribution pensions | **13** | **—** | **13** | 12 | — | 12 |
| Post-retirement benefits | **5** | **17** | **22** | 4 | 17 | 21 |
| Self-insured workers' compensation and long-term disability benefits | **8** | **(2)** | **6** | 8 | 4 | 12 |
| All plans | **$ 197** | **$ (387)** | **$ (190)** | $ 164 | $ (342) | $ (178) |

CP estimates net periodic benefit credits for defined benefit pensions to be approximately $275 million in 2022 ($147 million in current service cost and $422 million in other components of net periodic recovery), and net periodic benefit costs for defined contribution pensions to be approximately $13 million in 2022. Net periodic benefit costs for post-retirement benefits in 2022 are expected to be slightly lower than the 2021 costs. Total net periodic benefit credits for all plans are estimated to be approximately $234 million in 2022 (2021 – $190 million), comprising $171 million (2021 – $197 million) in current service cost and $405 million (2021 – $387 million) in other components of net periodic recovery. The expected rate of return on the market-related asset value used to compute the net periodic benefit credit was 7.25% in 2020 and 6.90% in 2021. For computing the net periodic benefit credit in 2022, the Company is continuing to use 6.90% to reflect CP's current view of future long-term investment returns. Net periodic benefit costs and credits are discussed further in Item 8. Financial Statements and Supplementary Data, Note 24 Pensions and other benefits.

### Pension Plan Contributions

The Company made contributions of $18 million to the defined benefit pension plans in 2021, compared with $27 million in 2020. The Company's main Canadian defined benefit pension plan accounts for nearly all of CP'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. The Company made voluntary prepayments of $600 million in 2011, $650 million in 2010, and $500 million in 2009 to the Company's main Canadian defined benefit pension plan. CP has applied $1,324 million of these voluntary prepayments to reduce its pension funding requirements in 2012–2021, leaving $426 million of the voluntary prepayments still available at December 31, 2021 to reduce CP's pension funding requirements in 2022 and future years. CP 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 CP to manage the volatility of future pension funding requirements. At this time, CP estimates it will not apply any of the remaining voluntary prepayments against its 2022 pension funding requirements.

CP 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 2022, and in the range of $25 million to $50 million per year from 2023 to 2025. These estimates reflect the Company's current intentions with respect to the rate at which CP will apply the remaining voluntary prepayments against contribution requirements in the next few years.

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, on the rate at which previous years' voluntary prepayments are applied against pension contribution requirements, and on any changes in the regulatory environment. CP will continue to make contributions to the pension plans that, at a minimum, meet pension legislative requirements.

## Pension 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 funds' investments in fixed income assets.

The plans' investment policy provides a target allocation of approximately 45% 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 funds' asset performance. If the rate of investment return on the plans' public equity securities in 2021 had been 10% higher (or lower) than the actual 2021 rate of investment return on such securities, 2022 net periodic benefit costs for pensions would be lower (or higher) by approximately $26 million.

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 used to compute the net periodic benefit credit. If the expected rate of return as at December 31, 2021 had been higher (or lower) by 0.1%, 2022 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, 2021 had been higher (or lower) by 0.1% with no related changes in the value of the pension funds' investment in fixed income assets, 2022 net periodic benefit recoveries for pensions would be higher (or lower) by approximately $14 million and 2022 current service costs for pensions would be lower (or higher) by approximately $6 million. However, a change in bond yields would also lead to a change in the value of the pension funds' investment 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 $182 million, and that a decrease in the discount rate of 0.1% would increase the defined benefit pension plans' projected benefit obligations by approximately $187 million. Similarly, for every 0.1% 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 $15 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 $5 million.

CP 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. CP 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 |
|---|---|
| • Whole and remaining asset lives | • Statistical analysis of historical retirement patterns;<br>• Evaluation of management strategy and its impact on operations and the future use of specific property assets;<br>• Assessment of technological advances;<br>• Engineering estimates of changes in current operations and analysis of historic, current and projected future usage;<br>• Additional factors considered for track assets: density of traffic and whether rail is new or has been re-laid in a subsequent position;<br>• Assessment of policies and practices for the management of assets including maintenance; and<br>• Comparison with industry data. |
| • Salvage values | • Analysis of historical, current and estimated future salvage values. |

CP depreciates the cost of properties, net of salvage, on a straight-line basis over the estimated useful life of the class of property. 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 $18 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. At December 31, 2021 and 2020, accumulated depreciation was $8,651 million and $8,629 million, respectively.

## Deferred Income Taxes

CP accounts for deferred income taxes based on the liability method. This method focuses on the Company's balance sheet and the temporary differences otherwise calculated from the comparison of book versus tax values. 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 carry forwards. The provision amount is sensitive to any changes in book and tax values and changes to 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 deferred income tax assets and liabilities at the balance sheet date.

In determining deferred income taxes, the Company makes estimates and assumptions regarding deferred 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.

Deferred income tax expense is included in "Income tax expense" on the Company's Consolidated Statements of Income. At December 31, 2021 and 2020, deferred income tax expense was $242 million and $221 million, respectively. Management does anticipate the total net deferred tax liabilities will change significantly within the next 12 months as a result of the pending business combination with KCS, subject to STB approval. A future fair value remeasurement of the carrying value of the Company's investment in KCS would result in a change in the deferred tax liability recognized in CP's income statement. Upon the Company obtaining control, the entire deferred tax liability reflecting the outside basis of the investment in KCS would be reversed through deferred tax expense in CP's income statement. Under a business combination, the Company would allocate the purchase price to the individual assets and liabilities assumed, and goodwill would be recognized. A deferred tax liability would be recognized on an inside basis based on the liability

method described above with a resultant offsetting increase in goodwill. Additional disclosures are provided in Item 8. Financial Statements and Supplementary Data, Note 6 Income taxes.

## Personal Injury and Other Claims Liabilities

CP 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, 2021 and 2020, respectively, the WCB liability was $77 million and $84 million in "Pension and other benefit liabilities"; $11 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.

### Other Claims

A provision for litigation matters, equipment damages or other claims will be accrued according to applicable accounting standards and any such accrual will be 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. CP accrues for probable claims 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, 2021 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", "plan", "will", "outlook", "should" or similar words suggesting future outcomes. To the extent that CP 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 2022 and through 2025, expected impacts resulting from changes in the U.S.-to-Canadian dollar exchange rate, and the effective tax rate, as well as statements concerning the Company's operations, anticipated financial performance, business prospects and strategies, including statements concerning the anticipation that cash flow from operations and various sources of financing will be sufficient to meet debt repayments and obligations in the foreseeable future and concerning anticipated capital programs, and statements regarding future payments including income taxes and pension contributions.

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: 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; the satisfaction by third parties of their obligations to the Company; and the anticipated impacts of the COVID-19 pandemic on the Company's business, operating results, cash flows and/or financial condition. 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 pending KCS business combination, we can provide no assurance when or if the combination will be completed. Completion of the combination is subject to the receipt of final approval from the STB of the CP-KCS control application by December 31, 2023. There can be no assurance of receipt of this final approval by December 31, 2023 or, if received, the successful integration of KCS.

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 CP; inflation; geopolitical instability; changes in laws, regulations and government policies, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; changes in fuel prices; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions and discount rates on the financial position of pension plans and investments; trade restrictions or other changes to international trade arrangements; climate change; various events that could disrupt operations, including severe weather, such as droughts, floods, avalanches and earthquakes, and cybersecurity attacks, as well as security threats and governmental response to them, and technological changes; and the pandemic created by the outbreak of COVID-19 and its variants and 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 CP 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, CP 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

## Foreign Exchange Risk

Although CP conducts business primarily in Canada, a significant portion of its revenues, expenses, assets and liabilities including debt are denominated in U.S. dollars. 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, and Canadian, U.S. and international monetary policies. Consequently, the Company's results are affected by fluctuations in the exchange rate between these currencies. In 2022, CP 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 $30 million (2020 – approximately $27 million), negatively (or positively) impacts Operating expenses by approximately $13 million (2020 – approximately $14 million), and negatively (or positively) impacts Net interest expense by approximately $3 million (2020 – approximately $3 million) on an annualized basis.

CP uses U.S. dollar-denominated debt and operating lease liabilities to hedge its net investment in U.S. operations. As at December 31, 2021, the net investment in U.S. operations is greater than the total U.S. denominated debt. 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 (income) 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 and U.S. dollars, CP may sell or purchase U.S. dollar 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) make the goods transported by the Company more or less competitive in the world marketplace and may in turn positively or negatively affect revenues.

Subject to final approval by the STB, CP anticipates consummating a business combination with KCS at which time CP will also reassess its functional currency.

## Share Price Impact on Stock-Based Compensation

Based on information available at December 31, 2021 and expectations for 2022 grants, for every $1.00 change in share price, stock-based compensation expense has a corresponding change of approximately $1.5 million to $2.0 million (2020 – approximately $2.0 million to $2.8 million). This excludes the impact of changes in share price relative to the S&P/TSX 60 Index, S&P 500 Industrials Index, and to Class I railways, which may trigger different performance share unit payouts. Stock-based compensation may also be impacted by non-market performance conditions.

Additional information concerning stock-based compensation is included in Item 8. Financial Statements and Supplementary Data, Note 25 Stock-based compensation.

## Interest Rate Risk

Debt financing forms part of the Company's capital structure. The debt agreements entered into expose CP to increased interest costs on future fixed debt instruments and existing variable rate debt instruments, should market rates increase. As at December 31, 2021, 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, CP 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. CP 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, 2021 would result in an increase of approximately $2.3 billion to the fair value of the Company's debt as at December 31, 2021 (December 31, 2020 - approximately $1.5 billion). Fair values of CP'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 19 Financial instruments.

# ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS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# Report of Independent Registered Public Accounting Firm

## To the Shareholders and the Board of Directors of Canadian Pacific Railway Limited

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Canadian Pacific Railway Limited and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity, for each of the three years in the period ended December 31, 2021, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America ("US GAAP").

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2022, expressed an unqualified opinion on the Company's internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgements. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

**Properties – Direct Costs that are Capitalized to Self-constructed Assets – Refer to Notes 1, 14 and 21 to the Financial Statements**

#### Critical Audit Matter Description

The Company recognizes direct costs as capitalized additions to self-constructed assets, within properties, based on expenditures necessary to make an asset ready for its intended use. The capitalization of self-constructed assets requires management to make significant estimates and assumptions related to the capitalization of direct cost additions to self-constructed assets based on whether the expenditures meet capitalization criteria under US GAAP.

We identified the capitalization of direct cost additions to self-constructed assets as a critical audit matter because the judgements and assumptions management makes could have a significant impact on the capitalization of direct cost additions. As such auditing the capitalization of direct cost additions involved a high degree of auditor judgement.

#### How the Critical Audit Matter was Addressed in the Audit

Our audit procedures related to the capitalization of direct cost additions to self-constructed assets included the following, among others:

- Evaluating the effectiveness of controls over self-constructed assets, including those over the capitalization of direct cost additions to self-constructed assets.
- Selecting a sample of direct costs, and obtaining evidence to support the capitalized additions to self-constructed assets and assessing whether these expenditures met the capitalization criteria under US GAAP.

### Defined Benefit Pension – Refer to Notes 1 and 24 to the Financial Statements

#### Critical Audit Matter Description

The Company's accounting of its defined benefit pension plans involves the measurement of the projected benefit obligation and fair value of fund assets. The measurement of the projected-benefit obligation requires management to make significant estimates and assumptions in the determination of the discount rate, which is based on blended market interest rates of high-quality corporate debt instruments with matching cash flows. The measurement of the fair value of fund assets required management to make significant estimates and assumptions in the determination of the expected return on fund assets, which is calculated using the market-related value of assets.

We identified the determination of the discount rate (for the projected benefit obligation), and the determination of the expected return on fund assets (for the determination of the net period benefit cost) as the critical audit matters because the significant estimates and assumptions management makes could have a significant impact on the projected benefit obligation and the fair value of fund assets. As such auditing the determination of the discount rate and the expected return on fund assets involved a high degree of auditor judgement as the estimates and assumptions made by management contain significant measurement uncertainty and resulted in an increased extent of effort, which included the need to involve an actuarial specialist.

#### How the Critical Audit Matter was Addressed in the Audit

Our audit procedures related to the determination of the discount rate (for the projected benefit obligation), and the expected return on fund assets (for the determination of the fair value of fund assets) included the following, among others:

- Evaluating the effectiveness of controls over defined benefit pension plans, including those over the determination of the discount rate and the expected return on fund assets.
- With the assistance of an actuarial specialist, evaluating the reasonableness of the discount rate by:
  - Assessing the methodology used in management's determination of the discount rate,
  - Testing the underlying source information, and
  - Developing a range of independent estimates and comparing those to the discount rate selected by management.
- With the assistance of an actuarial specialist, evaluating the reasonableness of the expected return on fund assets by:
  - Assessing the methodology used in management's determination of the expected return on fund assets,
  - Testing the underlying source information, and
  - Comparing management's assumptions to historical data and available market trends.
- Evaluating management's ability to accurately forecast the discount rate and expected return on fund assets by comparing actual results to management's historical forecasts.

### Investment in Kansas City Southern – Recognition of CN Merger Termination Fees - Refer to Note 11 to the Financial Statements

#### Critical Audit Matter Description

On September 15, 2021, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") to acquire all of the outstanding common stock of Kansas City Southern ("KCS"). Pursuant to the Merger Agreement, the Company remitted $1,773 million to KCS in connection with KCS' payment of the CN merger termination fees (the "CN Merger Termination Fees") and included this as part of the cost of acquisition of KCS.

The determination of the accounting treatment of the CN Merger Termination Fees required management to make judgements on whether or not the CN Merger Termination Fees met the definition of consideration in accordance with US GAAP. Auditing the accounting treatment required a high degree of subjectivity. This resulted in an increased extent of effort, which included the need to involve technical accounting specialists.

#### How the Critical Audit Matter was Addressed in the Audit

Our audit procedures related to the recognition of CN Merger Termination Fees included the following, among others:

- Evaluating the effectiveness of controls over the determination of the accounting treatment of the CN Merger Termination Fees.
- With the assistance of technical accounting specialists, evaluating the CN Merger Termination Fees accounting treatment by:
  - Assessing the executed Merger Agreement to understand the nature of the transaction and to determine whether all key facts and circumstances were incorporated into management's assessment, and
  - Analyzing relevant accounting standards, including various aspects of US GAAP, conceptual frameworks and guidance.

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Canada
February 23, 2022

We have served as the Company's auditor since 2011.

# CONSOLIDATED STATEMENTS OF INCOME

| Year ended December 31 (in millions of Canadian dollars, except share and per share data) | 2021 | 2020 | 2019 |
|---|---|---|---|
| **Revenues (Note 3)** | | | |
| Freight | **$ 7,816** | $ 7,541 | $ 7,613 |
| Non-freight | **179** | 169 | 179 |
| **Total revenues** | **7,995** | 7,710 | 7,792 |
| **Operating expenses** | | | |
| Compensation and benefits (Note 24, 25) | **1,570** | 1,560 | 1,540 |
| Fuel | **854** | 652 | 882 |
| Materials | **215** | 216 | 210 |
| Equipment rents | **121** | 142 | 137 |
| Depreciation and amortization | **811** | 779 | 706 |
| Purchased services and other (Note 10, 11) | **1,218** | 1,050 | 1,193 |
| **Total operating expenses** | **4,789** | 4,399 | 4,668 |
| **Operating income** | **3,206** | 3,311 | 3,124 |
| Less: | | | |
| Equity loss of Kansas City Southern (Note 11) | **141** | — | — |
| Other expense (income) (Note 4, 11) | **237** | (7) | (89) |
| Merger termination fee (Note 11) | **(845)** | — | — |
| Other components of net periodic benefit recovery (Note 24) | **(387)** | (342) | (381) |
| Net interest expense (Note 5) | **440** | 458 | 448 |
| **Income before income tax expense** | **3,620** | 3,202 | 3,146 |
| Income tax expense (Note 6) | **768** | 758 | 706 |
| **Net income** | **$ 2,852** | $ 2,444 | $ 2,440 |
| **Earnings per share (Note 7)** | | | |
| Basic earnings per share | **$ 4.20** | $ 3.61 | $ 3.52 |
| Diluted earnings per share | **$ 4.18** | $ 3.59 | $ 3.50 |
| **Weighted-average number of shares (millions) (Note 7)** | | | |
| Basic | **679.7** | 677.2 | 693.8 |
| Diluted | **682.8** | 679.9 | 696.3 |

See Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| Year ended December 31 (in millions of Canadian dollars) | | **2021** | | 2020 | | 2019 |
|---|---|---|---|---|---|---|
| Net income | **$** | **2,852** | $ | 2,444 | $ | 2,440 |
| Net (loss) gain in foreign currency translation adjustments, net of hedging activities | | **(291)** | | 18 | | 37 |
| Change in derivatives designated as cash flow hedges | | **48** | | 10 | | 12 |
| Change in pension and post-retirement defined benefit plans | | **1,286** | | (407) | | (661) |
| Equity accounted investments | | **9** | | (1) | | (2) |
| Other comprehensive income (loss) before income taxes | | **1,052** | | (380) | | (614) |
| Income tax (expense) recovery on above items | | **(341)** | | 88 | | 135 |
| Other comprehensive income (loss) (Note 8) | | **711** | | (292) | | (479) |
| **Comprehensive income** | **$** | **3,563** | $ | 2,152 | $ | 1,961 |

See Notes to Consolidated Financial Statements.

# CONSOLIDATED BALANCE SHEETS

| As at December 31 (in millions of Canadian dollars, except Common Shares) | 2021 | 2020 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | **$ 69** | $ 147 |
| Restricted cash and cash equivalents | **13** | — |
| Accounts receivable, net (Note 9) | **819** | 825 |
| Materials and supplies | **235** | 208 |
| Other current assets | **216** | 141 |
| | **1,352** | 1,321 |
| Investment in Kansas City Southern (Note 12) | **42,309** | — |
| Investments (Note 13) | **209** | 199 |
| Properties (Note 14, 21) | **21,200** | 20,422 |
| Goodwill and intangible assets (Note 11, 15) | **371** | 366 |
| Pension asset (Note 24) | **2,317** | 894 |
| Other assets (Note 16, 21) | **419** | 438 |
| **Total assets** | **68,177** | 23,640 |
| **Liabilities and shareholders' equity** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (Note 17, 21) | **$ 1,609** | $ 1,467 |
| Long-term debt maturing within one year (Note 18, 19, 21) | **1,550** | 1,186 |
| | **3,159** | 2,653 |
| Pension and other benefit liabilities (Note 24) | **718** | 832 |
| Other long-term liabilities (Note 20, 21) | **542** | 585 |
| Long-term debt (Note 18, 19, 21) | **18,577** | 8,585 |
| Deferred income taxes (Note 6) | **11,352** | 3,666 |
| **Total liabilities** | **34,348** | 16,321 |
| **Shareholders' equity** | | |
| Share capital (Note 22)<br>Authorized unlimited Common Shares without par value. Issued and outstanding are 929.7 million and 666.3 million as at December 31, 2021 and 2020, respectively. | **25,475** | 1,983 |
| Authorized unlimited number of first and second preferred shares; none outstanding. | | |
| Additional paid-in capital | **66** | 55 |
| Accumulated other comprehensive loss (Note 8) | **(2,103)** | (2,814) |
| Retained earnings | **10,391** | 8,095 |
| | **33,829** | 7,319 |
| **Total liabilities and shareholders' equity** | **$ 68,177** | $ 23,640 |

See Commitments and contingencies (Note 27).
See Notes to Consolidated Financial Statements.

**Approved on behalf of the Board:**

/s/ ISABELLE COURVILLE
**Isabelle Courville, Director,**
**Chair of the Board**

/s/ JANE L. PEVERETT
**Jane L. Peverett, Director,**
**Chair of the Audit and Finance Committee**

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| Year ended December 31 (in millions of Canadian dollars) | 2021 | 2020 | 2019 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | **$ 2,852** | $ 2,444 | $ 2,440 |
| Reconciliation of net income to cash provided by operating activities: | | | |
| Depreciation and amortization | **811** | 779 | 706 |
| Deferred income tax expense (Note 6) | **242** | 221 | 181 |
| Pension recovery and funding (Note 24) | **(249)** | (250) | (360) |
| Equity loss of Kansas City Southern (Note 11) | **141** | — | — |
| Foreign exchange gain on debt and lease liabilities (Note 4) | **(7)** | (14) | (94) |
| Other operating activities, net | **(36)** | 11 | 143 |
| Change in non-cash working capital balances related to operations (Note 23) | **(66)** | (389) | (26) |
| **Cash provided by operating activities** | **3,688** | 2,802 | 2,990 |
| **Investing activities** | | | |
| Additions to properties | **(1,532)** | (1,671) | (1,647) |
| Investment in Kansas City Southern (Note 11) | **(12,299)** | — | — |
| Investment in Detroit River Tunnel Partnership (Note 11) | **—** | (398) | — |
| Investment in Central Maine & Québec Railway (Note 11) | **—** | 19 | (174) |
| Proceeds from sale of properties and other assets | **96** | 22 | 26 |
| Other | **5** | (2) | (8) |
| **Cash used in investing activities** | **(13,730)** | (2,030) | (1,803) |
| **Financing activities** | | | |
| Dividends paid | **(507)** | (467) | (412) |
| Issuance of CP Common Shares (Note 25) | **25** | 52 | 26 |
| Purchase of CP Common shares (Note 22) | **—** | (1,509) | (1,134) |
| Issuance of long-term debt, excluding commercial paper (Note 18) | **10,673** | 958 | 397 |
| Repayment of long-term debt, excluding commercial paper (Note 18) | **(359)** | (84) | (500) |
| Proceeds from term loan (Note 18) | **633** | — | — |
| Net (repayment) issuance of commercial paper (Note 18) | **(454)** | 270 | 524 |
| Net increase in short-term borrowings | **—** | 5 | — |
| Acquisition-related financing fees (Note 11) | **(51)** | — | — |
| Other | **(24)** | 11 | (12) |
| **Cash provided by (used in) financing activities** | **9,936** | (764) | (1,111) |
| Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents | **41** | 6 | (4) |
| **Cash position** | | | |
| (Decrease) increase in cash, cash equivalents, and restricted cash | **(65)** | 14 | 72 |
| Cash, cash equivalents, and restricted cash at beginning of year | **147** | 133 | 61 |
| **Cash, cash equivalents, and restricted cash at end of year** | **$ 82** | $ 147 | $ 133 |
| | | | |
| **Supplemental disclosures of cash flow information:** | | | |
| Income taxes paid | **$ 552** | $ 582 | $ 506 |
| Interest paid | **$ 426** | $ 443 | $ 444 |

See Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| (in millions of Canadian dollars, except per share data) | Share capital | Additional paid-in capital | Accumulated other comprehensive loss | Retained earnings | Total shareholders' equity |
|---|---|---|---|---|---|
| Balance at December 31, 2018 | $ 2,002 | $ 42 | $ (2,043) | $ 6,635 | $ 6,636 |
| Impact of accounting change[1] | — | — | — | (5) | (5) |
| Balance at January 1, 2019, as restated | 2,002 | 42 | (2,043) | 6,630 | 6,631 |
| Net income | — | — | — | 2,440 | 2,440 |
| Other comprehensive loss (Note 8) | — | — | (479) | — | (479) |
| Dividends declared ($0.628 per share) | — | — | — | (434) | (434) |
| Effect of stock-based compensation expense | — | 15 | — | — | 15 |
| CP Common Shares repurchased (Note 22) | (54) | — | — | (1,086) | (1,140) |
| Shares issued under stock option plan (Note 22) | 45 | (9) | — | — | 36 |
| Balance at December 31, 2019 | 1,993 | 48 | (2,522) | 7,550 | 7,069 |
| Impact of accounting change[2] | — | — | — | (1) | (1) |
| Balance at January 1, 2020, as restated | 1,993 | 48 | (2,522) | 7,549 | 7,068 |
| Net income | — | — | — | 2,444 | 2,444 |
| Other comprehensive loss (Note 8) | — | — | (292) | — | (292) |
| Dividends declared ($0.712 per share) | — | — | — | (479) | (479) |
| Effect of stock-based compensation expense | — | 17 | — | — | 17 |
| CP Common Shares repurchased (Note 22) | (58) | — | — | (1,419) | (1,477) |
| Shares issued under stock option plan (Note 22) | 48 | (10) | — | — | 38 |
| Balance at December 31, 2020 | 1,983 | 55 | (2,814) | 8,095 | 7,319 |
| Net income | — | — | — | 2,852 | 2,852 |
| Other comprehensive income (Note 8) | — | — | 711 | — | 711 |
| Dividends declared ($0.760 per share) | — | — | — | (556) | (556) |
| Effect of stock-based compensation expense | — | 23 | — | — | 23 |
| Shares issued for Kansas City Southern acquisition (Note 11, 22) | 23,461 | (5) | — | — | 23,456 |
| Shares issued under stock option plan (Note 22) | 31 | (7) | — | — | 24 |
| **Balance at December 31, 2021** | **$ 25,475** | **$ 66** | **$ (2,103)** | **$ 10,391** | **$ 33,829** |

[1] Impact of the adoption of ASU 2016-02, Leases (Topic 842) on January 1, 2019.

[2] Impact of the adoption of ASU 2016-13, Financial Instruments - Credit Losses (Topic 326) on January 1, 2020.

See Notes to Consolidated Financial Statements.

# CANADIAN PACIFIC RAILWAY LIMITED
## Notes to Consolidated Financial Statements
## December 31, 2021

Canadian Pacific Railway Limited ("CPRL"), through its subsidiaries (collectively referred to as "CP" or "the Company"), operates a transcontinental railway in Canada and the United States ("U.S."). CP provides rail and intermodal transportation services over a network of approximately 13,000 miles, serving the principal business centres of Canada from Montréal, Québec, to Vancouver, British Columbia, and the U.S. Northeast and Midwest regions. CP's railway network feeds directly into the U.S. heartland from the East and West coasts. Agreements with other carriers extend the Company's market reach in Canada, throughout the U.S. and into Mexico. CP transports bulk commodities, merchandise freight and intermodal traffic. Bulk commodities include grain, coal, fertilizers and sulphur. Merchandise freight consists of finished vehicles and automotive parts, as well as forest, industrial and consumer products. Intermodal traffic consists largely of retail goods in overseas containers that can be transported by train, ship and truck, and in domestic containers and trailers that can be moved by train and truck.

## 1. Summary of significant accounting policies

### Accounting principles generally accepted in the United States of America ("GAAP")
These Consolidated Financial Statements are expressed in Canadian dollars and have been prepared in accordance with GAAP.

### Principles of consolidation
These Consolidated Financial Statements include the accounts of CP and all its subsidiaries. The Company's investments in which it has significant influence are accounted for using the equity method. Distributions received from equity method investees are classified using the nature of the distribution approach for cash flow presentation purposes, whereby distributions received are classified based on the nature of the activity or activities of the investee that generated the distribution as either a return on investment (classified as a cash inflow from operating activities) or a return of investment (classified as a cash inflow from investing activities). All intercompany accounts and transactions have been eliminated.

### Common Stock split
On April 21, 2021, the Company's shareholders approved a five-for-one stock split to shareholders of record as of May 5, 2021. Proportional adjustments were made to all outstanding awards under the Company's stock-based compensation plans in order to reflect the share split. All share and per share amounts have been retroactively adjusted to reflect the impact of the stock split.

### Use of estimates
The preparation of these Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the year, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Management regularly reviews its estimates, including those related to environmental liabilities, pensions and other benefits, depreciable lives of properties, deferred income tax assets and liabilities, as well as legal and personal injury liabilities based upon currently available information. Actual results could differ from these estimates.

### Revenue recognition
Revenue is recognized when obligations under the terms of a contract with a customer are satisfied. Revenue is measured as the amount of consideration the Company expects to receive in exchange for providing services. Government imposed taxes that the Company collects concurrent with revenue generating activities are excluded from revenue. In the normal course of business, the Company does not generate any material revenue through acting as an agent for other entities.

The Company provides rail freight transportation services to a wide variety of customers and transports bulk commodities, merchandise freight and intermodal traffic. The Company signs master service agreements with customers that dictate future services the Company is to perform for a customer at the time a bill of lading or service request is received. Each bill of lading or service request represents a separate distinct performance obligation that the Company is obligated to satisfy. The transaction price is generally in the form of a fixed fee determined at the inception of the bill of lading or service request. The Company allocates the transaction price to each distinct performance obligation based on the estimated standalone selling price for each performance obligation. As each bill of lading or service request represents a separate distinct performance obligation, the estimated standalone selling price is assessed at an observable price which is fair market value. Certain customer agreements include variable consideration in the form of rebates, discounts, or incentives. The expected value method is used to estimate variable consideration and is allocated to the applicable performance obligation and is recognized when the related performance obligation is satisfied. Additionally, the Company offers published rates for services through public tariff agreements in which a customer can request service, triggering a performance obligation the Company must satisfy. Railway freight revenues are recognized over time as services are provided based on the percentage of completed service method. Volume rebates to customers are accrued as a

reduction of freight revenues based on estimated volumes and contract terms as freight service is provided. Freight revenues also include certain ancillary and other services provided in association with the performance of rail freight movements. Revenues from these activities are not material and therefore have been aggregated with the freight revenues from customer contracts with which they are associated.

Non-freight revenues, including revenues earned from passenger service operators, switching fees, and revenues from logistics services, are recognized at the point in time the services are provided or when the performance obligations are satisfied. Non-freight revenues also include leasing revenues.

Payment by customers is due upon satisfaction of performance obligations. Payment terms are such that amounts outstanding at the period end are expected to be collected within one reporting period. The Company invoices customers at the time the bill of lading or service request is processed and therefore the Company has no material unbilled receivables and no contract assets. All performance obligations not fully satisfied at period end are expected to be satisfied within the reporting period immediately following. Contracted customer incentives are amortized to income over the term of the related revenue contract.

## Income taxes

The Company follows the liability method of accounting for income taxes. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The effect of a change in income tax rates on deferred income tax assets and liabilities is recognized in income in the period during which the change occurs.

When appropriate, the Company records a valuation allowance against deferred tax assets to reflect that these tax assets may not be realized. In determining whether a valuation allowance is appropriate, CP considers whether it is more likely than not that all or some portion of CP's deferred tax assets will not be realized, based on management's judgment using available evidence about future events.

At times, tax benefit claims may be challenged by a tax authority. Tax benefits are recognized only for tax positions that are more likely than not sustainable upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely to be realized upon settlement. A liability for "unrecognized tax benefits" is recorded for any tax benefits claimed in CP's tax returns that do not meet these recognition and measurement standards.

Investment and other similar tax credits are deferred on the Company's Consolidated Balance Sheets and amortized to "Income tax expense" as the related asset is recognized in income. Income tax recovery or expense on items in "Accumulated other comprehensive loss" are recognized in "Income tax expense" as the related item is recognized in income.

## Earnings per share

Basic earnings per share are calculated using the weighted-average number of the Company's Common Shares ("Common Shares") outstanding during the year. Diluted earnings per share are calculated using the treasury stock method for determining the dilutive effect of options.

## Foreign currency translation

Assets and liabilities denominated in foreign currencies, other than those held through foreign subsidiaries, are translated into Canadian dollars at the year-end exchange rate for monetary items and at the historical exchange rates for non-monetary items. Foreign currency revenues and expenses are translated at the exchange rates in effect on the dates of the related transactions. Foreign exchange ("FX") gains and losses, other than those arising from the translation of the Company's net investment in foreign subsidiaries, are included in income.

The accounts of the Company's foreign subsidiaries and foreign equity method investees are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average exchange rates during the year for revenues, expenses, gains, and losses. FX gains and losses arising from the translation of the foreign subsidiaries' and foreign equity method investees' assets and liabilities are included in "Other comprehensive income (loss)". Debt instruments and finance lease obligations ("long-term debt") and operating lease liabilities denominated in U.S. dollars have been designated as a hedge of the net investment in foreign subsidiaries and foreign equity method investees. As a result, unrealized FX gains and losses on U.S. dollar-denominated long-term debt and operating lease liabilities, designated as a hedge, are offset against FX gains and losses arising from the translation of foreign subsidiaries' and foreign equity method investees' accounts in "Other comprehensive income (loss)".

## Cash and cash equivalents

Cash and cash equivalents include highly liquid short-term investments that are readily convertible to cash with original maturities of three months or less, but excludes cash and cash equivalents subject to restrictions.

## Restricted cash and cash equivalents

Cash and cash equivalents that are restricted as to withdrawal or usage, in accordance with specific agreements, are presented as restricted cash and cash equivalents on the Company's Consolidated Balance Sheets when applicable. In the Company's Consolidated Statements of Cash Flows, these balances, if any, are included with cash and cash equivalents.

## Accounts receivable

Accounts receivable from customers are recognized initially at fair value and subsequently measured at amortized cost less allowance for expected credit losses. Losses on accounts receivable are estimated based on historical credit loss experience of receivables with similar risk characteristics. Historical loss experience is adjusted to reflect any management expectations that current or future conditions will differ from conditions that existed for the period over which historical information is evaluated.

To determine expected credit losses, receivables are disaggregated by credit characteristics, type of customer service, customer line of business, and receivable aging. Receivables are considered to be in default and are written off against the allowance for credit losses when it is probable that all remaining contractual payments due will not be collected in accordance with the terms of the customer contracts. Subsequent recoveries of amounts previously written off are credited to earnings in the period recovered.

## Materials and supplies

Materials and supplies are carried at the lower of average cost or market value and consist primarily of fuel and parts used in the repair and maintenance of track structures, equipment, locomotives and freight cars.

## Properties

Fixed asset additions and major renewals are recorded at cost, including direct costs, attributable indirect costs and carrying costs, less accumulated depreciation and any impairment. When there is a legal obligation associated with the retirement of property, a liability, when reliably estimable, is initially recognized at its fair value and a corresponding asset retirement cost is added to the gross book value of the related asset and amortized to expense over the estimated term to retirement. The Company reviews the carrying amounts of its properties whenever changes in circumstances indicate that such carrying amounts may not be recoverable based on future undiscounted cash flows. When such properties are determined to be impaired, recorded asset values are revised to their fair value and an impairment loss is recognized.

The Company recognizes expenditures as additions to properties or operating expenses based on whether the expenditures increase the output or service capacity, lower the associated operating costs or extend the useful life of the properties and whether the expenditures exceed minimum physical and financial thresholds.

Much of the additions to properties, both new and replacement properties, are self-constructed. These are initially recorded at cost, including direct costs and attributable indirect costs, overheads and carrying costs. Direct costs include, among other things, labour costs, purchased services, equipment costs, material costs, project supervision costs, and fringe benefits. Attributable indirect costs and overheads include incremental long-term variable costs resulting from the execution of capital projects. Indirect costs mainly include work trains, material distribution, highway vehicles and work equipment. Overheads primarily include a portion of the engineering department’s costs, which plans, designs and administers these capital projects. These costs are allocated to projects by applying a measure consistent with the nature of the cost, based on cost studies. For replacement properties, the project costs are allocated to dismantling and installation based on cost studies. Dismantling work, which is expensed, is performed concurrently with the installation.

Ballast programs including undercutting, shoulder ballasting and renewal programs that form part of the annual track program are capitalized as this work, and the related added ballast material, significantly improves drainage, which in turn extends the life of ties and other track materials. These costs are tracked separately from the underlying assets and depreciated over the period to the next estimated similar ballast program. Spot replacement of ballast is considered a repair which is expensed as incurred.

The costs of large refurbishments are capitalized and locomotive overhauls are expensed as incurred, except where overhauls represent a betterment of the locomotive in which case costs are capitalized.

The Company capitalizes development costs for major new computer systems.

The Company follows group depreciation, which groups assets which are similar in nature and have similar economic lives. The property groups are depreciated on a straight-line basis reflecting their expected economic lives determined by depreciation studies. Depreciation studies are regular reviews of asset service lives, salvage values, accumulated depreciation and other related factors. Depreciation rates are established through these studies. Actual use and retirement of assets may vary from current estimates, and would be identified in the next study. These changes in expected economic lives would impact the amount of depreciation expense recognized in future periods. All track assets are depreciated using a straight-line method which recognizes the value of the asset consumed as a percentage of the whole life of the asset.

When depreciable property is retired or otherwise disposed of in the normal course of business, the book value, less net salvage proceeds, is charged to accumulated depreciation and if different than the assumptions under the depreciation study could potentially result in adjusted depreciation expense over a period of years. However, when removal costs exceed the salvage value on assets and the Company has no legal obligation to remove the assets, the removal costs incurred are charged to income in the period in which the assets are removed and are not charged to accumulated depreciation.

For certain asset classes, the historical cost of the asset is separately recorded in the Company's property records. This amount is retired from the property records upon retirement of the asset. For assets for which the historical cost cannot be separately identified the amount of the gross book value to be retired is estimated using either an indexation methodology, whereby the current replacement cost of the asset is indexed to the estimated year of installation for the asset, or a first-in, first-out approach, or statistical analysis is used to determine the age of the retired asset. CP uses indices that closely correlate to the principal costs of the assets.

There are a number of estimates inherent in the depreciation and retirement processes and as it is not possible to precisely estimate each of these variables until a group of property is completely retired, CP regularly monitors the estimated service lives of assets and the associated accumulated depreciation for each asset class to ensure depreciation rates are appropriate. If the recorded amounts of accumulated depreciation are greater or less than the amounts indicated by the depreciation studies, then the excess or deficit is amortized as a component of depreciation expense over the remaining service lives of the applicable asset classes.

For the sale or retirement of larger groups of depreciable assets that are unusual and were not considered in the Company's depreciation studies, CP records a gain or loss for the difference between net proceeds and net book value of the assets sold or retired. The accumulated depreciation to be retired includes asset-specific accumulated depreciation, when known, and an appropriate portion of the accumulated depreciation recorded for the relevant asset class as a whole, calculated using a cost-based allocation.

Revisions to the estimated useful lives and net salvage projections constitute a change in accounting estimate and are addressed prospectively by amending depreciation rates.

Equipment under finance lease is included in Properties and depreciated over the period of expected use.

## Leases

The Company has leases for rolling stock, buildings, vehicles, railway equipment, roadway machines, and information systems hardware. CP has entered into rolling stock and roadway machine leases that are fully variable or contain both fixed and variable components. Variable components are dependent on the hours and miles that the underlying equipment has been used. Fixed term, short-term, and variable operating lease costs are recorded in "Equipment rents" and "Purchased services and other" on the Company's Consolidated Statements of Income. Components of finance lease costs are recorded in "Depreciation and amortization" and "Net interest expense" on the Company's Consolidated Statements of Income.

The Company determines lease existence and classification at the lease inception date. Leases are identified when an agreement conveys the right to control identified property for a period of time in exchange for consideration. The Company recognizes both an operating lease liability and right-of-use ("ROU") asset for operating leases with fixed terms and in-substance fixed terms. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating and finance lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease payments include fixed and variable payments that are based on an index or a rate. If the Company's leases do not provide a readily determinable implicit interest rate, the Company uses internal incremental secured borrowing rates for comparable tenor in the same currency at the commencement date in determining the present value of lease payments. Operating and finance lease ROU assets also include lease prepayments and initial direct costs, but are reduced by lease incentives. The lease term may include periods associated with options to extend or exclude periods associated with options to terminate the lease when it is reasonably certain that the Company will exercise these options.

The Company has short-term operating leases with terms of 12 months or less, some of which include options to purchase that the Company is not reasonably certain to exercise. The Company has elected to apply the recognition exemption and, as such, accounts for leases with a term of 12 months or less off-balance sheet. Therefore, lease payments on these short-term operating leases are not included in operating lease ROU assets and liabilities, but are recognized as an expense in the Company's Consolidated Statements of Income on a straight-line basis over the term of the lease. Further, the Company has elected to combine lease and non-lease components for all leases, except for leases of roadway machines and information systems hardware.

## Assets held for sale

Assets to be disposed that meet the held for sale criteria are reported in "Other assets" at the lower of their carrying amount and fair value, less costs to sell, and are no longer depreciated. This classification is applied at the date at which applicable criteria for recognition are met.

## Goodwill and intangible assets

Goodwill represents the excess of the purchase price in a business combination over the fair value of identifiable net assets acquired. Goodwill is allocated at the date of the business combination to the reporting unit that is expected to benefit from the business acquisition which, after integration of operations with the railway network, may be different than the acquired business.

The carrying value of goodwill, which is not amortized, is assessed for impairment annually in the fourth quarter of each year as at October 1st, or more frequently as economic events dictate. The Company has the option of performing an assessment of certain qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value or proceeding directly to a quantitative impairment test. Qualitative factors include but are not limited to, economic, market and industry conditions, cost factors, overall financial performance of the reporting unit, and events such as notable changes in management or customers. If the assessment of qualitative factors indicates that the carrying value is less than the fair value, then performing the quantitative goodwill impairment test is unnecessary. The quantitative assessment compares the fair value of the reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit is less than its carrying value, goodwill is impaired. The impairment charge that would be recognized is the excess of the carrying value over the fair value of the reporting unit, limited to the total amount of goodwill allocated to the reporting unit.

The Company defines the fair value of a reporting unit as the price expected to be received to sell the entire reporting unit in an orderly transaction between market participants as of the impairment date. In order to determine the fair value of a reporting unit, the Company uses the discounted cash flow method with a pre-tax discount rate, reflecting current market assessments of the time value of money and the risks specific to the asset(s).

Intangible assets with finite lives are amortized on a straight-line basis over the estimated useful lives of the respective assets. Favourable leases, customer relationships and interline contracts have amortization periods ranging from 15 to 20 years. When there is a change in the estimated useful life of an intangible asset with a finite life, amortization is adjusted prospectively.

The Company tests the recoverability of its intangible assets whenever future undiscounted cash flows indicate that the carrying amount may not be recoverable. If the carrying amount of an intangible asset exceeds the fair value, an impairment loss will be recognized in the Company's Consolidated Statements of Income for the difference between the carrying amount of the asset and fair value.

## Pensions and other benefits

Pension costs are actuarially determined using the projected-benefit method pro-rated over the credited service periods of employees. This method incorporates management's best estimates of expected plan investment performance, salary escalation and retirement ages of employees. The expected return on fund assets is calculated using market-related asset values developed from a five-year average of market values for the fund's public equity securities and absolute return strategies (with each prior year's market value adjusted to the current date for assumed investment income during the intervening period) plus the market value of the fund's fixed income, real estate, infrastructure and private debt securities, subject to the market-related asset value not being greater than 120% of the market value nor being less than 80% of the market value. The discount rate used to determine the projected-benefit obligation is based on blended market interest rates on high-quality debt instruments with matching cash flows. Unrecognized actuarial gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of plan assets are amortized over the expected average remaining service period of active employees expected to receive benefits under the plan (approximately 12 years). Prior service costs arising from collectively bargained amendments to pension plan benefit provisions are amortized over the term of the applicable union agreement. Prior service costs arising from all other sources are amortized over the expected average remaining service period of active employees who are expected to receive benefits under the plan at the date of amendment.

Costs for post-retirement and post-employment benefits other than pensions, including post-retirement health care and life insurance and some workers' compensation and long-term disability benefits in Canada, are actuarially determined on a basis similar to pension costs.

The over or under funded status of defined benefit pension and other post-retirement benefit plans are measured as the difference between the fair value of the plan assets and the benefit obligation, and are recognized on the balance sheets. In addition, any unrecognized actuarial gains and losses and prior service costs and credits that arise during the period are recognized as a component of "Other comprehensive income (loss)", net of tax.

Gains and losses on post-employment benefits that do not vest or accumulate, including some workers' compensation and long-term disability benefits in Canada, are included immediately on the Company's Consolidated Statements of Income as "Other components of net periodic benefit cost or recovery".

The current service cost component of net periodic benefit cost is reported in "Compensation and benefits" for pensions and post-retirement benefits, and in "Purchased services and other" for self-insured workers' compensation and long-term disability benefits on the Company's Consolidated Statements of Income. Other components of net periodic benefit cost or recovery are reported in "Other components of net periodic benefit cost or recovery" outside of Operating income on the Company's Consolidated Statements of Income.

Capitalization of pension costs, when applicable, is restricted to the current service cost component of net periodic benefit cost.

## Financial instruments

Financial instruments are contracts that give rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial instruments are recognized initially at fair value, which is the amount of consideration that would be agreed upon in an arm's-length transaction between willing parties.

Subsequent measurement depends on how the financial instruments have been classified. Accounts receivable and other investments, classified as loans and receivables, are measured at amortized cost, using the effective interest method. Cash and cash equivalents and derivatives are classified as held for trading and are measured at fair value. Accounts payable, accrued liabilities, short-term borrowings, other long-term liabilities, and long-term debt are also measured at amortized cost.

## Derivative financial instruments

Derivative financial and commodity instruments may be used from time to time by the Company to manage its exposure to risks relating to foreign currency exchange rates, stock-based compensation, interest rates, and fuel prices. When CP utilizes derivative instruments in hedging relationships, CP identifies, designates, and documents those hedging transactions and regularly tests the transactions to demonstrate effectiveness in order to continue hedge accounting.

All derivative instruments are classified as held for trading and recorded at fair value. Any change in the fair value of derivatives that are not designated as hedges is recognized in the period in which the change occurs in the Company's Consolidated Statements of Income in the line item to which the derivative instrument is related.

For fair value hedges, the periodic changes in value are recognized in income, on the same line as the changes in value of the hedged items are also recorded. For designated cash flow hedges, the changes in value of the hedging instrument is recognized in "Other comprehensive income (loss)" and remains in "Accumulated other comprehensive loss" until the related hedged item settles, at which time amounts recognized in "Accumulated other comprehensive loss" are reclassified to the same income or balance sheet account that records the hedged item. The changes in value of the hedging instrument is recognized in the Company's Consolidated Statements of Income if derivatives designated as cash flow hedges are subsequently de-designated.

Cash flows relating to derivative instruments designated as hedges are included in the same category as the related hedged items on the Company's Consolidated Statements of Cash Flows.

## Environmental remediation

Environmental remediation accruals, recorded on an undiscounted basis unless a reliably determinable estimate as to amount and timing of costs can be established, cover site-specific remediation programs. The accruals are recorded when the costs to remediate are probable and reasonably estimable. Certain future costs to monitor sites are discounted at an adjusted risk-free rate. Provisions for environmental remediation costs are recorded in "Other long-term liabilities", except for the current portion, which is recorded in "Accounts payable and accrued liabilities".

## Stock-based compensation

CP follows the fair value based approach to account for stock options. Compensation expense and an increase in "Additional paid-in capital" are recognized for stock options over their vesting period or over the period from the grant date to the date employees become eligible to retire, when this is shorter than the vesting period, based on their fair values on the grant date as determined using the Black-Scholes option-pricing model. Forfeitures are estimated at issuance and monitored on a periodic basis. Any consideration paid by employees on exercise of stock options is credited to "Share capital" when the option is exercised and the recorded fair value of the option is removed from "Additional paid-in capital" and credited to "Share capital".

Compensation expense is also recognized for performance share units ("PSUs"), performance deferred share units ("PDSUs"), deferred share units ("DSUs"), and restricted share units ("RSUs") that settle in cash using the fair value method. Compensation expense is recognized over the vesting period or over the period from the grant date to the date employees become eligible to retire, when this is shorter than the vesting period where applicable. Forfeitures are estimated at issuance and monitored on a periodic basis.

The employee share purchase plan gives rise to compensation expense that is recognized using the issue price by amortizing the cost over the vesting period.

# 2. Accounting changes

### Implemented in 2021

No accounting pronouncements that became effective during 2021 had a material impact on the Company's Consolidated Balance Sheets, Consolidated Statements of Income, or Consolidated Statements of Cash Flows.

### Future Changes

## Disclosures about Government Assistance

In November 2021, the Financial Accounting Standards Board ("FASB") issued ASU 2021-10, Government Assistance (Topic 832), Disclosures by Business Entities about Government Assistance. The amendment is made to increase transparency by introducing specific disclosure requirements to FASB ASC Topic 832 for transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy. The amendment is effective January 1, 2022 and is not expected to have a significant impact on the Company's disclosures.

## Contract Assets and Contract Liabilities Acquired in a Business Combination

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. This 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. This amendment will be effective prospectively from January 1, 2023, with early adoption permitted. The Company is currently assessing the impact of this amendment.

All other recently issued accounting pronouncements have been assessed and are not expected to have a significant impact on our 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) | | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| Freight | | | | |
| Grain | **$** | **1,684** | $ 1,829 | $ 1,684 |
| Coal | | **625** | 566 | 682 |
| Potash | | **463** | 493 | 462 |
| Fertilizers and sulphur | | **305** | 290 | 250 |
| Forest products | | **348** | 328 | 304 |
| Energy, chemicals and plastics | | **1,563** | 1,519 | 1,534 |
| Metals, minerals and consumer products | | **728** | 629 | 752 |
| Automotive | | **376** | 324 | 352 |
| Intermodal | | **1,724** | 1,563 | 1,593 |
| Total freight revenues | | **7,816** | 7,541 | 7,613 |
| Non-freight excluding leasing revenues | | **100** | 107 | 116 |
| Revenues from contracts with customers | | **7,916** | 7,648 | 7,729 |
| Leasing revenues | | **79** | 62 | 63 |
| Total revenues | **$** | **7,995** | $ 7,710 | $ 7,792 |

### Contract liabilities

Contract liabilities represent payments received for performance obligations not yet satisfied and relate to deferred revenue and are presented as components of "Accounts payable and accrued liabilities" and "Other long-term liabilities" on the Company's Consolidated Balance Sheets.

The following table summarizes the changes in contract liabilities for the years ended December 31, 2021 and 2020:

| (in millions of Canadian dollars) | | 2021 | | 2020 |
|---|---|---|---|---|
| Opening balance | $ | **61** | $ | 146 |
| Revenue recognized that was included in the contract liability balance at the beginning of the period | | **(48)** | | (100) |
| Increase due to consideration received, net of revenue recognized during the period | | **54** | | 15 |
| Closing balance | $ | **67** | $ | 61 |

## 4. Other expense (income)

| (in millions of Canadian dollars) | | 2021 | | 2020 | | 2019 |
|---|---|---|---|---|---|---|
| Foreign exchange gain on debt and lease liabilities | $ | **(7)** | $ | (14) | $ | (94) |
| Other foreign exchange gains | | **(4)** | | (1) | | (4) |
| Acquisition-related costs (Note 11) | | **247** | | — | | — |
| Other | | **1** | | 8 | | 9 |
| Other expense (income) | $ | **237** | $ | (7) | $ | (89) |

## 5. Net interest expense

| (in millions of Canadian dollars) | | 2021 | | 2020 | | 2019 |
|---|---|---|---|---|---|---|
| Interest cost | $ | **459** | $ | 478 | $ | 471 |
| Interest capitalized to Properties | | **(13)** | | (16) | | (17) |
| Interest expense | | **446** | | 462 | | 454 |
| Interest income | | **(6)** | | (4) | | (6) |
| Net interest expense | $ | **440** | $ | 458 | $ | 448 |

Interest expense includes interest on finance leases of $10 million for the year ended December 31, 2021 (2020 – $11 million; 2019 – $11 million).

## 6. Income taxes

The following is a summary of the major components of the Company's income tax expense:

| (in millions of Canadian dollars) | | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| Current income tax expense | **$** | **526** | $ 537 | $ 525 |
| Deferred income tax expense | | | | |
| Origination and reversal of temporary differences | | **259** | 277 | 316 |
| Effect of tax rate decrease | | **(11)** | (32) | (95) |
| Effect of hedge of net investment in foreign subsidiaries | | **(3)** | (18) | (38) |
| Other | | **(3)** | (6) | (2) |
| Total deferred income tax expense | | **242** | 221 | 181 |
| Total income taxes | **$** | **768** | $ 758 | $ 706 |
| Income before income tax expense | | | | |
| Canada | **$** | **2,899** | $ 2,518 | $ 2,392 |
| Foreign | | **721** | 684 | 754 |
| Total income before income tax expense | **$** | **3,620** | $ 3,202 | $ 3,146 |
| Income tax expense | | | | |
| Current | | | | |
| Canada | **$** | **404** | $ 412 | $ 410 |
| Foreign | | **122** | 125 | 115 |
| Total current income tax expense | | **526** | 537 | 525 |
| Deferred | | | | |
| Canada | | **(179)** | 231 | 141 |
| Foreign | | **421** | (10) | 40 |
| Total deferred income tax expense | | **242** | 221 | 181 |
| Total income taxes | **$** | **768** | $ 758 | $ 706 |

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 carry forwards. The items comprising the deferred income tax assets and liabilities are as follows:

| (in millions of Canadian dollars) | | **2021** | | 2020 |
|---|---|---|---|---|
| Deferred income tax assets | | | | |
| Amount related to tax losses carried forward | **$** | **17** | $ | 17 |
| Liabilities carrying value in excess of tax basis | | **124** | | 131 |
| Unrealized foreign exchange losses | | **—** | | 4 |
| Environmental remediation costs | | **22** | | 22 |
| Other | | **7** | | 4 |
| Total net deferred income tax assets | | **170** | | 178 |
| Deferred income tax liabilities | | | | |
| Investment in Kansas City Southern (Note 11) | | **7,079** | | — |
| Properties carrying value in excess of tax basis | | **3,887** | | 3,708 |
| Pensions carrying value in excess of tax basis | | **441** | | 43 |
| Unrealized foreign exchange gains | | **13** | | — |
| Other | | **102** | | 93 |
| Total deferred income tax liabilities | | **11,522** | | 3,844 |
| Total net deferred income tax liabilities | **$** | **11,352** | $ | 3,666 |

The Company's consolidated effective income tax rate differs from the expected Canadian statutory tax rates. Expected income tax expense at statutory rates is reconciled to income tax expense as follows:

| (in millions of Canadian dollars, except percentage) | | **2021** | | 2020 | | 2019 |
|---|---|---|---|---|---|---|
| Statutory federal and provincial income tax rate (Canada) | | **26.12 %** | | 26.31 % | | 26.77 % |
| Expected income tax expense at Canadian enacted statutory tax rates | **$** | **946** | $ | 842 | $ | 842 |
| (Decrease) increase in taxes resulting from: | | | | | | |
| Gains not subject to tax | | **(116)** | | (23) | | (19) |
| Canadian tax rate differentials | | **(22)** | | (3) | | — |
| Foreign tax rate differentials | | **(37)** | | (32) | | (33) |
| Effect of tax rate decrease | | **(11)** | | (32) | | (95) |
| Valuation allowance | | **—** | | — | | (5) |
| Unrecognized tax benefits | | **(2)** | | (7) | | 33 |
| Other | | **10** | | 13 | | (17) |
| Income tax expense | **$** | **768** | $ | 758 | $ | 706 |

In 2021, the Company recorded a deferred tax liability of $7.2 billion (U.S. $5.6 billion) on the outside basis difference of its investment in KCS. This balance is held in a U.S. functional currency entity and subsequently revalued to $7.1 billion due to changes in FX. The outside basis difference is the excess of the carrying amount of CP's investment in KCS for financial reporting over the tax basis of this investment. Reversal of this deferred tax liability is expected to be recognized through income tax expense.

In 2021, the Company recorded a deferred tax recovery of $33 million (U.S. $26 million) on the outside basis difference of the change in the equity investment in KCS from initial recognition on December 14, 2021.

In 2020, the Company revalued its deferred income tax balances as a result of a tax filing election for the state of North Dakota resulting in a lower corporate income tax rate and a net recovery of $29 million.

In 2019, the Company revalued its deferred income tax balances as a result of a corporate income tax rate decrease in the province of Alberta, resulting in a net recovery of $88 million.

The Company has not provided a deferred liability for the income taxes, if any, which might become payable on any temporary difference associated with its foreign investments because the Company intends to indefinitely reinvest in its foreign investments and has no intention to realize this difference by a sale of its interest in foreign investments. It is not practical to calculate the amount of the deferred tax liability.

It is more likely than not that the Company will realize the majority of its deferred income tax assets from the generation of future taxable income, as the payments for provisions, reserves and accruals are made and losses and tax credits carried forward are utilized.

At December 31, 2021, the Company had tax effected operating losses carried forward of $15 million (2020 – $15 million), which have been recognized as a deferred tax asset. The losses carried forward will begin to expire in 2034. The Company expects to fully utilize these tax effected operating losses before their expiry. The Company did not have any minimum tax credits or investment tax credits carried forward.

At December 31, 2021, the Company had $2 million (2020 – $2 million) in tax effected capital losses carried forward recognized as a deferred tax asset. The Company has no unrecognized tax benefits from capital losses at December 31, 2021 and 2020.

The following table provides a reconciliation of uncertain tax positions in relation to unrecognized tax benefits for Canada and the U.S. for the year ended December 31:

| (in millions of Canadian dollars) | **2021** | 2020 | 2019 |
|---|---|---|---|
| Unrecognized tax benefits at January 1 | **$ 55** | $ 52 | $ 13 |
| Increase in unrecognized: | | | |
| Tax benefits related to the current year | **—** | — | 9 |
| Tax benefits related to prior years | **—** | 10 | 34 |
| Dispositions: | | | |
| Gross uncertain tax benefits related to prior years | **(6)** | (9) | — |
| Settlements with taxing authorities | **—** | 2 | (4) |
| Unrecognized tax benefits at December 31 | **$ 49** | $ 55 | $ 52 |

If these uncertain tax positions were recognized, all of the amount of unrecognized tax positions as at December 31, 2021 would impact the Company's effective tax rate.

During the fourth quarter of 2019, a tax authority proposed an adjustment for a prior tax year without assessing taxes. Although the Company had commenced action to have the proposal removed, an increase in uncertain tax position was recorded on deferred income tax liability and expense in the amount of $24 million. While the proposed adjustment was withdrawn during 2020, the ultimate resolution of this matter may give rise to further favourable or unfavourable adjustments to deferred tax, the timing and amount of which are not determinable at this time.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of "Income tax expense" in the Company's Consolidated Statements of Income. The net amount of accrued interest and penalties in 2021 was a $4 million expense (2020 – $1 million recovery; 2019 – $1 million recovery). The total amount of accrued interest and penalties associated with unrecognized tax benefits at December 31, 2021 was $13 million (2020 – $9 million; 2019 – $10 million).

The Company and its subsidiaries are subject to either Canadian federal and provincial income tax, U.S. federal, state and local income tax, or the relevant income tax in other international jurisdictions. The Company has substantially concluded all Canadian federal and provincial income tax matters for the years through 2014. The federal and provincial income tax returns filed for 2015 and subsequent years remain subject to examination by the Canadian taxation authorities. The income tax returns for 2018 and subsequent years continue to remain subject to examination by the IRS and U.S. state tax jurisdictions. The Company believes that it has recorded sufficient income tax reserves at December 31, 2021 with respect to these income tax examinations.

## 7. Earnings per share

Basic earnings per share has been calculated using Net income for the year divided by the weighted-average number of shares outstanding during the year.

Diluted earnings per share has been calculated using the treasury stock method which assumes that any proceeds received from the exercise of in-the-money options would be used to purchase CP Common Shares at the average market price for the period. For purposes of this calculation, at December 31, 2021, there were 7.5 million dilutive options outstanding (2020 – 7.0 million; 2019 – 7.9 million).

The number of shares used in the earnings per share calculations are reconciled as follows:

| (in millions of Canadian dollars, except per share data) | | **2021** | | 2020 | | 2019 |
|---|---|---|---|---|---|---|
| Net income | **$** | **2,852** | $ | 2,444 | $ | 2,440 |
| Weighted-average basic shares outstanding (millions) | | **679.7** | | 677.2 | | 693.8 |
| Dilutive effect of stock options (millions) | | **3.1** | | 2.7 | | 2.5 |
| Weighted-average diluted shares outstanding (millions) | | **682.8** | | 679.9 | | 696.3 |
| Earnings per share – basic | **$** | **4.20** | $ | 3.61 | $ | 3.52 |
| Earnings per share – diluted | **$** | **4.18** | $ | 3.59 | $ | 3.50 |

In 2021, there were 0.1 million options excluded from the computation of diluted earnings per share because their effects were not dilutive (2020 – nil; 2019 – 0.2 million).

## 8. Other comprehensive income (loss) and accumulated other comprehensive loss

The components of Other comprehensive income (loss) and the related tax effects are as follows:

| (in millions of Canadian dollars) | Before tax amount | Income tax (expense) recovery | Net of tax amount |
|---|---|---|---|
| **For the year ended December 31, 2021** | | | |
| Unrealized foreign exchange (loss) gain on: | | | |
| Translation of the net investment in U.S. subsidiaries and equity method investees | **$ (316)** | **$ —** | **$ (316)** |
| Translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries and equity method investees (Note 19) | **25** | **(3)** | **22** |
| Change in derivatives designated as cash flow hedges: | | | |
| Realized loss on derivatives designated as cash flow hedges recognized in income | **10** | **(3)** | **7** |
| Unrealized gain on cash flow hedges | **38** | **(9)** | **29** |
| Change in pension and other benefits actuarial gains and losses | **1,286** | **(323)** | **963** |
| Equity accounted investments | **9** | **(3)** | **6** |
| **Other comprehensive income** | **$ 1,052** | **$ (341)** | **$ 711** |
| For the year ended December 31, 2020 | | | |
| Unrealized foreign exchange (loss) gain on: | | | |
| Translation of the net investment in U.S. subsidiaries | $ (118) | $ — | $ (118) |
| Translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries (Note 19) | 136 | (18) | 118 |
| Realized loss on derivatives designated as cash flow hedges recognized in income[(1)] | 10 | (3) | 7 |
| Change in pension and other benefits actuarial gains and losses | (403) | 108 | (295) |
| Change in prior service pension and other benefit costs | (4) | 1 | (3) |
| Equity accounted investments[(1)] | (1) | — | (1) |
| Other comprehensive loss | $ (380) | $ 88 | $ (292) |
| For the year ended December 31, 2019 | | | |
| Unrealized foreign exchange (loss) gain on: | | | |
| Translation of the net investment in U.S. subsidiaries | $ (251) | $ — | $ (251) |
| Translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries (Note 19) | 288 | (38) | 250 |
| Realized loss on derivatives designated as cash flow hedges recognized in income[(1)] | 12 | (2) | 10 |
| Change in pension and other benefits actuarial gains and losses | (661) | 175 | (486) |
| Equity accounted investments[(1)] | (2) | — | (2) |
| Other comprehensive loss | $ (614) | $ 135 | $ (479) |

[(1)] Comparative figures have been reclassified to conform with current period presentation.

The components of Accumulated other comprehensive loss, net of tax, are as follows:

| (in millions of Canadian dollars) | 2021 | 2020 |
|---|---|---|
| Unrealized foreign exchange gain on translation of the net investment in U.S. subsidiaries | **$ 177** | $ 493 |
| Unrealized foreign exchange loss on translation of the U.S. dollar-denominated long-term debt designated as a hedge of the net investment in U.S. subsidiaries | **(359)** | (381) |
| Net deferred losses on derivatives[1] | **(4)** | (40) |
| Amounts for defined benefit pension and other post-retirement plans not recognized in income (Note 24) | **(1,915)** | (2,878) |
| Equity accounted investments[1] | **(2)** | (8) |
| Accumulated other comprehensive loss | **$ (2,103)** | $ (2,814) |

[1] Comparative figures have been reclassified to conform with current period presentation.

Changes in Accumulated other comprehensive loss by component are as follows:

| (in millions of Canadian dollars) | Foreign currency net of hedging activities[1] | Derivatives[1][2] | Pension and post-retirement defined benefit plans[1] | Equity accounted investments[1][2] | Total[1] |
|---|---|---|---|---|---|
| **Opening balance, January 1, 2021** | **$ 112** | **$ (40)** | **$ (2,878)** | **$ (8)** | **$ (2,814)** |
| Other comprehensive (loss) income before reclassifications | **(294)** | **28** | **808** | **6** | **548** |
| Amounts reclassified from accumulated other comprehensive loss | **—** | **8** | **155** | **—** | **163** |
| Net other comprehensive (loss) income | **(294)** | **36** | **963** | **6** | **711** |
| **Closing balance, December 31, 2021** | **$ (182)** | **$ (4)** | **$ (1,915)** | **$ (2)** | **$ (2,103)** |
| Opening balance, January 1, 2020 | $ 112 | $ (47) | $ (2,580) | $ (7) | $ (2,522) |
| Other comprehensive loss before reclassifications | — | (1) | (430) | (1) | (432) |
| Amounts reclassified from accumulated other comprehensive loss | — | 8 | 132 | — | 140 |
| Net other comprehensive income (loss) | — | 7 | (298) | (1) | (292) |
| Closing balance, December 31, 2020 | $ 112 | $ (40) | $ (2,878) | $ (8) | $ (2,814) |

[1] Amounts are presented net of tax.

[2] Comparative figures have been reclassified to conform with current period presentation.

Amounts in Pension and post-retirement defined benefit plans reclassified from Accumulated other comprehensive loss are as follows:

| (in millions of Canadian dollars) | 2021 | 2020 |
|---|---|---|
| Amortization of prior service costs[1] | **$ —** | $ (1) |
| Recognition of net actuarial loss[1] | **210** | 180 |
| Total before income tax | **210** | 179 |
| Income tax recovery | **(55)** | (47) |
| Total net of income tax | **$ 155** | $ 132 |

[1] Impacts "Other components of net periodic benefit recovery" on the Consolidated Statements of Income.

## 9. Accounts receivable, net

| (in millions of Canadian dollars) | As at December 31, 2021 Freight | Non-Freight | Total | As at December 31, 2020 Freight | Non-Freight | Total |
|---|---|---|---|---|---|---|
| Total accounts receivable | **$ 614** | **$ 239** | **$ 853** | $ 662 | $ 203 | $ 865 |
| Allowance for credit losses | **(20)** | **(14)** | **(34)** | (25) | (15) | (40) |
| Total accounts receivable, net | **$ 594** | **$ 225** | **$ 819** | $ 637 | $ 188 | $ 825 |

| (in millions of Canadian dollars) | For the twelve months ended December 31, 2021 Freight | Non-Freight | Total | For the twelve months ended December 31, 2020 Freight | Non-Freight | Total |
|---|---|---|---|---|---|---|
| Allowance for credit losses, opening balance | **$ (25)** | **$ (15)** | **$ (40)** | $ (27) | $ (16) | $ (43) |
| Current period credit loss provision, net | **5** | **1** | **6** | 2 | 1 | 3 |
| Allowance for credit losses, closing balance | **$ (20)** | **$ (14)** | **$ (34)** | $ (25) | $ (15) | $ (40) |

## 10. Property sale

During the first quarter of 2021, the Company exchanged property and property easements in Chicago with a government agency for proceeds of $103 million including cash of $61 million and property and permanent easement assets at a fair value of $33 million and $9 million, respectively. Fair value was determined based on comparable market transactions. The Company recorded a gain within "Purchased services and other" of $50 million ($38 million after tax) from the transaction, and a deferred gain of $53 million which is being recognized in income over the period of use of certain easements. The Company recognized $13 million of the deferred gain into income in 2021.

## 11. Business acquisitions

### KCS

On March 21, 2021, the Company entered into the Original Merger Agreement with KCS, under which CP agreed to acquire KCS in a stock and cash transaction. KCS is a U.S. Class I railway with approximately 7,100 route miles extending from the midwest and southeast portions of the United States south into Mexico and connects with all Class I railways. KCS is connected to the CP network at Kansas City.

On May 21, 2021, KCS terminated the Original Merger Agreement in order to enter into a merger agreement with Canadian National Railway ("CN") (the "CN Merger Agreement"). As a result, and under the terms of the Original Merger Agreement, KCS concurrently paid a merger termination fee of $845 million (U.S. $700 million) to the Company, recorded as "Merger termination fee" in the Company's Consolidated Statements of Income.

On August 10, 2021, CP submitted a proposal to acquire KCS in a stock and cash transaction representing an enterprise value of approximately U.S. $31 billion, based on the CP closing price on August 9, 2021, which includes the assumption of U.S. $3.8 billion of outstanding KCS debt. The terms of the proposal were very similar in nearly every respect to those in the Original Merger Agreement, except for an increase in the share exchange ratio from 2.445 to 2.884. Following the Surface Transportation Board's ("STB") decision on August 31, 2021 to refuse CN and KCS's joint motion for voting trust approval in respect of the CN Merger Agreement, and after renewed negotiations with CP, KCS's Board of Directors deemed CP's proposal a "Company Superior Proposal", as defined in the CN Merger Agreement, and terminated the CN Merger Agreement.

On September 15, 2021, upon KCS's termination of the CN Merger Agreement, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with KCS. Pursuant to the terms of the CN Merger Agreement, KCS paid a merger termination fee of U.S. $700 million and refunded the CP merger termination fee of U.S. $700 million to CN (together, the "CN merger termination fees"). In connection with the Merger Agreement, the Company remitted $1,773 million (U.S. $1,400 million) to KCS on September 15, 2021 in connection with KCS's payment of the CN merger termination fees, included as part of the cost of the acquisition of KCS within "Investment in Kansas City Southern" in the Company's Consolidated Balance Sheets. This payment is included in "Investment in Kansas City Southern" on the Company's Consolidated Statements of Cash Flows.

On December 14, 2021, following approval of the transaction by the shareholders of both the Company and KCS, receipt of Mexican regulatory approvals, satisfaction or waiver of customary closing conditions and pursuant to the terms set forth in the Merger Agreement, the acquisition of KCS was consummated and all outstanding stock of KCS was deposited into a voting trust and held by a single trustee as trust stock. KCS's management and Board of Directors will continue to steward KCS while it is in trust, pursuing its independent business plan and growth strategies. Under the terms of the Merger Agreement, the Company issued approximately 262.6 million Common Shares to existing KCS common stockholders at the exchange ratio of 2.884 Common Shares per share of KCS common stock (valued at $23.5 billion (U.S. $18.3 billion)) and paid cash consideration to existing KCS

stockholders of U.S. $90 per share of KCS common stock and U.S. $37.50 per share of KCS preferred stock for a total of approximately $10.5 billion (U.S. $8.2 billion). Share consideration, cash consideration, and the above described payments to KCS totalled approximately $36 billion (U.S. $28 billion). The cash consideration paid was financed by issuances of long-term debt of approximately $2.2 billion and $8.6 billion (U.S. $6.7 billion) on November 24, 2021 and December 2, 2021, respectively (see Note 18).

The Company accounts for its investment in KCS using the equity method of accounting while the STB considers the Company's application to control KCS. During this time the shares of KCS are held in the voting trust (See Notes 12 and 26). Subject to final approval by the STB, expected in the fourth quarter of 2022, at which time the Company would obtain control of KCS, CP expects to account for its acquisition of KCS as a business combination using the acquisition method of accounting. The investment in KCS of $42,309 million at December 31, 2021 includes $141 million of equity loss of KCS since the date the acquisition closed into the voting trust, after $8 million amortization (net of tax) of the approximately $30 billion basis difference (see Note 12).

During the year ended December 31, 2021, the Company incurred $599 million in acquisition-related costs associated with the Original Merger Agreement and Merger Agreement, of which $183 million were recorded within "Purchased services and other" and $247 million were recorded within "Other expense (income)" in the Company's Consolidated Statements of Income. Acquisition-related costs of $169 million, incurred by KCS during the 18 days from the date the acquisition closed into the voting trust, are included within "Equity loss of Kansas City Southern" in the Company's Consolidated Statements of Income. The acquisition-related costs recorded within "Other expense (income)" include the changes in fair value and realized gain from settlement of the FX forward contracts, changes in fair value and realized loss of the bond locks and forward starting floating-to-fixed interest rate swaps associated with the debt issuances (see Note 18), amortization of financing fees associated with the credit facilities (see Note 18), and FX gains on U.S. dollar-denominated cash on hand from the issuances of long-term debt to fund the KCS acquisition. Total financing fees paid for a bridge facility associated with the KCS acquisition for the year ended December 31, 2021 were $51 million, presented under Cash provided by (used in) financing activities in the Company's Consolidated Statements of Cash Flows.

## DRTP

On December 22, 2020, CP completed its acquisition of the 83.5% ownership of the Detroit River Tunnel Partnership (“DRTP”) held by OMERS Infrastructure Management Inc. (“OMERS”) for cash, net of cash acquired, of $398 million. The purchase price was subject to customary closing adjustments, including any final adjustment for closing working capital and certain closing costs. With this acquisition CP obtained 100% ownership of DRTP. The acquisition of DRTP will reduce CP’s operating costs related to movements through the tunnel which amounted to approximately $34 million in 2020, and better integrate the eastern part of the network. DRTP owns a 1.6-mile rail tunnel linking Windsor, Ontario, and Detroit, Michigan and additional, separate lands in both cities. The acquisition was funded with cash from operations and CP's commercial paper program.

The acquisition of DRTP was accounted for as a business combination under the acquisition method of accounting. The acquired assets and assumed liabilities were recorded at their estimated fair values at the date of acquisition. The fair values were estimated by applying an income approach using the discounted cash flow method of future cash flows, appraised land values reflecting a corridor enhancement factor where appropriate, and depreciated replacement cost for depreciable assets including the tunnel, track, signaling systems, and other railway related infrastructure assets.

Prior to the close of the transaction, CP owned a 16.5% interest in DRTP, which was accounted for as an equity method investment. The previously held equity investment was remeasured to fair value which was determined from the negotiated purchase price that reflected a market value established in a competitive bid process. As a result of the acquisition, in 2020, the Company recognized a before-tax gain of $68 million on the remeasurement to fair value of its equity interest within "Purchased services and other", calculated as the difference between the fair value of CP's 16.5% interest in DRTP of $81 million and the book value of the interest of $13 million. The following summarizes the fair values of the acquired assets and liabilities of DRTP:

| (in millions of Canadian dollars) | | December 22, 2020 |
|---|---|---|
| **Fair value of net assets acquired:** | | |
| Accounts receivable, net | $ | 5 |
| Properties | | 436 |
| Intangible assets (Note 15) | | 4 |
| Accounts payable and accrued liabilities | | (1) |
| Deferred taxes | | (55) |
| Total identifiable assets and liabilities | $ | 389 |
| Goodwill (Note 15) | | 90 |
| | **$** | **479** |
| **Consideration:** | | |
| Cash, net of cash acquired | $ | 398 |
| Fair value of previously held equity method investment | | 81 |
| **Total consideration** | **$** | **479** |

The goodwill of $90 million relates primarily to the contract that DRTP has for CP's use of the tunnel and deferred taxes recognized as a result of the purchase price allocation. The goodwill recognized is not deductible for tax purposes.

Prior to the acquisition of DRTP, CP had pre-existing agreements to use the tunnel and to operate and manage the tunnel on behalf of DRTP. On acquisition, no gain or loss was recognized in respect of the effective settlement of these pre-existing relationships as they were determined to be at fair market value based on an assessment of current market conditions and market participants.

Acquired cash and cash equivalents of $6 million is presented as a reduction of cash used in investing activities in the Company's 2020 Consolidated Statements of Cash Flows.

CP has not provided pro forma information relating to the pre-acquisition period as it is not material.

## CMQ

On December 30, 2019, CP purchased 100% of Central Maine & Québec Railway Canada Inc. ("CMQ Canada") and Central Maine & Quebec Railway U.S. Inc. ("CMQ U.S.") (together "CMQ") for cash consideration of $174 million. CMQ owns 237 miles of rail lines in Québec and 244 miles of rail lines in Maine and Vermont. The acquisition of CMQ Canada was completed on December 30, 2019.

### CMQ U.S.

The acquisition of CMQ U.S. was subject to approval from the STB. From the December 30, 2019 date of purchase, all purchased shares of CMQ U.S. were held in an independent voting trust (the "Trust") pending the STB's approval of CP's application for control of CMQ U.S. Approval was granted with an effective date of June 3, 2020. Between December 30, 2019 and June 3, 2020, CP accounted for its acquisition of CMQ U.S. as an equity method investment. During this time, CP paid additional consideration for CMQ of $3 million, representing changes from the finalization of previously estimated closing date working capital.

On June 3, 2020 the Trust was dissolved and CP assumed control of CMQ U.S. At this time, CP accounted for its acquisition in CMQ U.S. as a business combination using the acquisition method of accounting. Accordingly, the acquired tangible and intangible assets and assumed liabilities were recorded at their estimated fair values as at June 3, 2020 and results from operations and cash flows were consolidated prospectively. There was no material change in the acquisition-date fair value of the equity interest held by the Company in CMQ U.S. immediately before the acquisition date. Fair values were determined primarily through the use of an income approach.

After a measurement period adjustment of $1 million to increase Other long-term liabilities and goodwill resulting from the finalization of acquisition date deferred tax, the final allocation of total consideration to the fair values of the acquired assets and liabilities of CMQ U.S. is summarized as follows:

| (in millions of Canadian dollars) | | June 3, 2020 |
|---|---|---|
| **Fair value of net assets acquired:** | | |
| Cash and cash equivalents | $ | 22 |
| Accounts receivable, net | | 2 |
| Properties | | 54 |
| Intangible assets (Note 15) | | 27 |
| Accounts payable and accrued liabilities | | (13) |
| Other long-term liabilities | | (6) |
| Total identifiable assets and liabilities | $ | 86 |
| Goodwill (Note 15) | | 52 |
| | **$** | **138** |
| **Consideration:** | | |
| Fair value of previously held equity method investment | **$** | **138** |

Goodwill of $52 million relates primarily to expected operating business synergies between the Company and CMQ U.S. The factors that contribute to the goodwill are revenue growth from customers which are currently not served by CP, access to new routes, and an assembled workforce. Goodwill recognized is not deductible for tax purposes.

Intangible assets of $27 million reflect customer lists acquired in the purchase of CMQ U.S., and have amortization periods of 20 years.

Acquired cash and cash equivalents of $22 million is presented as a reduction of cash used in investing activities on the Company's Consolidated Statement of Cash Flows, and is presented net of finalized closing working capital adjustments for CMQ of $3 million as described above.

CP has not provided pro forma information relating to the pre-acquisition period as it is not material.

## 12. Investment in KCS

On December 14, 2021, the Company acquired KCS and deposited 100% of the outstanding KCS common stock into a voting trust. The Company recorded its investment in KCS at its acquisition cost under the equity method of accounting while the STB considers the Company's application to control KCS.

The investment carrying cost of $42,309 million reported on the Company's Consolidated Balance Sheets as at December 31, 2021 reflects the total of the consideration paid to acquire KCS, the offsetting asset recorded on recognition of a deferred tax liability computed on an outside basis (see Note 6), the subsequent recognition of equity loss, and foreign currency translation based on the year-end exchange rate.

The approximate $30 billion difference in value between the consideration paid to acquire KCS and the underlying carrying value of the net assets of KCS as at December 14, 2021, immediately prior to the acquisition by the Company, is the basis difference. The Company has estimated the fair value of KCS and its underlying net assets for the purposes of amortizing the basis difference, as required by the equity method of accounting. The fair value of KCS' underlying net assets, including property, plant and equipment, identifiable intangible assets, and other assets and liabilities, have been estimated on a preliminary basis and may be subject to change as additional information becomes available.

The basis difference related to depreciable property, plant and equipment, intangible assets with definite lives, and long-term debt is amortized over the related assets' remaining useful lives, and the remaining terms to maturity of the debt instruments. The remainder of the basis difference, relating to non-depreciable property, plant and equipment, intangible assets with indefinite life, and equity method goodwill, is not amortized and is carried at cost subject to an assessment for impairment.

Subject to final approval by the STB, the Company would obtain control of KCS and would account for its acquisition of KCS as a business combination using the acquisition method of accounting. As a result, the Company would be required to remeasure the carrying value of its equity method investment in KCS to fair value. Any resultant change in the value of the investment in KCS would be recognized as a gain or loss in the Company’s income

statement, including the write down of that portion of the carrying value of the investment in KCS recorded as an offsetting asset to the outside basis deferred tax liability (see Note 6).

The following tables present summarized financial information for KCS, on its historical cost basis, for the period December 14 to December 31, 2021 and as at December 31, 2021:

**Statement of Income**

| (in millions of Canadian dollars)[1] | | For the period December 14 to December 31, 2021 |
|---|---|---|
| Total revenues | $ | 178 |
| Total operating expenses | | 287 |
| Operating loss | | (109) |
| Less: Other[2] | | 12 |
| Loss before income taxes | | (121) |
| **Net loss** | **$** | **(106)** |

[1] Amounts translated at the average FX rate from December 14-31, 2021 of $1.0000 USD = $1.2836 CAD.

[2] Includes Equity in net earnings of KCS' affiliates, Interest expense, FX loss, and Other income, net.

**Balance Sheet**

| (in millions of Canadian dollars)[1] | | As at December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Current assets | $ | 1,120 |
| Properties | | 11,676 |
| Other non-current assets | | 425 |
| | | |
| **Liabilities** | | |
| Current liabilities | $ | 619 |
| Long-term debt | | 4,778 |
| Other non-current liabilities | | 1,823 |
| Non-controlling interest | | 416 |

[1] Amounts translated at the December 31, 2021 year-end FX rate of $1.0000 USD = $1.2678 CAD.

## 13. Investments

| (in millions of Canadian dollars) | | 2021 | | 2020 |
|---|---|---|---|---|
| Rail investments accounted for on an equity basis[1] | **$** | **161** | $ | 150 |
| Other investments | | **48** | | 49 |
| Total investments | **$** | **209** | $ | 199 |

[1] Excludes investment in KCS (see Note 12).

## 14. Properties

| (in millions of Canadian dollars except percentages) | 2021 Weighted-average annual depreciation rate | 2021 Cost | 2021 Accumulated depreciation | 2021 Net book value | 2020 Cost | 2020 Accumulated depreciation | 2020 Net book value |
|---|---|---|---|---|---|---|---|
| Track and roadway | 2.8 % | **$ 21,210** | **$ 5,893** | **$ 15,317** | $ 20,676 | $ 5,859 | $ 14,817 |
| Buildings | 2.9 % | **1,022** | **266** | **756** | 937 | 259 | 678 |
| Rolling stock | 2.9 % | **4,793** | **1,419** | **3,374** | 4,702 | 1,498 | 3,204 |
| Information systems software[1] | 8.1 % | **603** | **279** | **324** | 569 | 253 | 316 |
| Other | 5.3 % | **2,223** | **794** | **1,429** | 2,167 | 760 | 1,407 |
| Total | | **$ 29,851** | **$ 8,651** | **$ 21,200** | $ 29,051 | $ 8,629 | $ 20,422 |

[1] During 2021, CP capitalized costs attributable to the design and development of internal-use software in the amount of $47 million (2020 – $45 million; 2019 – $55 million). Current year depreciation expense related to internal use software was $40 million (2020 – $42 million; 2019 – $44 million).

### Finance leases included in properties

| (in millions of Canadian dollars) | 2021 Cost | 2021 Accumulated depreciation | 2021 Net book value | 2020 Cost | 2020 Accumulated depreciation | 2020 Net book value |
|---|---|---|---|---|---|---|
| Rolling stock | **$ 291** | **$ 133** | **$ 158** | $ 302 | $ 138 | $ 164 |
| Other | **9** | **1** | **8** | 8 | 1 | 7 |
| Total assets held under finance lease | **$ 300** | **$ 134** | **$ 166** | $ 310 | $ 139 | $ 171 |

## 15. Goodwill and intangible assets

| (in millions of Canadian dollars) | Goodwill Net carrying amount | Intangible assets Cost | Intangible assets Accumulated amortization | Intangible assets Net carrying amount | Total goodwill and intangible assets |
|---|---|---|---|---|---|
| Balance at December 31, 2019 | $ 194 | $ 27 | $ (15) | $ 12 | $ 206 |
| Additions (Note 11) | 142 | 31 | — | 31 | 173 |
| Amortization | — | — | (3) | (3) | (3) |
| Foreign exchange impact | (7) | (3) | — | (3) | (10) |
| Balance at December 31, 2020 | 329 | 55 | (18) | 37 | 366 |
| Additions (Note 10) | — | 9 | — | 9 | 9 |
| Amortization | — | — | (3) | (3) | (3) |
| Foreign exchange impact | (1) | — | — | — | (1) |
| **Balance at December 31, 2021** | **$ 328** | **$ 64** | **$ (21)** | **$ 43** | **$ 371** |

## 16. Other assets

| (in millions of Canadian dollars) | 2021 | 2020 |
|---|---|---|
| Operating lease ROU assets (Note 21) | **$ 287** | $ 316 |
| Contracted customer incentives | **77** | 60 |
| Long-term materials | **34** | 37 |
| Other | **21** | 25 |
| Total other assets | **$ 419** | $ 438 |

## 17. Accounts payable and accrued liabilities

| (in millions of Canadian dollars) | | 2021 | | 2020 |
|---|---|---|---|---|
| Trade payables | $ | **432** | $ | 401 |
| Accrued charges | | **286** | | 294 |
| Accrued interest | | **141** | | 134 |
| Dividends payable | | **177** | | 127 |
| Stock-based compensation liabilities | | **126** | | 121 |
| Income and other taxes payable | | **164** | | 115 |
| Payroll-related accruals | | **65** | | 68 |
| Operating lease liabilities (Note 21) | | **59** | | 63 |
| Accrued vacation | | **60** | | 59 |
| Personal injury and other claims provision | | **49** | | 37 |
| Deferred revenue (Note 3) | | **20** | | 27 |
| Deferred real estate lease and license revenue | | **14** | | 11 |
| Provision for environmental remediation (Note 20) | | **11** | | 9 |
| Other | | **5** | | 1 |
| Total accounts payable and accrued liabilities | $ | **1,609** | $ | 1,467 |

## 18. Debt

The following table outlines the Company's outstanding long-term debt as at December 31, 2021:

| (in millions of Canadian dollars except percentages) | | | Maturity | Currency in which payable | 2021 | 2020 |
|---|---|---|---|---|---|---|
| 9.450% | 30-year Debentures | (A) | Aug 2021 | U.S.$ | **—** | 318 |
| 5.100% | 10-year Medium Term Notes | (A) | Jan 2022 | CDN$ | **125** | 125 |
| 4.500% | 10-year Notes | (A) | Jan 2022 | U.S.$ | **317** | 318 |
| 4.450% | 12.5-year Notes | (A) | Mar 2023 | U.S.$ | **444** | 445 |
| 1.589% | 2-year Notes | (A) | Nov 2023 | CDN$ | **1,000** | — |
| 1.350% | 3-year Notes | (A) | Dec 2024 | U.S.$ | **1,899** | — |
| 2.900% | 10-year Notes | (A) | Feb 2025 | U.S.$ | **887** | 891 |
| 3.700% | 10.5-year Notes | (A) | Feb 2026 | U.S.$ | **317** | 318 |
| 1.750% | 5-year Notes | (A) | Dec 2026 | U.S.$ | **1,266** | — |
| 2.540% | 6.3-year Notes | (A) | Feb 2028 | CDN$ | **1,200** | — |
| 4.000% | 10-year Notes | (A) | Jun 2028 | U.S.$ | **634** | 636 |
| 3.150% | 10-year Notes | (A) | Mar 2029 | CDN$ | **399** | 399 |
| 2.050% | 10-year Notes | (A) | Mar 2030 | U.S.$ | **633** | 636 |
| 7.125% | 30-year Debentures | (A) | Oct 2031 | U.S.$ | **444** | 446 |
| 2.450% | 10-year Notes | (A) | Dec 2031 | U.S.$ | **1,774** | — |
| 5.750% | 30-year Debentures | (A) | Mar 2033 | U.S.$ | **311** | 312 |
| 4.800% | 20-year Notes | (A) | Sep 2035 | U.S.$ | **379** | 381 |
| 5.950% | 30-year Notes | (A) | May 2037 | U.S.$ | **564** | 567 |
| 6.450% | 30-year Notes | (A) | Nov 2039 | CDN$ | **400** | 400 |
| 3.000% | 20-year Notes | (A) | Dec 2041 | U.S.$ | **1,261** | — |

| | | | | | | |
|---|---|---|---|---|---|---|
| 5.750% | 30-year Notes | (A) | Jan 2042 | U.S.$ | **312** | 313 |
| 4.800% | 30-year Notes | (A) | Aug 2045 | U.S.$ | **695** | 698 |
| 3.050% | 30-year Notes | (A) | Mar 2050 | CDN$ | **298** | 298 |
| 3.100% | 30-year Notes | (A) | Dec 2051 | U.S.$ | **2,266** | — |
| 6.125% | 100-year Notes | (A) | Sep 2115 | U.S.$ | **1,141** | 1,146 |
| 5.41% | Senior Secured Notes | (B) | Mar 2024 | U.S.$ | **80** | 89 |
| 6.91% | Secured Equipment Notes | (C) | Oct 2024 | CDN$ | **58** | 75 |
| 7.49% | Equipment Trust Certificates | | Jan 2021 | U.S.$ | **—** | 14 |
| Obligations under finance leases | | | | | | |
| 1.99% - 4.13% | | (D) | 2022 - 2024 | CDN$/U.S.$ | **2** | 4 |
| 6.99% | | (D) | Mar 2022 | U.S.$ | **97** | 97 |
| 6.57% | | (D) | Dec 2026 | U.S.$ | **33** | 38 |
| 12.77% | | (D) | Jan 2031 | CDN$ | **4** | 4 |
| 1.93% | | (D) | Feb 2041 | U.S.$ | **4** | — |
| Commercial Paper | | | up to Jan 2022 | U.S.$ | **336** | 820 |
| Term Credit Facility | | | Mar 2022 | U.S.$ | **634** | — |
| Demand Promissory Note | | | | CDN$ | **6** | — |
| | | | | | **20,220** | 9,788 |
| Perpetual 4% Consolidated Debenture Stock | | (E) | | U.S.$ | **38** | 39 |
| Perpetual 4% Consolidated Debenture Stock | | (E) | | G.B.£ | **6** | 6 |
| | | | | | **20,264** | 9,833 |
| Unamortized fees on long-term debt | | | | | **(137)** | (62) |
| | | | | | **20,127** | 9,771 |
| Less: Long-term debt maturing within one year | | | | | **1,550** | 1,186 |
| | | | | **$** | **18,577** | $ 8,585 |

At December 31, 2021, the gross amount of long-term debt denominated in U.S. dollars was U.S. $13,265 million (2020 – U.S. $6,713 million).

Annual maturities and principal repayment requirements, excluding those pertaining to finance leases, for each of the five years following 2021 are (in millions): 2022 – $1,446; 2023 – $1,473; 2024 – $1,984; 2025 – $888; 2026 – $1,585.

Fees on long-term debt are amortized to income over the term of the related debt.

A. These debentures and notes are presented net of unamortized discounts, pay interest semi-annually, and are unsecured but carry a negative pledge.

During the fourth quarter of 2021, the Company issued the following securities for total net proceeds of $10.7 billion to fund the cash consideration component of the KCS acquisition:

| Date Issued | Description of Securities | Maturity | Net Proceeds |
|---|---|---|---|
| November 24, 2021 | $1.0 billion 1.589% Notes | Nov 2023 | $1.00 billion |
| | $1.2 billion 2.540% Notes | Feb 2028 | $1.20 billion |
| December 2, 2021 | U.S. $1.5 billion 1.350% Notes | Dec 2024 | $1.91 billion (U.S. $1.49 billion) |
| | U.S. $1.0 billion 1.750% Notes | Dec 2026 | $1.27 billion (U.S. $0.99 billion) |
| | U.S. $1.4 billion 2.450% Notes | Dec 2031 | $1.78 billion (U.S. $1.39 billion) |
| | U.S. $1.0 billion 3.000% Notes | Dec 2041 | $1.26 billion (U.S. $0.99 billion) |
| | U.S. $1.8 billion 3.100% Notes | Dec 2051 | $2.26 billion (U.S. $1.77 billion) |

The U.S. $1.4 billion 2.450% Notes and the U.S. $1.0 billion 3.000% Notes include a special mandatory redemption provision which provides that if STB final approval of CP's application to control KCS is not received prior to March 25, 2023 or, if in the Company's judgment, STB final approval will not be sought or received by this date, the Company will be required to redeem all of such outstanding notes at a price equal to 101% of the aggregate principal amount of the applicable notes plus accrued and unpaid interest.

In conjunction with the above debt issuances, the Company cash settled a notional $600 million of interest rate bond locks and a notional U.S. $2.4 billion of forward starting floating-to-fixed interest rate swap agreements ("forward starting swaps") for a payment of $226 million (see Note 19). This payment was included in cash provided by operating activities consistent with the location of the related hedged item on the Company's Consolidated Statements of Cash Flows.

During the third quarter of 2021, the Company also repaid U.S. $250 million 9.450% 30-year debentures at maturity for a total of U.S. $250 million ($312 million).

In 2020, the Company issued U.S $500 million 2.050% 10-year notes due March 5, 2030 for net proceeds of U.S. $495 million ($662 million) and $300 million 3.050% 30-year notes due March 9, 2050 for net proceeds of $296 million.

B. The 5.41% senior secured notes are collateralized by specific locomotive units with a carrying value of $92 million at December 31, 2021. The Company pays equal blended semi-annual payments of principal and interest. Final repayment of the remaining principal of U.S. $44 million is due in March 2024.

C. The 6.91% secured equipment notes are full recourse obligations of the Company collateralized by a first charge on specific locomotive units with a carrying value of $34 million at December 31, 2021. The Company pays equal blended semi-annual payments of principal and interest. Final repayment of the remaining principal of $11 million is due in October 2024.

D. The carrying value of the assets collateralizing finance lease obligations was $166 million at December 31, 2021.

E. The Consolidated Debenture Stock, authorized by an *Act of Parliament of 1889*, constitutes a first charge upon and over the whole of the undertaking, railways, works, rolling stock, plant, property and effects of the Company, with certain exceptions.

## Credit facility

CP has a revolving credit facility (the "facility") agreement with 14 highly rated financial institutions for a commitment amount of U.S. $1.3 billion. The facility can accommodate draws of cash and/or letters of credit at market competitive pricing. Effective September 24, 2021, the Company extended the maturity dates of the U.S. $1.0 billion tranche to September 27, 2026 and the U.S. $300 million tranche to September 27, 2023. During 2021, the Company amended the financial covenant within the facility agreement to provide flexibility upon closing of the KCS acquisition. As at December 31, 2021 and 2020, the Company was in compliance with all terms and conditions of the credit facility arrangements and satisfied the financial covenant. As at December 31, 2021 and 2020, the facility was undrawn.

In 2021, the Company entered into a U.S. $500 million unsecured non-revolving term credit facility (the "term facility") with an initial due date of March 15, 2022. As at December 31, 2021, the Company had borrowings of U.S. $500 million ($634 million) under this term facility at a weighted-average interest rate of 1.38%. The agreement requires the Company to maintain a financial covenant in conjunction with the term facility. As at December 31, 2021, the Company satisfied the financial covenant.

The Company also 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 revolving credit facility. As at December 31, 2021, the Company had total commercial paper borrowings of U.S. $265 million ($336 million), included in "Long-term debt maturing within one year" on the Company's Consolidated Balance Sheets (December 31, 2020 – $820 million). The weighted-average interest rate on these borrowings was 0.32% (December 31, 2020 - 0.27%). The Company presents issuances and repayments of commercial paper, all of which have a maturity of less than 90 days, in the Company's Consolidated Statements of Cash Flows on a net basis.

CP has bilateral letter of credit facilities with six highly rated financial institutions to support its requirement to post letters of credit in the ordinary course of business. Under these agreements, the Company has the option to post collateral in the form of cash or cash equivalents, equal at least to the face value of the letter of credit issued. These agreements permit CP 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, 2021 and 2020, the Company did not have any collateral posted on its bilateral letter of credit facilities but had letters of credit drawn of $58 million (December 31, 2020 – $59 million) from a total available amount of $300 million.

# 19. 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 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 value of short-term financial instruments approximate their fair values.

The carrying value of the Company's long-term debt does not approximate its fair value. The 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, including current maturities, with a carrying value of $19,151 million at December 31, 2021 (December 31, 2020 - $8,951 million), had a fair value of $21,265 million (December 31, 2020 - $11,597 million).

## B. Financial risk management

### Derivative financial instruments

Derivative financial instruments may be used to selectively reduce volatility associated with fluctuations in interest rates, FX rates, the price of fuel, and stock-based compensation expense. Where derivatives are designated as hedging instruments, the relationship between the hedging instruments and their associated hedged items is documented, as well as the risk management objective and strategy for the use of the hedging instruments. This documentation includes linking the derivatives that are designated as fair value or cash flow hedges to specific assets or liabilities on the Company's Consolidated Balance Sheets, commitments, or forecasted transactions. At the time a derivative contract is entered into and at least quarterly thereafter, an assessment is made as to whether the derivative item is effective in offsetting the changes in fair value or cash flows of the hedged items. The derivative qualifies for hedge accounting treatment if it is effective in substantially mitigating the risk it was designed to address.

It is not the Company's intent to use financial derivatives or commodity instruments for trading or speculative purposes.

#### Credit risk management

Credit risk refers to the possibility that a customer or counterparty will fail to fulfill its obligations under a contract and as a result create a financial loss for the Company.

The railway industry predominantly serves financially established customers, and the Company has experienced limited financial losses with respect to credit risk. The credit worthiness of customers is assessed using credit scores supplied by a third party and through direct monitoring of their financial well-being on a continual basis. The Company establishes guidelines for customer credit limits and should thresholds in these areas be reached, appropriate precautions are taken to improve collectability.

Counterparties to financial instruments expose the Company to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. The Company does not anticipate non-performance that would materially impact the Company's financial statements. In addition, the Company believes there are no significant concentrations of credit risk.

#### FX management

The Company conducts business transactions and owns assets in both Canada and the United States. As a result, the Company is exposed to fluctuations in the value of financial commitments, assets, liabilities, income, or cash flows due to changes in FX rates. The Company may enter into FX risk management transactions primarily to manage fluctuations in the exchange rate between Canadian and U.S. currencies. FX exposure is primarily mitigated through natural offsets created by revenues, expenditures, and balance sheet positions incurred in the same currency. Where appropriate, the Company may negotiate with customers and suppliers to reduce the net exposure.

### Net investment hedge

The FX gains and losses on long-term debt are mainly unrealized and can only be realized when U.S. dollar-denominated long-term debt matures or is settled. The Company also has long-term FX exposure on its investment in foreign subsidiaries with a U.S. dollar functional currency. The majority of the Company's U.S. dollar-denominated long-term debt has been designated as a hedge of the net investment in these foreign subsidiaries. This designation has the effect of mitigating volatility on Net income by offsetting long-term FX gains and losses on U.S. dollar-denominated long-term debt and gains and losses on its net investment. The effect of the net investment hedge recognized in "Other comprehensive income (loss)" in 2021 was an FX gain of $25 million, the majority of which was unrealized (2020 – unrealized gain of $136 million; 2019 – unrealized gain of $288 million) (see Note 8).

### FX forward contracts

During 2021, the Company entered into various FX forward contracts totalling a notional U.S. $1.0 billion to fix the FX rate and lock-in a portion of the amount of Canadian dollars it could have borrowed to finance the U.S. dollar-denominated cash portion of the total consideration payable pursuant to the Original Merger Agreement with KCS. During the third quarter of 2021, the Company settled the FX forward contracts and did not have any such contracts remaining as at December 31, 2021. The realized gain from settlement of the FX forward contracts was $13 million and was recorded in "Other expense (income)" on the Company's Consolidated Statements of Income.

## Interest rate management

The Company is exposed to interest rate risk, which is the risk that the fair value or future cash flows of a financial instrument will vary as a result of changes in market interest rates. In order to manage funding needs or capital structure goals, the Company enters into debt or finance lease agreements that are subject to either fixed market interest rates set at the time of issue or floating rates determined by ongoing market conditions. Debt subject to variable interest rates exposes the Company to variability in interest expense, while debt subject to fixed interest rates exposes the Company to variability in the fair value of debt.

To manage interest rate exposure, the Company accesses diverse sources of financing and manages borrowings in line with a targeted range of capital structure, debt ratings, liquidity needs, maturity schedule, and currency and interest rate profiles. In anticipation of future debt issuances, the Company may enter into forward rate agreements, that are designated as cash flow hedges, to substantially lock in all or a portion of the effective future interest expense. The Company may also enter into swap agreements, designated as fair value hedges, to manage the mix of fixed and floating rate debt.

### Forward starting swaps

In the first half of 2021, the Company entered into forward starting swaps with terms of up to 30 years, totalling a notional U.S. $2.4 billion to fix the benchmark rate on cash flows associated with highly probable forecasted issuances of long-term notes.

On May 21, 2021, the Original Merger Agreement with KCS was terminated which resulted in the Company ceasing hedge accounting for the U.S. $2.4 billion of forward starting swaps. However, as the note issuances were still reasonably possible to occur, fair value losses of $73 million prior to this determination remained in "Accumulated other comprehensive loss", net of tax. Fair value losses of $251 million during the period from May 21, 2021 through to the roll and re-designation described below were recorded within "Other expense (income)" on the Company's Consolidated Statements of Income for twelve months ended December 31, 2021.

Following CP entering into the Merger Agreement with KCS, the Company rolled the notional U.S. $2.4 billion of forward starting swaps but did not effect a cash settlement. Concurrently, the Company re-designated the forward starting swaps totalling U.S. $2.4 billion to fix the benchmark rate on cash flows associated with highly probable forecasted issuances of long-term notes. The changes in fair value on the forward starting swaps were recorded in "Accumulated other comprehensive loss", net of tax, as cash flow hedges until the notes were issued. Fair value gains subsequent to re-designation of $94 million were recorded within "Other comprehensive income" on the Company's Consolidated Statements of Comprehensive Income for the twelve months ended December 31, 2021.

During the fourth quarter of 2021, the Company cash settled all outstanding forward starting swaps related to debt issuances that occurred in the same period. The fair value of these derivative instruments at the time of settlement was a loss of $230 million. The related $21 million gain within "Accumulated other comprehensive loss" will be reclassified to "Net interest expense" ratably over the duration of the notes' hedged interest payments.

For the year ended December 31, 2021, a net loss of $9 million related to settled forward starting swap hedges was amortized from "Accumulated other comprehensive loss" to "Net interest expense" in line with the related hedged interest payments (2020 – net loss of $9 million; 2019 – net loss of $9 million). The Company expects that during the next 12 months, $8 million of net losses will be reclassified to "Net interest expense".

### Bond locks

In the first quarter of 2021, the Company entered into seven-year interest rate bond locks totalling a notional $600 million to fix the benchmark rate on cash flows associated with a highly probable forecasted issuance of long-term notes.

On May 21, 2021, the Original Merger Agreement with KCS was terminated which resulted in the Company ceasing hedge accounting for the $600 million of bond locks. However, as the note issuances were still reasonably possible to occur, fair value losses of $2 million prior to this

determination remained in "Accumulated other comprehensive loss", net of tax. Fair value losses of $10 million during the period from May 21, 2021 through to the roll and re-designation described below were recorded within "Other expense (income)" on the Company's Consolidated Statements of Income for the twelve months ended December 31, 2021.

Following CP entering into the Merger Agreement with KCS, the Company rolled the notional $600 million of bond locks but did not effect a cash settlement. Concurrently, the Company re-designated the bond locks totalling $600 million to fix the benchmark rate on cash flows associated with highly probable forecasted issuances of long-term notes. The changes in fair value on the bond locks are recorded in "Accumulated other comprehensive loss", net of tax, as cash flow hedges until the notes were issued. Fair value gains subsequent to re-designation of $19 million were recorded within "Other comprehensive income" on the Company's Consolidated Statements of Comprehensive Income for the twelve months ended December 31, 2021.

During the fourth quarter of 2021, the Company cash settled all outstanding bond locks related to debt issuances that occurred in the same period. The fair value of these derivative instruments at the time of settlement was a gain of $7 million. The related $17 million gain within "Accumulated other comprehensive loss" will be reclassified to "Net interest expense" ratably over the duration of the notes' hedged interest payments.

For the year ended December 31, 2021, a net loss of $1 million related to settled bond and treasury rate lock hedges was amortized from "Accumulated other comprehensive loss" to "Net interest expense" in line with the related hedged interest payments (2020 – net loss of $1 million; 2019 – net loss of $1 million). The Company expects that during the next 12 months, $2 million of net gains will be reclassified to "Net interest expense".

## 20. Other long-term liabilities

| (in millions of Canadian dollars) | | 2021 | | 2020 |
|---|---|---|---|---|
| Operating lease liabilities, net of current portion (Note 21) | $ | **224** | $ | 248 |
| Stock-based compensation liabilities, net of current portion | | **125** | | 146 |
| Provision for environmental remediation, net of current portion[1] | | **68** | | 71 |
| Deferred revenue, net of current portion (Note 3) | | **47** | | 34 |
| Deferred real estate lease and license revenue, net of current portion[2] | | **10** | | 18 |
| Deferred gains on sale leaseback transactions[2] | | **4** | | 5 |
| Other, net of current portion | | **64** | | 63 |
| Total other long-term liabilities | $ | **542** | $ | 585 |

[1] As at December 31, 2021, the aggregate provision for environmental remediation, including the current portion was $79 million (2020 – $80 million).

[2] The deferred real estate lease and license revenue and deferred gains on sale leaseback transactions are being amortized to income on a straight-line basis over the related lease terms.

### Environmental remediation accruals

Environmental remediation accruals cover site-specific remediation programs. The estimate of the probable costs to be incurred in the remediation of properties contaminated by past activities reflects the nature of contamination at individual sites according to typical activities and scale of operations conducted. CP 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, considering 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. Provisions for environmental remediation costs are recorded in "Other long-term liabilities", except for the current portion which is recorded in "Accounts payable and accrued liabilities" (see Note 17). Payments are expected to be made over 10 years to 2031.

The accruals for environmental remediation represent CP'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 CP's best estimate of all probable costs, CP'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, 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. Changes to costs are reflected as changes to "Other long-term liabilities" or "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 amount charged to income in 2021 was $10 million (2020 – $10 million; 2019 – $6 million).

## 21. Leases

The Company's leases have remaining terms of less than one year to 19 years, some include options to extend up to an additional 10 years, and some include options to terminate within one year.

Residual value guarantees are provided on certain vehicle operating leases. Cumulatively, these guarantees are limited to $1 million and are not included in lease liabilities as it is not currently probable that any amounts will be owed.

Components of lease expense for the year ended December 31 are as follows:

| (in millions of Canadian dollars) | 2021 | 2020 |
|---|---|---|
| Operating lease cost | $ 74 | $ 83 |
| Short-term lease cost | 16 | 10 |
| Variable lease cost | 5 | 13 |
| Sublease income | (3) | (3) |
| | | |
| Finance Lease Cost | | |
| Amortization of right-of-use assets | 10 | 9 |
| Interest on lease liabilities | 10 | 11 |
| Total lease costs | **$ 112** | **$ 123** |

Supplemental balance sheet information related to leases is as follows:

| (in millions of Canadian dollars) | **Classification** | 2021 | 2020 |
|---|---|---|---|
| **Assets** | | | |
| Operating | Other assets | $ 287 | $ 316 |
| Finance | Properties, net book value | 166 | 171 |
| | | | |
| **Liabilities** | | | |
| Current | | | |
| Operating | Accounts payable and accrued liabilities | 59 | 63 |
| Finance | Long-term debt maturing within one year | 104 | 8 |
| Long-term | | | |
| Operating | Other long-term liabilities | 224 | 248 |
| Finance | Long-term debt | 36 | 135 |

The following table provides the Company's weighted-average remaining lease terms and discount rates:

| | 2021 | 2020 |
|---|---|---|
| Weighted-Average Remaining Lease Term | | |
| Operating leases | 6 years | 7 years |
| Finance leases | 2 years | 3 years |
| | | |
| Weighted-Average Discount Rate | | |
| Operating leases | 3.18 % | 3.32 % |
| Finance leases | 6.96 % | 7.06 % |

Supplemental information related to leases is as follows:

| (in millions of Canadian dollars) | 2021 | 2020 |
|---|---|---|
| Cash paid for amounts included in measurement of lease liabilities | | |
| Operating cash outflows from operating leases | $ 64 | $ 74 |
| Operating cash outflows from finance leases | 10 | 10 |
| Financing cash outflows from finance leases | 8 | 8 |
| | | |
| Right-of-use assets obtained in exchange for lease liabilities | | |
| Operating leases | 36 | 34 |
| Finance leases | 5 | 4 |

The following table provides the maturities of lease liabilities for the next five years and thereafter as at December 31, 2021:

| (in millions of Canadian dollars) | Finance Leases | Operating Leases |
|---|---|---|
| 2022 | $ 107 | $ 66 |
| 2023 | 9 | 62 |
| 2024 | 9 | 50 |
| 2025 | 9 | 39 |
| 2026 | 9 | 34 |
| Thereafter | 7 | 60 |
| **Total lease payments** | **150** | **311** |
| Imputed interest | (10) | (28) |
| **Present value of lease payments** | **$ 140** | **$ 283** |

# 22. Shareholders' equity

## Authorized and issued share capital

The Company is authorized to issue an unlimited number of Common Shares, an unlimited number of First Preferred Shares, and an unlimited number of Second Preferred Shares. At December 31, 2021, no First or Second Preferred Shares had been issued.

The following table summarizes information related to Common Share balances as at December 31:

| (number of shares in millions) | 2021 | 2020 | 2019 |
|---|---|---|---|
| Share capital, January 1 | **666.3** | 685.0 | 702.9 |
| CP Common Shares repurchased | **—** | (20.4) | (19.0) |
| Shares issued under stock option plan | **0.8** | 1.7 | 1.1 |
| Shares issued for KCS acquisition (Note 11) | **262.6** | — | — |
| Share capital, December 31 | **929.7** | 666.3 | 685.0 |

The change in the "Share capital" balance includes $7 million of stock-based compensation transferred from "Additional paid-in capital" (2020 – $10 million; 2019 – $7 million).

## Share repurchases

On January 27, 2021, the Company announced a normal course issuer bid ("NCIB"), commencing January 29, 2021, to purchase up to 16.7 million Common Shares in the open market for cancellation on or before January 28, 2022. As at December 31, 2021, the Company had not purchased any Common Shares under this NCIB.

On December 17, 2019, the Company announced a NCIB, commencing December 20, 2019, to purchase up to 24.0 million Common Shares in the open market for cancellation on or before December 19, 2020. Upon expiry of this NCIB, the Company had purchased 21.4 million Common Shares for $1,577 million.

On October 19, 2018, the Company announced a NCIB, commencing October 24, 2018, to purchase up to 28.4 million Common Shares for cancellation on or before October 23, 2019. The Company completed this NCIB on October 23, 2019.

All purchases were made in accordance with the respective NCIB at prevailing market prices plus brokerage fees, or such other prices that were permitted by the Toronto Stock Exchange ("TSX"), with consideration allocated to "Share capital" up to the average carrying amount of the shares and any excess allocated to "Retained earnings".

The following table provides activities under the share repurchase programs for each of the years ended December 31:

| | | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| Number of Common Shares repurchased[1] | | — | 19,865,380 | 18,970,745 |
| Weighted-average price per share[2] | **$** | — $ | 74.35 $ | 60.13 |
| Amount of repurchase (in millions)[2] | **$** | — $ | 1,477 $ | 1,141 |

[1] Includes shares repurchased but not yet cancelled at year end.

[2] Includes brokerage fees.

## 23. Change in non-cash working capital balances related to operations

| (in millions of Canadian dollars) | | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| Source (use) of cash: | | | | |
| Accounts receivable, net | **$** | **32** $ | (61) $ | 27 |
| Materials and supplies | | **(14)** | (15) | (8) |
| Other current assets | | **24** | (5) | (24) |
| Accounts payable and accrued liabilities | | **(108)** | (308) | (21) |
| Change in non-cash working capital | **$** | **(66)** $ | (389) $ | (26) |

## 24. Pensions and other benefits

The Company has both defined benefit ("DB") and defined contribution ("DC") pension plans. At December 31, 2021, the Canadian pension plans represent nearly all of total combined pension plan assets and nearly all of total combined pension plan obligations.

The DB plans provide for pensions based principally on years of service and compensation rates near retirement. Pensions for Canadian pensioners are partially indexed to inflation. Annual employer contributions to the DB plans, which are actuarially determined, are made on the basis of being not less than the minimum amounts required by federal pension supervisory authorities.

The Company has other benefit plans including post-retirement health and life insurance for pensioners, and post-employment long-term disability and workers' compensation benefits, which are based on Company-specific claims. At December 31, 2021, the Canadian other benefits plans represent nearly all of total combined other plan obligations.

The Audit and Finance Committee of the Board of Directors has approved an investment policy that establishes long-term asset mix targets which take into account the Company's expected risk tolerances. Pension plan assets are managed by a suite of independent investment managers, with the allocation by manager reflecting these asset mix targets. Most of the assets are actively managed with the objective of outperforming applicable benchmarks. In accordance with the investment policy, derivative instruments may be used by investment managers to hedge or adjust existing or anticipated exposures.

To develop the expected long-term rate of return assumption used in the calculation of net periodic benefit cost applicable to the market-related value of plan assets, the Company considers the expected composition of the plans' assets, past experience, and future estimates of long-term investment returns. Future estimates of investment returns reflect the long-term return expectation for fixed income, public equity, real estate, infrastructure, private debt, and absolute return investments, and the expected added value (relative to applicable benchmark indices) from active management of pension fund assets.

The Company has elected to use a market-related value of assets for the purpose of calculating net periodic benefit cost, developed from a five year average of market values for the plans' public equity and absolute return investments (with each prior year's market value adjusted to the current date for assumed investment income during the intervening period) plus the market value of the plans' fixed income, real estate, infrastructure, and private debt securities.

The benefit obligation is discounted using a discount rate that is a blended yield to maturity for a hypothetical portfolio of high-quality debt instruments with cash flows matching projected benefit payments. The discount rate is determined by management.

## Net periodic benefit cost

The elements of net periodic benefit cost for DB pension plans and other benefits recognized in the year include the following components:

| | Pensions | | | Other benefits | | |
|---|---|---|---|---|---|---|
| (in millions of Canadian dollars) | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 |
| Current service cost (benefits earned by employees) | **$ 171** | $ 140 | $ 107 | **$ 13** | $ 12 | $ 11 |
| Other components of net periodic benefit (recovery) cost: | | | | | | |
| Interest cost on benefit obligation | **351** | 406 | 450 | **16** | 17 | 20 |
| Expected return on fund assets | **(959)** | (945) | (947) | **—** | — | — |
| Recognized net actuarial loss | **206** | 177 | 84 | **(1)** | 4 | 12 |
| Amortization of prior service (recoveries) costs | **—** | (1) | (1) | **—** | — | 1 |
| Total other components of net periodic benefit (recovery) cost | **(402)** | (363) | (414) | **15** | 21 | 33 |
| Net periodic benefit (recovery) cost | **$ (231)** | $ (223) | $ (307) | **$ 28** | $ 33 | $ 44 |

## Projected benefit obligation, fund assets, and funded status

Information about the Company's DB pension plans and other benefits, in aggregate, is as follows:

| | Pensions | | Other benefits | |
|---|---|---|---|---|
| (in millions of Canadian dollars) | **2021** | 2020 | **2021** | 2020 |
| Change in projected benefit obligation: | | | | |
| Benefit obligation at January 1 | **$ 13,799** | $ 12,610 | **$ 553** | $ 541 |
| Current service cost | **171** | 140 | **13** | 12 |
| Interest cost | **351** | 406 | **16** | 17 |
| Employee contributions | **42** | 42 | **—** | — |
| Benefits paid | **(667)** | (653) | **(31)** | (34) |
| Foreign currency changes | **—** | (5) | **—** | — |
| Plan amendments and other | **—** | 3 | **—** | — |
| Actuarial loss (gain) | **(812)** | 1,256 | **(48)** | 17 |
| Projected benefit obligation at December 31 | **$ 12,884** | $ 13,799 | **$ 503** | $ 553 |

The net actuarial gains for Pensions and Other benefits in 2021 were primarily due to the increase in discount rate from 2.58% to 3.01%. The net actuarial losses for Pensions and Other benefits in 2020 were primarily due to the decrease in discount rate from 3.25% to 2.58%.

| (in millions of Canadian dollars) | Pensions 2021 | Pensions 2020 | Other benefits 2021 | Other benefits 2020 |
|---|---|---|---|---|
| Change in fund assets: | | | | |
| Fair value of fund assets at January 1 | **$ 14,365** | $ 13,319 | **$ 5** | $ 5 |
| Actual return on fund assets | **1,180** | 1,634 | **—** | — |
| Employer contributions | **18** | 27 | **31** | 34 |
| Employee contributions | **42** | 42 | **—** | — |
| Benefits paid | **(667)** | (653) | **(31)** | (34) |
| Foreign currency changes | **—** | (4) | **—** | — |
| Fair value of fund assets at December 31 | **$ 14,938** | $ 14,365 | **$ 5** | $ 5 |
| Funded status – plan surplus (deficit) | **$ 2,054** | $ 566 | **$ (498)** | $ (548) |

The table below shows the aggregate pension projected benefit obligation and aggregate fair value of plan assets for pension plans with fair value of plan assets in excess of projected benefit obligations (i.e. surplus), and for pension plans with projected benefit obligations in excess of fair value of plan assets (i.e. deficit):

| (in millions of Canadian dollars) | 2021 Pension plans in surplus | 2021 Pension plans in deficit | 2020 Pension plans in surplus | 2020 Pension plans in deficit |
|---|---|---|---|---|
| Projected benefit obligation at December 31 | **$ (12,346)** | **$ (538)** | $ (13,220) | $ (579) |
| Fair value of fund assets at December 31 | **14,663** | **275** | 14,114 | 251 |
| Funded status | **$ 2,317** | **$ (263)** | $ 894 | $ (328) |

The DB pension plans' accumulated benefit obligation as at December 31, 2021 was $12,591 million (2020 – $13,528 million). The accumulated benefit obligation is calculated on a basis similar to the projected benefit obligation, except no future salary increases are assumed in the projection of future benefits. For pension plans with accumulated benefit obligations in excess of fair value of plan assets (i.e. deficit), the aggregate pension accumulated benefit obligation as at December 31, 2021 was $410 million (2020 – $443 million) and the aggregate fair value of plan assets as at December 31, 2021 was $201 million (2020 –$187 million).

All Other benefits plans were in a deficit position at December 31, 2021 and 2020.

## Pension asset and liabilities in the Company's Consolidated Balance Sheets

Amounts recognized in the Company's Consolidated Balance Sheets are as follows:

| (in millions of Canadian dollars) | Pensions 2021 | Pensions 2020 | Other benefits 2021 | Other benefits 2020 |
|---|---|---|---|---|
| Pension asset | **$ 2,317** | $ 894 | **$ —** | $ — |
| Accounts payable and accrued liabilities | **(11)** | (11) | **(32)** | (33) |
| Pension and other benefit liabilities | **(252)** | (317) | **(466)** | (515) |
| Total amount recognized | **$ 2,054** | $ 566 | **$ (498)** | $ (548) |

The measurement date used to determine the plan assets and the benefit obligation is December 31. The most recent actuarial valuation for pension funding purposes for the Company's main Canadian pension plan was performed as at January 1, 2021. During 2022, the Company expects to file with the pension regulator a new valuation performed as at January 1, 2022.

## Accumulated other comprehensive loss

Amounts recognized in accumulated other comprehensive loss are as follows:

| | Pensions | | Other benefits | |
|---|---|---|---|---|
| (in millions of Canadian dollars) | **2021** | 2020 | **2021** | 2020 |
| Net actuarial loss: | | | | |
| Other than deferred investment gains | **$ 3,298** | $ 3,960 | **$ 57** | $ 104 |
| Deferred investment gains | **(672)** | (95) | **—** | — |
| Prior service cost | **5** | 5 | **1** | 1 |
| Deferred income tax | **(759)** | (1,070) | **(15)** | (27) |
| Total (Note 8) | **$ 1,872** | $ 2,800 | **$ 43** | $ 78 |

## Actuarial assumptions

Weighted-average actuarial assumptions used were approximately:

| (percentages) | **2021** | 2020 | 2019 |
|---|---|---|---|
| Benefit obligation at December 31: | | | |
| Discount rate | **3.01** | 2.58 | 3.25 |
| Projected future salary increases | **2.75** | 2.75 | 2.75 |
| Health care cost trend rate [1] | **5.00** | 5.00 | 5.50 |
| Benefit cost for year ended December 31: | | | |
| Discount rate | **2.58** | 3.25 | 4.01 |
| Expected rate of return on fund assets [2] | **6.90** | 7.25 | 7.50 |
| Projected future salary increases | **2.75** | 2.75 | 2.75 |
| Health care cost trend rate [1] | **5.00** | 5.50 | 6.00 |

[1] The health care cost trend rate was assumed to be 6.00% in 2019 and 5.50% in 2020 and is assumed to be 5.00% per year in 2021 and thereafter.

[2] The expected rate of return on fund assets that will be used to compute the 2022 net periodic benefit credit is 6.90%.

## Plan assets

Plan assets are recorded at fair value. The major asset categories are public equity securities, fixed income securities, real estate, infrastructure, absolute return investments, and private debt. The fair values of the public equity and fixed income securities are primarily based on quoted market prices. Real estate and infrastructure values are based on the value of each fund's assets as calculated by the fund manager, generally using third party appraisals or discounted cash flow analysis and taking into account current market conditions and recent sales transactions where practical and appropriate. Private debt values are based on the value of each fund's assets as calculated by the fund manager taking into account current market conditions and reviewed annually by external parties. Absolute return investments are a portfolio of units of externally managed hedge funds and are valued by the fund administrators.

The Company's pension plan asset allocation, the weighted-average asset allocation targets, and the weighted average policy range for each major asset class at year end were as follows:

| | | | Percentage of plan assets at December 31 | |
|---|---|---|---|---|
| Asset allocation (percentage) | Asset allocation target | Policy range | **2021** | 2020 |
| Cash and cash equivalents | **1.2** | **0 – 10** | **3.1** | 2.0 |
| Fixed income | **24.1** | **20 – 40** | **24.1** | 28.1 |
| Public equity | **45.1** | **35 – 55** | **50.5** | 49.3 |
| Real estate and infrastructure | **9.8** | **4 – 13** | **6.7** | 6.3 |
| Private debt | **9.8** | **4 – 13** | **4.6** | 3.3 |
| Absolute return | **10.0** | **4 – 13** | **11.0** | 11.0 |
| Total | **100.0** | | **100.0** | 100.0 |

## Summary of the assets of the Company's DB pension plans

The following is a summary of the assets of the Company's DB pension plans at December 31, 2021 and 2020. As of December 31, 2021 and 2020, there were no plan assets classified as Level 3 valued investments.

| | Assets Measured at Fair Value | | | |
|---|---|---|---|---|
| (in millions of Canadian dollars) | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Investments measured at NAV[1] | Total Plan Assets |
| **December 31, 2021** | | | | |
| Cash and cash equivalents | $ 363 | $ — | $ — | $ 363 |
| Fixed income | | | | |
| Government bonds[2] | 232 | 1,704 | — | 1,936 |
| Corporate bonds[2] | 569 | 868 | — | 1,437 |
| Mortgages[3] | 230 | 4 | — | 234 |
| Public equities | | | | |
| Canada | 1,004 | — | — | 1,004 |
| U.S. and international | 6,536 | — | — | 6,536 |
| Real estate[4] | — | — | 732 | 732 |
| Infrastructure[5] | — | — | 263 | 263 |
| Private debt[6] | — | — | 682 | 682 |
| Derivative instruments[7] | — | 106 | — | 106 |
| Absolute return[8] | | | | |
| Funds of hedge funds | — | — | 1,621 | 1,621 |
| Multi-strategy funds | — | — | 24 | 24 |
| | **$ 8,934** | **$ 2,682** | **$ 3,322** | **$ 14,938** |
| December 31, 2020 | | | | |
| Cash and cash equivalents | $ 219 | $ — | $ — | $ 219 |
| Fixed income | | | | |
| Government bonds[2] | 284 | 1,699 | — | 1,983 |
| Corporate bonds[2] | 691 | 1,144 | — | 1,835 |
| Mortgages[3] | 220 | 5 | — | 225 |
| Public equities | | | | |
| Canada | 1,183 | — | — | 1,183 |
| U.S. and international | 5,871 | 28 | — | 5,899 |
| Real estate[4] | — | — | 704 | 704 |
| Infrastructure[5] | — | — | 199 | 199 |
| Private debt[6] | — | — | 465 | 465 |
| Derivative instruments[7] | — | 71 | — | 71 |
| Absolute return[8] | | | | |
| Funds of hedge funds | — | — | 1,560 | 1,560 |
| Multi-strategy funds | — | — | 22 | 22 |
| | $ 8,468 | $ 2,947 | $ 2,950 | $ 14,365 |

[1] Investments measured at net asset value ("NAV"):

Amounts are comprised of certain investments measured using NAV (or its equivalent) as a practical expedient. These investments have not been classified in the fair value hierarchy.

[2] Government & Corporate Bonds:

Fair values for bonds are based on market prices supplied by independent sources as of the last trading day.

[3] Mortgages:

The fair values of mortgages are based on current market yields of financial instruments of similar maturity, coupon and risk factors.

[4] Real estate:

Real estate fund values are based on the NAV of the funds that invest directly in real estate investments. The values of the investments have been estimated using the capital accounts representing the plan's ownership interest in the funds. Of the total, $613 million is subject to redemption frequencies ranging from monthly to annually and a redemption notice period of 90 days (2020 – $580 million). The remaining $119 million is not subject to redemption and is normally returned through distributions as a result of the liquidation of the underlying real estate investments (2020 – $124 million). As at December 31, 2021, there are $32 million of unfunded commitments for real estate investments (December 31, 2020 – $32 million).

[5] Infrastructure:

Infrastructure fund values are based on the NAV of the funds that invest directly in infrastructure investments. The values of the investments have been estimated using the capital accounts representing the plans' ownership interest in the funds. Of the total, $107 million is subject to redemption frequencies ranging from monthly to annually and a redemption notice period of 90 days (2020 – $112 million). The remaining $156 million is not subject to redemption and is normally returned through distributions as a result of the liquidation of the underlying infrastructure investments (2020 – $87 million). As at December 31, 2021, there are $814 million of unfunded commitments for infrastructure investments (December 31, 2020 – $491 million).

[6] Private debt:

Private debt fund values are based on the NAV of the funds that invest directly in private debt investments. The values of the investments have been estimated using the capital accounts representing the plans' ownership interest in the funds. Of the total, $152 million is subject to redemption frequencies ranging from monthly to annually and a redemption notice period of 90 days (2020 – $154 million). The remaining $530 million is not subject to redemption and is normally returned through distributions as a result of the repayment of the underlying loans (2020 - $311 million). As at December 31, 2021, there are $774 million of unfunded commitments for private debt investments (December 31, 2020 – $533 million).

[7] Derivatives:

The investment managers may utilize the following derivative instruments: equity futures to replicate equity index returns (Level 2); currency forwards to partially hedge foreign currency exposures (Level 2); bond forwards to reduce asset/liability interest rate risk exposures (Level 2); interest rate swaps to manage duration and interest rate risk (Level 2); credit default swaps to manage credit risk (Level 2); and options to manage interest rate risk and volatility (Level 2). The Company may utilize derivatives directly, but only for the purpose of hedging foreign currency exposures. As at December 31, 2021, there are currency forwards with a notional value of nil (December 31, 2020 – $1,041 million) and a fair value of $6 million (December 31, 2020 – $73 million). The fixed income investment manager utilizes a portfolio of bond forwards for the purpose of reducing asset/liability interest rate exposure. As at December 31, 2021, there are bond forwards with a notional value of $2,967 million (December 31, 2020 – $3,540 million) and a fair value of $100 million (December 31, 2020 – $(2) million).

[8] Absolute return:

The value of absolute return fund investments is based on the NAV reported by the fund administrators. The funds have different redemption policies with redemption notice periods varying from 60 to 95 days and frequencies ranging from monthly to triennially.

## Additional plan assets information

The Company's primary investment objective for pension plan assets is to achieve a long–term return, net of all fees and expenses, that is sufficient for the plan's assets to satisfy the current and future obligations to plan beneficiaries, while minimizing the financial impact on the Company. In identifying the asset allocation ranges, consideration was given to the long-term nature of the underlying plan liabilities, the solvency and going-concern financial position of the plan, long-term return expectations, and the risks associated with key asset classes as well as the relationships of returns on key asset classes with each other, inflation, and interest rates. When advantageous and with due consideration, derivative instruments may be utilized by investment managers, provided the total value of the underlying assets represented by financial derivatives (excluding currency forwards, liability hedging derivatives in fixed income portfolios, and derivatives held by absolute return funds) is limited to 30% of the market value of the fund.

The funded status of the plans is exposed to fluctuations in interest rates, which affects the relative values of the plans' liabilities and assets. In order to mitigate interest rate risk, the Company's main Canadian defined benefit pension plan utilizes a liability driven investment strategy in its fixed income portfolio, which uses a combination of long duration bonds and derivatives to hedge interest rate risk, managed by the investment manager. At December 31, 2021, the plan's solvency funded position was 47% hedged against interest rate risk (2020 – 47%).

When investing in foreign securities, the plans are exposed to foreign currency risk; the effect of which is included in the valuation of the foreign securities. At December 31, 2021, the plans were 43% exposed to the U.S. dollar, 5% exposed to the Euro, and 10% exposed to various other currencies. At December 31, 2020, the plans were 33% exposed to the U.S. dollar net of currency forwards (40% excluding the currency forwards), 6% exposed to the Euro, and 14% exposed to various other currencies.

At December 31, 2021, fund assets included 426,304 of the Common Shares of the Company (2020 – 545,040) at a market value of $39 million (2020 – $48 million) and Fixed Income securities of the Company at a market value of $5 million (2020 – nil).

## Estimated future benefit payments

The estimated future DB pension and other benefit payments to be paid by the plans for each of the next five years and the subsequent five-year period are as follows:

| (in millions of Canadian dollars) | Pensions | Other benefits |
|---|---|---|
| 2022 | $ 645 | $ 32 |
| 2023 | 637 | 31 |
| 2024 | 638 | 30 |
| 2025 | 639 | 29 |
| 2026 | 640 | 29 |
| 2027-2031 | 3,209 | 136 |

The benefit payments from the Canadian registered and U.S. qualified DB pension plans are payable from their respective pension funds. Benefit payments from the supplemental pension plan and from the other benefits plans are payable directly by the Company.

## Defined contribution plan

Canadian non-unionized employees hired prior to July 1, 2010 had the option to participate in the Canadian DC plan. All Canadian non-unionized employees hired after such date must participate in this plan. Employee contributions are based on a percentage of salary. The Company matches employee contributions to a maximum percentage each year.

Effective July 1, 2010, a new U.S. DC plan was established. All U.S. non-unionized employees hired after such date must participate in this plan. Employees do not contribute to the plan. The Company annually contributes a percentage of salary.

The DC plans provide a pension based on total employee, where appropriate, and employer contributions plus investment income earned on those contributions.

In 2021, the net cost of the DC plans, which generally equals the employer's required contribution, was $13 million (2020 – $12 million; 2019 – $11 million).

## Contributions to multi-employer plans

Some of the Company's unionized employees in the U.S. are members of a U.S. national multi-employer benefit plan. Contributions made by the Company to this plan in 2021 in respect of post-retirement medical benefits were $3 million (2020 – $3 million; 2019 – $3 million).

# 25. Stock-based compensation

At December 31, 2021, 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 of $131 million in 2021 (2020 – $170 million; 2019 – $133 million) and the total tax benefit related to these plans was $29 million in 2021 (2020 – $42 million; 2019 – $33 million).

## A. Stock option plan

Options issued prior to the share split described in Item 8. Financial Statements and Supplementary Data, Note 1 Summary of significant accounting policies now each provide rights over five shares. For consistency, all number of options presented herein are calculated and shown on the basis of the number of shares subject to the options. The following table summarizes information related to the stock option plan as at December 31, 2021:

| | Options outstanding | | Non-vested options | |
|---|---|---|---|---|
| | Number of options | Weighted-average exercise price | Number of options | Weighted-average grant date fair value |
| Outstanding, January 1, 2021 | 6,936,830 | $ 45.04 | 3,885,385 | $ 11.68 |
| Granted | 1,346,358 | $ 87.51 | 1,346,358 | $ 19.06 |
| Exercised | (723,276) | $ 35.20 | N/A | N/A |
| Vested | N/A | N/A | (1,315,036) | $ 11.83 |
| Forfeited | (167,724) | $ 54.54 | (167,724) | $ 12.23 |
| Outstanding, December 31, 2021 | 7,392,188 | $ 53.36 | 3,748,983 | $ 14.25 |
| Vested or expected to vest at December 31, 2021[1] | 7,340,397 | $ 53.21 | N/A | N/A |
| Exercisable, December 31, 2021 | 3,643,205 | $ 41.64 | N/A | N/A |

[1] As at December 31, 2021, the weighted-average remaining term of vested or expected to vest options was 4.3 years with an aggregate intrinsic value of $277 million.

The following table provides the number of stock options outstanding and exercisable as at December 31, 2021 by range of exercise price and their related intrinsic aggregate value, and for options outstanding, the weighted-average years to expiration. The table also provides the aggregate intrinsic value for in-the-money stock options, which represents the amount that would have been received by option holders had they exercised their options on December 31, 2021 at the Company's closing stock price of $90.98.

| | Options outstanding | | | | Options exercisable | | |
|---|---|---|---|---|---|---|---|
| Range of exercise prices | Number of options | Weighted-average years to expiration | Weighted-average exercise price | Aggregate intrinsic value (millions) | Number of options | Weighted-average exercise price | Aggregate intrinsic value (millions) |
| $15.14 - $38.17 | 1,420,600 | 2.7 | $ 30.14 | $ 86 | 1,420,600 | $ 30.14 | $ 87 |
| $38.18 - $46.65 | 2,013,630 | 2.4 | $ 40.86 | $ 101 | 1,032,160 | $ 42.64 | $ 50 |
| $46.66 - $68.74 | 2,167,180 | 4.1 | $ 55.55 | $ 77 | 1,082,960 | $ 52.89 | $ 41 |
| $68.75 - $103.98 | 1,790,778 | 5.9 | $ 83.21 | $ 14 | 107,485 | $ 70.48 | $ 2 |
| Total[1] | 7,392,188 | 3.8 | $ 53.36 | $ 278 | 3,643,205 | $ 41.64 | $ 180 |

[1] As at December 31, 2021, the total number of in-the-money stock options outstanding was 7,373,880 with a weighted-average exercise price of $53.26. The weighted-average years to expiration of exercisable stock options is 3.1 years.

Pursuant to the employee plan, options may be exercised upon vesting, which is between 12 months and 48 months after the grant date, and will expire after seven years. Under the fair value method, the fair value of the stock options at grant date was approximately $26 million for options issued in 2021 (2020 – $15 million; 2019 – $14 million). The weighted-average fair value assumptions were approximately:

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| Expected option life (years)[1] | **4.75** | 4.75 | 5.00 |
| Risk-free interest rate[2] | **0.53%** | 1.28% | 2.22% |
| Expected stock price volatility[3] | **27.14%** | 23.14% | 25.04% |
| Expected annual dividends per share[4] | **$ 0.760** | $ 0.664 | $ 0.524 |
| Expected forfeiture rate[5] | **2.62%** | 4.41% | 6.05% |
| Weighted-average grant date fair value of options granted during the year | **$ 19.06** | $ 13.80 | $ 12.74 |

[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 term of the option.
[3] Based on the historical volatility of the Company's stock 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. The rate is monitored on a periodic basis.

In 2021, the expense for stock options (regular and performance) was $23 million (2020 – $16 million; 2019 – $14 million). At December 31, 2021, there was $16 million of total unrecognized compensation related to stock options which is expected to be recognized over a weighted-average period of approximately 0.9 years.

The total fair value of shares vested for the stock option plan during 2021 was $18 million (2020 – $10 million; 2019 – $8 million).

The following table provides information related to all options exercised in the stock option plan during the years ended December 31:

| (in millions of Canadian dollars) | 2021 | 2020 | 2019 |
|---|---|---|---|
| Total intrinsic value | **$ 43** | $ 52 | $ 63 |
| Cash received by the Company upon exercise of options | **25** | 52 | 26 |

## B. Other share-based plans

### Performance share unit plans

During 2021, the Company issued 431,430 PSUs with a grant date fair value of approximately $37 million and 12,694 PDSUs with a grant date fair value, including value of expected future matching units, of approximately $1 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 CP's performance ("performance factor"). The fair value of these PSUs and PDSUs is measured periodically until settlement using closing share price on the date of measurement. The fair value of units that are probable of vesting based on forecasted performance factors over the three-year performance period is recognized as expense in the Consolidated Statements of Income. Vested PSUs are settled in cash. Vested PDSUs are settled in cash pursuant to the 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 CP.

The performance period for PSUs and PDSUs issued in 2021 is January 1, 2021 to December 31, 2023, and the performance factors are Return on Invested Capital ("ROIC"), Total Shareholder Return ("TSR") compared to the S&P/TSX 60 Index, and TSR compared to Class I railways.

The performance period for 489,990 PSUs and 50,145 PDSUs issued in 2020 is January 1, 2020 to December 31, 2022, and the performance factors for these PSUs are ROIC, TSR compared to the S&P/TSX 60 Index, and TSR compared to Class I railways.

The performance period for 668,405 PSUs issued in 2019 was January 1, 2019 to December 31, 2021, and the performance factors for these PSUs were ROIC, TSR compared to the S&P/TSX 60 Index, and TSR compared to Class I Railways. The resulting estimated payout on these awards was 200% on 630,129 total outstanding awards representing a total fair value of $116 million at December 31, 2021, calculated using the Company's average share price of the last 30 trading days preceding December 31, 2021. The performance factors for the remaining 2,895 PSUs were annual revenue for the fiscal year 2020, diluted earnings per share for the fiscal year 2020, and share price appreciation.

The performance period for 626,400 PSUs issued in 2018 was January 1, 2018 to December 31, 2020, and the performance factors were ROIC, TSR compared to the S&P/TSX Capped Industrial Index, and TSR compared to the S&P 1500 Road and Rail Index. The resulting payout was 200% of the

outstanding units multiplied by the Company's average share price calculated using the last 30 trading days preceding December 31, 2020. In the first quarter of 2021, payouts occurred on 570,056 total outstanding awards, including dividends reinvested, totalling $98 million. The performance factors for the remaining 184,875 PSUs were annual revenue for the fiscal year 2020, diluted earnings per share for the fiscal year 2020, and share price appreciation. The resulting payout was 125% of the outstanding units multiplied by the Company's average share price calculated using the last 30 trading days preceding the vesting dates. In the second half of 2021, payouts occurred on 173,456 total outstanding awards, including the 2,895 units issued in 2019 and dividends reinvested, totalling $21 million.

The following table summarizes information related to PSUs and PDSUs as at December 31:

| | **2021** | 2020 |
|---|---|---|
| Outstanding, January 1 | **1,909,345** | 2,015,680 |
| Granted | **444,124** | 540,135 |
| Units in lieu of dividends | **14,668** | 19,215 |
| Settled | **(743,512)** | (606,125) |
| Forfeited | **(46,844)** | (59,560) |
| Outstanding, December 31 | **1,577,781** | 1,909,345 |

In 2021, the expense for PSUs and PDSUs was $91 million (2020 – $121 million; 2019 – $89 million). At December 31, 2021, there was $35 million of total unrecognized compensation related to these awards which is expected to be recognized over a weighted-average period of approximately 1.4 years.

## Deferred share unit plan

The Company established the DSU plan as a means to compensate and assist in attaining share ownership targets set for certain key employees and Directors. A DSU entitles the holder to receive, upon redemption, a cash payment equivalent to the Company's average share price using the 10 trading days prior to redemption. DSUs vest over various periods of up to 36 months and are only redeemable for a specified period after employment is terminated.

Senior managers may elect to receive DSUs in lieu of annual bonus cash payments in the bonus deferral program. In addition, senior managers will be granted a 25% company match of DSUs when deferring cash to DSUs to meet ownership targets. The election to receive eligible payments in DSUs is no longer available to a participant when the value of the participant's DSUs is sufficient to meet the Company's stock ownership guidelines. Senior managers have five years to meet their ownership targets.

The expense for DSUs is recognized over the vesting period for both the initial subscription price and the change in value between reporting periods.

The following table summarizes information related to DSUs as at December 31:

| | **2021** | 2020 |
|---|---|---|
| Outstanding, January 1 | **774,053** | 806,095 |
| Granted | **70,112** | 95,204 |
| Units in lieu of dividends | **6,753** | 7,553 |
| Settled | **(6,677)** | (133,940) |
| Forfeited | **(2,908)** | (859) |
| Outstanding, December 31 | **841,333** | 774,053 |

During 2021, the Company granted 70,112 DSUs with a grant date fair value of approximately $6 million. In 2021, the expense for DSUs was $6 million (2020 – $21 million; 2019 – $20 million). At December 31, 2021, there was $1 million of total unrecognized compensation related to DSUs which is expected to be recognized over a weighted-average period of approximately 1.0 year.

## Summary of share-based liabilities paid

The following table summarizes the total share-based liabilities paid for each of the years ended December 31:

| (in millions of Canadian dollars) | 2021 | 2020 | 2019 |
|---|---|---|---|
| Plan | | | |
| PSUs | **$ 119** | $ 76 | $ 54 |
| DSUs | **1** | 9 | 4 |
| Other | **6** | 1 | — |
| Total | **$ 126** | $ 86 | $ 58 |

### C. Employee share purchase plan

The Company has an employee share purchase plan whereby both employee and the Company contributions are used to purchase shares on the open market for employees. The Company's contributions are expensed over the one year vesting period. Under the plan, the Company matches $1 for every $3 contributed by employees up to a maximum employee contribution of 6% of annual salary.

The total number of shares purchased in 2021 on behalf of participants, including the Company's contributions, was 538,022 (2020 – 576,720; 2019 – 689,710). In 2021, the Company's contributions totalled $11 million (2020 – $9 million; 2019 – $8 million) and the related expense was $8 million (2020 – $7 million; 2019 – $6 million).

# 26. Variable interest entities

The Company leases equipment from certain trusts, which have been determined to be variable interest entities financed by a combination of debt and equity provided by unrelated third parties. The lease agreements, which are classified as operating leases, have fixed price purchase options which create the Company's variable interests and result in the trusts being considered variable interest entities.

Maintaining and operating the leased assets according to specific contractual obligations outlined in the terms of the lease agreements and industry standards is the Company's responsibility. The rigour of the contractual terms of the lease agreements and industry standards are such that the Company has limited discretion over the maintenance activities associated with these assets. As such, the Company concluded these terms do not provide the Company with the power to direct the activities of the variable interest entities in a way that has a significant impact on the entities' economic performance.

The financial exposure to the Company as a result of its involvement with the variable interest entities is equal to the fixed lease payments due to the trusts. In 2021, lease payments after tax were $14 million. Future minimum lease payments, before tax, of $107 million will be payable over the next 9 years. The Company does not guarantee the residual value of the assets to the lessor; however, it must deliver to the lessor the assets in good operating condition, subject to normal wear and tear, at the end of the lease term.

As the Company's actions and decisions do not significantly affect the variable interest entities' performance, and the Company's fixed price purchase option is not considered to be potentially significant to the variable interest entities, the Company is not considered to be the primary beneficiary, and does not consolidate these variable interest entities.

Additionally, as further discussed in Note 11, as at December 31, 2021, an indirect wholly owned subsidiary of the Company is the sole beneficiary of an independent voting trust that holds 100% of the equity interest in KCS. The trust is governed by a single trustee who is responsible to act in the interest of CP as the beneficial owner of the shares of KCS. As a result of KCS's equity being held in trust, CP's interest in KCS does not have the attributes of a typical equity holder as CP has no power to direct KCS's activities during the trust period and therefore the trust is considered to be a variable interest entity that CP cannot consolidate.

The risks associated with CP's investment in KCS include normal corporate and business risks associated with railroad operations. During the trust period, KCS is subject to contractual restrictions related to acquiring assets, entering into material contracts, or making certain additional capital expenditures that could have a negative impact on their operations. CP's investment in KCS is also subject to the risk that the STB will not approve CP's application to control KCS by December 31, 2023 or, by a final and non-appealable order, refuse to provide final approval in which cases CP would be required to dispose of its investment in KCS. Similarly, if the STB imposes onerous conditions on its final approval, CP may choose to dispose of its initial investment in KCS rather than agreeing to the conditions imposed by the STB. The Company may not be able to sell its investment at a price that recovers its initial investment and may incur a loss up to the full carrying value of its investment in KCS, in addition to incurring significant expenses in connection to such transaction. All of these risks can impact the overall value of CP's investment in KCS.

# 27. Commitments and 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 December 31, 2021 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, or results of operations. 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.

## Commitments

At December 31, 2021, the Company had committed to total future capital expenditures amounting to $455 million and operating expenditures relating to supplier purchase obligations, such as bulk fuel purchase agreements, locomotive maintenance and overhaul agreements, as well as agreements to purchase other goods and services amounting to approximately $1.6 billion for the years 2022–2035.

Commitments related to leases, including minimum annual payments for the next five years and thereafter, are included in Note 21.

## 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 CP and others:

(1) Québec's Minister of Sustainable Development, Environment, Wildlife and Parks ordered various parties, including CP, to remediate the derailment site (the "Cleanup Order") and served CP with a Notice of Claim for $95 million for those costs. CP 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 CP 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) CP was responsible for the petroleum crude oil from its point of origin until its delivery to Irving Oil Ltd.; and (ii) CP 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 CP 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 CP 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 CP 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, and will be followed by a damages trial, if necessary.

(5) Forty-eight plaintiffs (all individual claims joined in one action) sued CP, 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 CP, 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 CP in November 2014 in the Maine Bankruptcy Court claiming that CP 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 CP knew or ought to have known that the shipper misclassified the petroleum crude oil and therefore should have refused to transport it.

(7) The class and mass tort action commenced against CP 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 CP 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 CP negligently misclassified and improperly packaged the petroleum crude oil. On CP'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 filed a petition for a writ of certiorari with the U.S. Supreme Court on two bankruptcy procedural grounds.

(8) The trustee for the wrongful death trust commenced Carmack Amendment claims against CP in North Dakota Federal Court, seeking to recover approximately U.S. $6 million for damaged rail cars and lost crude 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. This action is scheduled for trial on July 11 to 14, 2022.

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

# 28. Guarantees

In the normal course of operating the railway, the Company enters into contractual arrangements that involve providing certain guarantees, which extend over the term of the contracts. These guarantees include, but are not limited to:

- guarantees to pay other parties in the event of the occurrence of specified events, including damage to equipment, in relation to assets used in the operation of the railway through operating leases, rental agreements, easements, trackage, and interline agreements; and
- indemnifications of certain tax-related payments incurred by lessors and lenders.

The maximum amount that could be payable under these guarantees, excluding residual value guarantees, cannot be reasonably estimated due to the nature of certain of these guarantees. All or a portion of amounts paid under guarantees to other parties in the event of the occurrence of specified events could be recoverable from other parties or through insurance. The Company has accrued for all guarantees that it expects to pay. At December 31, 2021, these accruals amounted to $14 million (2020 – $18 million), and are recorded in "Accounts payable and accrued liabilities".

## Indemnifications

Pursuant to a trust and custodial services agreement with the trustee of the Canadian Pacific Railway Company Pension Plan, the Company has undertaken to indemnify and save harmless the trustee, to the extent not paid by the fund, from any and all taxes, claims, liabilities, damages, costs, and expenses arising out of the performance of the trustee's obligations under the agreement, except as a result of misconduct by the trustee. The indemnity includes liabilities, costs, or expenses relating to any legal reporting or notification obligations of the trustee with respect to the defined benefit and defined contribution options of the pension plans, or otherwise with respect to the assets of the pension plans that are not part of the fund. The indemnity survives the termination or expiry of the agreement with respect to claims and liabilities arising prior to the termination or expiry.

Pursuant to the voting trust agreement executed as part of the KCS acquisition, the Company has undertaken to protect, indemnify and save harmless the trustee from any loss, damages, liability, cost or expense in connection with the independent voting trust (except those resulting from the gross negligence or willful misconduct of the trustee) and any cost or expense of any suit or litigation with respect to the trust stock or the voting trust agreement. The Company has also undertaken to pay all costs, damages and expenses of the trustee, where the trustee is made party to or is the subject of any investigation or proceeding by reason of and with respect to the trust stock or voting trust agreement.

At December 31, 2021, the Company had not recorded a liability associated with this indemnification as it does not expect to make any payments pertaining to it.

# 29. Segmented and geographic information

## Operating segment

The Company operates in only one operating segment: rail transportation. Operating results by geographic areas, railway corridors, or other lower-level components or units of operation are not reviewed by the Company's chief operating decision-maker to make decisions about the allocation of resources to, or the assessment of performance of, such geographic areas, corridors, components, or units of operation.

In the years ended December 31, 2021, 2020, and 2019, no one customer comprised more than 10% of total revenues and accounts receivable.

## Geographic information

All of the Company's revenues and long-term assets disclosed in the table below are held within Canada and the United States.

| (in millions of Canadian dollars) | Canada | United States | Total |
|---|---|---|---|
| **2021** | | | |
| Revenues | **$ 5,992** | **$ 2,003** | **$ 7,995** |
| Long-term assets excluding investment in Kansas City Southern, financial instruments, and pension assets | **14,922** | **7,274** | **22,196** |
| 2020 | | | |
| Revenues | 5,829 | 1,881 | 7,710 |
| Long-term assets excluding financial instruments and pension assets | 14,258 | 7,165 | 21,423 |
| 2019 | | | |
| Revenues | 5,675 | 2,117 | 7,792 |
| Long-term assets excluding financial instruments and pension assets | 13,131 | 7,020 | 20,151 |

# 30. Selected quarterly data (unaudited)

As a result of the five-for-one share split of the Company's issued and outstanding Common Shares, which began trading on a post-split basis on May 14, 2021, per share amounts and all outstanding Common Shares for periods prior to Q2 2021 were retrospectively adjusted. The adjusted amounts are presented below. Total revenues, Operating income, and Net income were not impacted by the share split.

| For the quarter ended | **2021** | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| (in millions of Canadian dollars, except per share data) | **Dec. 31** | **Sep. 30** | **Jun. 30** | **Mar. 31** | Dec. 31 | Sep. 30 | Jun. 30 | Mar. 31 |
| Total revenues | **$ 2,040** | **$ 1,942** | **$ 2,054** | **$ 1,959** | $ 2,012 | $ 1,863 | $ 1,792 | $ 2,043 |
| Operating income | **832** | **774** | **820** | **780** | 928 | 779 | 770 | 834 |
| Net income | **532** | **472** | **1,246** | **602** | 802 | 598 | 635 | 409 |
| Basic earnings per share[1] | **$ 0.74** | **$ 0.71** | **$ 1.87** | **$ 0.90** | $ 1.19 | $ 0.88 | $ 0.94 | $ 0.60 |
| Diluted earnings per share[1] | **$ 0.74** | **$ 0.70** | **$ 1.86** | **$ 0.90** | $ 1.19 | $ 0.88 | $ 0.93 | $ 0.60 |

[1] Earnings per share for the four quarters combined may not equal earnings per share for the year due to rounding.

# ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

# ITEM 9A. CONTROLS AND PROCEDURES

## Evaluation of Disclosure Controls and Procedures

As of December 31, 2021, an evaluation was carried out under the supervision of and with the participation of CP'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, 2021, 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, 2021. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the reliability of financial reporting and preparation of financial statements in accordance with generally accepted accounting principles.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2021 has been audited by Deloitte 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, 2021, 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.

# Report of Independent Registered Public Accounting Firm

## To the Shareholders and the Board of Directors of Canadian Pacific Railway Limited

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Canadian Pacific Railway Limited and subsidiaries (the "Company") as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework (2013*) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements as of and for the year ended December 31, 2021, of the Company and our report dated February 23, 2022, expressed an unqualified opinion on those financial statements.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of 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.

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Canada
February 23, 2022

## ITEM 9B. OTHER INFORMATION

None.

## ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

# PART III

# ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

## Directors of Registrant

The information required by this Item will be contained in the Company's Form 10-K/A, which will be filed no later than 120 days after December 31, 2021. This information will also be contained in the management proxy circular that we prepare in accordance with applicable Canadian corporate and securities law requirements.

## Executive Officers of Registrant

The information regarding executive officers is included in Part I of this annual report under Information about our Executive Officers, following Item 4. Mine Safety Disclosures.

## Compliance with Section 16(a) of the Exchange Act

The information required by this Item will be contained in the Company's Form 10-K/A, which will be filed no later than 120 days after December 31, 2021.

## Code of Ethics for Chief Executive Officer and Senior Financial Officers

The information required by this Item will be contained in the Company's Form 10-K/A, which will be filed no later than 120 days after December 31, 2021.

# ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item will be contained in the Company's Form 10-K/A, which will be filed no later than 120 days after December 31, 2021. This information will also be contained in the management proxy circular that we prepare in accordance with applicable Canadian corporate and securities law requirements.

# ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item will be contained in the Company's Form 10-K/A, which will be filed no later than 120 days after December 31, 2021.

# ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item will be contained in the Company's Form 10-K/A, which will be filed no later than 120 days after December 31, 2021. This information will also be contained in the management proxy circular that we prepare in accordance with applicable Canadian corporate and securities law requirements.

# ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item will be contained in the Company's Form 10-K/A, which will be filed no later than 120 days after December 31, 2021. This information will also be contained in the management proxy circular that we prepare in accordance with applicable Canadian corporate and securities law requirements.

# PART IV

# ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

The following documents are filed as part of this annual report:

(a) Financial Statements

The financial statements filed as part of this filing are listed on the Index to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

(b) Financial Statement Schedule

Schedule II – Valuation and Qualifying Accounts

| (in millions of Canadian dollars) | Beginning balance at January 1 | Additions charged to expenses | Payments and other reductions | Impact of FX | Ending balance at December 31 |
|---|---|---|---|---|---|
| Accruals for personal injury and other claims provision[1] | | | | | |
| 2019 | $ 152 | $ 142 | $ (152) | $ (1) | $ 141 |
| 2020 | $ 141 | $ 105 | $ (119) | $ (1) | $ 126 |
| **2021** | **$ 126** | **$ 114** | **$ (117)** | **$ —** | **$ 123** |
| Environmental liabilities | | | | | |
| 2019 | $ 82 | $ 6 | $ (8) | $ (3) | $ 77 |
| 2020 | $ 77 | $ 10 | $ (6) | $ (1) | $ 80 |
| **2021** | **$ 80** | **$ 10** | **$ (10)** | **$ (1)** | **$ 79** |

[1] Includes WCB, FELA, occupational, damage, and other.

(c) Exhibits

Exhibits are listed in the exhibit index below. The exhibits include management contracts, compensatory plans and arrangements required to be filed as exhibits to the Form 10-K by Item 601(10)(iii) of Regulation S-K.

| Exhibit | Description |
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| 2 | ***Plan of Acquisition, Reorganization, Arrangement, Liquidation, or Succession:*** |
| 2.1 | Agreement and Plan of Merger, dated as of March 21, 2021, by and among Canadian Pacific Railway Limited, Cygnus Merger Sub 1 Corporation, Cygnus Merger Sub 2 Corporation and Kansas City Southern (incorporated by reference to Exhibit 2.1 to Canadian Pacific Railway Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 21, 2021, File No. 001-01342). |
| 2.2 | Agreement and Plan of Merger, dated as of September 15, 2021, by and among Canadian Pacific Railway Limited, Cygnus Merger Sub 1 Corporation, Cygnus Merger Sub 2 Corporation and Kansas City Southern (incorporated by reference to Exhibit 2.1 to Canadian Pacific Railway Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 16, 2021, File No. 001-01342). |
| 3 | ***Articles of Incorporation and Bylaws:*** |
| 3.1 | Restated Certificate and Articles of Incorporation of Canadian Pacific Railway Limited (incorporated by reference to Exhibit 99.2 to Canadian Pacific Railway Limited's Current Report on Form 6-K filed with the Securities and Exchange Commission on October 22, 2015, File No. 001-01342). |
| 3.2 | Articles of Amendment to Restated Certificate and Articles of Incorporation of Canadian Pacific Railway Limited (incorporated by reference to Exhibit 3.1 to Canadian Pacific Railway Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 5, 2021, File No. 001-01342). |
| 3.3 | By-law No. 1, as amended, of Canadian Pacific Railway Limited (incorporated by reference to Exhibit 1 to Canadian Pacific Railway Limited's Current Report on Form 6-K filed with the Securities and Exchange Commission on May 22, 2009, File No. 001-01342). |
| 3.4 | By-law No. 2 of Canadian Pacific Railway Limited (incorporated by reference to Exhibit 99.1 to Canadian Pacific Railway Limited's Current Report on Form 6-K filed with the Securities and Exchange Commission on March 13, 2015, File No. 001-01342). |

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| 3.5 | General By-law, as amended, of Canadian Pacific Railway Company, a wholly owned subsidiary of Canadian Pacific Railway Limited (incorporated by reference to Exhibit 2 to Canadian Pacific Railway Limited's Current Report on Form 6-K filed with the Securities and Exchange Commission on May 22, 2009, File No. 001-01342). |
| 4 | ***Instruments Defining the Rights of Security Holders, Including Indentures:*** |
| 4.1 | Indenture dated as of May 8, 2007 between Canadian Pacific Railway Company and The Bank of New York Mellon (incorporated by reference to Exhibit 4.1 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.2 | First Supplemental Indenture dated as of May 8, 2007 between Canadian Pacific Railway Company and The Bank of New York Mellon (incorporated by reference to Exhibit 4.2 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.3 | Second Supplemental Indenture dated as of May 20, 2008 between Canadian Pacific Railway Company and The Bank of New York Mellon (incorporated by reference to Exhibit 4.3 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.4 | Third Supplemental Indenture dated as of May 15, 2009 between Canadian Pacific Railway Company and The Bank of New York Mellon (incorporated by reference to Exhibit 4.4 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.5 | Fourth Supplemental Indenture dated as of September 23, 2010 between Canadian Pacific Railway Company and The Bank of New York Mellon (incorporated by reference to Exhibit 4.5 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.6 | Fifth Supplemental Indenture dated as of December 1, 2011 between Canadian Pacific Railway Company and The Bank of New York Mellon (incorporated by reference to Exhibit 4.6 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.7 | Sixth Supplemental Indenture dated as of February 2, 2015 between Canadian Pacific Railway Company and The Bank of New York Mellon (incorporated by reference to Exhibit 4.7 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.8 | Seventh Supplemental Indenture dated as of August 3, 2015 between Canadian Pacific Railway Company and The Bank of New York Mellon (incorporated by reference to Exhibit 4.8 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.9 | Eighth Supplemental Indenture dated as of November 24, 2015 among Canadian Pacific Railway Limited, Canadian Pacific Railway Company and The Bank of New York Mellon (incorporated by reference to Exhibit 4.9 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.10 | Indenture dated as of October 30, 2001 between Canadian Pacific Railway Company and The Bank of New York Mellon (incorporated by reference to Exhibit 4.10 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.11 | First Supplemental Indenture dated as of April 23, 2004 between Canadian Pacific Railway Company and The Bank of New York Mellon (incorporated by reference to Exhibit 4.11 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.12 | Second Supplemental Indenture dated as of October 12, 2011 between Canadian Pacific Railway Limited and The Bank of New York Mellon (incorporated by reference to Exhibit 4.12 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.13 | Third Supplemental Indenture dated as of October 13, 2011 between Canadian Pacific Railway Company and The Bank of New York Mellon (incorporated by reference to Exhibit 4.13 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.14 | Fourth Supplemental Indenture dated as of November 24, 2015 among Canadian Pacific Railway Limited, Canadian Pacific Railway Company and The Bank of New York Mellon (incorporated by reference to Exhibit 4.14 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.15 | Indenture dated as of July 15, 1991 between Canadian Pacific Railway Company and Harris Trust and Savings Bank (incorporated by reference to Exhibit 4.15 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.16 | First Supplemental Indenture dated as of July 1, 1996 between Canadian Pacific Railway Company and Harris Trust and Savings Bank (incorporated by reference to Exhibit 4.16 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.17 | Second Supplemental Indenture dated as of November 24, 2015 among Canadian Pacific Railway Limited, Canadian Pacific Railway Company and The Bank of New York Mellon (as successor in interest to Harris Trust and Savings Bank) (incorporated by reference to Exhibit 4.17 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |

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| 4.18 | Indenture dated as of May 23, 2008 between Canadian Pacific Railway Company and Computershare Trust Company of Canada (incorporated by reference to Exhibit 4.18 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.19 | First Supplemental Indenture dated as of November 24, 2015 among Canadian Pacific Railway Limited, Canadian Pacific Railway Company and Computershare Trust Company of Canada (incorporated by reference to Exhibit 4.19 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.20 | Indenture dated as of September 11, 2015, from Canadian Pacific Railway Company to Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 99.1 to Canadian Pacific Railway Limited's Current Report on Form 6-K filed with the Securities and Exchange Commission on September 14, 2015, File No. 001-01342). |
| 4.21 | First Supplemental Indenture dated as of September 11, 2015 between Canadian Pacific Railway Company and The Bank of New York Mellon (incorporated by reference to Exhibit 4.21 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.22 | Second Supplemental Indenture dated as of November 24, 2015 among Canadian Pacific Railway Limited, Canadian Pacific Railway Company and The Bank of New York Mellon (incorporated by reference to Exhibit 4.22 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.23 | Guarantee of Canadian Pacific Railway Company's Perpetual 4% Consolidated Debenture Stock dated as of December 18, 2015, between Canadian Pacific Railway Limited and Canadian Pacific Railway Company (incorporated by reference to Exhibit 4.23 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 4.24 | Third Supplemental Indenture dated as of May 16, 2018 among Canadian Pacific Railway Limited, Canadian Pacific Railway Company and Wells Fargo Bank (incorporated by reference to Exhibit 4.2 to Canadian Pacific Railway Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 16, 2018, File No. 001-01342). |
| 4.25 | Officers' Certificate of Canadian Pacific Railway Company dated March 13, 2019 (incorporated by reference to Exhibit 4.1 to Canadian Pacific Railway Limited's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on April 24, 2019, File No. 001-01342). |
| 4.26 | Description of Securities – Equity Securities (incorporated by reference to Exhibit 4.26 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 20, 2020, File No. 001-01342). |
| 4.27 | Form of 2.050% Note due 2030 (incorporated by reference to Exhibit 4.1 to Canadian Pacific Railway Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 6, 2020, File No. 001-01342). |
| 4.28 | Fourth Supplemental Indenture, dated as of March 5, 2020, by and among Canadian Pacific Railway Company, as issuer, Canadian Pacific Railway Limited, as guarantor, and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 to Canadian Pacific Railway Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 6, 2020, File No. 001-01342). |
| 4.29 | Second Supplemental Indenture, dated as of March 9, 2020, by and among Canadian Pacific Railway Company, as issuer, Canadian Pacific Railway Limited, as guarantor, and Computershare Trust Company of Canada, as trustee (incorporated by reference to Exhibit 4.3 to Canadian Pacific Railway Limited's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on April 21, 2020, File No. 001-01342). |
| 4.30 | Fifth Supplemental Indenture, dated as of December 2, 2021, by and among Canadian Pacific Railway Company, as issuer, Canadian Pacific Railway Limited, as guarantor, and Computershare Trust Company N.A., as successor to Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to Canadian Pacific Railway Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 6, 2021, File No. 001-01342. |
| 9 | ***Voting Trust Agreement:*** |
| 9.1 | Voting Trust Agreement, dated as of December 14, 2021, by and among Canadian Pacific Railway Limited, Cygnus Holding Corp. and David L. Starling (incorporated by reference to Exhibit 9.1 to Canadian Pacific Railway Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2021, File No. 001-01342). |
| 10 | ***Material Contracts:*** |
| 10.1* | Compensation letter dated February 14, 2017, between the Company and Nadeem Velani (incorporated by reference to Exhibit 10.1 to Canadian Pacific Railway Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 21, 2017, File No. 001-01342). |

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| 10.2 | Fourth Amending Agreement, dated as of June 23, 2017, amending the Credit Agreement, dated September 26, 2014, between Canadian Pacific Railway Company, as Borrower, Canadian Pacific Railway Limited, as Covenantor, Royal Bank of Canada, as Administrative Agent, and the various Lenders party thereto (incorporated by reference to Exhibit 10.1 to Canadian Pacific Railway Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 27, 2017, File No. 001-01342). |
| 10.3* | Amendment dated as of January 31, 2017 to the Executive Employment Agreement dated July 23, 2016 and effective as of July 1, 2017 between Keith Creel and Canadian Pacific Railway Company (incorporated by reference to Exhibit 10.1 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 16, 2017, File No. 001-01342). |
| 10.4* | Offer of Employment Letter to Nadeem Velani dated October 18, 2016 (incorporated by reference to Exhibit 10.3 Canadian Pacific Railway Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 24, 2016, File No. 001-01342). |
| 10.5* | Executive Employment Agreement, between the Canadian Pacific Railway Limited and Keith Creel effective July 1, 2017 (incorporated by reference to Exhibit 10.2 to Canadian Pacific Railway Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2016, File No. 001-01342). |
| 10.6 | Third Amending Agreement, dated as of June 28, 2016, amending the Credit Agreement, dated September 26, 2014, between Canadian Pacific Railway Company, as Borrower, Canadian Pacific Railway Limited, as Covenantor, Royal Bank of Canada, as Administrative Agent, and the various Lenders party thereto (incorporated by reference to Exhibit 10.1 to Canadian Pacific Railway Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 29, 2016, File No. 001-01342). |
| 10.7* | CP 401(k) Savings Plan, as amended and restated effective October 27, 2014 (incorporated by reference to Exhibit 4.5 to Canadian Pacific Railway Limited's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on December 21, 2015, File No. 333-208647). |
| 10.8* | Stand-Alone Option Agreement dated February 4, 2013 between the Registrant and Keith Creel (incorporated by reference to Exhibit 4.2 to Canadian Pacific Railway Limited's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on May 24, 2013, File No. 333-188827). |
| 10.9* | Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, adopted with effect from February 17, 2009, as amended February 22, 2013, April 30, 2014 and February 18, 2015 (incorporated by reference to Exhibit 10.3 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.10* | Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as amended and restated effective November 19, 2015 (incorporated by reference to Exhibit 10.4 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.11* | Canadian Pacific Railway Limited Employee Share Purchase Plan (U.S.) dated July 1, 2006 ("ESPP (U.S.)"), and Amendment to the ESPP (U.S.) effective January 1, 2015, and Amendment to the ESPP (U.S.) January 1, 2016 (incorporated by reference to Exhibit 10.5 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.12* | Directors' Stock Option Plan, effective October 1, 2001 (incorporated by reference to Exhibit 10.7 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.13* | Directors' Deferred Share Unit Plan, as amended effective July 1, 2013 (incorporated by reference to Exhibit 10.8 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.14* | Senior Executives' Deferred Share Unit Plan, effective as of January 1, 2001, as amended September 6, 2012 (incorporated by reference to Exhibit 10.9 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.15* | Canadian Pacific Railway Limited Employee Share Purchase Plan (Canada) dated July 1, 2006 ("ESPP (Canada)"), and Amendment to the ESPP (Canada) effective January 1, 2013, and Amendment to the ESPP (Canada) effective November 5, 2013, and Amendment to the ESPP (Canada) effective July 17, 2014 (incorporated by reference to Exhibit 10.10 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.16* | Canadian Pacific U.S. Salaried Retirement Income Plan, as restated effective January 1, 2015 (incorporated by reference to Exhibit 10.11 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.17* | Canadian Pacific U.S. Supplemental Executive Retirement Plan, effective January 1, 2013 ("CPUSERP"), and First Amendment to the CPUSERP effective November 14, 2013, and Second Amendment to the CPUSERP effective January 1, 2014 (incorporated by reference to Exhibit 10.12 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |

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| 10.18* | Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, effective August 2, 2011, as amended February 21, 2013 (incorporated by reference to Exhibit 10.13 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.19* | Short Term Incentive Plan for Non-Unionized Employees (Canada) and US Salaried Employees, effective January 1, 2014 (incorporated by reference to Exhibit 10.14 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.20* | Canadian Pacific Railway Company Pension Plan (Pension Plan Rules), consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.15 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.21* | Amendment Number 1, effective July 1, 2010, to the Defined Contribution Provisions (Appendix B) of the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules), consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.16 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.22* | Amendment Number 2, effective April 1, 2011, to the Defined Contribution Provisions (Appendix B) of the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules), consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.17 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.23* | Amendment Number 3, effective January 1, 2013, to the Defined Contribution Provisions (Appendix B) of the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules), consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.18 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.24* | Amendment Number 1 to the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules), consolidated as at January 1, 2009, approved by the Board of Directors on December 16, 2009 (incorporated by reference to Exhibit 10.19 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.25* | Amendment Number 2, effective January 1, 2010, to the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules), consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.20 to Canadian Pacific Railway Limited's Form Annual Report on 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.26* | Amendment Number 3, effective January 1, 2010, to the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules), consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.21 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.27* | Amendment Number 4, effective January 1, 2011, to the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules), consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.22 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.28* | Amendment Number 5, effective January 1, 2011, to the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules), consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.23 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.29* | Amendment Number 6, effective October 1, 2012, to the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules), consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.24 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.30* | Amendment Number 7, effective January 1, 2013, to the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules), consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.25 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.31* | Amendment Number 8, effective January 1, 2013, to the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules), consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.26 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.32* | Amendment Number 9, effective January 1, 2013, to the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules), consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.27 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.33* | Amendment Number 10, effective January 1, 2013, to the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules), consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.28 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.34* | Amendment Number 11, effective January 1, 2013, to the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules), consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.29 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.35* | Amendment Number 12, effective January 1, 2015, to the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules), consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.30 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |

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| 10.36* | Amendment Number 13, effective January 1, 2015, to the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules), consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.31 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.37* | Canadian Pacific Railway Company Secondary Pension Plan (Pension Plan Rules), effective June 1, 2013 (incorporated by reference to Exhibit 10.32 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.38* | Amendment Number 1, effective June 1, 2013, to the Canadian Pacific Railway Company Secondary Pension Plan (Pension Plan Rules), effective June 1, 2013 (incorporated by reference to Exhibit 10.33 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.39* | Amendment Number 2, effective January 1, 2015, to the Canadian Pacific Railway Company Secondary Pension Plan (Pension Plan Rules) effective January 1, 2015 (incorporated by reference to Exhibit 10.34 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.40* | Canadian Pacific Railway Company Supplemental Retirement Plan, effective January 1, 2011 (incorporated by reference to Exhibit 10.35 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.41* | Executive Employment Agreement between Canadian Pacific Railway Company, Soo Line Railroad Company and Keith Creel, effective as of February 5, 2013 (incorporated by reference to Exhibit 10.38 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.42* | Amendment dated August 10, 2015, to the Executive Employment Agreement between Canadian Pacific Railway Company, Soo Line Railroad Company and Keith Creel, effective as of February 5, 2013 (incorporated by reference to Exhibit 10.39 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.43 | Credit Agreement dated as of September 26, 2014 among Canadian Pacific Railway Company and CPR Securities Limited, as borrowers, Canadian Pacific Railway Limited, as covenantor, the Financial Institutions that are signatories to the Credit Agreement, as Lenders, the Royal Bank of Canada, as Administrative Agent, RBC Capital Markets, J.P. Morgan Securities LLC, TD Securities, Morgan Stanley MUFG Loan Partners, LLC and Citibank, N.A., Canadian Branch, as Co-Lead Arrangers, RBC Capital Markets and J.P. Morgan Securities LLC, as Joint Bookrunners, J.P. Morgan Chase Bank, N.A., as Syndication Agent, The Toronto-Dominion Bank, Morgan Stanley MUFG Loan Partners, LLC and Citibank, N.A., Canadian Branch, as Co-Documentation Agents (incorporated by reference to Exhibit 10.45 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.44 | First Amending Agreement dated as of June 15, 2015, to the Credit Agreement dated September 26, 2014, among Canadian Pacific Railway Company and CPR Securities Limited, as borrowers, Canadian Pacific Railway Limited, as covenantor, the signatories to this First Amending Agreement to the Credit Agreement, as Lenders, the Royal Bank of Canada, as Administrative Agent (incorporated by reference to Exhibit 10.46 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.45 | Second Amending Agreement dated as of September 17, 2015, to the Credit Agreement dated September 26, 2014, among Canadian Pacific Railway Company and CPR Securities Limited, as borrowers, Canadian Pacific Railway Limited, as covenantor, the signatories to the Second Amending Agreement to this Credit Agreement, as Lenders, the Royal Bank of Canada, as Administrative Agent (incorporated by reference to Exhibit 10.47 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016, File No. 001-01342). |
| 10.46 | Fifth Amending Agreement, dated as of June 8, 2018, amending the Credit Agreement, dated September 26, 2014, between Canadian Pacific Railway Company, as Borrower, Canadian Pacific Railway Limited, as Covenantor, Royal Bank of Canada, as Administrative Agent, and the various Lenders party thereto (incorporated by reference to Exhibit 10.1 to Canadian Pacific Railway Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 11, 2018, File No. 001-01342). |
| 10.47* | Amendment dated as of January 1, 2019, to the Executive Employment Agreement between Canadian Pacific Railway Company and Keith Creel, dated July 23, 2016 and effective as of July 1, 2017 as amended as of January 31, 2017 (incorporated by reference to Exhibit 10.49 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 15, 2019, File No. 001-01342). |
| 10.48 | Amended and Restated Credit Agreement, dated as of September 27, 2019, between Canadian Pacific Railway Company, as Borrower, Canadian Pacific Railway Limited, as Covenantor, Royal Bank of Canada, as Administrative Agent, and the various Lenders party thereto (incorporated by reference to Exhibit 10.1 to Canadian Pacific Railway Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 1, 2019, File No. 001-01342). |
| 10.49* | Amendment Number 3, effective June 1, 2013, to the Canadian Pacific Railway Company Secondary Pension Plan (Pension Plan Rules), effective June 1, 2013 (incorporated by reference to Exhibit 10.49 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 18, 2021, File No. 001-01342). |
| 10.50* | Amendment Number 14, effective May 1, 2017, to the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules) consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.50 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 18, 2021, File No. 001-01342). |

| | |
|---|---|
| 10.51* | Amendment Number 15, effective January 1, 2019, to the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules) consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.51 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 18, 2021, File No. 001-01342). |
| 10.52* | Amendment Number 16, effective January 1, 2021, to the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules) consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.52 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 18, 2021, File No. 001-01342). |
| 10.53* | Offer of Employment Letter to Jeffrey Ellis dated October 19, 2015 (incorporated by reference to Exhibit 10.53 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 18, 2021, File No. 001-01342). |
| 10.54* | Offer of Employment Letter to John Brooks dated March 1, 2019 (incorporated by reference to Exhibit 10.54 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 18, 2021, File No. 001-01342). |
| 10.55* | Offer of Employment Letter to Mark Redd dated August 13, 2019 (incorporated by reference to Exhibit 10.55 to Canadian Pacific Railway Limited's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 18, 2021, File No. 001-01342). |
| 10.56* | Stock Option Agreement and Amendment to the Executive Employment Agreement, dated as of March 21, 2021, by and between Canadian Pacific Railway Limited and Keith Creel (incorporated by reference to Exhibit 10.1 to Canadian Pacific Railway Limited's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 21, 2021, File No. 001-01342). |
| 10.57 | First Amending Agreement, dated as of April 9, 2021 among Canadian Pacific Railway Company, as Borrower, Canadian Pacific Railway Limited, as Covenantor, Royal Bank of Canada, a Canadian chartered bank, as administrative agent of the Lenders, and the Consenting Lenders (incorporated by reference to Exhibit 10.2 to Canadian Pacific Railway Limited's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission April 21, 2021, File No. 001-01342). |
| 10.58 | Second Amending Agreement dated as of September 24, 2021, amending the Credit Agreement, dated September 27, 2019, among Canadian Pacific Railway Company, as Borrower, Canadian Pacific Railway Limited, as Covenantor, Royal Bank of Canada, as Administrative Agent, and the various Lenders party thereto (incorporated by reference to Exhibit 10.3 to Canadian Pacific Railway Limited's Registration Statement on Form F-4 filed with the Securities and Exchange Commission on October 1, 2021, File No. 333-259991). |
| 10.59 | Third Amending Agreement dated as of September 29, 2021, amending the Credit Agreement, dated September 27, 2019, among Canadian Pacific Railway Company, as Borrower, Canadian Pacific Railway Limited, as Covenantor, Royal Bank of Canada, as Administrative Agent, and the various Lenders party thereto (incorporated by reference to Exhibit 10.4 to Canadian Pacific Railway Limited's Registration Statement on Form F-4 filed with the Securities and Exchange Commission on October 1, 2021, File No. 333-259991). |
| 10.60 | Credit Agreement, dated as of September 15, 2021, among Canadian Pacific Railway Company, as Borrower, Canadian Pacific Railway Limited, as Covenantor, Bank of Montreal, as Administrative Agent, and the various Lenders party thereto (incorporated by reference to Exhibit 10.5 to Canadian Pacific Railway Limited's Registration Statement on Form F-4 filed with the Securities and Exchange Commission on October 1, 2021, File No. 333-259991). |
| 10.61* | Amendment Number 17, effective January 1, 2022, to the Canadian Pacific Railway Company Pension Plan (Pension Plan Rules) consolidated as at January 1, 2009 (incorporated by reference to Exhibit 10.4 to Canadian Pacific Railway Limited's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on October 20, 2021, File No. 001-01342). |
| 10.62* ** | Short Term Incentive Plan for Non-Unionized Employees (Canada) and US Salaried Employees dated January 1, 2014, as amended July 1, 2021. |
| 10.63* ** | Canadian Pacific Railway Limited Performance Share Units Notice of Grant and Grant Agreement between Canadian Pacific Railway Limited and Keith Creel dated January 29, 2021. |
| 10.64* ** | Form of Canadian Pacific Railway Limited Performance Share Units Notice of Grant and Grant Agreement for United States Executive Officers. |
| 10.65* ** | Form of Canadian Pacific Railway Limited Performance Share Units Notice of Grant and Grant Agreement for Canadian Executive Officers. |
| 10.66* ** | Regular Stock Option Agreement between Canadian Pacific Railway Limited and Keith Creel dated January 29, 2021. |
| 10.67* ** | Form of Regular Stock Option Agreement for United States Executive Officers. |
| 10.68* ** | Form of Regular Stock Option Agreement for Canadian Executive Officers. |
| 10.69* ** *** | Canadian Pacific Pension Plan for U.S. Management Employees, Incorporating All Amendments Adopted through December 31, 2014. |
| 21.1** | Subsidiaries of the registrant |
| 22.1** | List of Issuers and Guarantor Subsidiaries |
| 23.1** | Consent of Deloitte LLP, Independent Registered Public Accounting Firm |

| | |
|---|---|
| 23.2** | Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm |
| 24.1** | Power of attorney (included on the signature pages of this Annual Report on Form 10-K) |
| 31.1** | CEO Rule 13a-14(a) Certifications |
| 31.2** | CFO Rule 13a-14(a) Certifications |
| 32.1** | CEO Section 1350 Certifications |
| 32.2** | CFO Section 1350 Certifications |
| 99.1** | Audited Consolidated Financial Statements of Kansas City Southern as of December 31, 2021 and 2020 and for the years ended December 31, 2021, 2020 and 2019. |
| 101.INS** | Inline XBRL Instance Document |
| 101.SCH** | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL** | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB** | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.DEF** | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.PRE** | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| | The following financial information from Canadian Pacific Railway Limited's Annual Report on Form 10-K for the year ended December 31, 2021, formatted in Extensible Business Reporting Language (XBRL) includes: (i) the Consolidated Statements of Income for each of the three years ended December 31, 2021, 2020, and 2019; (ii) the Consolidated Statements of Comprehensive Income for each of the three years ended December 31, 2021, 2020, and 2019; (iii) the Consolidated Balance Sheets at December 31, 2021 and 2020; (iv) the Consolidated Statements of Cash Flows for each of the three years ended December 31, 2021, 2020, and 2019; (v) the Consolidated Statements of Changes in Shareholders' Equity for each of the three years ended December 31, 2021, 2020, and 2019; and (vi) the Notes to Consolidated Financial Statements. |
| 104 ** | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

* Management contract or compensatory arrangement

** Filed with this Annual Report on Form 10-K

*** Certain portions of this exhibit have been redacted pursuant to Item 601(b)(10)(iv) of Regulation S-K. An unredacted copy of this exhibit will be furnished separately to the SEC upon request.

# ITEM 16. FORM 10-K SUMMARY

Not applicable.

# SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the *Securities Exchange Act of 1934*, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CANADIAN PACIFIC RAILWAY LIMITED**
(Registrant)
By: /s/ KEITH CREEL
Keith Creel
Chief Executive Officer

Dated: February 23, 2022

# POWER OF ATTORNEY

Each of the undersigned do hereby appoint each of Nadeem Velani and Jeffrey J. Ellis, his or her true and lawful attorney-in-fact and agent, to sign on his or her behalf the Company's Annual Report on Form 10-K, for the year ended December 31, 2021, and any and all amendments thereto, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission.

Pursuant to the requirements of the *Securities Exchange Act of 1934*, this report has been signed below by the following persons on behalf of the Company and in the capacities indicated on February 23, 2022.

| Signature | Title |
|---|---|
| /s/ KEITH CREEL<br>Keith Creel | Chief Executive Officer and Director<br>(Principal Executive Officer) |
| /s/ NADEEM VELANI<br>Nadeem Velani | Executive Vice-President and Chief Financial Officer<br>(Principal Financial Officer) |
| /s/ ISABELLE COURVILLE<br>Isabelle Courville | Chair of the Board of Directors |
| /s/ JOHN R. BAIRD<br>John R. Baird | Director |
| /s/ GILLIAN H. DENHAM<br>Gillian H. Denham | Director |
| /s/ EDWARD R. HAMBERGER<br>Edward R. Hamberger | Director |
| /s/ REBECCA MACDONALD<br>Rebecca MacDonald | Director |
| /s/ EDWARD L. MONSER<br>Edward L. Monser | Director |
| /s/ MATTHEW H. PAULL<br>Matthew H. Paull | Director |
| /s/ JANE L. PEVERETT<br>Jane L. Peverett | Director |
| /s/ ANDREA ROBERTSON<br>Andrea Robertson | Director |
| /s/ GORDON T. TRAFTON<br>Gordon T. Trafton | Director |

**Exhibit 10.62**

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

| | |
|---|---|
| **Policy Statement** | Canadian Pacific offers a Short Term Incentive Plan (the "Plan"), to recognize the contribution that each regular, non-unionized and US salaried employee makes to the Railway's achievement of its business objectives. |
| | |
| **Accountability** | The Management Resources and Compensation Committee of the Board of Directors of Canadian Pacific Railway (the "Committee") has complete authority to interpret and define individual and group eligibility and to establish rules and regulations required to properly administer the Plan. The Board may also suspend, amend or terminate this Plan at any time<br><br>On an annual basis, managers are responsible for guiding their employees in the objective setting process. Managers must conduct regular progress reviews throughout the year, evaluate performance against objectives at year end and report results to Human Resources.<br><br>Employees are responsible for setting and striving to achieve their annual performance objectives and for soliciting performance feedback from their managers.<br><br>Human Resources is responsible for interpreting this policy, guiding its administration and supporting employees and managers applying the policy. |
| **Process and Application** | |
| Plan Year | The Plan Year runs from January 1 to December 31. |
| | |
| Eligibility | Regular employees who participate in the Company's non-unionized compensation program are eligible to participate in the Plan provided they join the Plan prior to October 1st in their first year of participation.<br><br>Employees must complete three (3) months (65 working days) of cumulative active service in the Plan year in order to be eligible for a STIP payout. |
| | |
| Transfers and Joint Ventures | Employees transferred or seconded to employers participating in a joint venture with CP may be designated as participants in the Plan by the Company. |
| | |
| Temporary Replacements | Unionized employees who temporarily assume a non- unionized position will be eligible for STIP, provided the temporary assignment commences prior to October 1st of the Plan year and has a minimum continuous duration of three (3) months (65 working days) in the Plan year. |
| | |
| Plan Objectives | The objectives of the Plan are:<br><br>• to tie a part of the employee's compensation directly to CP's results;<br>• to reward the achievement of individual and team objectives that support CP's achievement of its annual business plans and long-term strategy; and<br>• to maintain the competitiveness of CP's compensation program. |
| | |
| Ending Participation | Participation in the Plan ends when the employee reverts to a unionized position at the Company's request, retires or terminates their employment with CP.<br><br>Employees who revert to a unionized position at their own initiative prior to payout will not be eligible for a STIP award. |
| | |
| Target Award Levels | For each Plan Year the Committee establishes the various classes of participants, the weighting of each performance measure assigned to each class and the Target Award Levels. Employee level determines their Target Award Levels. Target Award Levels are expressed as a percentage of annual salary and are the basis for calculating STIP awards. |
| | |

| | |
|---|---|
| Weighting of Corporate Individual Components | Individual STIP awards are based on two components, individual and corporate. STIP award payouts are based on an employee's group and weighting category at year-end.<br><br>The following table outlines the weighting for corporate and individual performance for the various management levels in the organization:<br><br>**LEVEL** **CORPORATE** **INDIVIDUAL**<br>Level A to F 75% 25%<br>Level 1 60% 40%<br>Level 2 to 6 50% 50% |
| | |
| Assessing PMP Objectives | The individual component of STIP awards is tied directly to the individual's PMP objectives established under the Performance Management Program (PMP). A PMP rating (from Unsatisfactory to Outstanding) will be assigned to each of the individual's PMP objectives.<br><br>The performance ratings are determined on the basis of three dimensions:<br><br>1. achievement of objectives against the standards and measures established for each objective;<br>2. context of performance throughout the year; and<br>3. peer clustering of employees into a distribution profile established by the Company.<br><br>The context of performance dimension considers the "how" of the achievement and adds a necessary judgmental component to the assessment process. The demonstration of company values must be considered.<br><br>Taking the three dimensions into account, through the calibration process, an overall PMP rating and an overall STIP attainment level, based on the scales below, are determined for the employee's individual performance component.<br><br>Overall PMP Rating Overall STIP Attainment Level<br>Outstanding 170% - 200%<br>Exceeds 125% - 165%<br>Achieved 90% - 120%<br>Partially Achieved 0% - 85%<br>Unsatisfactory 0% |
| Potential Corporate Payout Levels | Annually, the Committee establishes the performance criteria, the weighting assigned to each performance criterion and corporate performance target levels for the STIP Program.<br><br>Each corporate performance criterion will have three levels of performance and payout.<br><br>a. Exceptional Level - 200% of Target Award Level assigned to the corporate component where the actual CP performance meets or exceeds the exceptional level established by the Committee;<br><br>b. Target Level - 100% of Target Award Level assigned to the corporate component where the actual CP performance meets the target level established by the Committee;<br><br>c. Threshold Level - 50% of Target Award Level assigned to the corporate component when the actual CP performance level for the Plan Year is at the threshold level established by the Committee; and<br><br>Where the actual CP performance falls between the threshold and exceptional levels, the payout level will be prorated.<br><br>Where the actual CP performance falls below the threshold level, no awards will be paid under the corporate component. |
| | |
| Corporate Hurdle | For each Plan Year, the Committee establishes a minimum level of corporate performance, below the threshold level, called the corporate hurdle. If the Company's performance falls below this hurdle, no awards will be paid under the individual or corporate components. |
| | |
| Individual Hurdle | If individual performance levels are unsatisfactory, no award will be paid to the individual under the corporate or individual components. |
| | |
| CP Net Loss | The Committee has the discretion to adjust the amount of awards so that payment of awards under the Plan does not result in a net loss for CP. No awards will be paid if CP has a net loss for the Plan Year. |

| | |
|---|---|
| Calculation of Awards | Awards are calculated by performing the following calculation:<br><br>Target Award Level multiplied by the weighting for the individual component, multiplied by the annual salary in effect at the end of the Plan Year, multiplied by the STIP attainment level<br>**added to**<br>the Target Award Level, multiplied by the weighting for the corporate component, multiplied by the annual salary in effect at the end of the Plan Year, multiplied by the weighting of the performance measure, multiplied by the payout level. This calculation is repeated for each of the Company's performance measures.<br>For sample STIP calculations, see Appendix 1. |
| Payment of Awards | Awards to be paid out in any Plan Year, will be paid as soon as possible after CP financial results are determined, the Committee has approved a payout, and the participants' performance has been assessed under PMP. |
| | |
| Joining Plan Before October 1st | New entrants prior to October 1 of the plan year will have their award for that year prorated based on the length of time they have been a member of the Plan. |
| | |
| Leaving the Plan Before April 1st | Employees who cease participation in the Plan prior to April 1 of the Plan Year will not be eligible for any STIP Award for the Plan Year. |
| | |
| Leaves of Absence | Leaves of absence (LOA) are those periods when an employee is not actively at work i.e. short or long term disability, personal, maternity, parental, educational leaves. Participants who take a leave of absence greater than 30 consecutive days (22 working days) during the year will have their award prorated based on the length of time in active service during the year.<br><br>Potential STIP Awards will be held for participants who take a personal (non-medical or educational) leave of absence. Eligibility for STIP will be determined at the end of the LOA. If the participant decides not to return it will be considered a voluntary resignation and the participant will not be eligible for a STIP Award. The payment of any STIP Award will only occur when the participant returns from the LOA. |
| | |
| Transfers | Participants transferring on or after April 1st of the Plan Year to a position to which this plan does not apply will have their award prorated based on the length of time in the eligible position. |
| | |
| Termination without Cause | Participants whose employment is terminated by the Company without cause on or after April 1st of the Plan Year will continue to participate in the Plan until their last day actively at work. If all program conditions are met, (i.e. Company performance and individual performance warrants a payout), they will receive a prorated award based on the length of time they participated in the plan during the year. |
| | |
| Retirements | Employees that retire on or after April 1 of the plan year without a severance payment are eligible for a prorated STIP award provided:<br><br>• he/she provided Retirement Notice in accordance with Retirement Policy 8101; and<br>• retirees are between 55 and less than 60 years of age with a minimum of 5 years of company service from the last date of hire or if retiring at age 60 or greater, must have a minimum of 2 years of company service from their last date of hire. |
| | |
| Termination for Cause | Employees who are terminated for cause during the year will not receive an award for the year in which their employment ended. They will also not be eligible to receive any award not yet paid at the time of their termination for cause. |
| | |
| Resignation | Employees who resign prior to the STIP payout date will not be eligible for an award for the previous or current plan year. |
| | |
| Death | Employees who are deceased after April 1st of the Plan Year, if all program conditions are met, a prorated award based on the length of their membership in the Plan during the year will be paid to the employee's estate. |
| **Administration** | |

| | |
|---|---|
| Setting PMP Objectives | The STIP cycle begins with the establishment of PMP Objectives. In discussion with their manager and/or team leader, participants are responsible for the development of their PMP objectives and assigning weightings. |
| | |
| Assigning Weights | PMP objectives are weighted according to their relative importance. The total value of all PMP objectives must equal 100%. |
| | |
| Reporting Results | By the end of January, annually, managers should have STIP attainment levels reported to Human Resources for the previous Plan Year. |
| | |
| **Additional Information** | For additional information, please contact your HR Business Partner or Employee Services by e-mail at Employee_Services@cpr.ca, by phone in Calgary at (403) 319-3900 or toll free at 1 (866) 319-3900. |
| | |
| **Cross Reference** | Policy 5611 - Performance Management Program<br>Policy 8503 - Compensation & Benefits for Unionized Employees who Temporarily Assume Non-Unionized Positions<br>Policy 8101 - Retirement Policy |
| | (U.S. only disclaimer: This policy statement represents the current policy and practice of CP regarding the Short Term Incentive Plan for non-unionized employees and may be changed from time to time by CP without notice. Nothing in this policy is intended to create any contract, agreement or other obligation by CP with any of its employees. |

**APPENDIX 1 - Sample STIP Calculations**

| **Level 5 with annual salary of $65,000, PMP rating of Achieves at 100%** | | | | |
|---|---|---|---|---|
| **Target Award Level** | **Individual Component** | **Annual Salary** | **PMP Rating %** | **Individual Component Award** |
| 10% | 50% | $65,000 | 100% | $3250 |
| **Added to** | | | | |
| **Target Award Level** | **Corporate Component** | **Annual Salary** | **Corporate Component %** | **Corporate Component Award** |
| 10% | 50% | $65,000 | 100% (at target) | $3,250 |
| **STIP Award total** | | | | **$6,500** |

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

| **Level 3 with annual salary of $105,000, PMP rating of Achieves at 110%** | | | | |
|---|---|---|---|---|
| **Target Award Level** | **Individual Component** | **Annual Salary** | **PMP Rating %** | **Individual Component Award** |
| 17.5% | 50% | $105,000 | 110% | $10,106 |
| **Added to** | | | | |
| **Target Award Level** | **Corporate Component** | **Annual Salary** | **Corporate Component %** | **Corporate Component Award** |

| | | | | |
|---|---|---|---|---|
| 17.5% | 50% | $105,000 | 0%<br>(Below Threshold) | $0 |
| **STIP Award total** | | | | **$10,106** |

**Exhibit 10.63**

# *CANADIAN PACIFIC RAILWAY LIMITED*

## Performance Share Units
## Notice of Grant and Grant Agreement ("Agreement")

## Keith Creel

Canadian Pacific Railway Limited (the "Corporation") has granted the target number of 16,939 PSUs[1] to the employee named above (the "Eligible Employee"), in accordance with this Agreement and the provisions of the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited as amended from time to time (the "Plan").

| | |
|---|---|
| **Grant Date** | January 29, 2021 |
| **Below Threshold** | 0% of Target |
| **Threshold** | 50% of Target |
| **Maximum** | 249% of Target |
| **Performance Period** | January 1, 2021 – December 31, 2023 |
| Payment in respect of PSUs covered by this Agreement will be based on the extent to which the Performance Criteria set out in Schedule A are satisfied at the end of the Performance Period. | |

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

1. Grant of PSUs

1.1 Pursuant to the Plan and in respect of services to be provided to the Corporation by the Eligible Employee during the Performance Period, the Corporation has granted the number of PSUs set out in Solium Capital ULC ("Shareworks") to the Eligible Employee for the Performance Period set out above.

2. Vesting

2.1 Subject to the terms and conditions of the Plan (including without limitation the conditions related to remaining actively Employed and not ceasing employment) and satisfaction of the conditions set out in Schedule A (the "Performance Criteria"), the PSUs granted to the Eligible Employee pursuant to Section 1.1 will become Vested PSUs at the end of the Performance Period in such proportion as may be specified in this Agreement and in Schedule A.

3. Non-Competition and Non-Solicitation Conditions

3.1 Notwithstanding any other provisions in this Agreement, all PSUs awarded (vested or unvested) and payment of any amount in respect of such PSUs shall be subject to the terms and conditions set out in the Non-Competition and Non-Solicitation Agreement set out at Schedule B, and the Eligible Employee agrees to reconfirm the obligations outlined in Schedule B upon request by the Corporation at any time throughout the term of the Eligible Employee's employment or engagement with the Corporation or upon termination thereof for any reason. Failure to comply with the terms and conditions set out in the Non-Competition and Non-Solicitation Agreement set out at Schedule B or to provide such confirmation as

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

requested by the Corporation shall result in the immediate cancellation of all PSUs granted herein (without any further notice, compensation in lieu of notice or damages of any kind), among other remedies available to the Corporation (including the remedies in Section 6 of the Non-Competition and Non-Solicitation Agreement set out at Schedule B).

4. Settlement

4.1 Subject to the provisions of the Plan and the provisions of this Agreement, the Eligible Employee shall be entitled to an amount equal to the Market Value on the last day of the Performance Period multiplied by the number of PSUs (which may be whole or fractional) that Vest in respect of the Performance Period, less such amount as is required to be withheld on account of taxes and other required deductions in accordance with Section 5.1. For participants paid in United States dollars at the time of the grant of PSUs, the Market Value is based on the average closing price per Share on the New York Stock Exchange over the same period.

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

5. Withholdings

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

5.2 The CEO has discretion to determine whether the after tax value be delivered in CP common shares purchased on the open market or cash.

6. Personal Information

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

7. Binding Agreement and Amendment

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

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

By electronically "accepting" this agreement, the Eligible Employee acknowledges that he or she has read and understands the terms of the Plan and this Agreement, and voluntarily accepts the grant of PSUs in accordance with the terms of the Plan and this Agreement, including the Non-Competition and Non-Solicitation Agreement set out at Schedule B.

IN WITNESS WHEREOF the Corporation and the eligible employee have entered into this Agreement as of **January 29, 2021**.

**Canadian Pacific Railway**

/s/ Keith Creel

**Keith Creel**
**President and Chief Executive Officer**

/s/ Chad Rolstad

**Chad Rolstad**
**VP HR & Chief Culture Officer**

/s/ Kimberly M. Beattie

**Signature of Witness**

# SCHEDULE A – PERFORMANCE MEASURES

There are three Performance Measures for the above-noted Performance Period:

- 2021 to 2023 average Return on Invested Capital (ROIC); ROIC is calculated as Operating Income less Operating expense (income) and Other components of net periodic benefit recovery, tax effected at the Company's annualized effective tax rate, divided by the sum of total Shareholders' equity, Long-term debt, Long–term debt maturing within one year and Short-term borrowing, as presented in the Company's Consolidated Financial Statements, averaged between the beginning and ending balance over a rolling twelve-month period.
- Compound Average Growth Rate (CAGR) of CP Total Shareholder Return (TSR) on the TSX measured over 3 years; relative TSR will be measured as CP's percentile ranking within the S&P/ TSX 60 Index constituents included in the index at the beginning and end of the performance period
- CP Total Shareholder Return (TSR) on the NYSE relative to Class 1 Railroads at the beginning and end of the performance period.

The extent to which each Performance Measure is met will be determined by the Committee, based on data taken from the annual or quarterly financial statements of the Corporation for fiscal periods included in the Performance Period and such other data as the Committee determines to be relevant.

Performance Measures are assessed independently and are weighted for purposes of calculating the number of PSUs that vest. This number may be greater or less than 100% of the Target Number of PSUs for the Performance Period as a result of the multipliers applicable to each level of performance for each measure set out in the chart below. The amount for ROIC will not exceed 270% of the target Number of PSUs and the amount for each of TSR performance metrics will not exceed 200% of the Target Number of PSUs. No PSUs will vest in respect of the Performance Period for any Performance Measure that is below Threshold, as set out in the chart below.

Performance between defined performance levels will be interpolated for purposes of determining the number of PSUs that vest with respect to the Performance Period.

| **2021 PSU Grant** | | |
|---|---|---|
| **3 Year Average Return on Invested Capital (70%)** | | **2021-2023** |
| **Targets** | 50%<br>100%<br>270% | +80 Basis Points Under Target<br>ROIC Target<br>+80 Basis Points Over Target |
| **TSR to S&P/TSX 60 Index (15%)** | | **2021-2023** |
| **Targets** | 50%<br>100%<br>200% | 25$^{th}$ %ile<br>50$^{th}$ %ile<br>75$^{th}$ %ile |
| **TSR to Class 1 Railroads (15%)** | | **2021-2023** |
| **Targets** | 50%<br>100%<br>200% | fourth<br>third<br>first |

* Targets approved by the Board on January 26, 2021.

## APPENDIX 1

TSR with respect to the Corporation is calculated as follows:

TSR is calculated as the increase in value of an initial hypothetical investment of $100 in Shares ("Investment Shares") determined over the Performance Period and is equal to the difference between the initial investment of $100 and the Ending Share Value as determined below.

For the purposes of this calculation, the initial investment of $100 is expressed as a number of Investment Shares, which is determined by dividing $100 by the Initial Share Value.

The Initial Share Value is equal to the average closing Share price per during the 10 trading days prior to January 1, 2021 per:

- CP Shares on the Toronto Stock Exchange and the Shares of the constituents included in the S&P/TSX 60 Index.

- CP Shares on the New York Stock Exchange and the Shares of the Class 1 railroads.

The number of Investment Shares is increased from time to time on account of dividends paid on Shares during the Performance Period by the number of Shares calculated by dividing the product of (i) the then current number of Investment Shares and (ii) the cash dividends paid on each Share, by the closing price per Share on the relevant stock exchange on the date that the dividends are paid.

The Ending Share Value is the product of (i) the number of Investment Shares as determined above and (ii) the 10-day average closing price (including the last day) at the end of the performance period of the respective index per:

- CP Shares on the Toronto Stock Exchange and the Shares of the constituents included in the S&P/TSX 60 Index.

- CP Shares on the New York Stock Exchange and the Shares of the Class 1 railroads.

TSR is calculated as the difference between the Initial Share Value for the Performance Period and the Ending Share Value expressed as an annualized percentage of the initial share value compared to the percentile ranking of the constituents included at the beginning and the end of the performance period in each scenario.

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

**THIS AGREEMENT** made and effective as of the 29th day of January 2021.

**BETWEEN:**

CANADIAN PACIFIC RAILWAY COMPANY,
a corporation organized under the laws of Canada,
(the "**Company**")

- and -

KEITH CREEL,
(the "**Employee**")

## RECITALS

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

**AND WHEREAS**, during the course of the Employee's employment, the Employee has access to proprietary and confidential Company information, thereby making the Company uniquely vulnerable to misuse of such information to the detriment of the Company's business and interests;

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

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

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

1. **Consideration**. In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee's acceptance of the covenants set out in this Agreement.

2. **Protected Rights.** The Parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee's ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator ("**Government Agencies**") relating to potential violations of law or regulations; or (ii) the Employee's ability to communicate with Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by Government Agencies, including providing documents or other information, without notice to the Company.

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

(a) In this Agreement:

(i) "**Covenant Period**" means the period of the Employee's employment with the Company and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and

(ii) "**CP Group**" means and includes all parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company, including Canadian Pacific Railway Ltd., Delaware and Hudson Railroad Company, Inc., the Soo Line Railroad Company and the Dakota, Minnesota and Eastern Railroad Corporation, which, during the Employee's employment with the Company, the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

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

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

(i) is a customer, supplier or licensor of the Company or the CP Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;

(ii) was a customer, supplier or licensor of the Company or the CP Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or

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

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

(d) Non-Solicitation of Employees and Consultants. During the Covenant Period, the Employee shall not directly or indirectly solicit any employee or consultant of the Company or CP Group to leave their employment or engagement. For this Paragraph 3(d), general newspaper and other media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CP Group.

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

4. **Acknowledgements.**

(a) Reasonableness of Covenants. The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CP Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defences to the strict enforcement of those obligations and restrictions.

(b) Annual Confirmation Process. The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish.

(c) Continuing Confidentiality Obligations. The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the Company and following the cessation of the Employee's employment for any reason.

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

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

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

(b) Repayment or Return of Benefit. If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after the effective date of this Agreement (the "**Repayment Period**"), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:

(i) with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and

(ii) with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.

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

(c) Forfeiture. The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.

(d) Accounting. The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.

(e) Legal Costs. The Company shall be awarded its reasonable solicitor and own client expenses, including legal fees and costs, incurred in enforcing this Agreement.

7. **Severability**. Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.

8. **Non-Waiver.** The Company's decision to not enforce a breach of any part of this Agreement (or the Company's settlement of any claims for breach) will not prevent the Company from enforcing the Agreement regarding any other breach of this Agreement that the Company discovers, and shall not operate as a waiver against any future enforcement of any part of this Agreement, any other agreement with the Employee or any other agreement with any other employee of the Company.

9. **No Breach of Obligations to Others**. The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or conflicts with the Employee's obligations under this Agreement or the Employee's employment with the Company. The Employee agrees to indemnify the Company and the CP Group in respect of any violation of this representation.

10. **Disclosure**. The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.

11. **Governing Law and Attornment.** This Agreement shall be construed and determined under the laws of Alberta and the laws of Canada applicable in that province. For all legal proceedings, this

Agreement will be deemed to have been performed in Alberta and the courts of Alberta will have the exclusive jurisdiction to entertain any action arising under this Agreement. The Employee and the Company each attorns to the jurisdiction of the courts of Alberta, provided that nothing in this Agreement will prevent the Company from proceeding at its election against the Employee in the courts of any other province or country.

12. **Successor and Assigns**. This Agreement binds and inures to the benefit of the Company's successors and assigns.

13. **Amendments.** No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.

14. **Independent Advice.** The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.

15. **Entire Agreement.** This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CP Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered no oral or written promises, inducements, or representations, and the Employee accepts this Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.

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

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

Dated: March 25, 2021 /s/ Keith Creel

**Exhibit 10.64**

# *CANADIAN PACIFIC RAILWAY LIMITED*

## Performance Share Units
## Notice of Grant and Grant Agreement ("Agreement")

Canadian Pacific Railway Limited ("the Corporation") has granted the target number of ###TOTAL_AWARDS### PSUs[1] set out in Shareworks to the employee named above (the "Eligible Employee"), in accordance with this Agreement and the provisions of the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited as amended from time to time (the "Plan"), a sub-plan under the Canadian Pacific Railway Limited Section 162(m) Incentive Plan (the "162(m) Plan").

| | |
|---|---|
| **Grant Date** | January 29, 2021 |
| **Below Threshold** | 0% of Target |
| **Threshold** | 50% of Target |
| **Maximum** | 249% of Target |
| **Performance Period** | January 1, 2021 – December 31, 2023 |
| Payment in respect of PSUs covered by this Agreement will be based on the extent to which the Performance Criteria set out in Schedule A are satisfied at the end of the Performance Period. | |

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

1. Grant of PSUs

1.1 Pursuant to the Plan and in respect of services to be provided to the Corporation by the Eligible Employee during the Performance Period, the Corporation has granted the number of PSUs set out in Solium Captial ULC ("Shareworks") to the Eligible Employee for the Performance Period set out above and subject to the terms and conditions set out in this Agreement and the Plan.

1.2 The grant of PSUs and payment of any amount in respect of any such PSUs are subject to the terms and conditions of the Plan and the Schedules appended to this Agreement, all of which are incorporated into and form an integral part of this Agreement.

2. Vesting

2.1 Subject to the terms and conditions of the Plan (including without limitation the conditions related to remaining actively Employed and not ceasing employment), the PSUs granted to the Eligible Employee pursuant to Section 1.1 will become Vested PSUs at the end of the Performance Period in such proportion as may be specified in this Agreement and in Schedule A attached hereto and subject to satisfaction of the conditions set out in Schedule A (the "Performance Criteria") as provided therein.

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

[1] Capitalized terms not defined herein shall have the meanings given to those terms in the Plan.
immediate cancellation of all PSUs granted herein (without any further notice, compensation in lieu of notice or damages of any kind).

3. Settlement

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

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

4. Withholdings

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

4.2 The CEO has discretion to determine whether the after tax value be delivered in CP common shares purchased on the open market or cash.

5. Personal Information

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

6. Binding Agreement and Amendment

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

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

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

IN WITNESS WHEREOF the Corporation and the eligible employee have entered into this Agreement as of **January 29, 2021**.

**Canadian Pacific Railway Limited**

/s/ Keith Creel

President and Chief Executive Officer

# SCHEDULE A – PERFORMANCE MEASURES

There are three Performance Measures for the above-noted Performance Period:

- 2021 to 2023 average Return on Invested Capital (ROIC); ROIC is calculated as Operating Income less Operating expense (income) and Other components of net periodic benefit recovery, tax effected at the Company's annualized effective tax rate, divided by the sum of total Shareholders' equity, Long-term debt, Long–term debt maturing within one year and Short-term borrowing, as presented in the Company's Consolidated Financial Statements, averaged between the beginning and ending balance over a rolling twelve-month period.
- Compound Average Growth Rate (CAGR) of CP Total Shareholder Return (TSR) on the TSX measured over 3 years; relative TSR will be measured as CP's percentile ranking within the S&P/ TSX 60 Index constituents included in the index at the beginning and end of the performance period
- CP Total Shareholder Return (TSR) on the NYSE relative to Class 1 Railroads at the beginning and end of the performance period.

The extent to which each Performance Measure is met will be determined by the Committee, based on data taken from the annual or quarterly financial statements of the Corporation for fiscal periods included in the Performance Period and such other data as the Committee determines to be relevant.

Performance Measures are assessed independently and are weighted for purposes of calculating the number of PSUs that vest. This number may be greater or less than 100% of the Target Number of PSUs for the Performance Period as a result of the multipliers applicable to each level of performance for each measure set out in the chart below. The amount for ROIC will not exceed 270% of the target Number of PSUs and the amount for each of TSR performance metrics will not exceed 200% of the Target Number of PSUs. No PSUs will vest in respect of the Performance Period for any Performance Measure that is below Threshold, as set out in the chart below.

Performance between defined performance levels will be interpolated for purposes of determining the number of PSUs that vest with respect to the Performance Period.

| **2021 PSU Grant** | | |
|---|---|---|
| **3 Year Average Return on Invested Capital (70%)** | | **2021-2023** |
| **Targets** | 50%<br>100%<br>270% | +80 Basis Points Under Target<br>ROIC Target<br>+80 Basis Points Over Target |
| **TSR to S&P/TSX 60 Index (15%)** | | **2021-2023** |
| **Targets** | 50%<br>100%<br>200% | 25$^{th}$ %ile<br>50$^{th}$ %ile<br>75$^{th}$ %ile |
| **TSR to Class 1 Railroads (15%)** | | **2021-2023** |
| **Targets** | 50%<br>100%<br>200% | fourth<br>third<br>first |

* Targets approved by the Board on January 26, 2021.

## APPENDIX 1

TSR with respect to the Corporation is calculated as follows:

TSR is calculated as the increase in value of an initial hypothetical investment of $100 in Shares ("Investment Shares") determined over the Performance Period and is equal to the difference between the initial investment of $100 and the Ending Share Value as determined below.

For the purposes of this calculation, the initial investment of $100 is expressed as a number of Investment Shares, which is determined by dividing $100 by the Initial Share Value.

The Initial Share Value is equal to the average closing Share price per during the 10 trading days prior to January 1, 2021 per:

- CP Shares on the Toronto Stock Exchange and the Shares of the constituents included in the S&P/TSX 60 Index.

- CP Shares on the New York Stock Exchange and the Shares of the Class 1 railroads.

The number of Investment Shares is increased from time to time on account of dividends paid on Shares during the Performance Period by the number of Shares calculated by dividing the product of (i) the then current number of Investment Shares and (ii) the cash dividends paid on each Share, by the closing price per Share on the relevant stock exchange on the date that the dividends are paid.

The Ending Share Value is the product of (i) the number of Investment Shares as determined above and (ii) the 10-day average closing price (including the last day) at the end of the performance period of the respective index per:

- CP Shares on the Toronto Stock Exchange and the Shares of the constituents included in the S&P/TSX 60 Index.

- CP Shares on the New York Stock Exchange and the Shares of the Class 1 railroads.

TSR is calculated as the difference between the Initial Share Value for the Performance Period and the Ending Share Value expressed as an annualized percentage of the initial share value compared to the percentile ranking of the constituents included at the beginning and the end of the performance period in each scenario.

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

NON-COMPETITION AND NON-SOLICITATION AGREEMENT

**THIS AGREEMENT** made and effective as of the 29th day of January 2021.

**BETWEEN:**

SOO LINE RAILROAD COMPANY d/b/a CANADIAN PACIFIC,
a corporation organized under the laws of Minnesota,
(the "**Company**")

- and -

###PARTICIPANT_NAME###,
(the "**Employee**")

## RECITALS

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

**AND WHEREAS**, during the course of the Employee's employment, the Employee has access to proprietary and confidential Company information, thereby making the Company uniquely vulnerable to misuse of such information to the detriment of the Company's business and interests;

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

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

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

1. **Consideration**. In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee's acceptance of the covenants set out in this Agreement.

2. **Protected Rights**. The Parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee's ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator ("**Government Agencies**") relating to potential violations of law or regulations; or (ii) the Employee's ability to communicate with Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by Government Agencies, including providing documents or other information, without notice to the Company.

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

(a) In this Agreement:

(i) "**Covenant Period**" means the period of the Employee's employment with the Company and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and

(ii) "**CP Group**" means and includes all parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company, including Canadian Pacific Railway Ltd., Canadian Pacific Railway Company, Delaware and Hudson Railroad Company, Inc., the Soo Line Railroad Company and the Dakota, Minnesota and Eastern Railroad Corporation, which, during the Employee's employment with the Company, the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

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

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

(i) is a customer, supplier or licensor of the Company or the CP Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;

(ii) was a customer, supplier or licensor of the Company or the CP Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or

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

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

(d) Non-Solicitation of Employees and Consultants. During the Covenant Period, the Employee shall not directly or indirectly solicit any employee or consultant of the Company or CP Group to leave their employment or engagement. For this Paragraph 3(d), general newspaper and other media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CP Group.

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

4. **Acknowledgements.**

(a) Reasonableness of Covenants. The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CP Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defenses to the strict enforcement of those obligations and restrictions.

(b) Annual Confirmation Process. The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish.

(c) Blue Pencil Doctrine. In the event any of the terms of this Agreement are determined by a court of competent jurisdiction to be unreasonable or overbroad under circumstances then existing, the parties hereto authorize and request the court to apply the "blue pencil doctrine" to modify the unreasonable or overly broad term to make it enforceable against Employee. This Agreement shall not be construed against any party regardless of who was more responsible for its preparation.

(d) Continuing Confidentiality Obligations. The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the Company and following the cessation of the Employee's employment for any reason. Both Employee and Company understand and acknowledge that Employee will not be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that is: (1) made in confidence to a federal, state, or local government official, or to an attorney, solely for the purpose of reporting or investigating a suspected violation of the law; or (2) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding.

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

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

(a) Injunction. The Employee agrees that any breach of this Agreement would cause irreparable harm to the Company and the CP Group and this harm may not be compensable

entirely with monetary damages. If the Employee breaches this Agreement, the Company and the CP Group shall be entitled to injunctive relief. Any injunctive relief sought by the Company and the CP Group shall be in addition to and not in limitation of any monetary relief or other remedies or rights to which the Company and CP Group are or may be entitled at law, in equity, or under this Agreement.

(b) Repayment or Return of Benefit. If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after the effective date of this Agreement (the "**Repayment Period**"), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:

(i) with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and

(ii) with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.

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

(c) Forfeiture. The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.

(d) Accounting. The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.

(e) Legal Costs. The Company shall be awarded its reasonable expenses, including attorneys' fees and costs, incurred in enforcing this Agreement.

7. **Severability**. Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.

8. **Non-Waiver.** The Company's decision to not enforce a breach of any part of this Agreement (or the Company's settlement of any claims for breach) will not prevent the Company from enforcing the Agreement regarding any other breach of this Agreement that the Company discovers, and shall not operate as a waiver against any future enforcement of any part of this Agreement, any other agreement with the Employee or any other agreement with any other employee of the Company.

9. **No Breach of Obligations to Others**. The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or conflicts with the Employee's obligations under this Agreement or the Employee's employment with the Company. The Employee agrees to indemnify the Company and the CP Group in respect of any violation of this representation.

10. **Disclosure**. The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.

11. **Governing Law and Forum.** This Agreement shall be construed and determined according to the laws of the State of Minnesota, and any disputes arising out of this Agreement shall be determined in a court of appropriate jurisdiction in the state of Minnesota, and the Employee expressly consents to the exclusive jurisdiction of the state and federal courts in Minnesota for any dispute arising under this Agreement. The employee waives the right to claim any other jurisdiction is more convenient or to challenge the jurisdiction of the courts of Minnesota over the Employee.

12. **Successor and Assigns**. This Agreement binds and inures to the benefit of the Company's successors and assigns.

13. **Amendments.** No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.

14. **Independent Advice.** The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.

15. **At-Will Employment**. Nothing in this Agreement is intended to provide nor shall this Agreement provide the Employee with any contractual rights to employment for any period of time. The Employee acknowledges that his/her employment relationship with the Company is one of at-will employment. This means that either the Employee or the Company may terminate the employment relationship at any time and for any reason, with or without cause or notice. The Employee understands he/she is an at-will employee of the Company and that this Agreement does not modify the Employee's at-will status in any manner.

16. **Entire Agreement.** This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CP Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered no oral or written promises, inducements, or representations, and the Employee accepts this Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.

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

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

Dated: ###ACCEPTANCE_DATE### ###PARTICIPANT_NAME###

**Exhibit 10.65**

# *CANADIAN PACIFIC RAILWAY LIMITED*

## Performance Share Units
## Notice of Grant and Grant Agreement ("Agreement")

Canadian Pacific Railway Limited ("the Corporation") has granted the target number of ###TOTAL_AWARDS### PSUs[1] to the employee named above (the "Eligible Employee"), in accordance with this Agreement and the provisions of the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited as amended from time to time (the "Plan").

| | |
|---|---|
| **Grant Date** | January 29, 2021 |
| **Below Threshold** | 0% of Target |
| **Threshold** | 50% of Target |
| **Maximum** | 249% of Target |
| **Performance Period** | January 1, 2021 – December 31, 2023 |
| Payment in respect of PSUs covered by this Agreement will be based on the extent to which the Performance Criteria set out in **Schedule A** are satisfied at the end of the Performance Period. | |

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

1. Grant of PSUs

1.1 Pursuant to the Plan and in respect of services to be provided to the Corporation by the Eligible Employee during the Performance Period, the Corporation has granted the number of PSUs set out in Shareworks (the "Target Number of PSUs") to the Eligible Employee for the Performance Period set out above and subject to the terms and conditions set out in this Agreement and the Plan.

1.2 The grant of PSUs and payment of any amount in respect of any such PSUs are subject to the terms and conditions of the Plan and the Schedules appended to this Agreement, all of which are incorporated into and form an integral part of this Agreement.

2. Vesting

2.1 Subject to the terms and conditions of the Plan (including without limitation the conditions related to remaining actively Employed and not ceasing employment), the PSUs granted to the Eligible Employee pursuant to Section 1.1 will become Vested PSUs at the end of the Performance Period in such proportion as may be specified in this Agreement and in Schedule A attached hereto and subject to satisfaction of the conditions set out in Schedule A (the "Performance Criteria") as provided therein.

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

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

the immediate cancellation of all PSUs granted herein (without any further notice, compensation in lieu of notice or damages of any kind).

3. Settlement

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

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

4. Withholdings

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

4.2 The CEO has discretion to determine whether the after tax value be delivered in CP common shares purchased on the open market or cash.

5. Personal Information

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

6. Binding Agreement and Amendment

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

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

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

IN WITNESS WHEREOF the Corporation and the eligible employee have entered into this Agreement as of **January 29, 2021**.

**Canadian Pacific Railway Limited**

/s/ Keith Creel

President and Chief Executive Officer

# SCHEDULE A – PERFORMANCE MEASURES

There are three Performance Measures for the above-noted Performance Period:

- 2021 to 2023 average Return on Invested Capital (ROIC); ROIC is calculated as Operating Income less Operating expense (income) and Other components of net periodic benefit recovery, tax effected at the Company's annualized effective tax rate, divided by the sum of total Shareholders' equity, Long-term debt, Long-term debt maturing within one year and Short-term borrowing, as presented in the Company's Consolidated Financial Statements, averaged between the beginning and ending balance over a rolling twelve-month period.
- Compound Average Growth Rate (CAGR) of CP Total Shareholder Return (TSR) on the TSX measured over 3 years; relative TSR will be measured as CP's percentile ranking within the S&P/ TSX 60 Index constituents included in the index at the beginning and end of the performance period
- CP Total Shareholder Return (TSR) on the NYSE relative to Class 1 Railroads at the beginning and end of the performance period.

The extent to which each Performance Measure is met will be determined by the Committee, based on data taken from the annual or quarterly financial statements of the Corporation for fiscal periods included in the Performance Period and such other data as the Committee determines to be relevant.

Performance Measures are assessed independently and are weighted for purposes of calculating the number of PSUs that vest. This number may be greater or less than 100% of the Target Number of PSUs for the Performance Period as a result of the multipliers applicable to each level of performance for each measure set out in the chart below. The amount for ROIC will not exceed 270% of the target Number of PSUs and the amount for each of TSR performance measures will not exceed 200% of the Target Number of PSUs. No PSUs will vest in respect of the Performance Period for any Performance Measure that is below Threshold, as set out in the chart below.

Performance between defined performance levels will be interpolated for purposes of determining the number of PSUs that vest with respect to the Performance Period.

| **2021 PSU Grant** | | |
|---|---|---|
| **3 Year Average Return on Invested Capital (70%)** | | **2021-2023** |
| **Targets** | 50%<br>100%<br>270% | +80 Basis Points Under Target<br>ROIC Target<br>+80 Basis Points Over Target |
| **TSR to S&P/TSX 60 Index (15%)** | | **2021-2023** |
| **Targets** | 50%<br>100%<br>200% | 25$^{th}$ %ile<br>50$^{th}$ %ile<br>75$^{th}$ %ile |
| **TSR to Class 1 Railroads (15%)** | | **2021-2023** |
| **Targets** | 50%<br>100%<br>200% | fourth<br>third<br>first |

* Targets approved by the Board on January 26, 2021.

## APPENDIX 1

TSR with respect to the Corporation is calculated as follows:

TSR is calculated as the increase in value of an initial hypothetical investment of $100 in Shares ("Investment Shares") determined over the Performance Period and is equal to the difference between the initial investment of $100 and the Ending Share Value as determined below.

For the purposes of this calculation, the initial investment of $100 is expressed as a number of Investment Shares, which is determined by dividing $100 by the Initial Share Value.

The Initial Share Value is equal to the average closing Share price per during the 10 trading days prior to January 1, 2021 per:

- CP Shares on the Toronto Stock Exchange and the Shares of the constituents included in the S&P/TSX 60 Index.

- CP Shares on the New York Stock Exchange and the Shares of the Class 1 railroads.

The number of Investment Shares is increased from time to time on account of dividends paid on Shares during the Performance Period by the number of Shares calculated by dividing the product of (i) the then current number of Investment Shares and (ii) the cash dividends paid on each Share, by the closing price per Share on the relevant stock exchange on the date that the dividends are paid.

The Ending Share Value is the product of (i) the number of Investment Shares as determined above and (ii) the 10-day average closing price (including the last day) at the end of the performance period of the respective index per:

- CP Shares on the Toronto Stock Exchange and the Shares of the constituents included in the S&P/TSX 60 Index.

- CP Shares on the New York Stock Exchange and the Shares of the Class 1 railroads.

TSR is calculated as the difference between the Initial Share Value for the Performance Period and the Ending Share Value expressed as an annualized percentage of the initial share value compared to the percentile ranking of the constituents included at the beginning and the end of the performance period in each scenario.

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

NON-COMPETITION AND NON-SOLICITATION AGREEMENT

**THIS AGREEMENT** made and effective as of the 29th day of January 2021.

**BETWEEN:**
CANADIAN PACIFIC RAILWAY COMPANY, a corporation organized under the laws of Canada, (the "**Company**")

- and -

###PARTICIPANT_NAME###,
(the "**Employee**")

## RECITALS

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

**AND WHEREAS**, during the course of the Employee's employment, the Employee has access to proprietary and confidential Company information, thereby making the Company uniquely vulnerable to misuse of such information to the detriment of the Company's business and interests;

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

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

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

1. **Consideration**. In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee's acceptance of the covenants set out in this Agreement.

2. **Protected Rights.** The Parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee's ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator ("**Government Agencies**") relating to potential violations of law or regulations; or (ii) the Employee's ability to communicate with Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by Government Agencies, including providing documents or other information, without notice to the Company.

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

(a) In this Agreement:

(i) "**Covenant Period**" means the period of the Employee's employment with the Company and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and

(ii) "**CP Group**" means and includes all parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company, including Canadian Pacific Railway Ltd., Delaware and Hudson Railroad Company, Inc., the Soo Line Railroad Company and the Dakota, Minnesota and Eastern Railroad Corporation, which, during the Employee's employment with the Company, the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

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

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

(i) is a customer, supplier or licensor of the Company or the CP Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;

(ii) was a customer, supplier or licensor of the Company or the CP Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or

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

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

(d) Non-Solicitation of Employees and Consultants. During the Covenant Period, the Employee shall not directly or indirectly solicit any employee or consultant of the Company or CP Group to leave their employment or engagement. For this Paragraph 3(d), general newspaper and other media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CP Group.

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

4. **Acknowledgements.**

(a) Reasonableness of Covenants. The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CP Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defences to the strict enforcement of those obligations and restrictions.

(b) Annual Confirmation Process. The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish.

(c) Continuing Confidentiality Obligations. The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the Company and following the cessation of the Employee's employment for any reason.

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

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

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

(b) Repayment or Return of Benefit. If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after the effective date of this Agreement (the "**Repayment Period**"), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:

(i) with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and

(ii) with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.

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

(c) Forfeiture. The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.

(d) Accounting. The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.

(e) Legal Costs. The Company shall be awarded its reasonable solicitor and own client expenses, including legal fees and costs, incurred in enforcing this Agreement.

7. **Severability**. Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.

8. **Non-Waiver.** The Company's decision to not enforce a breach of any part of this Agreement (or the Company's settlement of any claims for breach) will not prevent the Company from enforcing the Agreement regarding any other breach of this Agreement that the Company discovers, and shall not operate as a waiver against any future enforcement of any part of this Agreement, any other agreement with the Employee or any other agreement with any other employee of the Company.

9. **No Breach of Obligations to Others**. The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or conflicts with the Employee's obligations under this Agreement or the Employee's employment with the Company. The Employee agrees to indemnify the Company and the CP Group in respect of any violation of this representation.

10. **Disclosure**. The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.

11. **Governing Law and Attornment.** This Agreement shall be construed and determined under the laws of Alberta and the laws of Canada applicable in that province. For all legal proceedings, this Agreement will be deemed to have been performed in Alberta and the courts of Alberta will have the exclusive jurisdiction to entertain any action arising under this Agreement. The Employee and the Company each attorns to the jurisdiction of the courts of Alberta, provided that nothing in this Agreement will prevent the Company from proceeding at its election against the Employee in the courts of any other province or country.

12. **Successor and Assigns**. This Agreement binds and inures to the benefit of the Company's successors and assigns.

13. **Amendments.** No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.

14. **Independent Advice.** The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.

15. **Entire Agreement.** This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CP Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered no oral or written promises, inducements, or representations, and the Employee accepts this Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.

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

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

Dated: ###ACCEPTANCE_DATE### ###PARTICIPANT_NAME###

**Exhibit 10.66**

# REGULAR STOCK OPTION AGREEMENT

This Regular Stock Option Agreement is entered into between Canadian Pacific Railway Limited (the "Corporation") and the Participant named below (the "Optionholder") pursuant to the Canadian Pacific Railway Limited Management Stock Option Incentive Plan as amended from time to time (the "Plan") and confirms that:

1. on **January 29, 2021** (the "Grant Date");

2. **Mr. Keith Creel;**

3. was granted an option (the "Option") to purchase **47,429** Common Shares (the "Optioned Shares") of the Corporation, exercisable from time to time as to:

   (a) 25% on and after the first anniversary of the Grant Date; and
   (b) 25% on and after the second anniversary of the Grant Date; and
   (c) 25% on and after the third anniversary of the Grant Date; and
   (d) the remaining 25% on and after the fourth anniversary of the Grant Date;

4. at a price (the "Exercise Price") of **$336.22** (USD) per Common Share on the New York Stock Exchange; and

5. for a term expiring at 5:00 p.m., Calgary time, on **January 29, 2028** (the "Expiry Date");

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

Notwithstanding any other provisions in this Option Agreement, all Options granted (vested or unvested) shall be subject to the terms and conditions in the Non-Competition and Non-Solicitation Agreement set out at Schedule A, and the Optionholder agrees to reconfirm the obligations outlined in Schedule A upon request by the Corporation at any time throughout the term of the Optionholder's employment or engagement with the Corporation or upon termination thereof for any reason. Failure to comply with the terms and conditions in the Non-Competition and Non-Solicitation Agreement set out at Schedule A or to provide such confirmation as requested by the Corporation shall result in the immediate cancellation of all Options granted herein (without any further notice, compensation in lieu of notice or damages of any kind), among other remedies available to the Corporation (including the remedies in Section 6 of the Non-Competition and Non-Solicitation Agreement set out at Schedule A).

By electronically "accepting" this agreement, the Optionholder acknowledges that he or she has read and understands the terms of the Plan and this Option Agreement, and voluntarily accepts the Option in accordance with the terms of the Plan and this Option Agreement, including the Non-Competition and Non-Solicitation Agreement set out at Schedule A. The Optionholder also authorizes the Corporation to provide home address information to the Plan Administrator.

IN WITNESS WHEREOF the Corporation and the Optionholder have entered into this Option Agreement as of **January 29, 2021**.

**Canadian Pacific Railway Limited**

| | |
|---|---|
| /s/ Chad Rolstad | /s/ Keith Creel |
| Chad Rolstad<br>VP HR & Chief Culture Officer | Keith Creel (Optionholder)<br>President and CEO |

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

**THIS AGREEMENT** made and effective as of the 29th day of January 2021.

**BETWEEN:**

CANADIAN PACIFIC RAILWAY COMPANY,

a corporation organized under the laws of Canada,

(the "**Company**")

- and -

Keith Creel,

(the "**Employee**")

**RECITALS**

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

**AND WHEREAS**, during the course of the Employee's employment, the Employee has access to proprietary and confidential Company information, thereby making the Company uniquely vulnerable to misuse of such information to the detriment of the Company's business and interests;

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

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

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

1. **Consideration**. In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee's acceptance of the covenants set out in this Agreement.

2. **Protected Rights**. The Parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee's ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator ("Government Agencies") relating to potential violations of law or regulations; or (ii) the Employee's ability to communicate with Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by Government Agencies, including providing documents or other information, without notice to the Company.

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

(a) In this Agreement:

(i) "**Covenant Period**" means the period of the Employee's employment with the Company and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and

(ii) "**CP Group**" means and includes all parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company, including Canadian Pacific Railway Ltd., Delaware and Hudson Railroad Company, Inc., the Soo Line Railroad Company and the Dakota, Minnesota and Eastern Railroad Corporation, which, during the Employee's employment with the Company, the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

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

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

(i) is a customer, supplier or licensor of the Company or the CP Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;

(ii) was a customer, supplier or licensor of the Company or the CP Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or

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

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

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

media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CP Group.

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

4. **Acknowledgements.**

(a) Reasonableness of Covenants. The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CP Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defences to the strict enforcement of those obligations and restrictions.

(b) Annual Confirmation Process. The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish.

(c) Continuing Confidentiality Obligations. The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the Company and following the cessation of the Employee's employment for any reason.

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

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

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

(b) Repayment or Return of Benefit. If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after the effective date of this Agreement (the "**Repayment Period**"), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:

(i) with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and

(ii) with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.

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

(c) Forfeiture. The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.

(d) Accounting. The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.

(e) Legal Costs. The Company shall be awarded its reasonable solicitor and own client expenses, including legal fees and costs, incurred in enforcing this Agreement.

7. **Severability**. Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.

8. **Non-Waiver**. The Company's decision to not enforce a breach of any part of this Agreement (or the Company's settlement of any claims for breach) will not prevent the Company from enforcing the Agreement regarding any other breach of this Agreement that the Company discovers, and shall not operate as a waiver against any future enforcement of any part of this Agreement, any other agreement with the Employee or any other agreement with any other employee of the Company.

9. **No Breach of Obligations to Others**. The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or conflicts with the Employee's obligations under this Agreement or the Employee's employment with the Company. The Employee agrees to indemnify the Company and the CP Group in respect of any violation of this representation.

10. **Disclosure**. The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.

11. **Governing Law and Attornment**. This Agreement shall be construed and determined under the laws of Alberta and the laws of Canada applicable in that province. For all legal proceedings, this Agreement will be deemed to have been performed in Alberta and the courts of Alberta will have the exclusive jurisdiction to entertain any action arising under this Agreement. The Employee and the Company each attorns to the jurisdiction of the courts of Alberta, provided that nothing in this Agreement will prevent the Company from proceeding at its election against the Employee in the courts of any other province or country.

12. **Successor and Assigns**. This Agreement binds and inures to the benefit of the Company's successors and assigns.

13. **Amendments**. No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.

14. **Independent Advice**. The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.

15. **Entire Agreement**. This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CP Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered no oral or written promises, inducements, or representations, and the Employee accepts this Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.

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

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

Dated: March 25, 2021 /s/ Keith Creel

**Exhibit 10.67**

# REGULAR STOCK OPTION AGREEMENT

This Regular Stock Option Agreement is entered into between Canadian Pacific Railway Limited (the "Corporation") and the Participant named above (the "Optionholder") pursuant to the Canadian Pacific Railway Limited Management Stock Option Incentive Plan as amended from time to time (the "Plan"), a sub-plan under the Canadian Pacific Railway Limited Section 162(m) Incentive Plan (the "162(m) Plan"), and confirms that:

1. on **January 29, 2021** (the "Grant Date");

2. the Optionholder;

3. was granted an option (the "Option") to purchase ###TOTAL_AWARDS### Common Shares (the "Optioned Shares") of the Corporation set out above, exercisable from time to time as to:

    (a) 25% on and after the first anniversary of the Grant Date; and

    (b) 25% on and after the second anniversary of the Grant Date; and

    (c) 25% on and after the third anniversary of the Grant Date; and

    (d) the remaining 25% on and after the fourth anniversary of the Grant Date;

4. at a price (the "Exercise Price") of **$336.22** (USD) per Common Share on the New York Stock Exchange; and

5. for a term expiring at 5:00 p.m., Calgary time, on **January 29, 2028** (the "Expiry Date");

on the terms and subject to the conditions set out in the Plan and the 162(m) Plan (including without limitation the Early Expiry provisions in Section 4.7 of the Plan) and in this Option Agreement.

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

By electronically "accepting" this agreement, the Optionholder acknowledges that he or she has read and understands the terms of the Plan and the 162(m) Plan and this Option Agreement, and and accepts the Option in accordance with the terms of the Plan and the 162(m) Plan and this Option Agreement. The Optionholder also authorizes the Corporation to provide home address information to the Plan Administrator.

IN WITNESS WHEREOF the Corporation and the Optionholder have entered into this Option Agreement as of **January 29, 2021.**

**Canadian Pacific Railway Limited**

/s/ Keith Creel

President and Chief Executive Officer

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

NON-COMPETITION AND NON-SOLICITATION AGREEMENT

**THIS AGREEMENT** made and effective as of the 29th day of January 2021.

**BETWEEN:**

SOO LINE RAILROAD COMPANY d/b/a CANADIAN PACIFIC,
a corporation organized under the laws of Minnesota,
(the "**Company**")

- and -

###PARTICIPANT_NAME###,
(the "**Employee**")

### RECITALS

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

**AND WHEREAS**, during the course of the Employee's employment, the Employee has access to proprietary and confidential Company information, thereby making the Company uniquely vulnerable to misuse of such information to the detriment of the Company's business and interests;

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

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

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

1. **Consideration**. In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee's acceptance of the covenants set out in this Agreement.

2. **Protected Rights**. The Parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee's ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator ("**Government Agencies**") relating to potential violations of law or regulations; or (ii) the Employee's ability to communicate with Government Agencies or otherwise participate in any

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

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

(a) In this Agreement:

(i) "**Covenant Period**" means the period of the Employee's employment with the Company and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and

(ii) "**CP Group**" means and includes all parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company, including Canadian Pacific Railway Ltd., Canadian Pacific Railway Company, Delaware and Hudson Railroad Company, Inc., the Soo Line Railroad Company and the Dakota, Minnesota and Eastern Railroad Corporation, which, during the Employee's employment with the Company, the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

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

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

(i) is a customer, supplier or licensor of the Company or the CP Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;

(ii) was a customer, supplier or licensor of the Company or the CP Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or

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

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

terminating or modifying any actual or prospective relationship the supplier or licensor or prospective supplier or licensor has with the Company or the CP Group.

(d) Non-Solicitation of Employees and Consultants. During the Covenant Period, the Employee shall not directly or indirectly solicit any employee or consultant of the Company or CP Group to leave their employment or engagement. For this Paragraph 3(d), general newspaper and other media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CP Group.

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

4. **Acknowledgements.**

   (a) Reasonableness of Covenants. The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CP Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defenses to the strict enforcement of those obligations and restrictions.

   (b) Annual Confirmation Process. The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish.

   (c) Blue Pencil Doctrine. In the event any of the terms of this Agreement are determined by a court of competent jurisdiction to be unreasonable or overbroad under circumstances then existing, the parties hereto authorize and request the court to apply the "blue pencil doctrine" to modify the unreasonable or overly broad term to make it enforceable against Employee. This Agreement shall not be construed against any party regardless of who was more responsible for its preparation.

   (d) Continuing Confidentiality Obligations. The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the Company and following the cessation of the Employee's employment for any reason. Both Employee and Company understand and acknowledge that Employee will not be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that is: (1) made in confidence to a federal, state, or local government official, or to an attorney, solely for the purpose of reporting or investigating a suspected violation of the law; or (2) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding.

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

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

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

(b) Repayment or Return of Benefit. If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after the effective date of this Agreement (the "**Repayment Period**"), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:

(i) with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and

(ii) with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.

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

(c) Forfeiture. The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.

(d) Accounting. The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.

(e) Legal Costs. The Company shall be awarded its reasonable expenses, including attorneys' fees and costs, incurred in enforcing this Agreement.

7. **Severability**. Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.

8. **Non-Waiver.** The Company's decision to not enforce a breach of any part of this Agreement (or the Company's settlement of any claims for breach) will not prevent the Company from enforcing the Agreement regarding any other breach of this Agreement that the Company

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

9. **No Breach of Obligations to Others**. The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or conflicts with the Employee's obligations under this Agreement or the Employee's employment with the Company. The Employee agrees to indemnify the Company and the CP Group in respect of any violation of this representation.

10. **Disclosure**. The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.

11. **Governing Law and Forum.** This Agreement shall be construed and determined according to the laws of the State of Minnesota, and any disputes arising out of this Agreement shall be determined in a court of appropriate jurisdiction in the state of Minnesota, and the Employee expressly consents to the exclusive jurisdiction of the state and federal courts in Minnesota for any dispute arising under this Agreement. The employee waives the right to claim any other jurisdiction is more convenient or to challenge the jurisdiction of the courts of Minnesota over the Employee.

12. **Successor and Assigns**. This Agreement binds and inures to the benefit of the Company's successors and assigns.

13. **Amendments.** No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.

14. **Independent Advice.** The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.

15. **At-Will Employment**. Nothing in this Agreement is intended to provide nor shall this Agreement provide the Employee with any contractual rights to employment for any period of time. The Employee acknowledges that his/her employment relationship with the Company is one of at-will employment. This means that either the Employee or the Company may terminate the employment relationship at any time and for any reason, with or without cause or notice. The Employee understands he/she is an at-will employee of the Company and that this Agreement does not modify the Employee's at-will status in any manner.

16. **Entire Agreement.** This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CP Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered no oral or written promises, inducements, or representations, and the Employee accepts this Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.

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

The Employee may enter into this Agreement by electronic acceptance via Shareworks, and acknowledges that such electronic signature is intended to authenticate Employee's acceptance and

shall have the same force and effect as a manual signature. This Agreement shall be effective and binding upon acceptance by Employee; Employee acknowledges that the Company is not required to execute this Agreement for it to be binding.

Dated: ###ACCEPTANCE_DATE### ###PARTICIPANT_NAME###

**Exhibit 10.68**

# REGULAR STOCK OPTION AGREEMENT

This Regular Stock Option Agreement is entered into between Canadian Pacific Railway Limited (the "Corporation") and the Participant named above (the "Optionholder") pursuant to the Canadian Pacific Railway Limited Management Stock Option Incentive Plan as amended from time to time (the "Plan") and confirms that:

1. on **January 29, 2021** (the "Grant Date");

2. the Optionholder;

3. was granted an option (the "Option") to purchase ###TOTAL_AWARDS### Common Shares (the "Optioned Shares") of the Corporation set out above, exercisable from time to time as to:

    (a) 25% on and after the first anniversary of the Grant Date; and

    (b) 25% on and after the second anniversary of the Grant Date; and

    (c) 25% on and after the third anniversary of the Grant Date; and

    (d) the remaining 25% on and after the fourth anniversary of the Grant Date;

4. at a price (the "Exercise Price") of **$429.64** (CDN) per Common Share on the Toronto Stock Exchange; and

5. for a term expiring at 5:00 p.m., Calgary time, on **January 29, 2028** (the "Expiry Date");

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

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

By electronically "accepting" this agreement, the Optionholder acknowledges that he or she has read and understands the terms of the Plan and this Option Agreement, and accepts the Option in accordance with the terms of the Plan and this Option Agreement. The Optionholder also authorizes the Corporation to provide home address information to the Plan Administrator.

IN WITNESS WHEREOF the Corporation and the Optionholder have entered into this Option Agreement as of **January 29, 2021.**

**Canadian Pacific Railway Limited**

/s/ Keith Creel

President and Chief Executive Officer

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

NON-COMPETITION AND NON-SOLICITATION AGREEMENT

**THIS AGREEMENT** made and effective as of the 29th day of January 2021.

**BETWEEN:**

CANADIAN PACIFIC RAILWAY COMPANY,
a corporation organized under the laws of Canada,
(the "**Company**")

- and -

###PARTICIPANT_NAME###,
(the "**Employee**")

### RECITALS

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

**AND WHEREAS**, during the course of the Employee's employment, the Employee has access to proprietary and confidential Company information, thereby making the Company uniquely vulnerable to misuse of such information to the detriment of the Company's business and interests;

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

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

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

1. **Consideration**. In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee's acceptance of the covenants set out in this Agreement.

2. **Protected Rights**. The Parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee's ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator ("**Government Agencies**") relating to potential violations of law or regulations; or (ii) the Employee's ability to communicate with Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by Government Agencies, including providing documents or other information, without notice to the Company.

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

(a) In this Agreement:

(i) "**Covenant Period**" means the period of the Employee's employment with the Company and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and

(ii) "**CP Group**" means and includes all parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company, including Canadian Pacific Railway Ltd., Delaware and Hudson Railroad Company, Inc., the Soo Line Railroad Company and the Dakota, Minnesota and Eastern Railroad Corporation, which, during the Employee's employment with the Company, the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

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

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

(i) is a customer, supplier or licensor of the Company or the CP Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;

(ii) was a customer, supplier or licensor of the Company or the CP Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or

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

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

(d) Non-Solicitation of Employees and Consultants. During the Covenant Period, the Employee shall not directly or indirectly solicit any employee or consultant of the Company or CP Group to leave their employment or engagement. For this Paragraph 3(d), general newspaper and other media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CP Group.

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

4. **Acknowledgements.**

(a) Reasonableness of Covenants. The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CP Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defences to the strict enforcement of those obligations and restrictions.

(b) Annual Confirmation Process. The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish.

(c) Continuing Confidentiality Obligations. The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the Company and following the cessation of the Employee's employment for any reason.

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

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

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

(b) Repayment or Return of Benefit. If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after the effective date of this Agreement (the "**Repayment Period**"), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:

(i) with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of

Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and

(ii) with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.

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

(c) Forfeiture. The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.

(d) Accounting. The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.

(e) Legal Costs. The Company shall be awarded its reasonable solicitor and own client expenses, including legal fees and costs, incurred in enforcing this Agreement.

7. **Severability**. Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.

8. **Non-Waiver.** The Company's decision to not enforce a breach of any part of this Agreement (or the Company's settlement of any claims for breach) will not prevent the Company from enforcing the Agreement regarding any other breach of this Agreement that the Company discovers, and shall not operate as a waiver against any future enforcement of any part of this Agreement, any other agreement with the Employee or any other agreement with any other employee of the Company.

9. **No Breach of Obligations to Others**. The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or conflicts with the Employee's obligations under this Agreement or the Employee's employment with the Company. The Employee agrees to indemnify the Company and the CP Group in respect of any violation of this representation.

10. **Disclosure**. The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.

11. **Governing Law and Attornment.** This Agreement shall be construed and determined under the laws of Alberta and the laws of Canada applicable in that province. For all legal proceedings, this Agreement will be deemed to have been performed in Alberta and the courts of Alberta will have the exclusive jurisdiction to entertain any action arising under this Agreement. The Employee and

the Company each attorns to the jurisdiction of the courts of Alberta, provided that nothing in this Agreement will prevent the Company from proceeding at its election against the Employee in the courts of any other province or country.

12. **Successor and Assigns**. This Agreement binds and inures to the benefit of the Company's successors and assigns.

13. **Amendments.** No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.

14. **Independent Advice.** The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.

15. **Entire Agreement.** This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CP Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered no oral or written promises, inducements, or representations, and the Employee accepts this Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.

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

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

Dated: ###ACCEPTANCE_DATE### ###PARTICIPANT_NAME###

**Exhibit 10.69**

1-26-15

# CANADIAN PACIFIC PENSION PLAN
# FOR
# U.S. MANAGEMENT EMPLOYEES

(Incorporating All Amendments Adopted
Through December 31, 2014)

CANADIAN PACIFIC PENSION PLAN
FOR
U.S. MANAGEMENT EMPLOYEES
(Incorporating All Amendments Adopted through December 31, 2014)

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CANADIAN PACIFIC PENSION PLAN
FOR
U.S. MANAGEMENT EMPLOYEES

(Incorporating All Amendments Adopted through December 31, 2014)

ARTICLE I

GENERAL

Sec. 1.1 Name of Plan. The name of the pension plan set forth herein is the Canadian Pacific Pension Plan for U.S. Management Employees. It was previously named the Canadian Pacific Railway Pension Plan for U.S. Management Employees. Prior to that the Plan was known as the "CP Rail System Funded Pension Plan for U.S. Management Employees." Prior to that it was known as the "Soo Line Railroad Funded Pension Plan," and before that as the "Pension Plan for Eligible Officers and Employees of Minneapolis, St. Paul & Sault Ste. Marie Railroad Company." It is sometimes herein referred to as the "Plan."

Sec. 1.2 Purpose. The Plan has been established so that eligible employees will have a source of retirement income in addition to the other sources of retirement income available to them.

Sec. 1.3 Effective Date. The "Effective Date" of the Plan is December 31, 1956, the date as of which the Plan was established. This restatement of the Plan incorporates all amendments made effective through December 31, 2014.

Sec. 1.4 Company. The "Company" is Soo Line Railroad Company, a Minnesota corporation, and any Successor Employer thereof. The Company was Minneapolis, St. Paul & Sault Ste. Marie Railroad Company for the period commencing December 31, 1956 and ending December 31, 1960.

Sec. 1.5 Administrator. The Company is the "Administrator" of the Plan for purposes of ERISA.

Sec. 1.6 Construction and Applicable Law. The Plan is intended to meet the requirements for qualification under Code section 401(a). The Plan is also intended to be in full compliance with applicable requirements of ERISA. The Plan shall be administered and construed consistent with said intent. It shall also be construed and administered according to the laws of the State of Minnesota to the extent that such laws are not preempted by the laws of the United States of America. All controversies, disputes, and claims arising hereunder shall be submitted to the United States District Court for the District of Minnesota, except as otherwise provided in any trust agreement entered into with a Funding Agency. All references herein to the "Internal Revenue Code" or "Code" are to the Internal Revenue Code of 1986 as from time to time amended. All references herein to the "Employee Retirement Income Security Act" or

"ERISA" are to the Employee Retirement Income Security Act of 1974 as from time to time amended.

Sec. 1.7 Benefit Determinations and Applicability of Amendments. Except as may be specifically provided herein to the contrary, benefits under the Plan attributable to service prior to a Participant's Termination of Employment shall be determined and paid in accordance with the provisions of the Plan as in effect as of the date the Termination of Employment occurred. Also, and except as may be specifically provided herein to the contrary, any amendment to the Plan shall apply only to benefits accrued by individuals who are employees of a Participating Employer or Affiliate on or after the effective date of such amendment. Notwithstanding the foregoing:

(a) Certain provisions of the Plan have specific effective dates, which are noted in the particular provisions.

(b) Certain provisions of the 1994 amendment and restatement of the Plan were required as a result of federal statutes and regulations. In cases where these new legal requirements were applicable prior to January 1, 1994, the Plan has been and will be applied and interpreted in a manner that is consistent with a good faith interpretation of the applicable legal requirements.

(c) Certain provisions of the 1999 and 2002 amendment and restatements of the Plan are intended to reflect and comply with certain provisions of (and legal changes made by) the General Agreement on Trades and Tariffs contained in the Uruguay Round Agreements Act, P.L. 103-465 ("GATT"), the Small Business Job Protection Act of 1996, P.L. 104-88 ("SBJA") and the Taxpayer Relief Act of 1997, P.L.105-34 ("TRA 97") and the Community Renewal Tax Relief Act of 2000 ("CRA"). In the absence of explicit regulatory guidance, the Plan has been, and will be applied and interpreted in a manner that is consistent with a good faith interpretation of the legal requirements of the above-referenced Acts. The January 1, 2002 restatement of the Plan (dated "11-14-02") was the subject of a favorable determination letter dated November 26, 2002 which confirmed that the provisions of the Plan meet the qualification requirements of GATT, SBJA, USERRA, TRA 97 and CRA.

(d) Notwithstanding any provision of the Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with section 414(u) of the Code and the Uniformed Services Employment and Reemployment Rights Act of 1994, P.L. 103-353 ("USERRA"), as amended from time to time. In the absence of explicit regulatory guidance, the Plan will be applied and interpreted in a manner that is consistent with a good faith interpretation of USERRA. The provisions of USERRA became effective with respect to the Plan as of December 12, 1994.

(e) This working copy of the Plan, dated "1-26-10", incorporates good faith amendments made under the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"). These amendments were incorporated in the January 1, 2002 restatement of the Plan (dated "11-14-02") and were adopted on January 31, 2003. Unless stated otherwise, or required by law, the effective date of the EGTRRA amendments was January 1, 2002. The Plan has been applied and interpreted in a manner that is consistent with a good faith interpretation of the requirements of EGTRRA.

(f) The working copy of the Plan, dated "1-26-10", also incorporated good faith amendments intended to reflect and comply with the provisions of the Pension Protection Act of 2006 ("PPA"), and the Worker, Retiree and Employer Recovery Act of 2008 ("WRERA"), the Heroes Earnings Assistance and Relief Act of 2008 (the "HEART Act") and the final Code §415 regulations issued by the Department of Treasury on April 5, 2007. Unless stated otherwise or required by law, the effective date of the PPA and WRERA amendments is January 1, 2008. Unless otherwise stated or required by law, the effective date of the HEART amendments was January 1, 2007. The Plan has been, and shall be, applied and interpreted in a manner that is consistent with a good faith interpretation of the requirements of the PPA.

(g) The working copy of the Plan document, dated "1-26-10", included all amendments adopted through December 31, 2009. These amendments included the following:

(1) Amendments dated "8-25-05", which were adopted September 7, 2005, and included the default rollover provisions effective March 28, 2005.

(2) Amendments dated "1-20-06", which were adopted on January 24, 2006, and which modified the actuarial equivalent factors for purposes of determining the amount of optional forms of benefit and applying the Code §415 limits.

(3) Amendments dated "12-22-08", which were adopted on December 22, 2008, and set forth the provisions of the Pension Protection Act, the HEART Act and the final Code §415 regulations.

(4) Amendments dated "12-11-09", which were adopted on December 29, 2009 and added Code §436 limitations, Defense of Marriage Act and minor top-heavy revisions.

(h) Eligibility to become a Participant in the Plan was frozen effective July 1, 2010. As a result:

(1) Individuals with an Employment Commencement Date on or after July 1, 2010 (including rehires on or after July 1, 2010) are not Qualified Employees and are not eligible to become Participants in the Plan.

(2) Individuals who are Participants on July 1, 2010 and who are employed by the Company or an Affiliate on July 1, 2010, but are not Qualified Employees on July 1, 2010 or are on an approved leave of absence on July 1, 2010, can again become eligible to accrue benefits under the Plan as of the date, if any, that they again become Qualified Employees or return to active employment status (whichever may apply).

(3) Individuals who are employed by the Company or an Affiliate on July 1, 2010, but are not Participants or Qualified Employees on July 1, 2010, cannot become Participants after July 1, 2010, even if they transfer into a position that would have previously caused them to be eligible to participate in the Plan.

(i) This working copy of the Plan document, dated "1-26-15", includes all amendments adopted through December 31, 2014. These amendments include the following:

(1) Amendments dated "6-28-10", which were adopted on June 29, 2010 and froze pension eligibility so as to exclude individuals with an employment commencement date on or after July 1, 2010 (including rehires after that date).

(2) Amendments dated "10-27-2010", which were adopted on February 22, 2011, which set forth technical modifications to the Plan provisions requested by the IRS in connection with the favorable determination letter dated November 24, 2010.

(3) Amendments dated "12-3-10", which were adopted on December 20, 2010, in connection with crediting service for Participants who transfer to DM&E Railroad Company and HEART Act clarifications.

(4) Amendments dated "12-8-11", which were adopted on December 21, 2011, which eliminated the lump sum death benefit under Sec. 7.4 of the Plan effect.

(5) Amendments dated "6-21-13", which were adopted on July 15, 2013, which were made in connection with a change in the payroll system, thereby provisions relating to the commencement date of pension payments and retroactive annuity starting dates and the definition of Certified Earnings recognized under the Plan.

(6) Amendments dated "12-18-14", which were adopted on December 18, 2014 and provided that the Plan will recognize same sex marriages, effective September 16, 2013.

## ARTICLE II

## MISCELLANEOUS DEFINITIONS

Sec. 2.1 Active Participant. An employee is an "Active Participant" only while he is both a Participant and a Qualified Employee.

Sec. 2.2 Actuary. "Actuary" means the individual, partnership, corporation, or other organization appointed and acting as such from time to time under Article X.

Sec. 2.3 Affiliate. "Affiliate" means any trade or business entity under Common Control with a Participating Employer or under Common Control with a Predecessor Employer while it is such.

Sec. 2.4 Board. The "Board" is the board of directors of the Company, and includes any executive committee thereof authorized to act for said board of directors.

Sec. 2.5 Common Control. A trade or business entity (whether a corporation, partnership, sole proprietorship or otherwise) is under "Common Control" with another trade or business entity (i) if both entities are corporations which are members of a controlled group of corporations as defined in Code section 414(b), (ii) if both entities are trades or businesses (whether or not incorporated) which are under common control as defined in Code section 414(c), (iii) if both entities are members of an affiliated service group as defined in Code section 414(m), or (iv) if both entities are required to be aggregated pursuant to regulations under Code section 404(o). Service for all entities under Common Control shall be treated as service for a single employer to the extent required by the Code; provided, however, that an individual shall not be a Qualified Employee by reason of this section. In applying the preceding sentence for purposes of Sec. 8.12, the provisions of Code section 414(b) and (c) are deemed to be modified as provided in Code section 415(h).

Sec. 2.6 Fund. "Fund" means the aggregate of assets described in Sec. 9.1.

Sec. 2.7 Funding Agency. "Funding Agency" is a trustee or trustees or an insurance company appointed and acting from time to time under Sec. 9.2 for the purpose of holding, investing, and disbursing all or a part of the Fund.

Sec. 2.8 Leased Employee. "Leased Employees" within the meaning of Code section 414(n)(2) and individuals who would meet those requirements but for failure to complete a year of leased service shall be counted as employees for purposes of determining Years of Eligibility Service and Years of Vesting Service, or to such other extent required by the Code or regulations issued thereunder. Leased Employees are not Participants in the Plan, however, and do not accrue benefits under the Plan.

Sec. 2.9 Named Fiduciary. The Company is a "Named Fiduciary" for purposes of ERISA with authority to control or manage the operation and administration of the Plan, including control or management of the assets of the Plan. Other persons are also Named Fiduciaries under said Act if so provided by said Act or if so identified by the Company, by action of the Board. Such other person or persons shall have such authority to control or manage the operation and administration of the Plan, including control or management of the assets of the Plan, as may be provided by said Act or as may be allocated by the Company.

Sec. 2.10 Participating Employer. The Company is a Participating Employer in the Plan. With the consent of the Company, any other employer may also become a Participating Employer in the Plan effective as of a date specified by it in its adoption of the Plan. Any Successor Employer to a Participating Employer shall also be a Participating Employer in the Plan. As of January 1, 2008, the Company and the Delaware and Hudson Railway Company, Inc., a Delaware corporation formerly named D&H Corporation, are the only Participating Employers in the Plan. The Delaware and Hudson Railway Company became a Participating Employer in the Plan effective January 18, 1991. Canadian Pacific (U.S.) Finance ceased being a Participating Employer in the Plan as of December 31, 2004. By way of clarification, the DM&E Railroad Company is not, and has never been, a Participating Employer in the Plan. Accordingly, DM&E employees are not Qualified Employees and are not eligible to accrue benefits under the Plan, unless, as provided in Sec. 2.13(g), they were Active Participants in the Plan on July 1, 2010, who later transferred from a position with a Participating Employer to a position with the DM&E Railroad Company and thus remained Qualified Employees in the Plan.

Sec. 2.11 Plan Year. A "Plan Year" is the 12-consecutive-month period commencing on each January 1 and is the year on which records of the Plan are kept.

Sec. 2.12 Predecessor Employer. Any corporation, partnership, firm, or individual, a substantial part of the assets and employees of which are acquired by a successor, is a "Predecessor Employer" if named in this section and subject to any conditions and limitations with respect thereto imposed by this section; provided, however, that any such corporation, partnership, firm, or individual may be named as a "Predecessor Employer" only if all of its employees who become employees of the successor at the time of the acquisition and Participants hereunder are treated uniformly, the use of service with it does not produce discrimination in favor of officers, shareholders, or highly compensated employees, and there is no duplication of pension benefits for such service. To be considered a "Predecessor Employer," the acquisition of assets and employees of a corporation, partnership, firm, or individual must be by a Participating Employer, by an Affiliate, or by another Predecessor Employer. Each of the following is a "Predecessor Employer," subject to any conditions and limitations specified with respect thereto:

(a) The Duluth, South Shore and Atlantic Railway Company.

(b) Mineral Range Railroad Company.

(c) Minneapolis, St. Paul & Sault Ste. Marie Railway Company.

(d) Wisconsin Central Railway Company for the period of its existence prior to March 1, 1954.

(e) Wisconsin Central Railroad Company for the period of its existence prior to January 1, 1961.

(f) Receiver or receivers and trustee or trustees in bankruptcy of the companies named in (a) through (e) above.

(g) Eligibility for new Participants to enter the Plan was frozen on July 1, 2010. Accordingly, employees with an Employment Commencement Date on or after July 1, 2010 (both new hires and rehires) are not Qualified Employees and cannot become Qualified Employees. In addition, any individual who was employed by the Company or an Affiliate on July 1, 2010, but was neither a Participant nor a Qualified Employee on July 1, 2010, cannot subsequently become a Qualified Employee or a Participant.

(h) Individuals who were Active Participants in the Plan on July 1, 2010 and who transfer from a position with a Participating Employer to a position with the DM&E Railroad Company ("DM&E") after July 1, 2010 remain Qualified Employees for purposes of the Plan while they are employed by the DM&E.

Any other employer shall be a Predecessor Employer if so required by regulations prescribed by the Secretary of the Treasury or his delegate.

Sec. 2.13 Qualified Employee. "Qualified Employee" means an employee of a Participating Employer, subject to the following:

(a) An employee is not a Qualified Employee prior to the date as of which his employer becomes a Participating Employer.

(b) Eligibility of employees in a collective bargaining unit to participate in the Plan shall be subject to negotiations with the representative of that unit. During any period that the wages and hours of service of an employee are covered by the provisions of a collective bargaining agreement between his Participating Employer and such representative he shall not be considered a Qualified Employee for purposes of this Plan unless such agreement expressly so provides. For purposes of this section only, such an agreement shall be deemed to continue after its formal expiration during collective bargaining negotiations pending the execution of a new agreement.

(c) Except as provided in subsection (d), if a Qualified Employee is granted an authorized leave of absence or is otherwise absent from active service under circumstances that do not result in his or her Termination of Employment, the employee shall remain a Qualified Employee during such absence.

(d) The Company or its Affiliates have an ownership interest in the Davenport, Rock Island and Northwestern Railroad Company and the Indiana Harbor Belt Railroad Company. Certain employees of the Company who were on leave of absence to serve said corporations have been treated as Qualified Employees during said leaves of absence. On and after January 1, 1989, an employee will not be considered a Qualified Employee during such a leave of absence.

(e) On and after January 1, 1989, a nonresident alien while not receiving earned income (within the meaning of Code section 911(b)) from a Participating Employer which constitutes income from sources within the United States (within the meaning of Code section 861(a)(3)) is not a Qualified Employee.

(f) On and after January 1, 1989, an employee is not a Qualified Employee unless his services are performed within the United States, or his principal base of operations to which he frequently returns is within the United States.

Sec. 2.14 Successor Employer. A "Successor Employer" is any entity that succeeds to the business of a Participating Employer through merger, consolidation, acquisition of all or substantially all of its assets, or any other means and which elects before or within a reasonable time after such succession, by appropriate action evidenced in writing, to continue the Plan; provided, however, that in the case of such succession with respect to any Participating Employer other than the Company, the acquiring entity shall be a Successor Employer only if consent thereto is granted by the Company.

ARTICLE III

SERVICE DEFINITIONS AND RULES

Sec. 3.1 Employment Commencement Date. "Employment Commencement Date" means the date on which an employee first performs an Hour of Service for a Participating Employer (whether before or after the Participating Employer becomes such), an Affiliate, or a Predecessor Employer.

Sec. 3.2 Termination of Employment. The "Termination of Employment" of an employee (or the date an employee "Terminates Employment") for purposes of the Plan shall be deemed to occur upon the date of his or her resignation, discharge, retirement, death, failure to return to work when duly called following a temporary layoff, a separation from service (for example, a furlough of one year or longer) or upon the happening of any other event or circumstance which, under the policy of his Participating Employer, Affiliate, or Predecessor Employer, as in effect from time to time, results in the termination of the employer-employee relationship; provided, however, that "Termination of Employment" shall not be deemed to occur upon a transfer of employment between any combination of Participating Employers, Affiliates, and Predecessor Employers. If a Participant becomes disabled (as determined by the Company in its sole discretion) his or her Termination of Employment shall be deemed not to have occurred until the Company determines the Participant is no longer disabled; provided, however, that if a disabled Participant elects to begin receiving pension benefits under this Plan he or she shall be deemed to have a Termination of Employment for purposes of the Plan when such benefits become payable. If the employer-employee relationship is terminated because of the entry of an employee into the armed forces of the United States and if the employee subsequently returns to employment with a Participating Employer or an Affiliate under circumstances such that he or she has reemployment rights under the provisions of Uniformed Service Employment and Reemployment Rights Act of 1994 or any other applicable federal law, the employee shall be deemed to have been on authorized leave of absence for purposes of the Plan during the period of military service.

Sec. 3.3 Hour of Service. An "Hour of Service" or "Hours of Service" are determined in accordance with the following subsections. The Company may round up the number of Hours of Service at the end of each Plan Year or other computation period or more frequently as long as a uniform practice is followed with respect to all employees who the Company determines are in the same, or a similar, job classification, reasonably defined.

(a) Hours of Service are computed only with respect to service with Participating Employers (for service both before and after the Participating Employer becomes such), Affiliates and Predecessor Employers and are aggregated for service with all such employers. Notwithstanding the foregoing, Active Participants who transferred to the DM&E Railroad Company after July 1, 2010 and remained Qualified Employees under the Plan pursuant to Sec. 2.13(h) are credited with Hours of Service for their service with the DM&E Railroad Company in accordance with the other provisions of this section.

(b) For any period while an employee is in a classification for which a record of hours is maintained, Hours of Service shall be credited as follows:

(1) Each hour for which the employee is paid, or entitled to payment, for the performance of duties for his employer is an Hour of Service.

(2) Each hour for which the employee is paid, or entitled to payment, by his or her employer on account of a period of time during which no duties are performed (irrespective of whether the employment relationship was terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty, or leave of absence, is an Hour of Service. No more than 501 Hours of Service shall be credited under this paragraph for any single continuous period (whether or not such period occurs in a single computation period). Said 501 hour limit is not applicable, however, to Hours of Service credited under Sec. 3.7(b)(4) for certain periods of long term disability or for military duty that must be recognized by the Plan pursuant to the provisions of the Uniformed Services Employment and Reemployment Rights Act of 1994 or Code section 414(u). Hours of Service shall not be credited under this paragraph with respect to payments under a plan maintained solely for the purpose of complying with applicable workers' compensation, unemployment compensation, or disability insurance laws or with respect to a payment which solely reimburses the individual for medical or medically related expenses incurred by the employee.

(3) Each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the employer is an Hour of Service. Crediting of Hours of Service for back pay awarded or agreed to with respect to periods described in paragraph (2) shall be subject to the limitations set forth in that paragraph. Such Hours of Service shall be credited to the period to which the award or agreement for back pay pertains, rather than to the period in which the award, agreement or payment is made.

(4) Hours under this subsection shall be calculated and credited pursuant to section 2530.200b-2 of the Department of Labor Regulations, which are incorporated herein by this reference.

(5) The Company may use any records to determine Hours of Service which it considers an accurate reflection of the actual facts.

(c) For any period while an employee is in a classification for which a record of hours is not maintained, he shall be credited with 190 Hours of Service for each month for which he would otherwise be credited with at least one Hour of Service under subsection (b).

(d) Nothing in this section shall be construed as denying an employee credit for an Hour of Service if credit is required by any federal law other than ERISA. The nature and extent of such credit shall be determined under such other law.

(e) In no event shall duplicate credit as an Hour of Service be given for the same hour.

Sec. 3.4 Eligibility Computation Period. An employee's first Eligibility Computation Period is the 12-consecutive-month period beginning on his Employment Commencement Date. His second Eligibility Computation Period is the Plan Year commencing in said 12-consecutive- month period. Each subsequent Plan Year also is an Eligibility Computation Period.

Sec. 3.5 Year of Eligibility Service. A "Year of Eligibility Service" means an Eligibility Computation Period in which an employee has at least 1000 Hours of Service. Service will not be excluded from a Participant's Years of Eligibility Service by virtue of any subsequent break in service.

Sec. 3.6 Year of Vesting Service. An employee's "Years of Vesting Service" shall be determined as follows:

(a) For any Plan Year throughout which a person is an employee of a Participating Employer, Affiliate, or Predecessor Employer, he shall receive a Year of Vesting Service.

(b) If, during a given Plan Year, a person is not an employee of a Participating Employer, Affiliate, or Predecessor Employer throughout the Plan Year, he or she shall receive one-twelfth of a Year of Vesting Service for each complete calendar month within such Plan Year, during which he or she is an employee of a Participating Employer, Affiliate, or Predecessor Employer. If a Participant becomes disabled before his or her Termination of Employment date, he or she shall receive one-twelfth of a Year of Vesting Service for each month of disability provided he or she was a Qualified Employee when such disability commenced. The determination of disability for this purpose shall be made by the Company in its sole discretion. Notwithstanding the foregoing, if an individual completes at least 1000 Hours of Service during a Plan Year, he or she shall receive a full Year of Vesting Service for that Plan Year.

(c) Notwithstanding the above provisions of this section, for purposes of determining Years of Vesting Service, there shall be disregarded any Plan Year prior to the later of:

(1) The PlanYear in which the Participant attained age 18.

(2) The earlier of (i) the Plan Year in which his Participating Employer first maintained the Plan or a predecessor plan, or (ii) the earliest Plan Year in which

any trade or business entity at that time under Common Control with his Participating Employer first maintained the Plan or a predecessor plan.

(d) Service will not be excluded from a Participant's Years of Vesting Service by virtue of any subsequent break in service.

(e) For purposes of this section, service prior to January 24, 1990 with Canadian Pacific Limited or with any entity under Common Control with Canadian Pacific Limited shall be treated as service with an Affiliate. However, the preceding sentence applies only if the Participant transferred between a Participating Employer and Canadian Pacific Limited (or an entity under Common Control with Canadian Pacific Limited) and not if the Participant had a Termination of Employment and subsequent reemployment.

(f) Notwithstanding any of the foregoing provisions to the contrary, a former employee of Delaware and Hudson Railway Company who became an employee of D&H Corporation on or after January 18, 1991 but before January 1, 1992 is credited with one-twelfth (1/12) of a Year of Vesting for each month during any part of which such employee was an employee of Delaware and Hudson Railway Company or any predecessor railroad thereof.

Sec. 3.7 Year of Credited Service. An employee's "Years of Credited Service" shall be determined as follows:

(a) With respect to service prior to January 1, 1976, an employee's Years of Credited Service shall be determined according to the provisions of the Plan as in effect prior to said date; provided, however, that service prior to January 1, 1976 shall not be disregarded by reason of any break in service.

(b) For service after December 31, 1975, an employee's Years of Credited Service shall be determined as follows:

(1) An employee shall receive one Year of Credited Service for each Plan Year in which he has at least 1000 Hours of Service as a Qualified Employee.

(2) If an employee has fewer than 1000 Hours of Service as a Qualified Employee in a Plan Year in which his Employment Commencement Date, Termination of Employment or transfer to or from a position as a Qualified Employee occurs, he shall receive one-twelfth of a Year of Credited Service for each complete calendar month in such Plan Year throughout which he is a Qualified Employee.

(3) Notwithstanding any of the foregoing provisions to the contrary, the following service shall be disregarded when determining a Participant's Years of Credited Service:

(A) Employed on January 1, 2001 or Initially Hired on or After January 1, 2001. If a Participant either (i) was an employee of the Company on January 1, 2001; or (ii) had an initial Employment Commencement Date on or after January 1, 2001 (i.e., the Participant did not have a Termination of Employment date with the Company prior to January 1, 2001 with a subsequent rehire date after January 1, 2001), Plan Years before the Participant reached age 21 shall be disregarded when determining his or her Years of Credited Service.

(B) Termination of Employment Prior to January 1, 2001 and Rehires after January 1, 2001. If a Participant had a Termination of Employment prior to January 1, 2001 and he or she was not an employee of the Company on January 1, 2001, Plan Years described in (i) or (ii) below shall be disregarded when determining his or her Years of Credited Service, even if the Participant is rehired by the Company after January 1, 2001:

(i) A Plan Year prior to 1985, if the Participant had not attained age 25 on or before the last day of that Plan Year.

(ii) A Plan Year after 1984, if the Participant had not attained age 21 on or before the last day of that Plan Year.

(4) For purposes of this Sec. 3.7, while an employee is disabled (as determined by the Company in its sole discretion) and is not otherwise accruing Hours of Service, he or she shall be deemed to have 40 Hours of Service for each week of such disability before the earlier of the date he or she elects to begin receiving benefits under the Plan, or the first day of the month following his or her 65th birthday, provided he or she was a Qualified Employee when such disability commenced.

(5) Service will not be excluded from a Participant's Years of Credited Service by virtue of any subsequent break in service.

(6) If a Participant ceases to be a Qualified Employee on or after July 1, 1991 because he was transferred to a position in Canada as an employee of a Participating Employer, he will be deemed to be a Qualified Employee for up to two years of his service as an employee of a Participating Employer in Canada, and such service will be included in his Credited Service. Any service with a Participating Employer in Canada in excess of two years will not be considered Credited Service or service as a Qualified Employee.

(c) If an employee of a Participating Employer who is not a Qualified Employee is transferred to a position in which he is a Qualified Employee, and if the employee remains a Qualified Employee for at least 60 calendar months, the employee's Hours of

Service before he became a Qualified Employee shall be used in determining his Years of Credited Service. This subsection (c) will be applied and interpreted as follows:

(1) If the transfer to the Qualified Employee position occurred prior to January 1, 1989, the prior service shall be credited immediately, regardless of whether the employee completes 60 calendar months of service as a Qualified Employee.

(2) On or after January 1, 1989, an employee needs 60 calendar months of service as a Qualified Employee following each period of service during which the Participant was not a Qualified Employee in order for the prior service to count as Credited Service. The 60 months of service as a Qualified Employee does not, however, need to be consecutive months in order to receive the retroactive Credited Service.

(3) For purposes of this subsection (c), service will be calculated in full months only. Partial months will not count, nor will they be rounded up or added together for purposes of meeting the 60 month threshold.

(4) This subsection does not apply to service on or after January 1, 1989 during which the employee was not a Qualified Employee due to application of Sec. 2.13(d), (e), or (f).

(5) This subsection does not apply to service at any time with Canadian Pacific Railway Company or with any other employer which both (i) is not a Participating Employer and (ii) became an Affiliate after December 31, 1988.

(6) This subsection (c) will be administered in accordance with procedures established by the Company or a committee appointed by the Company.

(7) This subsection (c) shall only apply to individuals who were both Participants in the Plan on July 1, 2010 and actively employed by a Participating Employer on July 1, 2010.

(d) An employee's aggregate Years of Credited Service may not exceed 30 Years of Credited Service.

(e) Individuals with an Employment Commencement Date on or after July 1, 2010 (both new hires and rehires) are not eligible to participate in the Plan and are not Qualified Employees for purposes of the Plan. As a result, new hires and rehires on or after July 1, 2010 do not receive Credited Service under the Plan for service on or after July 1, 2010.

ARTICLE IV

BENEFIT DEFINITIONS

Sec. 4.1 Normal Pension. A Participant's Normal Pension is a pension payable monthly for life, the first payment to be made as of the first day of the month following his attainment of Normal Retirement Age (if he is living on said first day of the month) and the last payment to be made as of the first day of the month in which his death occurs, in a monthly amount equal to his Accrued Monthly Pension.

Sec. 4.2 Normal Retirement. "Normal Retirement" means any Termination of Employment of a Participant (except termination by his death) occurring (i) after he attains Normal Retirement Age and (ii) during the month in which he attains Normal Retirement Age.

Sec. 4.3 Late Retirement. "Late Retirement" means any Termination of Employment of a Participant (except termination by his death) occurring after the last day of the month in which he attains Normal Retirement Age.

Sec. 4.4 Early Retirement. "Early Retirement"means any Termination of Employment of a Participant (except termination by his death) (i) after he has both attained age 55 and completed 10 Years of Vesting Service and (ii) before he attains Normal Retirement Age.

Sec. 4.5 Vested Termination. "Vested Termination" means any Termination of Employment of a Participant (except termination by his death) that occurs after he has completed five Years of Vesting Service and that is not defined herein as a form of retirement.

Sec. 4.6 Accrued Monthly Pension. Effective January 1, 2001, a Participant's "Accrued Monthly Pension shall be determined as follows:

(a) The Accrued Monthly Pension for a Participant, who has a Termination of Employment date on or after January 1, 2001 and who has at least one Hour of Service on or after January 1, 2001, is equal to the sum of the amounts in (1) and (2) below, multiplied by the number in (3) below, as follows:

(1) One-half of one percent (0.5%) of the portion of the Participant's Final Average Monthly Earnings that does not exceed the Tier I wage base,

Plus

(2) One and one-quarter percent (1.25%) of the portion of the Participant's Final Average Monthly Earnings in excess of the Tier I wage base, if any,

Multiplied By

(3) The number, not exceeding 30, of the Participant's Years of Credited Service.

For purposes of subsection (a), the "Tier I wage base" is one-twelfth (1/12) of the average of the maximum annual wage bases under Tier I of the Railroad Retirement Act for the thirty-five years prior to the latest year in which the Participant ceases to be Qualified Employee. (Note that a Participant can cease to be a Qualified Employee prior to his or her Termination of Employment date.)

(b) The Accrued Monthly Pension for a Participant who has a Termination of Employment date prior to January 1, 2001 and who did not have an Hour of Service on or after January 1, 2001, shall be determined exclusively under the provisions of the Plan in effect on December 31, 2000.

(c) Notwithstanding subsection (a) or (b) of this Sec. 4.6, a Participant's Accrued Monthly Pension shall never be less than the greater of (1), (2), (3), (4) or (5) below:

(1) The Participant's Grandfathered Accrued Benefit, if any, described in Appendix D.

(2) The Participant's Accrued Monthly Pension under the terms of the Plan in effect on December 31, 2000, if any, assuming the Participant had a Termination of Employment on December 27, 2001 (or, the actual date of the Participant's Termination of Employment if the Participant Terminated Employment prior to December 27, 2001).

(3) If a Participant becomes totally disabled while employed as a Qualified Employee (as determined by the Company in its sole discretion), his or her Accrued Monthly Pension shall never be less than his or her Accrued Monthly Pension determined as of the December 31 immediately preceding the date he or she becomes disabled and is last actively at work.

(4) Effective as of January 1, 1994, the annual limit on Certified Earnings under Code section 401(a)(17) was reduced to $150,000. However, for any person who was a Participant on December 31, 1993, his Accrued Monthly Pension shall not be less than his Accrued Monthly Pension as of December 31, 1993, using the Code section 401(a)(17) limit as then in effect, and based on his pay and service through December 31, 1993. Pay and service after December 31, 1993 shall be disregarded for purposes of this calculation.

(5) The Accrued Monthly Pension of any person who was a Participant on December 31, 1988 shall not be less than whichever of the following amounts is applicable:

(A) If his compensation during 1988 was $78,353 or more, his Accrued Monthly Pension shall not be less than his Accrued Monthly Pension on December 31, 1988 under the benefit formula then in effect, based on pay and service through said date, and disregarding any pay or service after said date.

(B) If his compensation during 1988 was less than $78,353, his Accrued Monthly Pension shall not be less than his Accrued Monthly Pension on December 31, 1989 (or as of his Termination of Employment if it occurred in 1989). Said amount shall be determined under the benefit formula in effect on December 31, 1988, and shall be based on pay and service through December 31, 1989. Pay and service after December 31, 1989 shall be disregarded for purposes of this calculation.

"Compensation" referred to in (A) and (B) above means Compensation as defined in Sec. 8.12(j).

Sec. 4.7 Certified Earnings. "Certified Earnings" of a Participant from a Participating Employer for a Plan Year means the amount determined by the Participating Employer and reported to the Company to be the total compensation paid to the Participant by the Participating Employer during such Plan Year for service as an Active Participant, subject to the following:

(a) Discretionary bonuses shall not be included in Certified Earnings, except as provided in subsection (b).

(b) For PlanYears beginning with 1985 and ending with 1990, Certified Earnings for a particular Plan Year shall include the amount of bonus actually paid to the Participant following the close of that year under the Soo Line Railroad Company Annual Management Incentive Plan, but will not include any amount deferred for later payment under said plan. Certified Earnings does not include bonuses or incentive payments paid in 1991 with respect to 1990. Certified Earnings for 1991 shall include the 2% bonus payable on or about December 1, 1991, under the Company's Merit Salary Program, and Certified Earnings for 1992 and 1993 shall include any bonus payable with respect to the particular year under such program. Certified Earnings for 1991, 1992 and 1993 shall include the bonus payable with respect to the particular year under the CP Rail Incentive Compensation Plan. Certified Earnings for Plan Years after 1993 shall include the bonus payable with respect to the particular year under the Company's Performance Incentive Program. If bonuses under the Merit Salary Program, CP Rail Incentive Compensation Plan, or Performance Incentive Program are paid in the year after they are earned, they will be credited to the year earned rather than the year paid. For 1991 and thereafter, bonuses paid to Participants employed by Participating Employers other than the Company under comparable merit, salary or incentive compensation programs shall be included in Certified Earnings on the same basis as provided above.

(c) Payments or contributions to or for the benefit of the employee under this Plan shall not be included in Certified Earnings.

(d) Except as provided in subsection (e), allowances or reimbursements for expenses, moving allowances, foreign tax equalization payments or other extra payments made in connection with relocation, severance pay, payments or contributions to or for the benefit of the employee under any other deferred compensation, pension, profit sharing, insurance, or other employee benefit plan, merchandise discounts, or benefits in the form of property or the use of property shall not be included in computing Certified Earnings.

(e) However, if a Participant has elected to have his or her compensation reduced pursuant to a cash or deferred arrangement established under Code section 401(k), a cafeteria plan described in Code section 125 or a qualified transportation fringe benefit program under Code section 132(f)(4), Certified Earnings for purposes of this Plan shall be the amount he or she would have received but for the reduction. If a portion of the reduction is later paid back to the Participant, said payment shall not be included in Certified Earnings.

(f) Notwithstanding any of the foregoing provisions to the contrary, if a Participant is disabled, he or she shall be deemed to have Certified Earnings for each month of such disability (until the earlier of age 65 or the date he or she elects to begin receiving benefits under the Plan) in an amount equal to his or her monthly rate of pay for full time service determined at the time the Participant became disabled. The determination of disability (short-term or long-term) for this purpose shall be made by the Company in its sole discretion. For purposes of determining said rate of pay, amounts referred to in subsections (a), (b), (c), and (d) above shall be excluded.

(g) A Participant's Certified Earnings for any Plan Year may not exceed the limit under Code section 401(a)(17) as then in effect on the first day of that Plan Year. For example, the limit for the 2014 Plan Year was $260,000 and the limit for the 2015 Plan Year is $265,000. This subsection (g) shall be applied in accordance with regulations prescribed by the Secretary of the Treasury.

(h) An Active Participant's Certified Earnings for the year in which his Termination of Employment occurs shall be equal to the amount he would have received for the entire year if his compensation had continued until year end at the rate in effect immediately prior to his Termination of Employment.

(i) If a Participant had service as an employee of Canadian Pacific Railway (or of any entity under Common Control with Canadian Pacific Limited prior to its divestiture of the Canadian Pacific Railway) before or after his service as an employee of a Participating Employer, his compensation from Canadian Pacific Railway or such other entities shall be treated as Certified Earnings, subject to the limitations and special rules under this section. Compensation for service with Canadian Pacific Railway and other such entities shall be treated as Certified Earnings only if the Participant transferred

between service with the Canadian Pacific (or such other entities) and service with a Participating Employer, however, and shall not be recognized if the Participant had a Termination of Employment and subsequent reemployment between such periods of service. Payments made to such a Participant in Canadian dollars during a particular year or portion thereof shall be converted to U.S. dollars using the rate of exchange as reported by the U.S. Federal Reserve Board for the last month of that year (or partial year if applicable).

(j) Salary differential payments made to a Participant during a military leave shall not constitute Certified Earnings under the Plan, unless required by USERRA or other applicable law.

(k) Notwithstanding the foregoing, due to a change in the Company's payroll system, a Participant's Certified Earnings for the 2013 Plan Year shall include part or all of the pay received by the Participant during the first payroll period ending in January 2014 to the extent necessary to reflect the services rendered by the Participant in December 2013.

(l) Notwithstanding the foregoing, if a bonus (PIP or otherwise) is designated by the Company as being non-pensionable or otherwise designated so as not to be included in Certified Earnings under the Plan, the bonus shall not be included in Certified Earnings under the Plan.

Sec. 4.8 Final Average Monthly Earnings. A Participant's "Final Average Monthly Earnings" is (i) 1/12th of his average Certified Earnings for those five consecutive Plan Years during all of which he is an Active Participant, within the last ten Plan Years during all of which he is an Active Participant, that produce the highest average, or (ii) 1/12th of his average Certified Earnings for all of the Plan Years during all of which he is an Active Participant if five or less, subject to the following:

(a) However, a Plan Year during which he is not an Active Participant throughout the entire year shall be used as one of the five consecutive Plan Years if it results in a higher average than above.

(b) The five consecutive Plan Years as an Active Employee, which are used in making the computation, will not necessarily be five actual consecutive Plan Years, because Plan Years during all or part of which the Participant is not an Active Participant may not count under the rules above, and the Plan Years that do not count may be interspersed with Plan Years that do count under those rules.

(c) If there are no Plan Years throughout which the Participant was an Active Participant, his Final Average Monthly Earnings shall be his average adjusted Certified Earnings for the last five Plan Years (or all if less than five) during any part of which he is an Active Participant. Adjusted Certified Earnings are determined by annualizing his Certified Earnings in such Plan Year or Years to reflect what they would have been if he had been an Active Participant for the entire Plan Year.

(d) Solely for purposes of determining Final Average Monthly Earnings, a person shall be considered to be an Active Participant during any period when he was an employee of Canadian Pacific Railway (or of any entity under Common Control with Canadian Pacific Railway or Canadian Pacific Limited prior to its divestiture of the Canadian Pacific Railway) before or after his service as an employee of a Participating Employer. The preceding sentence applies only if the Participant transferred between a Participating Employer and Canadian Pacific Railway (or an entity under Common Control with Canadian Pacific Railway or Canadian Pacific Limited prior to the divestiture), however, and not if the Participant had a Termination of Employment and subsequent reemployment.

Sec. 4.9 Normal Retirement Age. A Participant's "Normal Retirement Age" is age 65.

Sec. 4.10 Early Retirement Reduction Factor. The "Early Retirement Reduction Factor" for purposes of calculating a Participant's Early Retirement benefit under Sec. 6.3 is 100% reduced by 1/3 of 1% for each month that the pension commencement date precedes the earlier of (i) the end of the month in which he attains Normal Retirement Age or (ii) the date he would have both attained age 62 and completed 30 Years of Vesting Service if his Termination of Employment had not occurred and he had continued in employment with a Participating Employer or Affiliate (and all of such employment was recognized for purposes of computing Years of Vesting Service).

Sec. 4.11 Vested Termination Reduction Factor. The "Vested Termination Reduction Factor" for purposes of calculating a Participant's Pension on Vested Termination under Sec. 6.4 is100% reduced by 5/9 of 1% for each of the first 60 months and 5/18 of 1% for each additional month by which the Participant's pension commencement date precedes the end of the month in which he attains Normal Retirement Age.

Sec. 4.12 Actuarial Equivalent. Each "Actuarial Equivalent" shall be determined by the Actuary in accordance with the following:

(a) For determinations involving benefits payable as a monthly annuity pursuant to Sec. 7.2 and 7.3, the amount of such benefit shall equal the Actuarial Equivalent of the Participant's Accrued Monthly Pension. Said Actuarial Equivalent shall be determined using a seven percent (7%) interest rate assumption and the 1994 GAR (Group Annuity Reserving table) unisex mortality table projected to 2002.

(b) Effective January 1, 2008 for purposes of determining the maximum limitations on benefits under Code §415 and Sec. 8.12 of the Plan, each "Actuarial Equivalent" or "present value" shall be determined in accordance with final regulations issued under Code §415 by the Department of Treasury and Internal Revenue Service on April 5, 2007:

(c) Effective January 1, 2008, for determinations of lump sum payments of benefits which would otherwise be payable as monthly annuities, each Actuarial Equivalent shall be determined on the basis of the following actuarial assumptions:

(1) For the Plan Year beginning January 1, 2008 and for each subsequent Plan Year the interest rate used to calculate the lump sum payments shall be the "applicable interest rate" under Code Section 417(e), as amended by, and phased in under, the Pension Protection Act ("PPA"), as in effect for November of the Plan Year preceding the Plan Year in which the lump sum payment is made. By way of illustration, the new interest rate assumptions (based on a corporate bond yield curve) under the PPA will be phased in with the old 30-year Treasury Securities interest rate (the "GATT rate") as set forth in the following table and in accordance with guidance issued by the Department of Treasury:

| Plan Year | PPA (Corporate Bond Yield Curve) Interest Rate | GATT: 30-year Treasury Rate |
|---|---|---|
| 2008 | 20% | 80% |
| 2009 | 40% | 60% |
| 2010 | 60% | 40% |
| 2011 | 80% | 20% |
| 2012 an subsequent Plan Years | 100% | 0% |

(2) For distributions made in 2008 and subsequent Plan Years, the mortality table used for such determinations is the "applicable mortality table" under Code Section 417(e), as amended by the Pension Protection Act.

(d) For all other purposes, Actuarial Equivalents shall be determined on the basis of a 7% interest rate assumption and the mortality assumptions contained in the 1994 GAR unisex mortality table projected to 2002, which are also used in subsection (a) above.

(e) Each determination involving an Actuarial Equivalent shall be made in accordance with and any applicable regulations or other guidance issued by the Secretary of Labor or the Secretary of the Treasury.

ARTICLE V

PLAN PARTICIPATION

Sec. 5.1 Entry Date. "Entry Date" means January 1 and July 1 of each Plan Year.

Sec. 5.2 Eligibility for Participation. Eligibility to participate in the Plan shall be determined as follows:

(a) Any new employee with an Employment Commencement Date on or after July 1, 2010, shall not be eligible to become a Participant in the Plan and shall not accrue any benefit under the Plan. Former employees (including those who are still Participants in the Plan pursuant to Sec. 5.3) who are rehired with an Employment Commencement Date on or after July 1, 2010 are not eligible to become Qualified Employees and cannot accrue any additional benefits or earn additional Credited Service under the Plan on or after July 1, 2010. Notwithstanding the foregoing and for clarification purposes, all employees of the Company and its Affiliates can earn additional Years of Vesting Service on or after July 1, 2010, subject to the provisions of Sec. 3.6.

(b) An employee of a Participating Employer with an Employment Commencement Date prior to July 1, 2010, became a Participant in the Plan on the earliest Entry Date (on or after the date the Plan became effective with respect to his Participating Employer) on which all of the following requirements are met:

(1) He or she was a Qualified Employee.

(2) He or she had completed one Year of Eligibility Service.

(3) He or she had attained age 21.

(c) If a former Active Participant was reemployed prior to July 1, 2010, he or she again became an Active Participant on his or her rehire date provided that he or she would have met the requirements of subsection (b) on the immediately preceding Entry Date if he or she had been a Qualified Employee on such Entry Date. Participants who Terminated Employment and are rehired after July 1, 2010 are not eligible to become Qualified Employees or to accrue additional benefits or earn additional Credited Service under the Plan on or after July 1, 2010.

(d) If a former employee, who was not previously an Active Participant, was reemployed as a Qualified Employee prior to July 1, 2010 and would have met the requirements of subsection (b) on the immediately preceding Entry Date if he or she had been a Qualified Employee on such Entry Date, he or she became an Active Participant on his or her rehire date.

(e) If an employee of a Participating Employer or an Affiliate, whose latest Employment Commencement Date was prior to July 1, 2010, was neither a Participant nor a Qualified Employee on July 1, 2010, he or she is not eligible to become a Qualified Employee or a Participant under the Plan after that date. In other words, employees who transfer into Qualified Employee status on or after July 1, 2010 cannot become Participants in the Plan unless they were already Participants on July 1, 2010.

Sec. 5.3 Duration of Participation. A Participant shall continue to be such until the later of (i) his Termination of Employment or (ii) the date all benefits, if any, to which he is entitled hereunder have been distributed to him from the Fund.

Sec. 5.4 No Guarantee of Employment. Participation in the Plan does not constitute a guarantee or contract of employment with the employee's Participating Employer. Such participation shall in no way interfere with any rights the Participating Employer would have in the absence of such participation to determine the duration of the employee's employment with the Participating Employer.

ARTICLE VI

PENSION BENEFITS

Sec. 6.1 Pension on Normal Retirement. On Normal Retirement a Participant shall be entitled to his Normal Pension provided he is living on the first day of the month following the month in which he attains Normal Retirement Age. This pension is subject to all the provisions of the Plan, and in this regard special reference is to be made to the provisions of Articles VI, VII, and VIII.

Sec. 6.2 Pension on Late Retirement. On Late Retirement a Participant shall be entitled to a pension payable monthly for life, the first payment to be made as of the first day of the month following his Late Retirement (if he is living on said first day of the month) and the last payment to be made is of the first day of the month in which his death occurs, in a monthly amount equal to his Accrued Monthly Pension. The pension payable under this section is subject to all the provisions of the Plan, and in this regard special reference is to be made to the provisions of Articles VI, VII, and VIII.

Sec. 6.3 Pension on Early Retirement. If a Participant's Early Retirement occurs, he shall be entitled to a pension payable monthly for life, the first payment to be made as of the first day of any month he shall elect which is after his Early Retirement but not later than the first day of the month after his Normal Retirement Age (if he is living on the commencement date so elected) and the last payment to be made as of the first day of the month in which his death occurs. The election shall be made by requesting the appropriate form from the Company and completing, signing, and filing the form with the Company before the commencement date requested. The monthly amount of said pension shall be equal to his Accrued Monthly Pension multiplied by the appropriate Early Retirement Reduction Factor. The pension payable under this section is subject to all the provisions of the Plan, and in this regard special reference is to be made to the provisions of Articles VI, VII, and VIII.

Sec. 6.4 Pension on Vested Termination. On a Vested Termination, a Participant shall be entitled to his Normal Pension.

However, if the Participant has completed 10 Years of Vesting Service prior to his Termination of Employment, he may elect a monthly pension which is in lieu of the aforesaid pension, the first payment to be made as of the first day of any month after the Participant's Vested Termination and attainment of age 55 and the last payment to be made as of the first day of the month in which his death occurs. The election shall be made by requesting the appropriate form from the Company and completing, signing, and filing the form with the Company before the commencement date requested. The monthly amount of said pension shall be equal to his Accrued Monthly Pension multiplied by the appropriate Vested Termination Reduction Factor.

If the Participant completed 5 but less than 10 Years of Vesting Service prior to his Termination of Employment, he may not elect to receive the monthly pension described in the

preceding paragraph in lieu of his Normal Pension and, subject to Sec. 8.2, must wait until Normal Retirement Age before pension payments can commence.

The pension payable under this section is subject to all the provisions of the Plan, and in this regard special reference is to be made to the provisions of Articles VI, VII, and VIII.

Sec. 6.5 Deduction for Other Pension Payments. Notwithstanding the foregoing provisions, the monthly amounts otherwise payable thereunder shall be reduced by the amount (expressed on a comparable basis that is an Actuarial Equivalent) of the monthly pension (not including railroad retirement benefits), if any, to which the Participant is entitled under any other pension plan that meets the requirements of Code section 401(a) or any successor thereto, or any comparable requirements applicable in any other jurisdiction, but only to the extent such other pension is attributable to employer contributions and to the same service for which the pension is being paid under this Plan. However, said reduction does not apply with respect to any pension paid under a pension plan of Canadian Pacific Limited for the purpose of increasing the Participant's pension benefit for U.S. service to the amount he would have received if such service had been for Canadian Pacific Limited in Canada.

Sec. 6.6 Amendments Affecting Pension Rights. Notwithstanding the foregoing provisions, in the event of an amendment to the Plan, the following shall be applicable:

(a) The amendment shall not reduce the accrued benefit, within the meaning of Code section 411(d)(6), of a Participant determined at the time of such amendment except in conformity with said section.

(b) If the amendment to the Plan should change the vesting schedule of the Plan, each Participant having not less than three Years of Vesting Service by the end of the election period with respect to such amendment shall be permitted within such election period to elect in writing to have his vested percentage computed under the Plan without regard to such amendment. The election period shall be a reasonable period determined by the Company commencing not later than the date the amendment is adopted. However, the Company need not provide such an election for any Participant whose vested percentage under the Plan, as amended, at any time cannot be less than such percentage determined without regard to such amendment.

Sec. 6.7 Suspension of Benefits and Effect of Reemployment. If a Participant has a Termination of Employment and is subsequently reemployed by a Participating Employer or Affiliate, or if a Participant's employment with a Participating Employer or Affiliate continues after he attains Normal Retirement Age, the following shall be applicable:

(a) If a Participant, who is receiving benefits under the Plan, is reemployed by a Participating Employer or an Affiliate on or after January 1, 2013, his or her benefit payments shall not be suspended during the period of reemployment.

(b) If a Participant, who was receiving benefits under the Plan, was reemployed prior to January 1, 2013, his or her benefits under the Plan were subject to suspension during the period of reemployment pursuant to the provisions of the Plan as in effect prior to January 1, 2013.

(c) If pension payments have been withheld pursuant to subsection (a)(2) or (b), payments shall resume or commence no later than the first day of the third calendar month following the last month subject to withholding. The initial payment shall include the payment for the month in which payments resume and any amounts withheld during the period between the last month subject to withholding under subsection (a)(2) or (b) and the resumption of payments, less any amounts which are subject to offset.

(d) If a monthly pension payment is made for a calendar month and it later is determined that such payment was subject to permanent withholding, the amount of such payment shall be applied as an offset against subsequent monthly payments unless the Participant has previously repaid the overpayment. However, the amount of any such offset shall not exceed, in any one month, after the Participant attains Normal Retirement Age, 25 percent of the monthly total benefit payment that would have been paid but for the offset (excluding the initial payment described in subsection (c), which is subject to offset without limitation).

(e) The Company shall notify a Participant of any suspension under subsection (a)(2) or (b). The notice shall conform to the requirements of section 2530.203-3(b)(4) of the Department of Labor Regulations.

(f) When a Participant's benefit payments resume following any period of suspension under subsection (a), the pension to which he is entitled under the Plan shall be paid under the same form as previously in effect and shall be in a monthly amount equal to the sum of (i) the monthly amount payable prior to the suspension plus (ii) any additional amount based on his service during the period of reemployment. However, notwithstanding any other provision of the Plan to the contrary, no additional amount will be accrued for any Plan Year during the period of reemployment prior to the earliest Plan Year therein during which the Participant completes 1000 or more Hours of Service.

(g) If a former employee with vested rights is rehired and serves as a Qualified Employee before his pension begins, when he subsequently terminates employment, his entire pension will be redetermined as of the date of his subsequent Termination of Employment.

(h) The provisions of this section shall be administered in accordance with section 2530.203-3 of the Department of Labor Regulations.

(i) Notwithstanding the foregoing provisions of this Sec. 6.7, any Participant who was receiving pension payments under the Plan on October 4, 2007, the date the Company acquired the DM&E Railroad Corporation and who was employed by the DM&E Railroad Company on October 4, 2007 shall continue to receive his or her pension payments under the Plan, unless he or she subsequently becomes an employee of the Company or an Affiliate other than the DM&E Railroad Corporation.

Sec. 6.8 Nonforfeitable Benefits. Notwithstanding any provision of the Plan to the contrary, a Participant's Accrued Monthly Pension is nonforfeitable upon attaining Normal Retirement Age prior to Termination of Employment or completing five or more Years of Vesting Service prior to Termination of Employment.

ARTICLE VII

DEATH BENEFITS AND OPTIONAL SETTLEMENTS

Sec. 7.1 Qualified Preretirement Survivor Annuity. A Qualified Preretirement Survivor Annuity shall be payable to a Participant's surviving, qualified spouse (if any) following the Participant's death, subject to the following:

(a) A Qualified Preretirement Survivor Annuity shall be payable only if all of the following conditions are satisfied:

(1) Immediately prior to the Participant's death he or she had five years completed of vesting service or had attained age 65.

(2) The Participant's death occurred before the due date of his or her first pension payment.

(3) The Participant is survived by a qualified spouse.

(4) The Participant had at least one Hour of Service on or after August 23, 1984, or satisfied the requirements of subsection (g) below.

(b) If the Participant's death occurs on or after the earliest retirement date, described in subsection (e), the Qualified Preretirement Survivor Annuity shall be the same as the annuity that would have been payable to the Participant's qualified spouse if the Participant had retired with an immediate Qualified Joint and 50% Survivor Annuity on the day before the date of death. The first monthly installment of said annuity shall be paid as of the first day of the month following Participant's death, and the last monthly installment shall be paid as of the first day of the month in which the qualified spouse's death occurs.

(c) If the Participant's death occurs before the earliest retirement date described in subsection (e), the Qualified Preretirement Survivor Annuity shall be the same as the annuity that would have been payable to the Participant's qualified spouse under the following circumstances:

(1) The Participant's Termination of Employment occurred on the date of death, or on his actual date of Termination of Employment, if earlier.

(2) The Participant survived to the earliest retirement date.

(3) The Participant commenced receiving a pension in the form of a Qualified Joint and 50% Survivor Annuity on the earliest retirement date.

(4) The Participant died on the day after the earliest retirement date.

The first monthly installment of said annuity shall be paid as of the earliest retirement date and the last monthly installment shall be paid as of the first day of the month in which the qualified spouse's death occurs.

(d) A person is a "qualified spouse" of a Participant if, and only if, such person and the Participant have been married to each other throughout the one-year period ending on the date of the Participant's death.

(e) For purposes of this section, the "earliest retirement date" with respect to a Participant means:

(1) If the Participant has completed ten years of Vesting Service, the first day of the month coincident with or next following the date he or she would have attained age 55.

(2) If the Participant has completed less than ten years of Vesting Service, the month coincident with or next following the month in which he or she would have reached Normal Retirement Age.

(f) Notwithstanding subsection (b) or (c) from the contrary, if the Participant is a Qualified Employee at the time of his or her death, the monthly amount payable to his or her Qualified Spouse will not be less than 1/12 of 20% of his or her Certified Earnings for the Plan Year immediately preceding the Plan Year in which his or her death occurs.

(g) Notwithstanding subsection (a) to the contrary, even if a Participant did not have an Hour of Service on or after August 23, 1984 his or her surviving spouse shall still be eligible for a Preretirement Survivor Annuity if all of the following conditions are met:

(1) The Participant had at least one Hour of Service in the 1976 Plan Year, and

(2) The Participant had at least 10 years of Vesting Service when he or she Terminated Employment, and

(3) The Participant had not commenced receiving Pension Payments on or before August 23, 1984.

Sec. 7.2 Qualified Joint and Survivor Annuity. Notwithstanding the foregoing provisions, the pension otherwise payable to the Participant for his life only shall instead be paid as a Qualified Joint and Survivor Annuity which is the Actuarial Equivalent of said life only pension unless the Participant elects otherwise within the Election Period, subject to all of the following:

(a) There are two types of Qualified Joint and Survivor Annuities under the Plan: a Qualified Joint and 50% Survivor Annuity and an Optional Qualified Joint and 75% Survivor Annuity, which are described below:

(1) A "Qualified Joint and 50% Survivor Annuity" is a pension payable monthly for the life of the Participant, with a survivor annuity payable monthly for the life of the surviving spouse which is 50% of the monthly amount payable to the Participant during his or her lifetime.

(2) In lieu of the Qualified Joint and 50% Survivor Annuity, the Participant can elect an "Optional Qualified Joint and 75% Survivor Annuity", which is a pension payable monthly for the life of the Participant, with a survivor annuity payable monthly for the life of the surviving spouse which is 75% of the monthly amount payable to the Participant during his or her lifetime.

Both the Qualified Joint and 50% Survivor Annuity and the Optional Qualified Joint and 75% Survivor Annuity, constitute a Qualified Joint and Survivor Annuity, which can be elected under the Plan without spousal consent. If no election is made, or spousal consent is not obtained, before benefits are required to commence, the benefit will be paid in the form of the Qualified Joint and 50% Survivor Annuity. As provided in Sec. 7.1, the Qualified Pre-Retirement Survivor Annuity is based on the Qualified Joint and 50% Survivor Annuity that would have otherwise been payable to the Participant had he or she survived until his or her earliest retirement date, as described in Sec. 7.1(c).

(b) For purposes of this section the "Election Period" is the 180-day period ending on the due date of the Participant's first pension payment.

(c) The Company within a reasonable period of time (which shall be at least 30 days unless waived by the Participant and his or her spouse) before the due date for the Participant's first pension payment shall furnish the Participant with a written explanation in nontechnical language of the following:

(1) The terms and conditions of the Qualified Joint and Survivor Annuity.

(2) The Participant's right to make, and the effect of, an election to waive the Qualified Joint and Survivor Annuity form of benefit.

(3) The rights of the Participant's spouse with respect to the spouse's required consent to the Participant's election to waive the Qualified Joint and Survivor Annuity form of benefit.

(4) The right to make, and the effect of, a revocation of the Participant's election to waive the Qualified Joint and Survivor Annuity form of benefit.

(d) All elections shall be made on the appropriate form available from the Company and shall be effective only upon completing, signing, and filing of the form with the Company during the Election Period. An election under this section may be revoked in writing during the Election Period, and after such revocation another written election may be made during the Election Period.

(e) A Participant who elects not to receive his pension in the form of a Qualified Joint and Survivor Annuity or other Optional Settlement described in Sec. 7.3 shall receive a pension for his or her life only.

(f) A Qualified Joint and Survivor Annuity will not be provided unless the Participant and the Participant's surviving spouse were legally married to each other on the date as of which the Participant's pension commences. If there is a spouse meeting the requirements of the preceding sentence, that spouse and the Participant are subsequently divorced, and said former spouse survives the Participant, the former spouse is not disqualified from receiving the survivor annuity under the Plan by reason of the fact he or she was not married to the Participant at the time of the Participant's death. However, the rights of any former spouse to a benefit under this section are subject to the terms of any applicable qualified domestic relations order.

(g) A Participant's election made on or after January 1, 1985 to waive the Qualified Joint and Survivor Annuity shall not take effect unless one of the following conditions is satisfied:

(1) The spouse of the Participant consents in writing to such election, and the spouse's consent acknowledges the effect of such election and is witnessed by a Plan representative or a notary public.

(2) It is established to the satisfaction of a Plan representative that the consent required under paragraph (1) above may not be obtained because there is no spouse, because the spouse cannot be located, or because of such other circumstances as the Secretary of Treasury may by regulations prescribe.

Any consent by a spouse, or establishment that the consent of a spouse may not be obtained, shall be effective only with respect to such spouse.

(h) The provisions of this Sec. 7.2 shall be administered in accordance with applicable regulations prescribed by the Secretary of the Treasury.

Sec. 7.3 Optional Settlements. In lieu of the amount and form of pension payable to him under the Plan, and subject to any consent required under Sec. 7.2, a Participant may, under such rules as the Company may prescribe, elect to have a pension which is the Actuarial Equivalent of his life only pension payable under one of the following options:

(a) An option providing a reduced monthly pension payable to the Participant commencing on the same date as that upon which payments would otherwise commence and terminating with the last monthly payment before his death. If his death occurs on or after the due date of the first monthly payment under the option and before 120 monthly payments have been made to him such benefit shall be continued to his beneficiary until a total of 120 monthly payments have been made to him and his beneficiary.

(b) An option providing a reduced monthly pension payable to the Participant with payments commencing on the same date as that upon which payments would otherwise commence and continuing through the last monthly payment before the Participant's death, with the provision for continuance after his death of payments equal to either 100% or 50% (as elected by the Participant) of such reduced amount for life to a joint annuitant designated by him if such joint annuitant survives him. An election of this option shall be automatically canceled if either the person electing the option or his joint annuitant dies before the due date of the first monthly payment under the option. Unless the Participant designates his spouse as his joint annuitant, he may not elect an optional settlement under this subsection unless the actuarial present value of payments to be made to him, determined as of the date payments begin, is more than 50% of the actuarial present value as of said date of the total payments to be made under the optional settlement.

(c) Notwithstanding any provision of the Plan to the contrary, no optional settlement shall be permitted that does not satisfy the requirements of Code section 401(a)(9)(G) and the regulations thereunder.

Election of an option may be made at any time prior to commencement of pension payments. Notwithstanding the foregoing, if a Participant remains in the employ of a Participating Employer or Affiliate after the end of the month in which he attains Normal Retirement Age, if his death occurs thereafter prior to his Termination of Employment, if he elected an optional settlement under this section which was not revoked prior to his death, and if a benefit under Sec. 7.1 is not payable to his surviving spouse, the same benefit shall be provided his beneficiary or joint or contingent annuitant under the option as though the Participant's Termination of Employment had occurred for a reason other than death on the later of (i) the first day of the month following the month in which he attained Normal Retirement Age or (ii) the last day of the month preceding his death.

Sec. 7.4 Lump Sum Death Benefit. If an Active Participant's Termination of Employment occurs for a reason other than his death, and the Termination of Employment was a Normal Retirement, Late Retirement, or Early Retirement, upon his subsequent death, his Beneficiary shall receive a single sum death benefit, subject to the following:

(a) The Participant must have died prior to September 1, 2012.

(b) The amount of said single sum death benefit shall be $10,000.00 for Participants whose Normal Retirement, Late Retirement or Early Retirement occurs on or after

January 1, 1993. The amount of said single sum death benefit with respect to Participants whose Normal Retirement, Late Retirement or Early Retirement occurs prior to January 1, 1993 shall be $4,000.00. Notwithstanding the foregoing, in the case of any person listed in Appendix B, the amount of the single sum death benefit shall be the amount set forth in Appendix B.

(c) The Participant's Beneficiary shall be the person or persons designated as such by the Participant. Any Beneficiary designation must be in writing, in a form acceptable to the Company, and must be filed with the Company prior to the Participant's death. A Participant may at any time revoke his Beneficiary designation and designate another Beneficiary. If there is no effective Beneficiary designation, or if no designated Beneficiary survives the Participant, then the Beneficiary shall be the Participant's spouse, if she survives him, or his estate, if there is no surviving spouse.

(d) The death benefit under this section will be paid only if the Participant's death occurred on or after January 1, 1985 and before September 1, 2012. It is not necessary, however, for the Participant to have had a Termination of Employment after 1984, so long as the Participant satisfied the requirements for a Normal, Late or Early Retirement under the Plan before his or her death.

(e) If a Participant is receiving an automatic cash-out of his or her Accrued Monthly Pension pursuant to Sec. 8.2, the benefit under this Sec. 7.4 will also be paid as soon as feasible following the Participant's Termination of Employment, rather than after the Participant's death. In this case, the benefit under this Sec. 7.4 will be a lump amount that is equal to the Actuarial Equivalent present value (determined as of the date of distribution) of the Lump Sum Death Benefit that would otherwise be payable following the Participant's death.

(f) No benefit will be payable under Sec. 7.4 unless the Participant was a Qualified Employee when he or she Terminated Employment.

(g) No death benefits will be paid pursuant to this Sec. 7.4 to a Beneficiary of a Participant who is rehired with an Employment Commencement Date on or after July 1, 2010, even if the Participant subsequently satisfies the age and service requirements for an Early Retirement, Normal Retirement or Late Retirement. New hires on or after July 1, 2010 are not eligible to participate in the Plan, and therefore their Beneficiaries are not eligible for the death benefit under this Sec. 7.4.

(h) The special death benefit under this Sec. 7.4 was eliminated effective September 1, 2012.

Sec. 7.5 Definition of Spouse and Marriage. Effective September 16, 2013, the Plan will recognize any marriage (same sex or otherwise) that is valid either under the laws of the State of Minnesota or the state in which the marriage took place. This Section shall be administered in accordance with guidance issued by the Department of Treasury.

ARTICLE VIII

MISCELLANEOUS BENEFIT PROVISIONS

Sec. 8.1 Commencement Date for Pension Payments. Pension payments under this Plan shall be subject to the following rules:

(a) The Company shall provide Participants with a distribution election (or consent) form and notice 30 to 180 days in advance of the Participant's annuity starting date or Lump Sum Distribution date. Participants can, however, elect to waive the 30 day advance notice period if they wish. The distribution election materials shall include the following:

(1) An explanation of the right to defer commencement of benefits and the consequences of failing to defer receipt of benefits;

(2) An explanation of the material features and relative value of the various forms of benefit payment available under the Plan;

(3) The special tax and rollover notice referenced in Code Section 402(f); and

(4) If the Participant is married, the written explanation of the Qualified Joint and 50% Survivor Annuity and Optional Qualified Joint and 75% Survivor Annuity described in Sec. 7.2(c) of the Plan.

Unless the Participant elects otherwise, or a required consent to a distribution is not obtained, pension payments shall commence as soon as administratively feasible after the date specified by the applicable Plan provisions for the commencement of pension payments; but not later than the 60th day after the close of the Plan Year in which the Participant reaches Normal Retirement Age or has a Termination of Employment, whichever is later. If the amount of the payment to be made cannot be determined by the latest of said dates, a payment retroactive to such date may be made no later than 60 days after the earliest date on which the amount of such payment can be ascertained. Notwithstanding the foregoing and as permitted by regulations issued under Code Section 401(a)(14), the Plan Administrator may require Participants to apply for benefits under the Plan before benefit payments will commence. Accordingly, since the Plan allows the Participants to elect the commencement date for his or her benefits, the requirements of Code Section 401(a)(14) are satisfied.

(b) Following a Participant's Termination of Employment, monthly pension payments shall commence, or a Lump Sum Distribution shall be made, as soon as feasible after the date elected by the Member, but not later than April 1 following the Plan Year in which the Participant reaches age 70 ½.

(c) Except as provided in this subsection or Sec. 6.7(b), a Participant's pension will not commence or be paid prior to his or her Termination of Employment, except as follows:

(1) If a Participant attains age 70½ on or after January 1, 1988 and on or before December 31, 1998, his or her pension will commence not later than April 1 following the Plan Year in which he or she attains age 70½.

(2) If a Participant is a 5% owner (as defined in Code § 416) during the Plan Year in which he or she attains age 70½, his or her pension will commence not later than April 1 of the following Plan Year.

(3) If the Plan is terminated, pension payments shall be made as provided in Sec. 12.4.

(d) If, because of the application of subsection (c), a Participant's pension commences after the April 1 following the Plan Year in which he or she attains age 70½, the monthly pension amount will be increased by an amount which is the Actuarial Equivalent (as defined in Sec. 4.12(d)) of the additional pension payments he or she would have received if (i) his or her pension had commenced April 1 following the Plan Year he or she attained age 70½, and (ii) the monthly pension amount was adjusted each January 1 thereafter to reflect additional benefit accruals.

Sec. 8.2 Automatic Cash-Outs and Default Rollovers. If a Participant has a Termination of Employment or dies before benefit payments have commenced, and the Actuarial Equivalent present value of the Participant's Accrued Monthly Pension (which does not include the lump sum death benefit under Sec. 7.4) is $5,000 or less, the benefit shall be paid in a single lump sum rather than an annuity. In that case, the benefit shall be paid as soon as administratively feasible following the Participant's Termination of Employment or death. In addition, effective March 28, 2005, if the Participant (or Qualified Spouse) fails to make an election between a cash distribution or a Direct Rollover (pursuant to Sec. 8.15) within 90 days following receipt of his or her distribution election form, the following rules shall apply:

(a) If the total present value of the Participant's Accrued Monthly Pension is $1,000 or less but not more than $5,000, and the Participant is alive, the Company will cause the balance in the Participant's Accounts to be Directly Rolled over to an individual retirement plan ("IRA") designated by the Company.

(b) If the total present value of the Participant's Accrued Monthly Pension is $1,000 or less and the Participant is alive, a single-sum cash distribution shall be made to the Participant as soon as administratively feasible following the expiration of the 90-day election period.

(c) If the Participant has died, the total Actuarial Equivalent present value of the Participant's Accrued Monthly Pension (payable in the form of a Qualified Preretirement

Survivor Annuity) shall be distributed to the Qualified Spouse in the form of a single sum cash distribution as soon as administratively feasible following the expiration of the 90 day election period. By way of clarification, no default Direct Rollovers to IRA's will be made on behalf of spouses of deceased Participants, pursuant to this Section. Qualified Spouses are, however, eligible to elect Direct Rollovers pursuant to Sec. 8.15.

(d) For purposes of this section, a Participant (or spouse of a deceased Participant) is deemed to have received his or her distribution election form five days after the form is mailed to his or her last known address.

(e) The default rollover provisions of this Section shall not apply to Participants who Terminate Employment after Normal Retirement Age or to alternate payees under a qualified domestic relations order. These distributions shall be made in the form of a single sum cash payment.

(f) If by the end of the second full Plan Year following a Participant's Termination of Employment a distribution (including a default Direct Rollover under this Section) has been made to such Participant of the Actuarial Equivalent present value of his or her entire Accrued Monthly Pension under the Plan, thereafter, in the event he or she is subsequently reemployed by a Participating Employer, service performed by the Participant with respect to which such distribution was made shall be disregarded in determining his or her right to an accrued benefit derived from employer contributions under the Plan. If the distribution described in the preceding sentence is not made by the end of the second full Plan Year following the Participant's Termination of Employment and the Participant is later reemployed, his pension upon termination of said period of reemployment will be reduced by the Actuarial Equivalent of the amount previously distributed to him or her under this section. Notwithstanding the foregoing, if the Plan is Top-Heavy or otherwise provides for a distribution of less than the present value of a Participant's entire Accrued Monthly Pension, the provisions of Sec. 14.8 shall apply.

Sec. 8.3 No Other Benefits. No benefits other than those specifically provided for herein are to be provided under the Plan.

Sec. 8.4 Source of Benefits. All benefits to which persons become entitled hereunder shall be provided only out of the Fund and only to the extent that the Fund is adequate therefor. No benefits are provided under the Plan except those expressly described herein.

Sec. 8.5 Incompetent Payee. If in the opinion of the Company a person entitled to payments hereunder is disabled from caring for his affairs because of mental condition, physical condition, or age, payment due such person may be made to such person's guardian, conservator, or other legal personal representative upon furnishing the Company with evidence satisfactory to the Company of such status. Prior to the furnishing of such evidence, the Company may cause payments due the person under disability to be made, for such person's use and benefit, to any person or institution then in the opinion of the Company caring for or maintaining the person under disability. The Company shall have no liability with respect to payments so made. The

Company shall have no duty to make inquiry as to the competence of any person entitled to receive payments hereunder.

Sec. 8.6 Assignment or Alienation of Benefits. Except as otherwise expressly permitted by the Plan or required by law, the interests of persons entitled to benefits under the Plan may not in any manner whatsoever be assigned or alienated, whether voluntarily or involuntarily, or directly or indirectly, subject to the following:

(a) Once a Participant, beneficiary, or contingent annuitant begins receiving benefits under the Plan, he may assign or alienate the right to future benefit payments; provided that the assignments or alienations (i) are voluntary and revocable, (ii) do not in the aggregate exceed 10% of any benefit payment, and (iii) are neither for the purpose, nor have the effect of defraying Plan administration costs.

(b) An arrangement whereby a Participant, beneficiary, or contingent annuitant directs the Plan to pay all or any portion of a Plan benefit to a third party will not constitute an "assignment or alienation" for purposes of this section if (i) it is revocable at any time by the Participant, beneficiary, or contingent annuitant, and (ii) the third party files a written acknowledgement with the Company stating that the third party has no enforceable right in, or to, any Plan benefit payment or portion thereof (except to the extent of payments actually received pursuant to the arrangement). The written acknowledgement must be filed with the Company not later than 90 days after the arrangement is entered into.

(c) Notwithstanding any other provisions of the Plan to the contrary, all benefits otherwise payable under the Plan with respect to a Participant shall be adjusted to the extent necessary to comply with a qualified domestic relations order. The Company shall establish reasonable procedures to determine the qualified status of domestic relations orders and to administer distributions under such qualified orders. Where payments are to be made under a qualified domestic relations order before payments commence to the Participant, the present value of the benefit actually accrued for the Participant shall be determined on an Actuarial Equivalent basis.

Sec. 8.7 Payment of Taxes. The Funding Agency may pay any estate, inheritance, income, or other tax, charge, or assessment attributable to any benefit payable hereunder which in the Funding Agency's opinion it shall be or may be required to pay out of such benefit. The Funding Agency may require, before making any payment, such release or other document from any taxing authority and such indemnity from the intended payee as the Funding Agency shall deem necessary for its protection.

Sec. 8.8 Conditions Precedent. No person shall be entitled to a benefit hereunder until his right thereto has been finally determined by the Company nor until he has submitted to the Company relevant data reasonably requested by the Company, including, but not limited to, proof of birth or death.

Sec. 8.9 Company Directions to Funding Agency. The Company shall issue such written directions to the Funding Agency as are necessary to accomplish distributions to the Participants and beneficiaries in accordance with the provisions of the Plan.

Sec. 8.10 Effect on Unemployment Compensation. For purposes of any unemployment compensation law (including but not limited to the Railroad Unemployment Insurance Act), a distribution hereunder in one sum shall be considered to be a severance payment and shall be allocated over a period of weeks equal to the one sum payment divided by the employee's regular weekly pay while employed by his Participating Employer, which period shall commence immediately following the employee's Termination of Employment.

Sec. 8.11 Benefits Not Increased by Actuarial Gains. Forfeitures arising from severance of employment, death, or for any other reason shall not be applied to increase the benefits that any person would otherwise receive under the Plan.

Sec. 8.12 Maximum Limitations on Benefits. Notwithstanding any provision of the Plan to the contrary, a Participant's benefit under the Plan shall not exceed the maximum amount permitted under Code §415. In that regard, with respect to Participants who have an Hour of Service on January 1, 1999, the limits under Code §415 shall be applied so as to provide the Participant with the maximum permissible benefit under Code §415. This Section shall be applied in accordance with final regulations under Code §415 that were issued by the Department of Treasury and Internal Revenue Service on April 5, 2007.

For purposes of applying the limitations of Code §415, "Compensation" means a Participant's earned income, wages, salaries, and other amounts received for personal services actually rendered in the course of employment with the Company, or an Affiliate, subject to the following:

(a) Subject to paragraph (2) below, Compensation excludes employer contributions to a plan of deferred compensation which are not includable in the Participant's gross income for the taxable year in which contributed, and other amounts which received special tax benefits. However, any amounts received by a Participant pursuant to an unfunded non-qualified plan of deferred compensation are Compensation in the year such amounts are includable in the Participant's gross income.

(b) Effective for the 1998 and subsequent Plan Years, salary reduction contributions to a cash or deferred arrangement under Code §401(k), a Code §403(b) plan, a cafeteria plan under Code §125, or a plan of deferred compensation under Code §457 are includable as Compensation. Effective after December 31, 2000, Compensation shall include elective amounts that are not includable in the gross income of the employee under Code §132(f)(4).

(c) Compensation recognized for an employee for a Plan Year shall not exceed the limit under Code §401(a)(17) as adjusted by the Secretary of Treasury.

(d) Payments made by the later of 2 ½ months after a Participant's severance from employment or the end of the Plan Year in which the severance from employment occurred are included in Compensation for the limitation year if, absent a severance from employment, such payments would have been paid to the Participant while the Participant continued in employment with the Company or an Affiliate and are regular earnings for services during the Participant's regular working hours, compensation for services outside the Participant's regular working hours (such as overtime or shift differential), commissions, bonuses or other similar compensation. This provision shall be applied consistent with the requirements of Treas. Reg. §1.415(c)-2, effective for limitation years beginning on or after July 1, 2007.

(e) Effective January 1, 2009, Compensation includes any military differential pay paid to a Participant by a Participating Employer.

Sec. 8.13 Special Benefit Limitation on Distributions to Highly Compensated Employees. Notwithstanding any other provision of the Plan to the contrary, the payment of benefits under the conditions set forth in this section shall be limited as follows:

(a) The benefit of any Participant who is either a "highly compensated employee" or a "highly compensated former employee" shall be limited to a benefit that is nondiscriminatory under Code Section 401(a)(4).

(b) The annual benefit payable under the Plan to any Participant described in subsection (c) of this section shall not exceed an amount equal to the payments which would be made to him in that year under a straight life annuity that is the Actuarial Equivalent of the nonforfeitable benefit to which he is entitled under the Plan; provided that the restrictions set forth in this subsection (b) shall not apply if:

(1) after payment to the Participant of his benefit under the Plan, the value of the Plan's assets equals or exceeds 110% of the value of the Plan's current liabilities,

(2) the value of such Participant's benefit under the Plan is less than 1% of the value of such current liabilities, or

(3) the Actuarial Equivalent value of the Participant's Accrued Benefit is $5,000 or less.

(c) The restriction set forth in subsection (b) shall apply to benefits payable under the Plan for any Plan Year to any Participant who is either a "highly compensated employee" or "highly compensated former employee" with respect to such Plan Year; provided, that if the number of such highly compensated employees and highly compensated former employees for any Plan Year exceeds 25, the restriction set forth in subsection (b) shall apply for the Plan Year only to the 25 such highly compensated

employees and highly compensated former employees with the greatest Compensation (as defined in Sec. 8.12(k)) for the current or any prior Plan Year.

(d) For purposes of this section, the terms "highly compensated employee" and "highly compensated former employee" shall have the meanings ascribed to such terms in Code Sections 414(q)(1) and 414(q)(9), respectively.

Sec. 8.14 Distributions Made in Accordance With Code §401(a)(9). Notwithstanding any other provisions of the Plan, all distributions under this Plan shall comply with the minimum distribution requirements of Code §401(a)(9) of the Code and Treasury Regulations §§1.401(a)(9)-2 through 1.401(a)(9)-9, including the incidental benefit requirements of Code §401(a)(9)(G). With respect to distributions made on or after January 1, 2003, the Plan will apply the minimum distribution requirements of Code §401(a)(9) in accordance with the final and proposed regulations issued thereunder by the Department of Treasury on April 17, 2002 and any other guidance, rulings or notices issued by the Internal Revenue Service.

Sec. 8.15 Rollovers and Transfers to Other Eligible Plans. A distributee may elect, at the time and in the manner prescribed by the Company, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover. The following definitions shall be used in administering the provisions of this section.

(a) Eligible rollover distribution. For purposes of this section, an eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the distributee that is paid in a single lump sum pursuant to Sec. 7.4 or 8.2.

(b) Eligible Retirement Plan. An eligible retirement plan is one of the following plans or arrangements that agrees to accept the distributee's eligible rollover contribution: (i) a qualified trust described in Code section 401(a), (ii) an individual retirement account described in Code section 408(a), (iii) an individual retirement annuity described in Code section 408(b), (iv) an annuity plan described in Code section 457(b) maintained by a governmental entity such as a state, political subdivision or a state, or agency or instrumentality of a state or political subdivision of a state that agrees to separately account for amounts transferred from this Plan, (v) a Roth IRA described in Code section 408A, or (vi) a tax sheltered annuity contract described in Code section 403(b).

(c) Distributee. A distributee means a Participant, a Participant's surviving spouse, a surviving non-spouse Beneficiary of the Participant, or a former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code section 414(p). Entities or individuals other than those named in this subsection are not permitted to rollover distributions from the Plan.

(d) Direct Rollover. A direct rollover is a payment by the Funding Agency to the eligible retirement plan specified by the distributee, or in the case of a default Direct

Rollover pursuant to Sec. 8.2(a), to the Individual Retirement Account ("IRA") designated by the Company.

(e) Direct Transfers by Non-Spousal Beneficiaries. Effective January 1, 2008, a designated Beneficiary who is not the Participant's spouse can, following the death of a Participant, request a direct trustee to trustee transfer of part or all of his or her lump sum distribution from the Plan but only to an individual retirement account or annuity described in Code Sec. 408(a) or 408(b) (an "IRA") that is designated as an "inherited IRA". The request must be made within 90 days following the Participant's death. The transfer shall be made as soon as practicable following the Beneficiary's request. Amounts transferred to an inherited IRA under this subsection are subject to the required minimum distribution rules of Code section 401(a)(9). Also, any required minimum distributions that would otherwise be due to the Participant or Beneficiary shall be made to the Beneficiary before any such direct transfer is made to the inherited IRA. The inherited IRA must be established in a manner that identifies it as an inherited IRA with respect to the deceased Participant and must also identify the Beneficiary. Transfers under this Section shall be administered in accordance with applicable regulations or other guidance issued by the Department of Treasury.

Sec. 8.16 Deemed Cash-Out Upon Termination of Employment. A Participant who is zero percent vested and experiences a Termination of Employment is deemed upon his or her Termination of Employment to have received an immediate cash-out of his or her Accrued Monthly Pension under the Plan and to have forfeited the unvested portion of his or her Accrued Monthly Pension under the Plan.

Sec. 8.17 Retroactive Annuity Starting Dates. A Participant may elect to have his or her pension begin as of a "retroactive annuity starting date", subject to the following:

(a) "Retroactive Annuity Starting Date" means a date elected by a Participant which is prior to the date the written explanation of the Qualified Joint and Survivor Annuity required by Code § 417(a)(3) is provided to the Participant.

(b) The retroactive annuity starting date may be the first day of any month coincident with or next following the Participant's 65th birthday.

(c) The monthly pension amount payable under this section will be equal to the amount that would have been payable if the Participant's pension had begun on the retroactive annuity starting date.

(d) A Participant who elects a pension with a retroactive annuity starting date shall receive a makeup payment reflecting any missed payments from the retroactive annuity starting date through the date the makeup payment is paid. The makeup payment shall include interest on each missed payment for the period beginning on the date the missed payment would have been paid if the pension had commenced on the retroactive annuity starting date and ending on the date the makeup payment is paid. Interest for this purpose shall be determined using simple interest and the applicable interest rate under Code §

417(e) (and used in Sec. 4.12(c) for determining lump sums) for the month of November preceding the Plan Year in which the makeup payment is made.

(e) If the Participant is married on the date the first pension payment is actually paid, the Participant's election is subject to the consent of his or her spouse. However, said spouse's consent is not required if the Participant elects to receive the retroactive pension as a Qualified Joint and Survivor Annuity and the death benefit payable to said spouse is at least equal to the death benefit the spouse would have received if the benefit commenced on the date the first pension payment actually is paid and in the form of a Qualified Joint and 50% or 75% Survivor Annuity.

(f) If the Participant was married on the Retroactive Annuity Starting Date, but is no longer married to that spouse on the date the first pension payment actually is paid, the consent of the former spouse is not required except to the extent provided in any applicable qualified domestic relations order.

Sec. 8.18 Benefits of Reemployed Veterans. Notwithstanding any provisions of this Plan to the contrary, contributions, benefits and service credit with respect to Qualified Military Service will be provided in accordance with Code §414(u). For this purpose:

(a) As provided by Code §414(u), "Qualified Military Service" means service in the uniformed services (as defined in Chapter 43 of Title 38, United States Code) by an individual if he or she is qualified under such chapter to reemployment rights with the Company or an Affiliate following such military service.

(b) "USERRA" means the Uniformed Services Employment and Reemployment Rights Act of 1994 as amended.

(c) If an individual returns to employment with the Company or an Affiliate following a period of Qualified Military Service under circumstances that he or she has reemployment rights under USERRA, and the individual reports for said reemployment within the time frame required by USERRA, the following provisions shall apply:

(1) The Qualified Military Service shall be recognized as years of Credited Service and Years of Vesting Service to the same extent as it would have been if the employee had remained continuously employed with the Company or an Affiliate rather than going into the military.

(2) Certified Earnings shall be determined for the individual as of each January 1 during the period of Qualified Military Service. The amount of Certified Earnings shall be determined by the Company consistent with the requirements of the USERRA, and shall reflect the Company's best estimate of the earnings the individual would have received but for the Qualified Military Service.

(d) The Plan shall comply with the provisions of the Heroes Earnings Assistance and Relief Tax Act (the "HEART Act"), which amended certain provisions of USERRA. The HEART Act is generally effective January 1, 2007 and provides as follows:

(1) If a Participant dies while performing "qualified military service" (as defined in USERRA), the Participant's survivors shall receive the same benefits under the Plan as if the Participant died while employed by a Participating Employer. This rule does not, however, require survivors to be provided with any additional benefit accruals relating to the period of qualified military service.

(2) Effective January 1, 2009, shift differential pay shall be treated as Certified Earnings under the Plan. After December 31, 2008, shift differential pay is subject to federal income tax withholding if the employee is on active duty with the uniformed services for more than 30 days. FICA and FUTA withholding, however, is not required.

(e) The foregoing provisions are intended to provide the benefits required by USERRA, and are not intended to provide any other benefits. This section shall be construed consistently with said intent.

Sec. 8.19 Limitations Under Code §436. To the extent required by Code §436 and any applicable regulations or other guidance, the Plan is subject to the following limitations:

(a) Limitation on unpredictable contingent event benefits. Any unpredictable contingent event benefit will not be paid if the event occurs at a time when the Plan's AFTAP, as defined in subsection (e), is less than 60% (or would be less than 60% if the unpredictable contingent event benefit were taken into account). For this purpose, "unpredictable contingent event benefit" means any benefit (or increase in benefits) that is contingent on a plant shutdown or similar event, or on a factor other than age, service, compensation, death or disability.

(b) Limitation on Plan amendments. No amendment that has the effect of increasing liabilities of the Plan will take effect at a time when the Plan's AFTAP is less than 80% (or would be less than 80% if the amendment were taken into account). However, this restriction does not apply to a benefit increase under a formula which is not based on a participant's compensation, provided the rate of increase does not exceed the contemporaneous rate of increase in wages of Participants covered by the amendment.

(c) Limitation on accelerated benefit payments. The following limitations apply to amounts which are considered "prohibited payments" for purposes of Code §436(d):

(1) If the Plan's AFTAP is less than 60%, the Plan will not pay any prohibited payment with an annuity starting date on or after the applicable Code §436 measurement date.

(2) The Plan will not pay any prohibited payment with an annuity starting date while the Company is in bankruptcy, provided, however, that this restriction does not apply if the Plan's Actuary certifies that the Plan's AFTAP is not less than 100%.

(3) If the Plan's AFTAP is 60% or more but less than 80%, prohibited payments will be restricted to the extent required by applicableregulations.

(4) For purposes of this subsection, an amount payable for a month is a "prohibited payment" to the extent it exceeds the sum of (i) the amount payable for that month under a straight life annuity with the same annuity starting date plus (ii) any social security supplement payable under the Plan for that month. Purchase of an irrevocable annuity is also a prohibited payment, as is any other form of payment so identified in applicable guidance. However, a lump sum payment under Sec. 7.6 of the Plan is not a prohibited payment.

(d) Limitation on benefit accruals. If the Plan's AFTAP is less than 60%, benefit accruals under the Plan will cease until such time as the Plan's AFTAP is at least 60%.

(e) AFTAP. The Plans "AFTAP" is its Adjusted Funded Target Attained Percentage as determined by the Plan Actuary in accordance with Code §436 and §430.

(f) Rules of construction. The foregoing provisions are intended to limit benefits to the extent required by Code §436 and are not intended to impose any other limitations. This section shall be construed consistently with that intent.

ARTICLE IX

FUND

Sec. 9.1 Composition. All sums of money and all securities and other property received by the Funding Agency for purposes of the Plan, together with all investment made therewith, the proceeds thereof, and all earnings and accumulations thereon, and the part from time to time remaining shall constitute the "Fund." The Company may cause the Fund to be divided into any number of parts for investment purposes or any other purposes necessary or advisable for the proper administration of the Plan. If for any purpose it is necessary to determine the value of an asset in the Fund for which fair market value is not available, the value of such asset shall be its fair value as determined in good faith by the Company or other Named Fiduciary assigned such function, or if the asset is held in trust and the trust agreement so provides, as determined in good faith by the trustee.

Sec. 9.2 Funding Agency. The Fund may be held and invested as one fund or may be divided into any number of parts for investment purposes. Each part of the Fund, or the entire Fund if it is not divided into parts for investment purposes, shall be held and invested by one or more trustees or by an insurance company. The trustee or trustees or the insurance company so acting with respect to any part of the Fund is referred to herein as the Funding Agency with respect to such part of the Fund. The selection and appointment of each Funding Agency shall be made by the Company by action of its board of directors. The Company shall have the right at any time to remove a Funding Agency and appoint a successor hereto, subject only to the terms of any applicable trust agreement or group annuity contract. The Company shall have the right to determine the form and substance of each trust agreement and group annuity contract under which any part of the Fund is held, subject only to the requirement that they are not inconsistent with the provisions of the Plan. Any such trust agreement may contain provisions pursuant to which the trustee will make investments on direction of a third party.

Sec. 9.3 Compensation and Expenses of Funding Agency. The Funding Agency shall be entitled to receive such reasonable compensation for its services as may be agreed upon with the Company. The Funding Agency shall also be entitled to reimbursement for all reasonable and necessary costs, expenses, and disbursements incurred by it in the performance of its services. Such compensation and reimbursements shall be paid from the Fund if not paid directly by the Participating Employers in such proportions as the Company shall determine.

Sec. 9.4 Funding Policy. The Company shall adopt a procedure, and revise it from time to time as it shall consider advisable, for establishing and carrying out a funding policy and method consistent with the objectives of the Plan and the requirements of ERISA. It shall advise each Funding Agency of the funding policy in effect from time to time.

Sec. 9.5 Securities and Property of Participating Employers. An agreement with a Funding Agency may provide that the Fund may be invested in qualifying employer securities or qualifying employer real property, as those terms are used in ERISA, and to the extent permitted by said Act. If qualifying employer securities or qualifying employer real property are

purchased or sold as an investment of the Fund from or to a disqualified person or party in interest, as those terms are used in ERISA, and if there is no generally recognized market for such securities or property, the purchase shall be for not more than fair market value and the sale shall be for not less than fair market value, as determined in good faith by the Company or other Named Fiduciary assigned such function, or if such assets are held in trust and the trust agreement so provides, as determined in good faith by the trustee.

Sec. 9.6 No Diversion. The Fund shall be for the exclusive purpose of providing benefits to Participants and their beneficiaries and defraying reasonable expenses of administering the Plan. Such expenses may include premiums for the bonding of Plan officials required by ERISA and may also include premiums payable to the Pension Benefit Guaranty Corporation other than premiums for contingent liability coverage. No part of the Fund may be used for, or diverted to, purposes other than for the exclusive benefit of employees of the Participating Employers or their beneficiaries. Notwithstanding the foregoing:

(a) If any contribution or portion thereof is made by a Participating Employer by a mistake of fact, the Funding Agency shall, upon written request of the Company, return such contribution or portion thereof to the Participating Employer within one year after the payment of the contribution to the Funding Agency; however, earnings attributable to such contribution or portion thereof shall not be returned to the Participating Employer but shall remain in the Fund, and the amount returned to the Participating Employer shall be reduced by any losses attributable to such contribution or portion thereof.

(b) Contributions by the Participating Employers are conditioned upon the deductibility of each contribution under Code section 404. To the extent the deduction is disallowed, the Funding Agency shall, upon written request of the Company, return such contribution to the Participating Employer within one year after the disallowance of the deduction; however, earnings attributable to such contribution (or disallowed portion thereof) shall not be returned to the Participating Employer but shall remain in the Fund, and the amount returned to the Participating Employer shall be reduced by any losses attributable to such contribution (or disallowed portion thereof).

(c) If, upon termination of the Plan, any residual assets remain in the Fund after all liabilities of the Plan to Participants and their beneficiaries have been satisfied, such residual assets shall be returned to the Participating Employers in such proportions as the Company may determine.

Sec. 9.7 Employer Contributions. The Participating Employers shall make such contributions to the Fund from time to time as they consider advisable which shall not be less than the minimum contributions required by the ERISA. All such contributions are conditioned upon the deductibility thereof under Code section 404.

## ARTICLE X

## ACTUARY

Sec. 10.1 Appointment. The Company shall appoint as Actuary hereunder an individual who is an enrolled actuary as defined in ERISA or a partnership, corporation, or other organization which has as a partner or employee thereof such an enrolled actuary.

Sec. 10.2 Responsibilities. The Actuary shall have the responsibilities expressly allocated to it hereunder and shall have such other responsibilities with respect to the Plan as may be agreed upon by the Company and the Actuary.

Sec. 10.3 Compensation. The Actuary shall receive such reasonable compensation for its services hereunder as may be agreed upon by the Company and the Actuary. To the extent not paid from the Fund, such compensation shall be paid by the Participating Employers in such proportions as the Company shall determine.

Sec. 10.4 Resignation, Removal and Successor. Any agreement between the Company and the Actuary for services hereunder may be terminated by either party on 30 days written notice to the other. In the event of a vacancy in the office of Actuary, the Company shall appoint a successor.

ARTICLE XI

ADMINISTRATION OF PLAN

Sec. 11.1 Administration by Company. The Company is the "administrator" of the Plan for purposes of ERISA. Except as expressly otherwise provided herein, the Company, and not the other Participating Employers, shall control and manage the operation and administration of the Plan and make all decisions and determinations incident thereto. Such control and management shall include, but is not limited to, interpretation of provisions of the Plan and determination of a Participant's eligibility for benefits under the Plan and the amount, if any, and form of payment of such benefits. In carrying out its Plan responsibilities, the Company shall have discretionary authority to construe the terms of the Plan. Except in cases where the Plan expressly requires action on behalf of the Company to be taken by the Board, action on behalf of the Company may be taken by any of the following:

(a) The Board.

(b) The chief executive officer of the Company.

(c) Any person or persons, natural or otherwise, or committee, to whom responsibilities for the operation and administration of the Plan are allocated by the Company, by resolution of the Board or by written instrument executed by the chief executive officer of the Company and filed with its permanent records, but action of such person or persons or committee shall be within the scope of said allocation.

Sec. 11.2 Certain Fiduciary Provisions. For purposes of the Plan:

(a) Any person or group of persons may serve in more than one fiduciary capacity with respect to the Plan.

(b) A Named Fiduciary, or a fiduciary designated by a Named Fiduciary pursuant to the provisions of the Plan, may employ one or more persons to render advice with regard to any responsibility such fiduciary has under the Plan.

(c) To the extent permitted by any applicable trust agreement or group annuity contract a Named Fiduciary with respect to control or management of the assets of the Plan may appoint an investment manager or managers, as defined in ERISA, to manage (including the power to acquire and dispose of) any assets of the Plan.

(d) At any time that the Plan has more than one Named Fiduciary, if pursuant to the Plan provisions fiduciary responsibilities are not already allocated among such Named Fiduciaries, the Company, by action of the Board or its chief executive officer may provide for such allocation; except that such allocation shall not include any responsibility, if any, in a trust agreement to manage or control the assets of the Plan

other than a power under the trust agreement to appoint an investment manager as defined in ERISA.

(e) Unless expressly prohibited in the appointment of a Named Fiduciary which is not the Company acting as provided in Sec. 11.1, such Named Fiduciary by written instrument may designate a person or persons other than such Named Fiduciary to carry out any or all of the fiduciary responsibilities under the Plan of such Named Fiduciary; except that such designation shall not include any responsibility, if any, in a trust agreement to manage or control the assets of the Plan other than a power under the trust agreement to appoint an investment manager as defined in ERISA.

(f) A person who is a fiduciary with respect to the Plan, including a Named Fiduciary, shall be recognized and treated as a fiduciary only with respect to the particular fiduciary functions as to which such person has responsibility.

Each Named Fiduciary (other than the Company), each other fiduciary, each person employed pursuant to subsection (b) above, and each investment manager shall be entitled to receive reasonable compensation for services rendered, or for the reimbursement of expenses properly and actually incurred in the performance of their duties with the Plan and to payment therefor from the Fund if not paid directly by the Participating Employers in such proportions as the Company shall determine. However, no person so serving who already receives full-time pay from any Participating Employer shall receive compensation from the Plan, except for reimbursement of expenses properly and actually incurred.

Sec. 11.3 Discrimination Prohibited. No person or persons in exercising discretion in the operation and administration of the Plan shall discriminate in favor of highly compensated employees (as defined in Code section 414(q)).

Sec. 11.4 Evidence. Evidence required of anyone under this Plan may be by certificate, affidavit, document, or other instrument which the person acting in reliance thereon considers to be pertinent and reliable and to be signed, made, or presented by the proper party.

Sec. 11.5 Correction of Errors. It is recognized that in the operation and administration of the Plan certain mathematical and accounting errors may be made or mistakes may arise by reason of factual errors in information supplied to the Company or Funding Agency. The Company shall have power to cause such equitable adjustments to be made to correct for such errors as the Company in its discretion considers appropriate. Such adjustments shall be final and binding on all persons.

Sec. 11.6 Records. Each Participating Employer, each fiduciary with respect to the Plan, and each other person performing any functions in the operation or administration of the Plan or the management or control of the assets of the Plan shall keep such records as may be necessary or appropriate in the discharge of their respective functions hereunder, including records required by ERISA or any other applicable law. Records shall be retained as long as

necessary for the proper administration of the Plan and at least for any period required by said Act or other applicable law.

Sec. 11.7 General Fiduciary Standard. Each fiduciary shall discharge his duties with respect to the Plan solely in the interests of Participants and their beneficiaries and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Sec. 11.8 Prohibited Transactions. A fiduciary with respect to the Plan shall not cause the Plan to engage in any prohibited transaction within the meaning of ERISA.

Sec. 11.9 Claims Procedure. The Company shall establish a claims procedure consistent with the requirements of ERISA. Such claims procedure shall provide adequate notice in writing to any Participant or beneficiary whose claim for benefits under the Plan has been denied, setting forth the specific reasons for such denial written in a manner calculated to be understood by the claimant and shall afford a reasonable opportunity to a claimant whose claim for benefits has been denied for a full and fair review by the appropriate Named Fiduciary of the decision denying the claim. No person claiming a benefit under the Plan may initiate a civil action regarding the claim until all steps under the claims procedure (including appeals) have been completed.

Sec. 11.10 Bonding. Plan personnel shall be bonded to the extent required by ERISA. Premiums for such bonding may, in the sole discretion of the Company, be paid in whole or in part from the Fund. Such premiums may also be paid in whole or in part by the Participating Employers in such proportions as the Company shall determine. The Company may provide by agreement with any person that the premium for required bonding shall be paid by such person.

Sec. 11.11 Waiver of Notice. Any notice required hereunder may be waived by the person entitled thereto.

Sec. 11.12 Agent For Legal Process. The Company shall be the agent for service of legal process with respect to any matter concerning the Plan, unless and until the Company designates some other person as such agent.

Sec. 11.13 Indemnification. In addition to any other applicable provisions for indemnification, the Participating Employers jointly and severally agree to indemnify and hold harmless, to the extent permitted by law, each director, officer, and employee (collectively referred to as the "Indemnitee") of the Participating Employers against any and all liabilities, losses, costs, or expenses (including legal fees) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against such person at any time by reason of such person's services as a fiduciary in connection with the Plan, but only if such person did not act dishonestly, or in bad faith, or in willful violation of the law or regulations under which such liability, loss, cost, or expense arises. The Company shall have the right, but not the obligation,

to select counsel and control the defense and settlement of any action against the Indemnitee for which the Indemnitee may be entitled to indemnification.

## ARTICLE XII

## AMENDMENT, TERMINATION, MERGER

Sec. 12.1 Amendment. Subject to the non-diversion provisions of Sec. 9.6, the Company, by action of the Board, or by action of a person so authorized by resolution of the Board, may amend the Plan at any time and from time to time. No amendment of the Plan shall have the effect of changing the rights, duties, and liabilities of any Funding Agency without its written consent. Also, no amendment shall divest a Participant or beneficiary of benefits accrued prior to the amendment. The Company agrees that promptly upon adoption of any amendment to the Plan it will furnish a copy of the amendment together with a certificate evidencing its due adoption to each Funding Agency then acting. The Company has sole authority to amend the Plan; the Plan may not be amended by the other Participating Employers.

Sec. 12.2 Discontinuance of Joint Participation in Plan by a Participating Employer. A Participating Employer, by action of its board of directors and on appropriate written notice to the Company and each Funding Agency then acting, may discontinue its joint participation in the Plan with the other Participating Employers. The Company shall cause a determination to be made of the equitable part of the Fund assets held on account of Participants of the withdrawing employer and their beneficiaries. The Company shall direct the Funding Agency or Funding Agencies to transfer assets representing such equitable part to a separate fund for the plan of the withdrawing employer; provided, however, that such transfer shall be made only if and when the Company in its sole judgment is satisfied that the transfer can be made in full compliance with the applicable requirements of ERISA. Such withdrawing employer may thereafter exercise, in respect of such separate fund, all the rights and powers reserved to the Company with respect to the Fund. The plan of the withdrawing employer shall, until amended by the withdrawing employer, continue with the same terms as the Plan herein, except that with respect to the separate plan of the withdrawing employer the words "Participating Employer," "Participating Employers," and "Company" shall thereafter be considered to refer only to the withdrawing employer. Any discontinuance of participation by a Participating Employer shall be effected in such manner that each Participant or beneficiary would (if the Plan and the plan of the withdrawing employer then terminated) receive a benefit immediately after such discontinuance of participation which is equal to or greater than the benefit he would have been entitled to receive immediately before such discontinuance of participation if the Plan had then terminated. No transfer of assets pursuant to this section shall be effected until such statements with respect thereto, if any, required by ERISA to be filed in advance thereof have been filed.

Sec. 12.3 Reorganization of Participating Employers. In the event two or more Participating Employers shall be consolidated or merged or in the event one or more Participating Employers shall acquire the assets of another Participating Employer, the Plan shall be deemed to have continued, without termination and without a complete discontinuance of contributions, as to all the Participating Employers involved in such reorganization and their employees. In such event, in administering the Plan the corporation resulting from the consolidation, the surviving corporation in the merger, or the employer acquiring the assets shall

be considered as a continuation of all of the Participating Employers involved in the reorganization.

Sec. 12.4 Termination. The Plan may be terminated by action of all of the Participating Employers jointly participating therein at the time by action of their respective boards of directors. An employer which has discontinued its joint participation in the Plan with the other Participating Employers shall also have the right to terminate its separate plan which resulted from such discontinuance at any time by action of its board of directors. Any such voluntary termination of the Plan, or separate plan, shall be made in compliance with all applicable provisions of ERISA. The Plan or separate plan, may also be terminated by action of the Pension Benefit Guaranty Corporation pursuant to the provisions of said Act. Upon termination of the Plan, or separate plan, the following shall be applicable:

(a) No further benefits shall accrue under the terminated Plan, and the rights of each employee thereunder to benefits accrued to the date of such termination, to the extent then funded, shall be nonforfeitable, provided, however, that the sole recourse for satisfaction of such rights shall be to the Fund and where applicable, to the Pension Benefit Guaranty Corporation.

(b) The Funding Agency shall receive for the Fund of the applicable terminated plan any amount recovered under section 4045 of ERISA.

(c) The Funding Agency shall deduct from the Fund of the terminated Plan its compensation, expenses properly chargeable thereto, and any and all taxes that may be imposed upon the Fund by virtue of the termination of the Plan or otherwise; provided, however, that the Funding Agency may accept such reasonable indemnity therefor from the Participating Employers as the Funding Agency shall specify.

(d) If adequate the Fund of the terminated Plan shall then be applied to provide, in accordance with the provisions of such terminated plan as in effect at the time of such termination, all benefits accrued to the date of such termination whether vested or not.

(e) If the Fund of the terminated plan is not adequate to provide all benefits accrued to the date of termination, the assets of the Fund of the terminated plan shall be allocated to provide benefits in the following order of priority subject to any applicable regulations promulgated by the Pension Benefit Guaranty Corporation or the Secretary of the Treasury or his delegate:

(1) In the case of benefits payable as an annuity:

(A) In the case of the benefit of a Participant or beneficiary which was in pay status as of the beginning of the 3-year period ending on the termination date of the Plan, to provide each such benefit, based on the provisions of the Plan (as in effect during the 5-year period ending on such date) under which such benefit would be the least. The lowest benefit in

pay status during the 3-year period shall be considered the benefit in pay status for such period.

(B) In the case of the benefit of a Participant or beneficiary (other than a benefit described in subparagraph (A) above) which would have been in pay status as of the beginning of the 3-year period ending on the termination date of the Plan if the Participant had retired prior to the beginning of the 3-year period and if his benefits had commenced as a life only annuity as of the beginning of such period, to provide each such benefit based on the provisions of the Plan (as in effect during the 5-year period ending on such date) under which such benefit would be the least.

(2) To provide all other benefits, if any, of individuals under the Plan guaranteed under ERISA (determined without regard to section 4022(b)(5) of said Act), and the additional benefits, if any, which would be so provided if section 4022(b)(6) of said Act did not apply. In determining such benefits, section 4021 of said Act shall be applied without regard to subsection (c) thereof.

(3) To provide all other nonforfeitable benefits under the Plan. If the assets available are not sufficient to satisfy in full such benefits:

(A) The assets shall be allocated to provide individuals with such benefits accrued under the Plan as in effect at the beginning of the 5-year period ending on the date of Plan termination.

(B) If the assets available for allocation under subparagraph (A) above are sufficient to satisfy in full the benefits described therein (without regard to this subparagraph (B)), then for purposes of subparagraph (A), benefits of individuals thereunder shall be determined on the basis of the Plan as amended by the most recent Plan amendment effective during such 5-year period under which the assets available for allocation are sufficient to satisfy in full the benefits of such individuals, and any assets remaining to be allocated shall be allocated on the basis of the Plan as amended by the next succeeding Plan amendment effective during such period.

(4) To provide all other accrued benefits under the Plan.

The amount allocated under any of paragraphs (1) through (4) above with respect to any benefit shall be properly adjusted for any allocation of assets with respect to that benefit under any of the preceding of said paragraphs. Except as otherwise provided in paragraph (3) above, if the assets available for allocation under any of said paragraphs are insufficient to satisfy in full the benefits to be provided individuals under such paragraph, the assets shall be allocated pro rata among such individuals on the basis of the present value, as of the termination date of the Plan, of their respective benefits described in such paragraph. If the Secretary of

the Treasury or his delegate determines that the allocation made pursuant to this subsection results in discrimination prohibited by Code section 401(a)(4) then, if required to prevent the disqualification of the Plan (or any trust under the Plan) the assets shall be reallocated to the extent necessary to avoid such discrimination but only to the extent permitted by ERISA.

(f) If all liabilities of the Plan to Participants and their beneficiaries have been satisfied, any residual assets of the Plan shall be returned to the Participating Employer if such distribution does not contravene any provision of law.

(g) Except as otherwise required by the Pension Benefit Guaranty Corporation or its duly authorized agents, benefits on termination of the Plan shall be distributed as provided in this subsection. The Company shall determine the method and manner in which such benefits shall be distributed to the persons entitled thereto. The Company shall have the right to postpone the distribution of benefits for a reasonable time, to require the total or partial liquidation of the Fund, to provide for the payment of certain benefits in one sum and others in installments, and to arrange for the application of all or a part of the value to be provided for any person toward the purchase of an annuity contract issued by an insurance company. In exercising such right the Company shall give recognition, to the extent it may deem it advisable or practicable to do so, to the fact that a purpose of the Plan is to provide life incomes to Participants after they have attained their respective Normal Retirement Ages but that the exigencies of a particular case may require or make advisable a lump sum cash settlement or other distributions in lieu of such installment benefits. In no event, however, shall the commencement of distributions be postponed to a date later than that permitted by other provisions of the Plan, nor shall settlements be made which would be prohibited by the provisions of the Plan that relate to optional settlements.

(h) In the event of the termination of the Plan, all Plan provisions and any agreements with Funding Agencies relating to the Plan shall continue to have effect for the purpose of completing distributions in accordance with this section.

Sec. 12.5 Partial Termination. If there is a partial termination of the Plan, either by operation of law, by amendment of the Plan, or for any other reason, which partial termination shall be confirmed by the Company, the Company shall:

(a) Determine the equitable part of the Fund assets held on account of Participants with respect to when the Plan is terminated and their beneficiaries as though the partial termination was a discontinuance of joint participation in the Plan by a Participating Employer under Sec. 12.2.

(b) Cause that portion of the Fund allocated to those Participants (and their beneficiaries) with respect to whom the partial termination takes place to be treated as the Fund of a terminated plan with respect to such persons.

(c) Cause that portion of the Fund that is not allocated to those Participants (and their beneficiaries) with respect to whom the partial termination takes place to continue to be held and administered under the Plan for the benefit of the other Participants (and their beneficiaries).

The provisions of Sec. 12.4 shall be applicable to the partially terminated plan, to the Participants (and their beneficiaries) with respect to whom the partial termination takes place, and to the funds allocated to such persons, as though it constituted a separate plan; provided, however, that any residual assets shall be credited to the portion of the Fund referred to in subsection (c) above rather than being returned to the Participating Employer.

Sec. 12.6 Merger, Consolidation, or Transfer of Plan Assets. In the case of any merger or consolidation of the Plan with any other plan, or in the case of the transfer of assets or liabilities of the Plan to any other plan, provision shall be made so that each Participant and beneficiary would (if such other plan then terminated) receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer (if the Plan had then terminated). No such merger, consolidation, or transfer shall be effected until such statements with respect thereto, if any, required by ERISA to be filed in advance thereof have been filed.

Sec. 12.7 Deferral of Distributions. Notwithstanding any provisions of the Plan to the contrary, in the case of a complete or partial termination of the Plan, the Company or the Funding Agency may defer any distribution of benefit payments to Participants and beneficiaries with respect to which such termination applies until after the following have occurred:

(a) Receipt of a final determination from the Treasury Department or any court of competent jurisdiction regarding the effect of such termination on the qualified status of the Plan under Code section 401(a).

(b) Appropriate adjustment of the Fund to reflect taxes, costs, and expenses, if any, incident to such termination.

## ARTICLE XIII

## MISCELLANEOUS PROVISIONS

Sec. 13.1 Insurance Company Not Responsible for Validity of Plan. No insurance company that issues a contract under the Plan shall have any responsibility for the validity of the Plan. An insurance company to which an application may be submitted hereunder may accept such application and shall have no duty to make any investigation or inquiry regarding the authority of the applicant to make such application or any amendment thereto or to inquire as to whether a person on whose life any contract is to be issued is entitled to such contract under the Plan.

Sec. 13.2 Headings. Headings at the beginning of articles and sections hereof are for convenience of reference, shall not be considered a part of the text of the Plan, and shall not influence its construction.

Sec. 13.3 Capitalized Definitions. Capitalized terms used in the Plan shall have their meaning as defined in the Plan unless the context clearly indicates to the contrary.

Sec. 13.4 Gender. Any references to the masculine gender include the feminine and vice versa.

Sec. 13.5 Use of Compounds of Word "Here". Use of the words "hereof," "herein," "hereunder," or similar compounds of the word "here" shall mean and refer to the entire Plan unless the context clearly indicates to the contrary.

Sec. 13.6 Construed as a Whole. The provisions of the Plan shall be construed as a whole in such manner as to carry out the provisions thereof and shall not be construed separately without relation to the context.

ARTICLE XIV

TOP-HEAVY PLAN PROVISIONS

Sec. 14.1 Effective Date. The following provisions shall apply for Plan Years beginning after December 31, 2001.

Sec. 14.2 Key Employee Defined. "Key Employee" means any employee or former employee of the employer (including any deceased employee) who at any time during the Plan Year that includes the determination date was an officer of the Company or an Affiliate having annual compensation greater than $130,000 (as adjusted under Code § 416(i)(1) for Plan Years beginning after December 31, 2002), a five-percent owner of the Company or an Affiliate, or a one-percent owner of the Company having annual compensation of more than $150,000. For this purpose, annual compensation means compensation within the meaning of Code § 415(c)(3). The determination of who is a key employee will be made in accordance with Code § 416(i)(1) and the applicable regulations and other guidance of general applicability issued thereunder.

Sec. 14.3 Determination of Top-Heavy Status. The top-heavy status of the Plan shall be determined according to the following standards and definitions:

(a) The Plan is a Top-Heavy Plan if the top-heavy ratio for this Plan exceeds 60 percent or if this Plan is part of a required aggregation group of plans and the top- heavy ratio for the group of plans exceeds 60 percent. However, the Plan is not a Top-Heavy Plan with respect to a Plan Year if it is part of a permissive aggregation group of plans for which the top-heavy ratio does not exceed 60 percent.

(b) The "top heavy ratio" shall be determined as follows:

(1) If the ratio is being determined only for this Plan or if the aggregation group only includes defined benefit pension plans, the top heavy ratio is a fraction, the numerator of which is the sum of the present values of the accrued benefits of all Key Employees under the Plan or plans as of the determination date (including any part of any accrued benefit distributed in the one-year period ending on the determination date), and the denominator of which is the sum of present value of all accrued benefits (including any part of any accrued benefit distributed in the one-year period ending on the determination date) of all employees under the Plan or plans as of the determination date. Both the numerator and the denominator referred to in the preceding sentence shall be computed in accordance with Code section 416 and the regulations thereunder. The preceding provisions shall also apply to distributions under a terminated plan which, had it not terminated, would have been aggregated with the Plan under Code section 416(g)(2)(A). In the case of a distribution made for a reason other than severance of employment, death or disability, the one year period referred to above shall be applied by substituting "five year period" for "one year period".

(The "plans" referred to in the preceding sentence are the plans in the required or permissive aggregation group under Code section 416(g)(2).)

(2) If the determination is being made for a required or permissive aggregation group which includes one or more defined contribution plans, the top-heavy ratio is a fraction, the numerator of which is the sum of account balances of all Key Employees under the defined contribution plans and the present value of accrued benefits under the defined benefit plans for all Key Employees as of the determination date (including any part of any account balance or accrued benefit distributed in the one-year period ending on the determination date), and the denominator of which is the sum of the account balances under the defined contribution plans for all employees and the present value of accrued benefits under the defined benefit plans for all employees as of the determination date (including any part of any account balance or accrued benefit distributed in the one-year period ending on the determination date subject to the special aggregation rule for terminated plans in paragraph (1) above). In the case of a distribution made for a reason other than severance from employment, death or disability, the one-year period referred to above shall be applied by substituting "five-year period" for "one-year period". (The "plans" referred to in the preceding sentence are the plans in the required or permissive aggregation group under Code section 416(g)(2).) Both the numerator and denominator of the top-heavy ratio shall be adjusted to reflect any contribution due but unpaid as of the determination date.

(3) For purposes of paragraphs (1) and (2), the value of account balances and the present value of accrued benefits will be determined as of the most recent valuation date that falls within the 12-month period ending on the determination date. The account balances and accrued benefits of an employee who is not a Key Employee but who was a Key Employee in a prior year will be disregarded. The calculation of the top-heavy ratio and the extent to which distributions, rollovers, and transfers are taken into account will be made in accordance with Code section 416 and the regulations thereunder. When aggregating plans, the value of account balances and accrued benefits will be calculated with reference to the determination dates that fall within the same calendar year.

(c) "Required aggregation group" means (i) each qualified plan of the employer in which at least one Key Employee participates, and (ii) any other qualified plan of the Employer that enables a plan described in (i) to meet the requirements of Code sections 401(a)(4) or 410.

(d) "Permissive aggregation group" means the required aggregation group of plans plus any other plan or plans of the employer which, when consolidated as a group with the required aggregation group, would continue to satisfy the requirements of Code sections 401(a)(4) and 410.

(e) "Determination date" for any Plan Year means the last day of the preceding Plan Year.

(f) The "valuation date" is the last day of each Plan Year and is the date as of which account balances or accrued benefits are valued for purposes of calculating the top-heavy ratio.

(g) The "present value" of benefits under this Plan and all other defined benefit plans of the employer for purposes of computing the top-heavy ratio shall be based on 5% interest and mortality rates based on the 1983 Male Group Annuity Mortality Table.

(h) If an individual has not performed any services for the employer during the one-year period ending on the determination date with respect to a Plan Year, any account balance or accrued benefit for such individual shall not be taken into account for such Plan Year.

(i) For purposes of Top Heavy testing, proportional subsidies are ignored and non-proportional subsidies are considered as provided in applicable Treasury regulations.

(j) For purposes of Top Heavy testing, the accrued benefit of any Participant (other than a Key Employee) shall be determined:

(1) under the method which is used for accrual purposes for all plans of the Participating Employers and their Affiliates; or

(2) if there is no method described in clause (i), as if such benefit accrued not more rapidly than the slowest accrual rate permitted under Code section 411(b)(1)(C).

Sec. 14.4 Minimum Accrued Benefit. If the Plan is a Top-Heavy Plan, notwithstanding any other provisions of this Plan, each Participant who is not a Key Employee shall have a minimum accrued benefit (to be provided by employer contributions and expressed as a single life annuity, with no ancillary benefits, commencing at Normal Retirement Age) equal to the applicable percentage of the Participant's average monthly compensation for years in the testing period.

(a) For purposes of this section:

(1) The "applicable percentage" is the lesser of 2 percent multiplied by the Participant's number of years of service with the employer, or 20 percent. For purposes of this paragraph (1), a Participant has a year of service for each Plan Year in which he completes 1000 Hours of Service; provided, however, that the following years shall not be taken into account:

(A) Plan Years commencing before January 1, 1984.

(B) Plan Years in which the Plan is not a Top-Heavy Plan.

(C) Plan Years in which the Participant is a Key Employee.

(D) Plan Years that end before the Participant attains age 18.

(E) Plan Years during which the employer did not maintain the Plan or a predecessor plan.

(2) "Compensation" is as defined in Sec. 8.12(j).

(3) A Participant's "testing period" comprises the five consecutive Plan Years during which the Participant had the greatest aggregate compensation from the employer, subject to the following:

(2) The Plan Years taken into account for purposes of this paragraph shall be adjusted for years not included in years of service for purposes of paragraph (1) above, as provided in Code section 416(c)(1)(D)(ii).

(3) The following Plan Years shall be disregarded for purposes of this paragraph if by disregarding such Plan Years the Participant's average monthly compensation for years in the testing period will be reduced:

(i) Any Plan Year beginning before January 1, 1984.

(ii) Any Plan Year commencing after the last Plan Year in which the Plan was a Top-Heavy Plan.

(b) If a Participant becomes entitled to a benefit under the Plan, and (i) if the form of the benefit is other than a single life annuity and/or (ii) if the benefit commences at a date other than at Normal Retirement Age, the benefit payable to Participant must be at least the Actuarial Equivalent of the minimum single life annuity benefit commencing at Normal Retirement Age.

(c) A Participant's minimum accrued benefit required under this section, to the extent required to be nonforfeitable under Sec. 14.5, shall not be subject to suspension of payment under Sec. 6.7(a)(2), unless suspension is permissible under the Code or regulations prescribed by the Secretary of the Treasury.

(d) This section shall not apply to any Participant who is covered under any other defined benefit plan of the employer to the extent the minimum benefit requirement otherwise applicable under this Plan will be satisfied by such other plan.

Sec. 14.5 Vesting Schedule. If a Participant's Termination of Employment occurs under such circumstances that he is not entitled to a benefit under Article VI, and if he was an Active Participant during a Plan Year for which the Plan was a Top-Heavy Plan, he shall be entitled to a benefit under this section. Except as modified by this section, such benefit shall be payable under the terms and conditions that would be applicable to a Vested Termination benefit under Sec. 6.5.

(a) The monthly amount of the benefit under this section shall be an amount equal to the Participant's Accrued Monthly Pension multiplied by the vested percentage determined according to the number of his Years of Vesting Service, as follows:

| Years of Vesting Service | Vested Percentage |
|---|---|
| Less than 2 | 0% |
| 2 but less than 3 | 20% |
| 3 but less than 4 | 40% |
| 4 but less than 5 | 60% |
| 5 or more | 100% |

(b) Years of Vesting Service for purposes of this section shall be as defined in Sec. 3.6.

(c) This section shall not apply to a Participant who has no Hours of Service after the Plan becomes a Top-Heavy Plan.

(d) If the Plan ceases to be a Top-Heavy Plan and continues to be a non-Top-Heavy Plan until the Participant's Termination of Employment, the benefit to which the Participant is entitled under this section shall not exceed the benefit to which he would have been entitled if his Termination of Employment had occurred on the date of such cessation.

Sec. 14.6 Definition of Employer. For purposes of this Article XIV, the term "employer" means the Company and any trade or business entity under Common Control with the Company.

Sec. 14.7 Exception For Collective Bargaining Unit. Sections 14.4 and 14.5 shall not apply with respect to any employee included in a unit of employees covered by an agreement which the Secretary of Labor finds to be a collective bargaining agreement between employee representatives and one or more employers if there is evidence that retirement benefits were the subject of good faith bargaining between such employee representative and such employer or employers.

Sec. 14.8 Special Rule for Automatic Cash Outs of Partially Vested Benefits. This Section shall only apply in the unlikely event that the Participant is partially vested under Sec. 14.5 or because the provisions of the Plan are changed to provide for a graduated vesting

schedule as opposed to five year cliff vesting. In either of those unlikely events, if the Actuarial Equivalent present value of the vested portion of an individual's partially vested benefit is $5,000 or less ($3,500 or less for Participants who had Terminations of Employment before January 1, 1999), the benefit shall be paid as provided in Sec. 8.2.

APPENDIX A

SOO LINE RAILROAD FUNDED PENSION PLAN
Modifications Applicable to Certain
Former Participants in the Minneapolis, Northfield
and Southern Railway Retirement Plan

Prior to September 1, 1982, Minneapolis, Northfield and Southern Railway, Inc. maintained the Minneapolis, Northfield and Southern Railway Retirement Plan (the "MN&S Plan") for the benefit of its eligible employees. Effective as of September 1, 1982, the MN&S Plan is being merged with and into the Soo Line Railroad Funded Pension Plan (the "Plan"). Persons who were participants in the MN&S Plan and who terminated employment on or after September 1, 1982 are hereafter referred to as "MN&S Plan Participants." Benefits payable to MN&S Plan Participants shall be determined and paid under the Plan as modified by this Appendix A.

Benefits payable with respect to any participant in the MN&S Plan who terminated employment prior to September 1, 1982 shall be determined according to the MN&S Plan as in effect prior to September 1, 1982. Such persons are not considered to be "MN&S Plan Participants" for purposes of this Appendix.

1.

Each MN&S Plan Participant is a Participant effective as of September 1, 1982.

2.

An MN&S Plan Participant's Years of Vesting Service shall be equal to the sum of the following:

(a) His years of vesting service prior to November 1, 1982 determined under Sec. 3. 10 of the MN&S Plan as if said Plan had remained in effect until October 31, 1982.

(b) His Years of Vesting Service after December 31, 1981 determined under Sec. 3.6 of the Plan. For purposes of said computation, service with the Minneapolis, Northfield and Southern Railway, Inc. after December 31, 1981 and prior to July 1, 1982 shall be treated as service with the Company.

However, if an MN&S Plan Participant either (i) has an Employment Commencement Date which is prior to September 1, 1977 or (ii) has, on September 1, 1982, at least five years of vesting service as defined in Sec. 3.10 of the MN&S Plan, his Years of Vesting Service shall not be less than the years of vesting service he would have had under Sec. 3.10 of the MN&S Plan if said plan had remained in effect until his Termination of Employment.

3.

Sec. 3.7 is modified by adding a new subsection (e) reading as follows immediately after subsection (d) thereof:

(a) In the case of any MN&S Plan Participant, his Years of Credited Service shall be equal to the sum of the following, but may not exceed 30 years:

(1) His credited service prior to November 1, 1981 determined under Sec. 4.10 of the MN&S Plan.

(2) One twelfth of a Year of Credited Service for each of November and December, 1981, provided he completed one or more Hours of Service in each of said months. No Credited Service shall be given for either of said months if he performed no Hours of Service in said month.

(3) His Years of Credited Service for 1982 and each subsequent Plan Year determined under 3.7(b). For purposes of said computation, service with the Minneapolis, Northfield and Southern Railway, Inc. after December 31, 1981 and prior to July 1, 1982 shall be treated as service with the Company.

4.

An MN&S Plan Participant's Accrued Monthly Pension under Sec. 4.6 of the Plan shall not be less than his accrued monthly pension determined as of August 31, 1982 under Sec. 4.7 of the MN&S Plan. For purposes of determining the benefit under said Sec. 4.7, his service and compensation after August 31, 1982 shall be disregarded.

5.

For purposes of determining an MN&S Plan Participant's Certified Earnings under Sec. 4.7 of the Plan, compensation paid by a participating employer in the MN&S Plan prior to July 1, 1982 shall be treated as compensation from the Company.

# APPENDIX B

## SOO LINE RAILROAD FUNDED PENSION PLAN
Schedule of Modified Lump Sum
Death Benefits Under Section 7.4

Pursuant to section 7.4 of the Plan certain Participants are eligible for lump sum death benefits in an amount other than $4,000. The following individuals shall receive a single sum death benefit in the amount set forth opposite their name: [Redacted]

# APPENDIX C

## SOO LINE RAILROAD FUNDED PENSION PLAN
Modifications Applicable to Certain
Former Participants in the Pension Plan of
Chicago, Milwaukee, St. Paul, and Pacific Railroad Company

Prior to February 19, 1985 (the "Acquisition Date"), Chicago, Milwaukee, St. Paul, and Pacific Railroad Company (the "Milwaukee Road") maintained the Pension Plan of Chicago, Milwaukee, St. Paul, and Pacific Railroad Company (the "Milwaukee Road Plan") for the benefit of its eligible employees. On the Acquisition Date, the assets of the Milwaukee Road were acquired by SLRCO, Inc., an Affiliate of the Company.

Effective as of the Acquisition Date, the Milwaukee Road Plan is being merged with and into the Soo Line Railroad Funded Pension Plan (the "Plan"). (While the merger is effective as of the Acquisition Date, assets of the two Plans will be combined no earlier than December 1, 1985.)

Persons who were participants in the Milwaukee Road Plan and who terminated employment after the Acquisition Date are hereafter referred to as "Milwaukee Road Plan Participants." Benefits payable to Milwaukee Road Plan Participants shall be determined and paid under the Plan as modified by this Appendix C.

Benefits payable with respect to any participant in the Milwauke Road Plan who terminated employment on or before the Acquisition Date shall be determined according to the Milwaukee Road Plan as in effect prior to the Acquisition Date. Such persons are not considered to be "Milwaukee Road Plan Participants" for purposes of this Appendix. However, preretirement death benefits are provided with respect to certain such participants under Part 8 of this Appendix, and pensions which would otherwise be payable with respect to such participants in small monthly amounts may be paid in single sums or less frequent installments pursuant to Sec. 8.2 of the Plan.

1.

Each Milwaukee Road Plan Participant is a Participant effective as of the Acquisition Date.

2.

The Milwaukee Road Inc. (formerly named SLRCO, Inc.) is a Participating Employer effective as of the Acquisition Date.

3.

A Milwaukee Road Plan Participant's Years of Vesting Service shall be equal to the sum of the following:

(a) His Years of Service prior to January 1, 1986 determined under Sec. 1.18(b) of the Milwaukee Road Plan as if said Plan had remained in effect until December 31, 1985.

(b) His Years of Vesting Service after December 31, 1985 determined under Sec. 3.6 of the Plan.

However, if a Milwaukee Road Plan Participant either (i) has an Employment Commencement Date which is prior to January 1, 1981 or (ii) has, on December 31, 1985 at least five Years of Service as defined in Sec. 1.18(b) of the Milwaukee Road Plan, his Years of Service shall not be less than the Years of Service he would have had under Sec. 1.18(b) of the Milwaukee Road Plan if said plan had remained in effect until his Termination of Employment.

4.

Sec. 3.7 is modified by adding a new subsection (e) reading as follows immediately after subsection (d) thereof:

(a) In the case of any Milwaukee Road Plan Participant, his Years of Credited Service shall be equal to the sum of the following, but may not exceed 30 years:

(1) His Credited Service prior to January 1, 1986 determined under Sec. 1.19 of the Milwaukee Road Plan.

(2) His Years of Credited Service for 1986 and each subsequent Plan Year determined under Sec. 3.7(b).

5.

If as of December 31, 1984, service prior to that date was not recognized under the Milwaukee Road Plan because the service was followed by a break in service, that service will not be recognized in determining Years of Credited Service or Years of Vesting Service under the Plan. Service recognized as of December 31, 1984 under the Milwaukee Road Plan shall not be disregarded due to a break in service occurring in 1985 or thereafter.

6.

A Milwaukee Road Plan Participant's Accrued Monthly Pension under Sec. 4.6 of the Plan shall not be less than his accrued benefit determined as of December 31, 1985 (or the date of his Termination of Employment, if earlier) under Sec. 1.28 of the Milwaukee Road Plan. For purposes of determining the benefit under said Sec. 1.28, his service and compensation after December 1985 (or the date of his Termination of Employment, if earlier) shall be disregarded.

7.

For purposes of determining a Milwaukee Road Plan Participant's Certified Earnings under Sec. 4.7 of the Plan:

(a) Total compensation paid for service as a participant in the Milwaukee Road Plan shall be included in Certified Earnings; provided, however, that Certified Earnings shall be limited or adjusted as provided in Sec. 4.7(a), (d), and (f) of the Plan.

(b) However, deferred wages shall be included in the years 1980 and 1981, as if paid, and when paid later in cash or in the form of preferred stock, will be excluded from Certified Earnings.

(c) Certified Earnings does not include any amount by which wages were reduced under the reduced wage agreements in effect during 1982, 1983, and 1984.

(d) Payments made under Exhibit K or in lieu thereof are excluded from Certified Earnings.

8.

If a Participant in the Milwaukee Road Plan had a Termination of Employment prior to the Acquisition Date, a death benefit will be paid under Plan Sec. 7.1 to a Qualified Spouse if the following requirements are met:

(a) His death occurred on or after August 23, 1984.

(b) He was entitled to a pension under the Milwaukee Road Plan, but his death occurred prior to his benefit commencement date.

(c) He elected to be covered by this option and the election was made in accordance with procedures established by the Company.

# APPENDIX D

## GRANDFATHERED ACCRUED BENEFIT

This Appendix D describes eligibility requirements for the Grandfathered Accrued Benefit, referenced in Sec. 4.6(c)(1). This Appendix D also describes the amount of the Grandfathered Accrued Benefit. Capitalized terms used herein that are not defined in this Appendix have the same meaning as defined in the main text of the Plan document.

1.

Eligibility for Grandfathered Benefit. A Participant shall be eligible to receive the Grandfathered Accrued Benefit described in Sec. D.2 only if requirements in (a), (b) and (c) below are all satisfied:

(a) The Participant must have been actively employed by the Company or an Affiliate (including Canadian Affiliates) on December 31, 2000. For the purposes of this subsection (a), a Participant who was disabled (as determined by the Company in its sole discretion) or on an approved leave of absence (including short term sick leave) on December 31, 2000, shall be treated as being actively employed on that date; and

(b) The Participant must have had at least a portion of a Year of Credited Service on December 31, 2000. Notwithstanding the foregoing, if a Participant was a Qualified Employee on December 31, 2000 and subsequently receives at least a portion of a Year of Credited Service, attributable to pre-January 1, 2001 service, due to the application of the special rules for transfers to Qualified Employee positions described in Sec. 3.7(c), the Participant will be treated as having satisfied the requirements of this subsection (b); and

(c) The Participant must have completed at least one Hour of Service on or after January 1, 2001.

2.

Amount of Grandfathered Accrued Benefit. Subject to the provisions of subsection (c) of this Sec. D.2, an eligible Participant's Grandfathered Accrued Benefit shall be equal to the sum of the "prior service portion" described in (a) below and the "future service portion" described in (b) below, determined as follows:

(a) Prior Service Portion Attributable to Service Prior to January 1, 2001:

The portion of a Grandfathered Participant's Accrued Monthly Pension that is attributable to pre-January 1, 2001 Years of Credited Service is equal to the amount in (1) below, minus the amounts in (2) and (3) below, multiplied by the factor described in (4) below.

(1) One and four tenths percent (1.40%) of the Participant's Final Average Monthly Earnings (determined as of December 31, 2000) multiplied by the number, not exceeding 30, of his or her Years of Credited Service attributable to service performed prior to January 1, 2001;

Minus

(2) One-half of one percent (0.5%) of the amount in (A) or (B), whichever is less, multiplied by the number, not exceeding 30, of the Participant's Years of Credited Service attributable to service performed prior to January 1, 2001:

(A) The Participant's Final Average Monthly Earnings (determined as of December 31, 2000).

(B) $2,755, which is one-twelfth (1/12) of the average (without indexing) of the annual wage bases under Tier I of the Railroad Retirement Act in effect for the 35-year period ending with the year 1999.

Minus

(3) One-half of one percent (0.5%) of the amount in (A) or (B), whichever is less, multiplied by the number, not exceeding 30, of the Participant's Years of Credited Service attributable to service performed prior to January 1, 2001:

(A) The Participant's Final Average Monthly Earnings determined as of December 31, 2000.

(B) $4,080, which is one-twelfth (1/12) of the average of the annual wage bases under Tier II of the Railroad Retirement Act for the five years ending with the year 1999.

However, if the Participant has a Termination of Employment after attaining age 55 but before attaining age 60, the one-half of one percent (0.5%) factor in this paragraph (3) shall be multiplied by the appropriate percentage from the following table based on the Participant's age when pension payments commence:

| Age When Pension Payments Commence | Percentage |
|---|---|
| 59 | 92% |
| 58 | 84% |
| 57 | 76% |
| 56 | 68% |
| 55 | 60% |

In applying said table, straight line interpolation shall be used.

Multiplied By

(3) A factor equal to the quotient (not less than one) obtained by dividing (i) the Participant's Final Average Monthly Earnings, determined as of the date of his or her Termination of Employment, by (ii) the Participant's Final Average Monthly Earnings, determined as of December 31, 2000.

For purposes of applying the provisions of this subsection (a) the reductions in paragraphs (2) and (3) apply without regard to whether the Participant is eligible for either a benefit payable under the Railroad Retirement Act or the Social Security Act.

(b) Future Service Portion Attributable to Service After December 31, 2000:

The portion of a Grandfathered Participant's Accrued Monthly Pension that is attributable to post-December 31, 2000 Years of Credited Service is equal to the sum of the amounts in (1) and (2) below, multiplied by the number in (3) below as follows:

(1) One half of one percent (0.5%) of the portion of the Participant's Final Average Monthly Earnings that does not exceed one-twelfth (1/12) of the average annual wage bases under Tier I of the Railroad Retirement Act,

Plus

(2) One and one quarter percent (1.25%) of the portion of the Participant's Final Average Monthly Earnings in excess of one-twelfth (1/12) of the average annual wage bases under Tier I of the Railroad Retirement Act, if any,

Multiplied By

(3) The number of the Participant's total Years of Credited Service, (not exceeding 30), minus the number of the Participant's pre-January 1, 2001 Years of Credited Service (not exceeding 30), recognized in subsection (a) above.

For purposes of this subsection (b), the "average annual wage bases under Tier I of the Railroad Retirement Act" is the average of the maximum annual wage bases under Tier I of the Railroad Retirement Act for the thirty-five years prior to the latest year in which the Participant ceases to be a Qualified Employee.

(c) Special Rules for Transfers Into Qualified Employee Status:

This subsection (c) applies to employees who transfer into Qualified Employee positions and qualify for Years of Credited Service attributable to service performed as a non-Qualified Employee prior to the transfer, under the circumstances described in Sec. 3.7(c). The following special rules apply to these individuals when determining the amount, if any, of their Grandfathered Accrued Benefit under Sec. D.2 of this Appendix.

(1) If, on December 31, 2000, a Participant has Years of Credited Service attributable to service performed prior to January 1, 2001, but is not a Qualified Employee on December 31, 2000, the wage bases for the Social Security Act, and Tier I and Tier II of the Railroad Retirement Act as in effect at the end of the Participant's pre-January 1, 2001 Years of Credited Service shall be used for purposes of determining the offsets in D.2(a)(2) and (3) (rather than using the years ending in the year 1999).

(2) If a Participant is not a Qualified Employee on December 31, 2000, because the Participant's wages and hours are covered by the provisions of a collective bargaining agreement as provided in Sec. 2.13(b), the Participant's Grandfathered Accrued Benefit, if any, attributable to pre- January 1, 2001 Years of Credited Service, described in Sec. D.2(a), shall be determined without using the factor described in Sec. D.2(a)(4), unless the Participant again becomes a Qualified Employee on or after January 1, 2001, in which case the factor described in D.2(a)(4) shall be used.

(3) If a Participant is a Qualified Employee on December 31, 2000 and subsequently completes the 60-month requirement under Sec. 3.7(c), thereby entitling the Participant to pre-January 1, 2001 Years of Credited Service, the Years of Credited Service attributable to service prior to January1, 2001 shall be included in the "Prior Service Portion" of his or her Grandfathered Accrued Benefit described in Sec. D.2(a). If a Participant, who was a Qualified Employee on December 31, 2000, subsequently becomes entitled to Years of Credited Service attributable to post-2000 service due to the application of Sec. 3.7(c), such post- December 31, 2000 Years of Credited Service shall be included in the "Future Service Portion" of his or her Grandfathered Accrued Benefit described in Sec. D.2(b).

**Exhibit 21.1**

***Significant Subsidiaries***

The following list sets out CPRL's significant subsidiaries, including the jurisdiction of incorporation.

| Significant subsidiary | Incorporated under the laws of |
|---|---|
| Canadian Pacific Railway Company | Canada |
| 6061338 Canada Inc. | Canada |
| 3939804 Canada Inc. | Canada |
| Cygnus Canadian Holding Company Limited | Canada |
| CP (US) Holding Corporation | Delaware |
| Cygnus Holding Corporation | Delaware |
| Soo Line Corporation | Minnesota |
| Soo Line Railroad Company | Minnesota |
| CPRL S.à.r.l. | Luxembourg |
| CPFS AG | Switzerland |

**Exhibit 22.1**

**List of Issuers and Guarantor Subsidiaries**

As of the date of the filing of the Form 10-K of which this exhibit is a part, Canadian Pacific Railway Limited, a corporation incorporated under the laws of Canada (the “Registrant”) has guaranteed each of the following securities issued by Canadian Pacific Railway Company, a corporation incorporated under the laws of Canada and a direct, wholly owned subsidiary of the Registrant (the “Issuer”) subject to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended:

- The Issuer’s 1.350% notes due December 2024;
- The Issuer’s 4.450% notes due March 2023;
- The Issuer’s 2.900% notes due February 2025;
- The Issuer’s 3.700% notes due February 2026;
- The Issuer’s 1.750% notes due December 2026;
- The Issuer’s 4.000% notes due June 2028;
- The Issuer’s 2.050% notes due March 2030;
- The Issuer’s 7.125% notes due October 2031;
- The Issuer’s 2.450% notes due December 2031;
- The Issuer’s 5.750% notes due March 2033;
- The Issuer’s 4.800% notes due September 2035;
- The Issuer’s 5.950% notes due May 2037;
- The Issuer’s 3.000% notes due December 2041;
- The Issuer’s 5.750% notes due January 2042;
- The Issuer’s 4.800% notes due August 2045;
- The Issuer’s 3.100% notes due December 2051;
- The Issuer’s 6.125% notes due September 2115;
- The Issuer’s Perpetual 4% Consolidated Debenture Stock denominated in U.S. dollars; and
- The Issuer’s Perpetual 4% Consolidated Debenture Stock denominated in British Pounds Sterling.

The above list does not include the following guaranteed securities issued under Canadian securities laws, as the following guaranteed securities are not subject to Section 13(a) or 15(d) of the Exchange Act:

- The Issuer’s 1.589% notes due November 2023;
- The Issuer’s 2.540% notes due February 2028.
- The Issuer’s 3.150% notes due March 2029;
- The Issuer’s 6.450% notes due November 2039; and
- The Issuer’s 3.050% notes due March 2050.

**Exhibit 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-13962, 333-127943, 333-140955, 333-183891, 333-183892, 333-183893, 333-188826, 333-188827 and 333-208647 on Form S-8, and Registration Statement No. 333-257215 on Form F-10 of our reports dated February 23, 2022, relating to the financial statements of Canadian Pacific Railway Limited (the "Company") and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K for the year ended December 31, 2021.

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Canada
February 23, 2022

**Exhibit 23.2**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (No. 333-13962, 333-127943, 333-140955, 333-183891, 333-183892, 333-183893, 333-188826, 333-188827 and 333-208647) and Form F-10 (333-257215) of Canadian Pacific Railway Limited of our report dated February 1, 2022 relating to the financial statements and the effectiveness of internal control over financial reporting of Kansas City Southern, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Kansas City, Missouri
February 23, 2022

**Exhibit 31.1**

**Certification by the Chief Executive Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.**
**Canadian Pacific Railway Limited**

I, Keith Creel, certify that:

1. I have reviewed this Annual Report on Form 10-K of Canadian Pacific Railway Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **February 23, 2022**

/s/ KEITH CREEL

Keith Creel

President and Chief Executive Officer

**Exhibit 31.2**

**Certification by the Chief Financial Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.**
**Canadian Pacific Railway Limited**

I, Nadeem Velani, certify that:

1. I have reviewed this Annual Report on Form 10-K of Canadian Pacific Railway Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **February 23, 2022**

/s/ NADEEM VELANI

Nadeem Velani

Executive Vice-President and Chief Financial Officer

**Exhibit 32.1**

**Certifications Furnished Pursuant to 18 U.S.C. Section 1350,**
**As Adopted Pursuant to**
**Section 906 of the Sarbanes-Oxley Act of 2002**

**Canadian Pacific Railway Limited**

In connection with the Annual Report of Canadian Pacific Railway Limited (the "Company") on Form 10-K for the period ended December 31, 2021 (the "Report") to which this certificate is an exhibit, I, Keith Creel, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **February 23, 2022**

/s/ KEITH CREEL
Keith Creel
President and Chief Executive Officer

**Exhibit 32.2**

**Certifications Furnished Pursuant to 18 U.S.C. Section 1350,**
**As Adopted Pursuant to**
**Section 906 of the Sarbanes-Oxley Act of 2002**

**Canadian Pacific Railway Limited**

In connection with the Annual Report of Canadian Pacific Railway Limited (the "Company") on Form 10-K for the period ended December 31, 2021 (the "Report") to which this certificate is an exhibit, I, Nadeem Velani, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **February 23, 2022**

/s/ NADEEM VELANI

Nadeem Velani

Executive Vice-President and Chief Financial Officer

**Exhibit 99.1**

**Kansas City Southern**

**Consolidated Financial Statements**

**As of December 31, 2021 and 2020 and for the years ended December 30, 2021 and 2020 and 2019**

**With Report of Independent Auditor**

**Kansas City Southern**

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All schedules are omitted because they are not applicable, are insignificant, or the required information is shown in the consolidated financial statements or notes thereto.

**Management's Report on Internal Control over Financial Reporting**

The management of Kansas City Southern is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. KCS's internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect material 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.

Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2021, based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework (2013)* (commonly referred to as the COSO Framework). Based on its evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2021, based on the criteria outlined in the COSO Framework.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2021, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which immediately follows this report.

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Kansas City Southern

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Kansas City Southern and its subsidiaries (the "Company") as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2021, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and

expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of 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.

***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Direct Costs that are Capitalized to Self-Constructed Property and Equipment (including Concession Assets)*

As described in Note 2 to the consolidated financial statements, the Company capitalizes costs for self-constructed additions and improvements to property, including direct labor and material, indirect costs, and interest during long-term construction projects. Expenditures that significantly increase asset values, productive capacity, efficiency, safety, or extend useful lives are capitalized. As disclosed by management, direct costs are charged to capital projects based on the work performed and the material used. Management has a process in place to determine which costs qualify for capitalization, which requires judgment. For the year-ended December 31, 2021, the Company capitalized costs of $489.4 million.

The principal considerations for our determination that performing procedures relating to direct costs that are capitalized to self-constructed property and equipment (including concession assets) is a critical audit matter are (i) the significance of direct costs and complexities in self-constructed property and equipment (including concession assets); (ii) the significant judgment by management in determining whether direct costs qualify for capitalization; and (iii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating evidence related to the capitalization of direct costs.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the capitalization of direct costs to self-constructed property and equipment (including concession assets). These procedures also included, among others, selecting a sample of direct costs and (i) obtaining evidence to support the accuracy of capitalized additions to self-constructed properties based on the work performed and the material used and (ii) evaluating whether these costs qualify for capitalization.

/s/ PricewaterhouseCoopers LLP
Kansas City, Missouri
February 1, 2022

We have served as the Company's auditor since 2017.

**Kansas City Southern and Subsidiaries**

**Consolidated Statements of Income**
**Years Ended December 31,**

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | (In millions, except share and per share amounts) | | |
| Revenues | $ 2,947.3 | $ 2,632.6 | $ 2,866.0 |
| Operating expenses: | | | |
| Compensation and benefits | 522.0 | 476.5 | 529.1 |
| Purchased services | 211.8 | 198.1 | 219.2 |
| Fuel | 313.6 | 219.8 | 340.4 |
| Equipment costs | 82.2 | 85.8 | 108.6 |
| Depreciation and amortization | 365.8 | 357.9 | 350.7 |
| Materials and other | 304.1 | 260.9 | 262.9 |
| Merger costs, net | 264.0 | — | — |
| Write-off of software development costs | — | 13.6 | — |
| Restructuring charges | — | 17.0 | 168.8 |
| Total operating expenses | 2,063.5 | 1,629.6 | 1,979.7 |
| Operating income | 883.8 | 1,003.0 | 886.3 |
| Equity in net earnings (losses) of affiliates | 16.7 | (1.4) | 1.0 |
| Interest expense | (156.0) | (150.9) | (115.9) |
| Debt retirement costs | — | — | (1.1) |
| Foreign exchange gain (loss) | (9.0) | (29.6) | 17.1 |
| Other income, net | 2.6 | 2.1 | 1.0 |
| Income before income taxes | 738.1 | 823.2 | 788.4 |
| Income tax expense | 211.1 | 204.1 | 247.6 |
| Net income | 527.0 | 619.1 | 540.8 |
| Less: Net income attributable to noncontrolling interest | 1.8 | 2.1 | 1.9 |
| Net income attributable to Kansas City Southern and subsidiaries | 525.2 | 617.0 | 538.9 |
| Preferred stock dividends | 0.2 | 0.2 | 0.2 |
| Net income available to common stockholder(s) | $ 525.0 | $ 616.8 | $ 538.7 |

**Kansas City Southern and Subsidiaries**

**Consolidated Statements of Comprehensive Income**

**Years Ended December 31,**

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | | (In millions) | |
| Net income | $ 527.0 | $ 619.1 | $ 540.8 |
| Other comprehensive income (loss): | | | |
| Unrealized gain (loss) on interest rate derivative instruments, net of tax of $4.6 million, $7.5 million and $(4.9) million | 17.2 | 28.1 | (18.9) |
| Reclassification adjustment from cash flow hedges included in net income, net of tax of $0.5 million, $0.5 million and less than $0.1 million | 2.0 | 1.9 | 0.2 |
| Foreign currency translation adjustments | (0.2) | (0.5) | 0.5 |
| Other comprehensive income (loss) | 19.0 | 29.5 | (18.2) |
| Comprehensive income | 546.0 | 648.6 | 522.6 |
| Less: comprehensive income attributable to noncontrolling interest | 1.8 | 2.1 | 1.9 |
| Comprehensive income attributable to Kansas City Southern and subsidiaries | $ 544.2 | $ 646.5 | $ 520.7 |

**Kansas City Southern and Subsidiaries**
**Consolidated Balance Sheets**
**December 31,**

| | 2021 | 2020 |
|---|---|---|
| | (In millions, except share and per share amounts) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 339.3 | $ 188.2 |
| Accounts receivable, net | 271.0 | 247.1 |
| Materials and supplies | 131.0 | 127.2 |
| Other current assets | 142.1 | 63.3 |
| Total current assets | 883.4 | 625.8 |
| Operating lease right-of-use assets | 69.6 | 70.9 |
| Investments | 48.3 | 42.6 |
| Property and equipment (including concession assets), net | 9,209.3 | 8,997.8 |
| Other assets | 217.5 | 226.9 |
| Total assets | $ 10,428.1 | $ 9,964.0 |
| **LIABILITIES AND EQUITY** | | |
| Current liabilities: | | |
| Long-term debt due within one year | $ 8.8 | $ 6.4 |
| Accounts payable and accrued liabilities | 479.7 | 470.0 |
| Total current liabilities | 488.5 | 476.4 |
| Long-term operating lease liabilities | 46.4 | 45.4 |
| Long-term debt | 3,768.8 | 3,764.4 |
| Deferred income taxes | 1,213.7 | 1,185.4 |
| Other noncurrent liabilities and deferred credits | 178.1 | 108.8 |
| Total liabilities | 5,695.5 | 5,580.4 |
| Stockholder(s)' equity: | | |
| $25 par, 4% noncumulative, preferred stock, 0 and 840,000 shares authorized, 0 and 649,736 shares issued; 0 and 215,199 shares outstanding at December 31, 2021 and 2020, respectively | — | 5.4 |
| $0.01 par, common stock, 100 and 400,000,000 shares authorized, 100 and 123,352,185 shares issued; 100 and 91,047,107 shares outstanding at December 31, 2021 and 2020, respectively | — | 0.9 |
| Additional paid-in capital | 860.6 | 830.9 |
| Retained earnings | 3,524.4 | 3,219.6 |
| Accumulated other comprehensive income | 19.4 | 0.4 |
| Total stockholder(s)' equity | 4,404.4 | 4,057.2 |
| Noncontrolling interest | 328.2 | 326.4 |
| Total equity | 4,732.6 | 4,383.6 |
| Total liabilities and equity | $ 10,428.1 | $ 9,964.0 |

**Kansas City Southern and Subsidiaries**
**Consolidated Statements of Cash Flows**
**Years Ended December 31,**

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | | (In millions) | |
| **Operating activities:** | | | |
| Net income | $ 527.0 | $ 619.1 | $ 540.8 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 365.8 | 357.9 | 350.7 |
| Deferred income taxes | 23.2 | 49.4 | 53.1 |
| Equity in net (earnings) losses of affiliates | (16.7) | 1.4 | (1.0) |
| Share-based compensation | 24.5 | 22.9 | 23.1 |
| (Gain) loss on foreign currency derivative instruments | 3.7 | 22.5 | (14.1) |
| Foreign exchange (gain) loss | 5.3 | 7.1 | (3.0) |
| Merger costs, net | 264.0 | — | — |
| Restructuring charges | — | 17.0 | 168.8 |
| Write-off of software development costs | — | 13.6 | — |
| Distributions from affiliates | 12.0 | 4.5 | 7.0 |
| Settlement of foreign currency derivative instruments | (1.9) | (20.0) | 11.9 |
| Cash payments for merger costs | (2,287.2) | — | — |
| Reimbursement of merger termination fees | 2,100.0 | — | — |
| Refundable Mexican value added tax | (53.6) | (43.2) | (58.7) |
| Settlement of treasury lock agreements | — | — | (25.8) |
| Changes in working capital items: | | | |
| Accounts receivable | (30.6) | 25.5 | 38.2 |
| Materials and supplies | 1.9 | 21.7 | 0.5 |
| Other current assets | (1.1) | (22.8) | 5.0 |
| Accounts payable and accrued liabilities | (9.9) | 6.0 | 3.1 |
| Other, net | 9.4 | (2.6) | 4.4 |
| Net cash provided by operating activities | 935.8 | 1,080.0 | 1,104.0 |
| **Investing activities:** | | | |
| Capital expenditures | (496.8) | (411.9) | (587.2) |
| Purchase or replacement of assets under operating leases | — | (78.2) | (39.0) |
| Property investments in MSLLC | (24.2) | (24.8) | (27.5) |
| Investments in and advances to affiliates | (7.8) | (7.4) | (36.7) |
| Proceeds from disposal of property | 6.4 | 12.9 | 22.1 |
| Other, net | (8.8) | (16.6) | (8.0) |
| Net cash used for investing activities | (531.2) | (526.0) | (676.3) |
| **Financing activities:** | | | |
| Proceeds from issuance of long-term debt | — | 545.6 | 847.5 |
| Repayment of long-term debt | (7.9) | (18.0) | (285.0) |
| Dividends paid | (188.0) | (152.3) | (144.3) |
| Shares repurchased | — | (888.9) | (792.5) |
| Debt issuance and retirement costs paid | — | (6.6) | (11.6) |
| Cash settlement of stock options | (75.2) | — | — |
| Proceeds from employee stock plans | 19.9 | 9.9 | 7.0 |
| Net cash used for financing activities | (251.2) | (510.3) | (378.9) |
| Effect of exchange rate changes on cash | (2.3) | (4.3) | (0.5) |
| Cash and cash equivalents: | | | |
| Net increase during each year | 151.1 | 39.4 | 48.3 |
| At beginning of year | 188.2 | 148.8 | 100.5 |
| At end of year | $ 339.3 | $ 188.2 | $ 148.8 |

Supplemental information continued on next page.

See accompanying notes to consolidated financial statements.

**Kansas City Southern and Subsidiaries**
**Consolidated Statements of Cash Flows**
**Years Ended December 31,**

Continued from previous page.

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | | (In millions) | |
| **Supplemental cash flow information** | | | |
| Non-cash investing and financing activities: | | | |
| Capital expenditures accrued but not yet paid at end of year | $ 14.1 | $ 21.5 | $ 23.2 |
| Other investing activities accrued but not yet paid at the end of the year | 35.6 | 31.9 | 31.2 |
| Finance lease obligations incurred | 11.5 | 0.8 | — |
| Non-cash asset acquisitions | 4.2 | 2.8 | 0.5 |
| Dividends accrued but not yet paid at end of year | — | 40.6 | 39.0 |
| Cash payments: | | | |
| Interest paid, net of amounts capitalized | $ 152.7 | $ 144.5 | $ 110.5 |
| Income tax payments, net of refunds | 173.0 | 182.3 | 170.5 |

See accompanying notes to consolidated financial statements.

## Kansas City Southern and Subsidiaries

## Consolidated Statements of Changes in Equity

**(In millions, except per share amounts)**

| | $25 Par Preferred Stock | $.01 Par Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Non-controlling Interest | Total |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2018** | $ 5.7 | $ 1.0 | $ 946.6 | $ 3,870.6 | $ (10.9) | $ 319.7 | $ 5,132.7 |
| Net income | | | | 538.9 | | 1.9 | 540.8 |
| Other comprehensive loss | | | | | (18.2) | | (18.2) |
| Contributions from noncontrolling interest | | | | | | 1.8 | 1.8 |
| Dividends on common stock ($1.48/share) | | | — | (146.5) | | | (146.5) |
| Dividends on $25 par preferred stock ($1.00/share) | | | | (0.2) | | | (0.2) |
| Share repurchases | (0.1) | — | (48.4) | (661.5) | | | (710.0) |
| Forward contract for accelerated share repurchases | | | (82.5) | | | | (82.5) |
| Options exercised and stock subscribed, net of shares withheld for employee taxes | | — | 4.1 | | | | 4.1 |
| Share-based compensation | | | 23.9 | | | | 23.9 |
| **Balance at December 31, 2019** | 5.6 | 1.0 | 843.7 | 3,601.3 | (29.1) | 323.4 | 4,745.9 |
| Net income | | | | 617.0 | | 2.1 | 619.1 |
| Other comprehensive income | | | | | 29.5 | | 29.5 |
| Contributions from noncontrolling interest | | | | | | 0.9 | 0.9 |
| Dividends on common stock ($1.64/share) | | | — | (153.7) | | | (153.7) |
| Dividends on $25 par preferred stock ($1.00/share) | | | | (0.2) | | | (0.2) |
| Share repurchases | (0.2) | (0.1) | (51.3) | (844.8) | | | (896.4) |
| Forward contract for accelerated share repurchases | | | (75.0) | | | | (75.0) |
| Settlement of forward contract for accelerated share repurchases | | | 82.5 | | | | 82.5 |
| Options exercised and stock subscribed, net of shares withheld for employee taxes | | — | 6.2 | | | | 6.2 |
| Share-based compensation | | | 24.8 | | | | 24.8 |
| **Balance at December 31, 2020** | 5.4 | 0.9 | 830.9 | 3,219.6 | 0.4 | 326.4 | 4,383.6 |
| Net income | | | | 525.2 | | 1.8 | 527.0 |
| Other comprehensive income | | | | | 19.0 | | 19.0 |
| Dividends on common stock ($1.62/share) | | | — | (147.3) | | | (147.3) |
| Dividends on $25 par preferred stock ($0.75/share) | | | | (0.2) | | | (0.2) |
| Share repurchases | — | — | (2.1) | (72.9) | | | (75.0) |
| Settlement of forward contract for accelerated share repurchases | | | 75.0 | | | | 75.0 |
| Options exercised and stock subscribed, net of shares withheld for employee taxes | | — | (0.2) | | | | (0.2) |
| Share-based compensation | | | 80.4 | | | | 80.4 |
| Replacement of equity share awards with liability awards | | | (54.5) | | | | (54.5) |
| Cash settlement of stock options | | | (75.2) | | | | (75.2) |
| Recapitalization of stock | (5.4) | (0.9) | 6.3 | | | | — |
| **Balance at December 31, 2021** | — | — | $ 860.6 | $ 3,524.4 | $ 19.4 | $ 328.2 | $ 4,732.6 |

See accompanying notes to consolidated financial statements.

**Kansas City Southern and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 1. Description of the Business**

Kansas City Southern ("KCS" or the "Company"), a Delaware corporation, is a holding company with principal operations in rail transportation.

The Company is engaged in the freight rail transportation business operating through a single coordinated rail network under one reportable business segment. The Company generates revenues and cash flows by providing its customers with freight delivery services both within its regions, and throughout North America through connections with other Class I rail carriers. KCS's customers conduct business in a number of different industries, including electric-generating utilities, chemical and petroleum products, paper and forest products, agriculture and mineral products, automotive products, and intermodal transportation.

The primary subsidiaries of the Company consist of the following:

- The Kansas City Southern Railway Company ("KCSR"), a wholly-owned consolidated subsidiary. KCSR is a U.S. Class I railroad that services the midwest and southeast regions of the United States;
- Kansas City Southern de México, S.A. de C.V. ("KCSM"), a wholly-owned consolidated subsidiary which operates under the rights granted by the concession acquired from the Mexican government in 1997 (the "Concession") as described below;
- Mexrail, Inc. ("Mexrail"), a wholly-owned consolidated subsidiary; which wholly owns The Texas Mexican Railway Company ("Tex-Mex");
- KCSM Servicios, S.A. de C.V. ("KCSM Servicios"), a wholly-owned consolidated subsidiary which provided employee services to KCSM. In July 2021, KCSM Servicios was merged into KCSM; and
- Meridian Speedway, LLC ("MSLLC"), a seventy percent-owned consolidated affiliate. MSLLC owns the former KCSR rail line between Meridian, Mississippi and Shreveport, Louisiana, which is the portion of the rail line between Dallas, Texas and Meridian known as the "Meridian Speedway".

Including equity investments in:

- Panama Canal Railway Company ("PCRC"), a fifty percent-owned unconsolidated affiliate which provides ocean to ocean freight and passenger services along the Panama Canal;
- TFCM, S. de R.L. de C.V. ("TCM"), a forty-five percent-owned unconsolidated affiliate that operates a bulk liquid terminal in San Luis Potosí, Mexico;
- Ferrocarril y Terminal del Valle de México, S.A. de C.V. ("FTVM"), a twenty-five percent-owned unconsolidated affiliate that provides railroad services as well as ancillary services in the greater Mexico City area; and
- PTC-220, LLC ("PTC-220"), a thirteen percent-owned unconsolidated affiliate that holds the licenses to large blocks of radio spectrum and other assets for positive train control.

*The KCSM Concession.* KCSM holds a concession (the "Concession") from the Mexican government until June 2047 (exclusive service through 2027, subject to certain trackage and haulage rights granted to other concessionaires), which is renewable under certain conditions for additional periods of up to 50 years under the Concession. The Concession is to provide freight transportation services over north-east rail lines which are a primary commercial corridor of the Mexican railroad system. KCSM has the right to use, but does not own, all track and buildings that are necessary for the rail lines' operation.

KCSM is required to pay the Mexican government an annual concession duty equal to 1.25% of gross revenues during the Concession period.

*Merger Agreement.* On December 14, 2021, Canadian Pacific Railway Limited ("CP"), a Canadian corporation, acquired the outstanding common and preferred stock of KCS. Therefore, earnings per share data is not presented because the Company does not have any outstanding or issued publicly traded stock. The merger is further discussed in Note 3, Merger Agreement.

*Employees and Labor Relations.* KCSR participates in industry-wide multi-employer bargaining as a member of the National Carriers' Conference Committee, as well as local bargaining for agreements that are limited to KCSR's property. Approximately 72% of KCSR employees are covered by collective bargaining agreements.

During July 2021, KCSM Servicios merged into KCSM as part of Mexico outsourcing reform, resulting in KCSM Servicios employees becoming employees of KCSM. KCSM Servicios union employees were covered by one labor agreement, which was signed on April 16, 2012, between KCSM Servicios and the Sindicato de Trabajadores Ferrocarrileros de la República Mexicana ("Mexican Railroad Union"). Upon the merger between KCSM Servicios and KCSM, these union employees continue to be covered under this existing labor agreement, which remains in effect during the period of the Concession, for the purpose of regulating the relationship between the parties. Approximately 77% of KCSM employees are covered by this labor agreement.

Union labor negotiations have not historically resulted in any strike, boycott, or other disruption in the Company's business operations.

**Note 2. Significant Accounting Policies**

*Principles of Consolidation.* The accompanying consolidated financial statements are presented using the accrual basis of accounting and include the Company and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation.

The equity method of accounting is used for all entities in which the Company or its subsidiaries have significant influence, but not a controlling interest. The Company evaluates less-than-majority-owned investments for consolidation pursuant to consolidation and variable interest entity guidance. The Company does not have any less-than-majority-owned investments requiring consolidation.

*Use of Estimates.* The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include those related to the recoverability and useful lives of assets and income taxes. Changes in facts and circumstances may result in revised estimates and actual results could differ from those estimates.

*Revenue Recognition.* The primary performance obligation for the Company is to move customers' freight from an origin to a destination. A performance obligation is created when a customer under a transportation contract or public tariff submits a bill of lading for the transport of goods. The Company recognizes revenue proportionally as a shipment moves from origin to destination, using the distance shipped to measure progress, as the customer simultaneously receives and consumes the benefit over time. Related expenses are recognized as incurred. Revenue associated with in-transit shipments at period end is

recognized based on the distance shipped as of the balance sheet date. Payment is received at the time or shortly after the performance obligation is satisfied.

The transaction price is generally in the form of a fixed fee determined at the inception of the transportation contract or the inception of the bill of lading. Certain customer agreements have variable consideration that are based on milestone achievements in the form of rebates, discounts or incentives. The Company makes judgments to determine whether the variable consideration is probable of occurring and should be included in the estimated transaction price at the beginning of the period to apply a more consistent rate throughout the year based on an analysis of historical experience with the customer, forecasted shipments and other economic indicators. The Company adjusts the estimate on a quarterly basis.

Other revenues, including switching, storage, and demurrage are distinct services and are recognized as services are performed or as contractual obligations are fulfilled. The consideration for other revenue is allocated between the separate services based upon the stand-alone transaction price.

*Foreign Exchange Gain (Loss).* For financial reporting purposes, foreign subsidiaries maintain records in U.S. dollars, which is the functional currency. The dollar is the currency that reflects the economic substance of the underlying events and circumstances relevant to the entity. Monetary assets and liabilities denominated in Mexican pesos ("pesos" or "Ps.") are remeasured into U.S. dollars ("dollars") using current exchange rates. The difference between the exchange rate on the date of the transaction and the exchange rate on the settlement date, or balance sheet date if not settled, is included in the income statement as foreign exchange gain or loss.

*Cash Equivalents.* Short-term liquid investments with an initial maturity of three months or less are classified as cash and cash equivalents.

*Accounts Receivable, net.* Accounts receivable are net of an allowance for uncollectible accounts as determined by historical experience and adjusted for economic uncertainties, known trends, and reasonable supportable forecasts. Accounts are charged to the allowance when a customer enters bankruptcy, when an account has been transferred to a collection agent or submitted for legal action, or when a customer is significantly past due and all available means of collection have been exhausted. At December 31, 2021 and 2020, the allowance for estimated credit losses was $12.1 million and $7.8 million, respectively. For the years ended December 31, 2021, 2020 and 2019, bad debt expense was $3.3 million, $1.5 million and $0.4 million, respectively.

*Materials and Supplies.* Materials and supplies consisting of diesel fuel, items to be used in the maintenance of rolling stock and items to be used in the maintenance or construction of road property are valued at the lower of average cost or net realizable value.

*Derivative Instruments.* Derivatives are measured at fair value and recorded on the balance sheet as either assets or liabilities. Changes in the fair value of derivatives are recorded either through current earnings or as other comprehensive income, depending on hedge designation. Gains and losses on derivative instruments classified as cash flow hedges are reported in other comprehensive income and are reclassified into earnings in the periods in which earnings are impacted by the variability of the cash flow of the hedged item.

*Property and Equipment (including Concession Assets).* KCS capitalizes costs for self-constructed additions and improvements to property including direct labor and material, indirect costs, and interest during long-term construction projects. For purchased assets, all costs necessary to make the asset ready for its intended use are capitalized. Expenditures that significantly increase asset values, productive capacity, efficiency, safety or extend useful lives are capitalized. Repair and maintenance costs are expensed as incurred. The Company has a process to determine which costs qualify for capitalization, which requires judgment.

KCS capitalizes certain costs incurred with developing or obtaining internal-use software. Costs incurred during the preliminary project and post-implementation stage, as well as maintenance and training costs are expensed as incurred.

Property and equipment are carried at cost and are depreciated primarily on the group method of depreciation, which the Company believes closely approximates a straight line basis over the estimated useful lives of the assets measured in years. The group method of depreciation applies a composite rate to classes of similar assets rather than to individual assets. Composite depreciation rates are based upon the Company's estimates of the expected average useful lives of assets as well as expected net salvage value at the end of their useful lives. In developing these estimates, the Company utilizes periodic depreciation studies performed by an independent engineering firm. Depreciation rate studies are performed at least every three years for all asset classes. The Company completed depreciation studies for KCSR in 2021 and KCSM in 2020. The impacts of the studies were immaterial to the consolidated financial results for all periods.

Under the group method of depreciation, the cost of railroad property and equipment (net of salvage or sales proceeds) retired or replaced in the normal course of business is charged to accumulated depreciation with no gain or loss recognized. Gains or losses on dispositions of land or non-group property and abnormal retirements of railroad property are recognized through income. A retirement of railroad property would be considered abnormal if the cause of the retirement is unusual in nature, is significant in amount, and varies significantly from the retirement profile identified through the depreciation studies.

Costs incurred by the Company to acquire the Concession rights and related assets, as well as subsequent improvements to the Concession assets, are capitalized and amortized 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.

*Impairment of Long-Lived Assets.* Long-lived assets, including property and equipment, operating lease right-of-use assets and intangible assets with finite lives are reviewed for impairment and written down to fair value when events or circumstances indicate that the carrying amount of a long-lived asset or asset group may not be recoverable. If impairment indicators are present and the estimated future undiscounted cash flows are less than the carrying value of the long-lived assets, the carrying value would be reduced to the estimated fair value. Future cash flow estimates for an impairment review would be based on the lowest level of identifiable cash flows, which are the Company's U.S. and Mexican operations. During the year ended December 31, 2020, $13.6 million of expense was recognized related to costs previously capitalized for the development of internal-use software. The development of the software was cancelled prior to completion and had no further use. Other than the abnormal impairment related to the implementation of Precision Scheduled Railroading ("PSR") for the year ended 2020, and the aforementioned software impairment, management did not identify any indicators of impairment for the years ended December 31, 2021 and 2020.

*Leases.* The Company leases transportation equipment, as well as office and other operating facilities, under various finance and operating leases. Operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the implicit rate is not readily determinable in most of the Company's lease agreements, the Company uses its estimated secured incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Lease expense is recognized on a straight-line basis over the lease term.

The Company determines if an arrangement is a lease or contains a lease at inception. The Company's leases have remaining lease terms of approximately 1 year to 35 years, which may include the option to extend the lease when it is reasonably certain the Company will exercise that option. The Company does not separately identify lease and nonlease components (i.e. maintenance costs) except for fleet vehicles and real estate. The Company does not have lease agreements

with residual value guarantees, sale leaseback terms or material restrictive covenants. Additionally, short-term leases and leases with variable lease costs are immaterial, and the Company does not have any sublease arrangements.

*Goodwill.* Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in business combinations. As of December 31, 2021 and 2020, the goodwill balance was $13.2 million, which is included in other assets in the consolidated balance sheets. Goodwill is not amortized, but is reviewed at least annually, or more frequently as indicators warrant, for impairment. An impairment loss would be recognized to the extent that the carrying amount exceeds the reporting units' fair values. The Company performed its annual impairment review for goodwill during the fourth quarter of 2021 and 2020, and concluded there was no impairment.

*Investments and Impairment.* The Company reviews equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable in accordance with generally accepted accounting principles. This determination requires significant judgment. In making this judgment, the Company considers available quantitative and qualitative evidence in evaluating potential impairment of these investments. If it is determined that an indicator of impairment exists, the Company assesses whether the carrying value exceeds the fair value of the asset. If the carrying value of the investment exceeds its fair value, the Company will evaluate, among other factors, general market conditions, the duration and extent to which the carrying value is greater than the fair value, and KCS's intent and ability to hold, or plans to sell, the investment. The Company also considers specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, and operational and financing cash flow factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new carrying basis in the investment is established. No impairment charges were recognized during the years ended December 31, 2021 and 2020.

*Fair Value of Financial Instruments.* Non-financial assets and liabilities are recognized at fair value on a nonrecurring basis. These assets and liabilities are measured at fair value on an ongoing basis but are subject to recognition in the financial statements only in certain circumstances. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company determines the fair values of its financial instruments based on the fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy is broken down into three levels based upon the observability of inputs. Fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value in its entirety requires judgment and considers factors specific to the asset or liability.

*Environmental Liabilities.* The Company recognizes liabilities for remediation and restoration costs when the Company's obligation is probable and the costs can be reasonably estimated. Costs of future expenditures for environmental remediation and restoration are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable. Costs of ongoing compliance activities related to current operations are expensed as incurred.

*Personal Injury Claims*. Personal injury claims in excess of self-insurance levels are insured up to certain coverage amounts, depending on the type of claim and year of occurrence. The Company's personal injury liability is based on actuarial studies performed on an undiscounted basis by an independent third party actuarial firm and reviewed by management. The liability is based on claims filed and an estimate of claims incurred but not yet reported. Adjustments to the liability are reflected as operating expenses in the period in which the adjustments are known. Legal fees related to personal injury claims are recognized in operating expense in the period incurred.

*Health and Welfare and Postemployment Benefits*. The Company provides certain medical, life and other postemployment benefits to certain active employees and retirees. The Company uses actuaries to assist management in measuring the benefit obligation and cost based on the current plan provisions, employee demographics, and assumptions about financial and demographic factors affecting the probability, timing and amount of expected future benefit payments. Significant assumptions include the discount rate, rate of increase in compensation levels, and the health care cost trend rate. Actuarial gains and losses determined at the measurement date (December 31) are recognized immediately in the consolidated statements of income.

*Share-Based Compensation.* The Company accounted for all share-based compensation in accordance with fair value recognition provisions. Under this method, compensation expense was measured at grant date fair value and recognized over the requisite service period in which the award was earned. Forfeitures were recognized as they occurred. The Company had historically issued treasury stock to settle share-based awards.

*Income Taxes.* Deferred income tax effects of transactions reported in different periods for financial reporting and income tax return purposes are recognized under the asset and liability method of accounting for income taxes. This method gives consideration to the future tax consequences of the deferred income tax items and immediately recognizes changes in income tax laws in the year of enactment.

The Company has recognized a deferred tax asset, net of a valuation allowance, for net operating loss, capital loss and tax credit carryovers. The Company projects sufficient future taxable income to realize the deferred tax asset recorded less the valuation allowance. These projections take into consideration assumptions about future income, future capital expenditures and inflation rates. If assumptions or actual conditions change, the deferred tax asset, net of the valuation allowance, will be adjusted to properly reflect the expected tax benefit.

**Note 3. Merger Agreement**

On March 21, 2021, KCS entered into a merger agreement with CP, under which CP agreed to acquire KCS in a stock and cash transaction valued at $275 per common share. On May 6, 2021, the U.S. Surface Transportation Board ("STB") unanimously approved the use of a voting trust for CP's proposed merger with KCS. The voting trust permits KCS to maintain its independence and protect its financial health during the STB's review of the ultimate merger as well as enable KCS stockholders to receive the value of their shares, even if the STB ultimately rejected the merger.

On April 20, 2021, KCS received an unsolicited merger proposal valued at $325 per common share from Canadian National Railway Company ("CN"), a Canadian corporation, which, after negotiation with and a revised proposal from CN, was determined on May 13, 2021 by the Company's board of directors to be a superior proposal as defined by the CP merger agreement. On May 21, 2021, KCS terminated the CP merger agreement and paid CP a merger termination fee of $700.0 million, which was recognized in merger costs, net within the consolidated statements of income.

On May 21, 2021, KCS and CN entered into a merger agreement (the "CN merger agreement"), and a U.S. affiliate of CN paid KCS $700.0 million as reimbursement for the termination fee paid to CP. KCS was obligated to repay the termination

fee to CN under certain circumstances, including but not limited to, if KCS were to terminate the CN merger agreement to accept a superior proposal as defined by the CN merger agreement. As a result, the $700.0 million reimbursement from CN was recognized in accounts payable and accrued liabilities within the consolidated balance sheet. In addition, KCS was obligated to pay CN a termination fee of $700.0 million to terminate the CN merger agreement.

On August 10, 2021, KCS received an unsolicited merger proposal from CP to acquire KCS in a stock and cash transaction valued at $300 per common share. On August 12, 2021, the Company's board of directors determined that the CP proposal did not constitute a superior proposal as defined by the CN merger agreement.

On August 31, 2021, the STB unanimously rejected the use of a voting trust in the proposed merger between CN and KCS. Shortly thereafter, CP reaffirmed its August 10th proposal to acquire KCS for a then estimated value of $300 per common share, which, after negotiation with CP, the Company's board of directors determined to be a superior proposal as defined by the CN merger agreement. On September 15, 2021, KCS terminated the CN merger agreement and paid CN $1,400.0 million, which included (1) a $700.0 million merger termination fee recognized in merger costs, net within the consolidated statements of income and (2) reimbursement of the CN payment for the CP termination fee of $700.0 million recognized as a reduction to accounts payable and accrued liabilities within the consolidated balance sheet.

On September 15, 2021, KCS and CP entered into a merger agreement (the "Merger Agreement") and CP paid KCS $1,400.0 million, which included (1) $700.0 million for reimbursement of the CP termination fee recognized as a reduction of merger costs and (2) $700.0 million for reimbursement of the termination fee paid to CN. KCS was obligated to repay the $700.0 million CN termination fee to CP under certain circumstances, including but not limited to, if KCS were to terminate the Merger Agreement to accept a superior proposal as defined by the Merger Agreement. As a result, the $700.0 million reimbursement from CP was recognized in accounts payable and accrued liabilities within the consolidated balance sheet. In addition, KCS was required to pay CP a termination fee of $700.0 million to terminate the Merger Agreement.

On September 30, 2021, in response to the revised merger notice filed by CP in connection with the Merger Agreement, the STB reconfirmed its prior decision approving the use of the voting trust in the Merger Agreement.

On December 8, 2021, CP's stockholders voted to approve the issuance of the CP common shares to KCS stockholders in connection with the proposed Merger Agreement. On December 10, 2021, KCS's stockholders voted to approve the merger between KCS and CP. As a result, KCS had no further obligations to repay the $700.0 million CN termination fee to CP and eliminated the termination fee liability and recognized the termination fee reimbursement into income, reducing merger costs by $700.0 million. For the year ended December 31, 2021, KCS incurred $1,400.0 million of merger termination fees, completely offset by the recovery of $1,400.0 million of merger termination fees recognized in merger costs, net within the consolidated statements of income.

On December 14, 2021, CP acquired the outstanding common and preferred stock of KCS. Each share of common stock, par value $0.01 per share, of KCS that was outstanding immediately prior to the merger was converted into the right to receive (1) 2.884 common shares of CP and (2) $90 in cash (together, the "Merger Consideration"), and each share of preferred stock, par value $25 per share, that was outstanding immediately prior to the merger was converted into the right to receive $37.50 in cash. The Merger Consideration value received by KCS stockholders was $301.20 per KCS common share. KCS stockholders were expected to own approximately 28% of CP's outstanding common shares at the date of the acquisition.

The merger transaction was completed through a series of mergers as outlined in the Merger Agreement. These mergers ultimately resulted in KCS being merged with and into Cygnus Merger Sub 1 Corporation ("Surviving Merger Sub"), a wholly owned subsidiary of CP, with Surviving Merger Sub continuing as the surviving entity. Pursuant to the Merger Agreement, Surviving Merger Sub was renamed "Kansas City Southern" and as successor company of KCS, continued to own the assets of KCS. Immediately following the consummation of the mergers, CP caused the contribution, directly and indirectly, of all of the outstanding shares of capital stock of Surviving Merger Sub, as successor to KCS, to be deposited into an independent,

irrevocable voting trust (the "Voting Trust") under a voting trust agreement (the "Voting Trust Agreement") approved by the STB, pending receipt of the final and non-appealable approval or exemption by the STB pursuant to 49 U.S.C. § 11323 et seq., of the transactions contemplated by the Merger Agreement ("STB Final Approval"). The Voting Trust prevents CP, or any affiliate of CP, from controlling or having the power to control KCS prior to STB Final Approval. Following receipt of STB Final Approval and approval from other applicable regulatory authorities, the Voting Trust will be terminated and CP will acquire control over KCS's railroad operations.

On December 14, 2021, the merger of KCS and Surviving Merger Sub was accounted for as a recapitalization of KCS's equity. Upon STB Final Approval, the transaction will be accounted for as a business combination using the acquisition method of accounting. See more details regarding the recapitalization in Note 14, Stockholder(s)' Equity.

For the year ended December 31, 2021, KCS reported $264.0 million of merger-related costs. These merger costs primarily related to bankers' fees, compensation and benefits costs, and legal fees and were recognized in merger costs, net within the consolidated statements of income.

On September 30, 2021, KCS entered into a letter waiver with lenders to the KCS revolving credit facility to waive the events of default that would occur under the KCS revolving credit facility as a result of the change of control that would arise upon consummation of the voting trust transaction and as a result of CP obtaining control of KCS following final approval of the transaction by the STB. The foregoing description of the letter waiver is qualified in its entirety by the full text of the letter waiver, incorporated by reference as Exhibit 10.13.1. See more details regarding the Company's debt in Note 12, Long-Term Debt.

On December 14, 2021, in connection with the closing of the merger, KCS, Surviving Merger Sub and U.S. Bank National Association, as trustee, entered into supplemental indentures (the "Supplemental Indentures") to (i) the Indenture, dated as of April 29, 2019, (ii) the Indenture, dated as of October 29, 2013, (iii) the Indenture, dated as of July 27, 2015 and (iv) the Indenture, dated as of December 9, 2015 (each, as amended, supplemented or modified from time to time, an "Indenture"), in each case pursuant to which the Surviving Merger Sub assumed KCS's rights and obligations under each Indenture and the debt securities outstanding thereunder. In addition, KCS, Surviving Merger Sub and Bank of America, N.A., as administrative agent (the "Agent"), entered into an assumption agreement and joinder (the "Assumption Agreement") pursuant to which the Surviving Merger Sub assumed KCS's rights and obligations under that certain Credit Agreement, dated as of March 8, 2019, among KCS, the Agent and the other parties from time to time party thereto (as amended, supplemented or modified from time to time). The foregoing descriptions of the Supplemental Indentures and Assumption Agreement are not complete and are qualified in their entirety by reference to such Supplemental Indentures or Assumption Agreement, as applicable, copies of which are incorporated by reference as Exhibits 4.2.2, 4.4.3, 4.5.4, 4.6.15, and 10.13.2.

**Note 4. Restructuring Charges**

*COVID-19*. In March 2020, the World Health Organization categorized Coronavirus Disease 2019 ("COVID-19") as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The U.S. and Mexico governments have deemed rail transportation as "critical infrastructure" providing essential services during this global emergency. As a provider of critical infrastructure, Kansas City Southern has an obligation to keep employees working and freight moving. KCS remains focused on protecting the health and well-being of its employees and the communities in which it operates while assuring the continuity of its business operations.

On March 27, 2020, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") which included modifications to the limitation on business interest expense and net operating loss provisions, and provided a payment delay of employer payroll taxes during 2020 after the date of enactment. Payments of approximately $11.0 million of employer payroll taxes otherwise due in 2020, were delayed with 50% due by December 31, 2021 and the remaining 50% by December 31, 2022. The CARES Act did not have a material impact on the Company's consolidated financial statements.

As revenues declined in the second quarter of 2020 due to COVID-19, the Company responded quickly and implemented a variety of cost-saving measures and accelerated PSR initiatives by further consolidating trains, which increased train length and reduced crew costs. In June of 2020, the Company offered a voluntary separation program, which resulted in a restructuring charge of $9.7 million for the year ended December 31, 2020, consisting of severance and benefit costs that will be paid out in either lump-sum payments or incrementally over a six to twelve-month period. Approximately 6% of management employees were irrevocably accepted into the voluntary separation program.

*PSR.* During 2019, the Company began implementing principles of PSR, which focus on providing reliable customer service, facilitating growth, improving asset utilization, and improving the cost profile of the Company. As a result of the PSR initiatives in 2019, management approved four separate restructuring plans that totaled $168.8 million. The restructuring plans were substantially completed in 2019.

During 2020, the Company recognized approximately $7.3 million in additional restructuring charges related to PSR. During the first quarter of 2020, the Company purchased 91 locomotives for $78.2 million that were part of two existing leases. Of the 91 locomotives, 13 were impaired during the fourth quarter of 2019. The purchase of the impaired lease locomotives resulted in $6.0 million of make-whole payments recognized as incremental restructuring charges in the first quarter of 2020. During the second quarter of 2020, the Company recognized approximately $1.3 million of restructuring charges from the disposal of held for sale equipment.

Expenses related to PSR initiatives and the voluntary separation program are shown in the following table (*in millions*):

| | Years ended | |
|---|---|---|
| | December 31, 2020 | December 31, 2019 |
| Restructuring charges: | | |
| Asset impairments | $ 7.3 | $ 157.8 |
| Workforce reduction | 9.7 | 7.0 |
| Contract restructuring | — | 4.0 |
| Total restructuring charges | $ 17.0 | $ 168.8 |

*Asset Impairments.* During 2019, the Company committed to plans to dispose of certain locomotives and freight cars to increase operational fluidity, reduce maintenance expense, and improve labor and fuel efficiency. Accordingly, the Company performed an impairment analysis to adjust the carrying amount of each asset to the lower of its depreciated book value or its estimated fair value, less costs to dispose, and stopped recognizing depreciation expense. Additionally, the Company wrote-off parts inventory associated with the locomotive and freight car models that were disposed. During 2020, the purchase of impaired lease locomotives resulted in make-whole payments recognized as incremental restructuring charges.

*Workforce Reduction.* The Company recognized severance costs associated with the voluntary separation program and PSR initiatives which focused on improving the cost profile of the Company.

*Contract Restructuring.* The Company terminated certain third-party vendor contracts in order to drive operational efficiencies, which resulted in contract termination penalties.

**Note 5. Leases**

| Leases | Classification | December 31, 2021 | December 31, 2020 |
|---|---|---|---|
| **Assets** | | *(in millions)* | |
| Operating | Operating lease right-of-use assets | $ 69.6 | $ 70.9 |
| Finance | Property and equipment (including Concession assets), net | 13.9 | 5.7 |
| Total leased assets | | $ 83.5 | $ 76.6 |
| **Liabilities** | | | |
| Current | | | |
| Operating | Accounts payable and accrued liabilities | $ 22.3 | $ 24.6 |
| Finance | Long-term debt due within one year | 4.5 | 2.3 |
| Noncurrent | | | |
| Operating | Long-term operating lease liabilities | 46.4 | 45.4 |
| Finance | Long-term debt | 10.9 | 5.2 |
| Total lease liabilities | | $ 84.1 | $ 77.5 |

| | | Years ended | |
|---|---|---|---|
| **Lease Cost** | **Classification** | **December 31, 2021** | **December 31, 2020** |
| Operating lease cost: | | *(in millions)* | |
| | Equipment costs | $ 19.6 | $ 23.3 |
| | Materials and other | 5.8 | 5.0 |
| Finance lease cost: | | | |
| Amortization of finance lease assets | Depreciation and amortization | 1.7 | 1.6 |
| Interest on lease liabilities | Interest expense | 0.6 | 0.9 |
| Total lease cost | | $ 27.7 | $ 30.8 |

| | Years ended | |
|---|---|---|
| **Cash Flow Information** | **December 31, 2021** | **December 31, 2020** |
| | *(in millions)* | |
| Cash paid for operating leases included in operating activities | $ 29.4 | $ 45.6 |
| Cash paid for finance leases included in operating activities | 0.8 | 0.9 |
| Cash paid for finance leases included in financing activities | 3.5 | 2.0 |
| Right-of-use assets obtained in exchange for operating lease liabilities | 32.9 | 18.4 |
| Right-of-use assets obtained in exchange for financing lease liabilities | 11.5 | 0.8 |

| Lease Term and Discount Rate | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Weighted-average remaining lease term *(years)* | | |
| Operating leases | 4.2 | 3.7 |
| Finance leases | 3.8 | 3.1 |
| Weighted-average discount rate | | |
| Operating leases | 2.2 % | 3.1 % |
| Finance leases | 5.1 % | 11.4 % |

**Remaining Maturities of Lease Liabilities**

| Year Ending December 31 (*in millions*), | Operating Leases | Finance Leases |
|---|---|---|
| 2022 | $ 23.4 | $ 5.1 |
| 2023 | 17.3 | 4.9 |
| 2024 | 13.2 | 2.5 |
| 2025 | 6.7 | 2.3 |
| 2026 | 5.0 | 1.7 |
| Thereafter | 6.4 | — |
| Total lease payments | 72.0 | 16.5 |
| Less imputed interest | 3.3 | 1.1 |
| Total | $ 68.7 | $ 15.4 |

**Note 6. Revenue**

***Disaggregation of Revenue***

The following table presents revenues disaggregated by the major commodity groups as well as the product types included within the major commodity groups *(in millions)*. The Company believes disaggregation by product type best depicts how cash flows are affected by economic factors. See Note 18, Geographic Information in the consolidated financial statements for revenues by geographical area.

| | Years ended December 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| *Chemical & Petroleum* | | | |
| Chemicals | $ 263.5 | $ 236.7 | $ 246.9 |
| Petroleum | 442.1 | 375.0 | 341.8 |
| Plastics | 146.2 | 152.1 | 148.5 |
| Total | 851.8 | 763.8 | 737.2 |
| *Industrial & Consumer Products* | | | |
| Forest Products | 261.8 | 247.8 | 261.4 |
| Metals & Scrap | 204.9 | 188.4 | 232.9 |
| Other | 122.9 | 101.5 | 116.1 |
| Total | 589.6 | 537.7 | 610.4 |
| *Agriculture & Minerals* | | | |
| Grain | 358.6 | 299.6 | 298.4 |
| Food Products | 152.3 | 154.6 | 149.4 |
| Ores & Minerals | 25.9 | 21.8 | 25.0 |
| Stone, Clay & Glass | 34.9 | 29.4 | 33.5 |
| Total | 571.7 | 505.4 | 506.3 |
| *Energy* | | | |
| Utility Coal | 148.5 | 105.6 | 126.9 |
| Coal & Petroleum Coke | 47.3 | 41.8 | 43.2 |
| Frac Sand | 15.6 | 11.3 | 27.4 |
| Crude Oil | 43.4 | 36.3 | 48.7 |
| Total | 254.8 | 195.0 | 246.2 |
| *Intermodal* | 346.3 | 319.1 | 370.2 |
| *Automotive* | 183.2 | 172.7 | 255.6 |
| Total Freight Revenues | 2,797.4 | 2,493.7 | 2,725.9 |
| *Other Revenue* | 149.9 | 138.9 | 140.1 |
| Total Revenues | $ 2,947.3 | $ 2,632.6 | $ 2,866.0 |

***Major customers***

No individual customer makes up greater than 10% of total consolidated revenues.

***Contract Balances***

The amount of revenue recognized in 2021 from performance obligations partially satisfied in the previous year was $28.0 million. The performance obligations that were unsatisfied or partially satisfied as of December 31, 2021, were $17.9 million, which represents in-transit shipments that are fully satisfied the following month.

A receivable is any unconditional right to consideration, and is recognized as shipments have been completed and the relating performance obligation has been fully satisfied. At December 31, 2021 and 2020, the accounts receivable, net balance was $271.0 million and $247.1 million, respectively. Contract assets represent a conditional right to consideration in exchange for goods or services. The Company did not have any contract assets at December 31, 2021 and 2020.

Contract liabilities represent consideration received in advance from customers, and are recognized as revenue over time as the relating performance obligation is satisfied. The amount of revenue recognized in 2021 that was included in the opening contract liability balance was $29.7 million. The Company has recognized contract liabilities within the accounts payable and accrued liabilities and other long-term liabilities financial statement captions on the balance sheet.

The following tables summarize the changes in contract liabilities *(in millions)*:

| ***Contract liabilities*** | **Years ended December 31,** | |
|---|---|---|
| | **2021** | **2020** |
| Beginning balance | $ 29.9 | $ 30.5 |
| Revenue recognized that was included in the contract liability balance at the beginning of the period | (29.7) | (30.2) |
| Increases due to consideration received, excluding amounts recognized as revenue during the period | 68.2 | 29.6 |
| Ending balance | $ 68.4 | $ 29.9 |

**Note 7. Property and Equipment (including Concession Assets)**

The following tables list the major categories of property and equipment, including Concession assets, as well as the weighted-average composite depreciation rate for each category (*in millions*):

| **As of December 31, 2021** | **Cost** | **Accumulated Depreciation** | **Net Book Value** | **Depreciation Rates for 2021** |
|---|---|---|---|---|
| Land | $ 243.0 | $ — | $ 243.0 | N/A |
| Concession land rights | 141.1 | (32.2) | 108.9 | 1.0 % |
| Rail and other track material | 2,240.6 | (417.7) | 1,822.9 | 1.8-3.6% |
| Ties | 1,790.0 | (435.6) | 1,354.4 | 1.4-5.4% |
| Grading | 1,006.8 | (200.3) | 806.5 | 1.0 % |
| Bridges and tunnels | 884.1 | (181.0) | 703.1 | 1.3 % |
| Ballast | 898.6 | (258.2) | 640.4 | 2.2-4.4% |
| Other (a) | 1,610.5 | (519.6) | 1,090.9 | 2.7 % |
| Total road property | 8,430.6 | (2,012.4) | 6,418.2 | 2.6 % |
| Locomotives | 1,777.2 | (546.6) | 1,230.6 | 4.5 % |
| Freight cars | 974.2 | (234.4) | 739.8 | 2.2 % |
| Other equipment | 91.0 | (39.9) | 51.1 | 5.0 % |
| Total equipment | 2,842.4 | (820.9) | 2,021.5 | 3.7 % |
| Technology and other | 372.6 | (290.7) | 81.9 | 15.6 % |
| Construction in progress | 335.8 | — | 335.8 | N/A |
| Total property and equipment (including Concession assets) | $ 12,365.5 | $ (3,156.2) | $ 9,209.3 | N/A |

(a) Other includes signals, buildings and other road assets.

| As of December 31, 2020 | Cost | Accumulated Depreciation | Net Book Value | Depreciation Rates for 2020 |
|---|---|---|---|---|
| Land | $ 227.5 | $ — | $ 227.5 | N/A |
| Concession land rights | 141.1 | (30.8) | 110.3 | 1.0 % |
| Rail and other track material | 2,147.5 | (389.8) | 1,757.7 | 1.8-3.6% |
| Ties | 1,753.5 | (420.2) | 1,333.3 | 1.4-5.4% |
| Grading | 998.5 | (190.0) | 808.5 | 1.0 % |
| Bridges and tunnels | 858.5 | (171.3) | 687.2 | 1.3 % |
| Ballast | 867.4 | (245.3) | 622.1 | 2.2-4.4% |
| Other (a) | 1,549.0 | (477.6) | 1,071.4 | 2.7 % |
| Total road property | 8,174.4 | (1,894.2) | 6,280.2 | 2.6 % |
| Locomotives | 1,713.6 | (478.7) | 1,234.9 | 4.8 % |
| Freight cars | 970.4 | (210.6) | 759.8 | 2.2 % |
| Other equipment | 80.6 | (36.6) | 44.0 | 4.5 % |
| Total equipment | 2,764.6 | (725.9) | 2,038.7 | 3.9 % |
| Technology and other | 372.6 | (253.4) | 119.2 | 18.7 % |
| Construction in progress | 221.9 | — | 221.9 | N/A |
| Total property and equipment (including Concession assets) | $ 11,902.1 | $ (2,904.3) | $ 8,997.8 | N/A |

(a) Other includes signals, buildings and other road assets.

Concession assets, net of accumulated amortization of $744.8 million and $709.7 million, totaled $2,459.3 million and $2,383.5 million at December 31, 2021 and 2020, respectively.

Depreciation and amortization of property and equipment (including Concession assets) totaled $365.8 million, $357.9 million and $350.7 million, for 2021, 2020, and 2019, respectively.

In 2020, $13.6 million of expense was recognized related to costs previously capitalized for the development of internal-use software. The development of the software was cancelled prior to completion and had no further use. The expense was recognized in write-off of software development costs in the consolidated statements of income.

**Note 8. Other Balance Sheet Captions**

*Other Current Assets.* Other current assets included the following items at December 31 *(in millions):*

| | 2021 | 2020 |
|---|---|---|
| Prepaid expenses | 25.8 | 23.3 |
| Refundable Mexican value added tax | 78.0 | — |
| Prepaid income taxes | 19.0 | 15.8 |
| Advances to affiliates | 9.0 | 9.2 |
| Property held for sale | 1.3 | 3.6 |
| Other | 9.0 | 11.4 |
| Other current assets | $ 142.1 | $ 63.3 |

*Accounts Payable and Accrued Liabilities.* Accounts payable and accrued liabilities included the following items at December 31 *(in millions):*

| | 2021 | 2020 |
|---|---|---|
| Accounts payable | $ 169.7 | $ 174.6 |
| Accrued wages and vacation | 93.3 | 82.4 |
| Accrued merger costs | 47.7 | — |
| Income and other taxes | 37.0 | 27.3 |
| Contract liabilities | 30.0 | 29.9 |
| Derailments, personal injury and other claim provisions | 27.5 | 30.8 |
| Interest payable | 26.2 | 26.2 |
| Short-term operating lease liability | 22.3 | 24.6 |
| Dividends payable | — | 40.2 |
| Other | 26.0 | 34.0 |
| Accounts payable and accrued liabilities | $ 479.7 | $ 470.0 |

**Note 9. Fair Value Measurements**

The Company's assets and liabilities recognized at fair value have been categorized based upon a fair value hierarchy as described in Note 2, Significant Accounting Policies. As of December 31, 2021, the Company's derivative financial instruments are measured at fair value on a recurring basis and consist of foreign currency forward and treasury lock agreements, which are classified as Level 2 valuations. The Company determines the fair value of its derivative financial instrument positions based upon pricing models using inputs observed from actively quoted markets and also takes into consideration the contract terms as well as other inputs, including market currency exchange rates and in the case of option contracts, volatility, the risk-free interest rate and the time to expiration.

The Company's short-term financial instruments include cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings. The carrying value of the short-term financial instruments approximates their fair value.

The fair value of the Company's debt is estimated using quoted market prices when available. When quoted market prices are not available, fair value is estimated based on current market interest rates for debt with similar maturities and credit

quality. The carrying value of the Company's debt was $3,777.6 million and $3,770.8 million at December 31, 2021 and 2020, respectively. If the Company's debt were measured at fair value, the fair value measurements of the individual debt instruments would have been classified as Level 2 in the fair value hierarchy.

The fair value of the Company's financial instruments is presented in the following table *(in millions)*:

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| | Level 2 | Level 2 |
| **Assets** | | |
| Treasury lock agreements | $ 57.4 | $ 35.6 |
| **Liabilities** | | |
| Debt instruments | 4,311.1 | 4,368.6 |
| Foreign currency derivative instruments | 1.8 | — |

**Note 10. Derivative Instruments**

The Company enters into derivative transactions in certain situations based on management's assessment of current market conditions and perceived risks. Management intends to respond to evolving business and market conditions and in doing so, may enter into such transactions as deemed appropriate.

*Credit Risk.* As a result of the use of derivative instruments, the Company is exposed to counterparty credit risk. The Company manages this risk by limiting its counterparties to large financial institutions which meet the Company's credit rating standards and have an established banking relationship with the Company. As of December 31, 2021, the Company did not expect any losses as a result of default of its counterparties.

*Interest Rate Derivative Instruments*. During 2020, the Company executed six 30-year treasury lock agreements with an aggregate notional value of $650.0 million and a weighted-average interest rate of 1.58%. The purpose of the treasury locks is to hedge the U.S. Treasury benchmark interest rate associated with future interest payments related to the anticipated refinancing of the $444.7 million principal amount of 3.00% senior notes due May 15, 2023 (the "3.00% Senior Notes") and the $200.0 million principal amount of 3.85% senior notes due November 15, 2023 (the "3.85% Senior Notes"). The Company has designated the treasury locks as cash flow hedges and recorded unrealized gains and losses in accumulated other comprehensive income (loss). For the year ended December 31, 2021, the unrealized gain of $57.4 million recognized in accumulated other comprehensive income increased by $21.8 million from the balance at December 31, 2020, reflecting a change in the value of the treasury locks as U.S. treasury rates rose overall during 2021. Upon settlement, the unrealized gain or loss in accumulated other comprehensive income (loss) will be amortized to interest expense over the life of the future underlying debt issuances.

In May 2017, the Company executed four treasury lock agreements with an aggregate notional value of $275.0 million and a weighted-average interest rate of 2.85%. The purpose of the treasury locks was to hedge the U.S. Treasury benchmark interest rate associated with future interest payments related to the anticipated refinancing of the $275.0 million, 2.35% senior notes due May 15, 2020 (the "2.35% Senior Notes"). The Company designated the treasury locks as cash flow hedges and recorded unrealized gains and losses in accumulated other comprehensive income (loss). During the fourth quarter of 2019, KCS issued $425.0 million principal amount of 2.875% senior notes due November 15, 2029 (the "2.875% Senior Notes"), effectively completing the refinancing of the 2.35% Senior Notes, and settled the treasury lock agreements, resulting in cash paid of $25.8 million. This amount was included in accumulated other comprehensive income (loss) and is being amortized to interest expense over the life of the new 2.875% Senior Notes, increasing the effective interest rate on the notes to 3.60%. The

settlement and amortization associated with treasury lock agreements are classified as operating activities within the consolidated statements of cash flows.

*Foreign Currency Derivative Instruments.* The Company's Mexican subsidiaries have net U.S. dollar-denominated monetary liabilities which, for Mexican income tax purposes, are subject to periodic revaluation based on changes in the value of the Mexican peso against the U.S. dollar. This revaluation creates fluctuations in the Company's Mexican income tax expense and the amount of income taxes paid in Mexico. The Company hedges its exposure to this cash tax risk by entering into foreign currency forward contracts and foreign currency option contracts known as zero-cost collars.

The foreign currency forward contracts involve the Company's purchase of Mexican pesos and/or U.S. dollars at an agreed-upon weighted-average exchange rate to each U.S dollar or Mexican Peso. The zero-cost collars involve the Company's purchase of a Mexican peso call option and a simultaneous sale of a Mexican peso put option, with equivalent U.S. dollar notional amounts for each option and no net cash premium paid by the Company.

Below is a summary of the Company's 2021, 2020 and 2019 foreign currency derivative contracts *(amounts in millions, except Ps./USD)*:

**Foreign currency forward contracts**

| | Contracts to sell Ps./receive USD | | | Offsetting contracts to purchase Ps./pay USD | | | |
|---|---|---|---|---|---|---|---|
| | Notional amount | Notional amount | Weighted-average exchange rate *(in Ps./USD)* | Notional amount | Notional amount | Weighted-average exchange rate *(in Ps./USD)* | Cash received/ (paid) on settlement |
| Contracts executed in 2021 and outstanding | $ 270.0 | Ps. 5,583.3 | Ps. 20.7 | — | — | — | — |
| Contracts executed in 2020 and settled in 2020 | $ 75.0 | Ps. 1,555.5 | Ps. 20.7 | $ 78.0 | Ps. 1,555.5 | Ps. 20.0 | $ (2.9) |

| | Contracts to purchase Ps./pay USD | | | Offsetting contracts to sell Ps./receive USD | | | |
|---|---|---|---|---|---|---|---|
| | Notional amount | Notional amount | Weighted-average exchange rate *(in Ps./USD)* | Notional amount | Notional amount | Weighted-average exchange rate *(in Ps./USD)* | Cash received/ (paid) on settlement |
| Contracts executed in 2021 and settled in 2021 | $ 100.0 | Ps. 1,993.5 | Ps. 19.9 | $ 98.1 | Ps. 1,993.5 | Ps. 20.3 | $ (1.9) |
| Contracts executed in 2020 and settled in 2020 | $ 555.0 | Ps. 11,254.3 | Ps. 20.3 | $ 534.3 | Ps. 11,254.3 | Ps. 21.1 | $ (20.7) |
| Contracts executed in 2019 and settled in 2020 | $ 105.0 | Ps. 2,041.2 | Ps. 19.4 | $ 108.6 | Ps. 2,041.2 | Ps. 18.8 | $ 3.6 |
| Contracts executed in 2019 and settled in 2019 | $ 400.0 | Ps. 7,892.5 | Ps. 19.7 | $ 410.7 | Ps. 7,892.5 | Ps. 19.2 | $ 10.7 |
| Contracts executed in 2018 and settled in 2019 | $ 20.0 | Ps. 410.9 | Ps. 20.5 | $ 20.9 | Ps. 410.9 | Ps. 19.6 | $ 0.9 |

**Foreign currency zero-cost collar contracts**

| | Notional amount | Cash received/ (paid) on settlement |
|---|---|---|
| Contracts executed in 2018 and settled in 2019 | $ 120.0 | $ 0.3 |

The Company has not designated any of the foreign currency derivative contracts as hedging instruments for accounting purposes. The Company measures the foreign currency derivative contracts at fair value each period and recognizes any change in fair value in foreign exchange gain (loss) within the consolidated statements of income. The cash flows associated with these instruments is classified as an operating activity within the consolidated statements of cash flows.

*Offsetting.* The Company's treasury lock agreements and foreign currency forward and zero-cost collar contracts are executed with counterparties in the U.S. and are governed by International Swaps and Derivatives Association agreements that include standard netting arrangements. Asset and liability positions from contracts with the same counterparty are net settled upon maturity/expiration and presented on a net basis in the consolidated balance sheets prior to settlement.

The following table presents the fair value of derivative instruments included in the consolidated balance sheets at December 31 *(in millions)*:

| | Derivative Assets | | |
|---|---|---|---|
| | Balance Sheet Location | 2021 | 2020 |
| Derivatives designated as hedging instruments: | | | |
| Treasury lock agreements | Other assets | $ 57.4 | $ 35.6 |
| Total derivatives designated as hedging instruments | | 57.4 | 35.6 |
| Total derivative assets | | $ 57.4 | $ 35.6 |

| | Derivative Liabilities | | |
|---|---|---|---|
| | Balance Sheet Location | 2021 | 2020 |
| Derivatives not designated as hedging instruments: | | | |
| Foreign currency forward contracts | Accounts payable and accrued liabilities | $ 1.8 | — |
| Total derivatives not designated as hedging instruments | | 1.8 | — |
| Total derivative liabilities | | $ 1.8 | — |

The following table summarizes the gross and net fair value of derivative liabilities *(in millions)*:

| As of December 31, 2021 | Gross Liabilities | Gross Assets | Net Amounts Presented in the Consolidated Balance Sheets |
|---|---|---|---|
| Derivatives subject to a master netting arrangement or similar agreement | $ 2.8 | $ (1.0) | $ 1.8 |
| **As of December 31, 2020** | | | |
| Derivatives subject to a master netting arrangement or similar agreement | — | — | — |

The following tables present the effects of derivative instruments on the consolidated statements of income and consolidated statements of comprehensive income for the years ended December 31 *(in millions)*:

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain/(Loss) Recognized in OCI on Derivative | | | Location of Gain/(Loss) Reclassified from AOCI into Income | Amount of Gain/(Loss) Reclassified from AOCI into Income | | |
|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | 2019 | | 2021 | 2020 | 2019 |
| Treasury lock agreements | $ 21.8 | $ 35.6 | $ (23.8) | Interest expense | $ (2.5) | $ (2.4) | $ (0.2) |
| Total | $ 21.8 | $ 35.6 | $ (23.8) | | $ (2.5) | $ (2.4) | $ (0.2) |

| Derivatives Not Designated as Hedging Instruments | Location of Gain/(Loss) Recognized in Income on Derivative | Amount of Gain/(Loss) Recognized in Income on Derivative | | |
|---|---|---|---|---|
| | | 2021 | 2020 | 2019 |
| Foreign currency forward contracts | Foreign exchange gain (loss) | $ (3.7) | $ (22.5) | $ 14.1 |
| Total | | $ (3.7) | $ (22.5) | $ 14.1 |

See Note 9, Fair Value Measurements, for the determination of the fair values of derivatives.

**Note 11. Short-Term Borrowings**

*Commercial Paper*. The Company's commercial paper program generally serves as the primary means of short-term funding. As of December 31, 2021, and 2020, KCS had no commercial paper outstanding. For the years ended December 31, 2021, 2020 and 2019, commercial paper borrowings were outstanding for less than 90 days and the related activity is presented on a net basis in the consolidated statements of cash flows.

**Note 12. Long-Term Debt**

Long-term debt at December 31 *(in millions):*

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Principal | Unamortized Discount and Debt Issuance Costs | Net | Principal | Unamortized Discount and Debt Issuance Costs | Net |
| Revolving credit facilities, variable interest rate, due 2024 | $ — | $ — | $ — | $ — | $ — | $ — |
| KCS 3.00% senior notes, due 2023 | 439.1 | 1.0 | 438.1 | 439.1 | 1.7 | 437.4 |
| KCS 3.85% senior notes, due 2023 | 199.2 | 0.5 | 198.7 | 199.2 | 0.8 | 198.4 |
| KCS 3.125% senior notes, due 2026 | 250.0 | 1.7 | 248.3 | 250.0 | 2.0 | 248.0 |
| KCS 2.875% senior notes, due 2029 | 425.0 | 3.4 | 421.6 | 425.0 | 3.8 | 421.2 |
| KCS 4.30% senior notes, due 2043 | 448.7 | 8.1 | 440.6 | 448.7 | 8.5 | 440.2 |
| KCS 4.95% senior notes, due 2045 | 499.2 | 6.7 | 492.5 | 499.2 | 6.9 | 492.3 |
| KCS 4.70% senior notes, due 2048 | 500.0 | 5.6 | 494.4 | 500.0 | 5.8 | 494.2 |
| KCS 3.50% senior notes, due 2050 | 550.0 | 10.4 | 539.6 | 550.0 | 10.8 | 539.2 |
| KCS 4.20% senior notes, due 2069 | 425.0 | 6.8 | 418.2 | 425.0 | 6.9 | 418.1 |
| KCSR 3.85% to 4.95% senior notes, due through 2045 | 2.7 | — | 2.7 | 2.7 | — | 2.7 |
| KCSM 3.00% senior notes, due 2023 | 5.6 | — | 5.6 | 5.6 | — | 5.6 |
| RRIF loans 2.96% to 4.29%, due serially through 2037 | 62.0 | 0.3 | 61.7 | 66.2 | 0.4 | 65.8 |
| Finance lease obligations, due serially to 2025 | 15.4 | — | 15.4 | 7.5 | — | 7.5 |
| Other debt obligations | 0.2 | — | 0.2 | 0.2 | — | 0.2 |
| Total | 3,822.1 | 44.5 | 3,777.6 | 3,818.4 | 47.6 | 3,770.8 |
| Less: Debt due within one year | 8.8 | — | 8.8 | 6.4 | — | 6.4 |
| Long-term debt | $ 3,813.3 | $ 44.5 | $ 3,768.8 | $ 3,812.0 | $ 47.6 | $ 3,764.4 |

***Revolving Credit Facility***

KCS, with certain of its domestic subsidiaries named therein as guarantors, has a $600.0 million senior unsecured revolving credit facility (the "Revolving Credit Facility"), with a $25.0 million standby letter of credit facility which, if utilized, constitutes usage under the Revolving Credit Facility. The Revolving Credit Facility serves as a backstop for KCS's

commercial paper program (the "Commercial Paper Program") which generally serves as the Company's primary means of short-term funding.

Borrowings under the Revolving Credit Facility bear interest at floating rates. Depending on the Company's credit rating, the margin that KCS would pay above the London Interbank Offered Rate ("LIBOR") at any point is between 1.000% and 1.750%. As of December 31, 2021, the margin was 1.25% based on KCS's current credit rating.

The Revolving Credit Facility is guaranteed by KCSR, together with certain domestic subsidiaries named therein as guarantors and matures on March 8, 2024. The Revolving Credit Facility agreement contains representations, warranties, covenants and events of default that are customary for credit agreements of this type. The occurrence of an event of default could result in the termination of the commitments and the acceleration of the repayment of any outstanding principal balance on the Revolving Credit Facility and the Commercial Paper Program.

As of December 31, 2021 and 2020, KCS had no outstanding borrowings under the revolving credit facility.

***Senior Notes***

The Company's senior notes include certain covenants that are customary for these types of debt instruments issued by borrowers with similar credit ratings.

The KCS notes are KCS's general unsecured senior obligations and are unconditionally guaranteed, jointly and severally, on an unsecured senior basis by each current and future domestic subsidiary of KCS that from time to time guarantees the Revolving Credit Facility or any other debt of KCS or any of KCS's significant subsidiaries that is a guarantor (collectively, the "Note Guarantors").

KCSR's senior notes are unconditionally guaranteed, jointly and severally, on an unsecured senior basis, by KCS and each current and future domestic subsidiary of KCS that guarantees the Revolving Credit Facility or certain other debt of KCS or a note guarantor. KCSR's senior notes and the note guarantees rank pari passu in right of payment with KCSR's, KCS's and the Note Guarantors' existing and future unsecured, unsubordinated obligations.

KCSM's senior notes are denominated in U.S. dollars; are unsecured, unsubordinated obligations; rank pari passu in right of payment with KCSM's existing and future unsecured, unsubordinated obligations and are senior in right of payment to KCSM's future subordinated indebtedness.

Senior notes are redeemable at the issuer's option, in whole or in part, at any time, by paying the greater of either 100% of the principal amount to be redeemed and a formula price based on interest rates prevailing at the time of redemption and time remaining to maturity, plus, in each case, accrued interest thereon to, but excluding the redemption date. In addition, KCSM's senior notes are redeemable, in whole but not in part, at KCSM's option at any time at a redemption price of 100% of their principal amount, plus any accrued unpaid interest in the event of certain changes in the Mexican withholding tax rate.

***RRIF Loan Agreements***

The following loans were made under the Railroad Rehabilitation and Improvement Financing ("RRIF") Program administered by the Federal Railroad Administration ("FRA"):

*KCSR RRIF Loan Agreement.* On February 21, 2012, KCSR entered into an agreement with the FRA to borrow $54.6 million to be used to reimburse KCSR for a portion of the purchase price of thirty new locomotives (the "Locomotives") acquired by KCSR in the fourth quarter of 2011. The loan bears interest at 2.96% annually and the principal balance amortizes quarterly with a final maturity of February 24, 2037. The obligations under the financing agreement are secured by a first priority security interest in the Locomotives and certain related rights. In addition, the Company has agreed to guarantee repayment of the amounts due under the financing agreement and certain related agreements. The occurrence of an event of default could result in the acceleration of the repayment of any outstanding principal balance of the loan.

*Tex-Mex RRIF Loan Agreement.* On June 28, 2005, Tex-Mex entered into an agreement with the FRA to borrow $50.0 million to be used for infrastructure improvements in order to accommodate growing freight rail traffic related to the NAFTA corridor. The loan bears interest at 4.29% annually and the principal balance amortizes quarterly with a final maturity of July 13, 2030. The loan is guaranteed by Mexrail, which has issued a pledge agreement in favor of the lender equal to the gross revenues earned by Mexrail on per-car fees on traffic crossing the International Rail Bridge in Laredo, Texas. In addition, the Company has agreed to guarantee the scheduled principal payment installments due to the FRA from Tex-Mex under the loan agreement on a rolling five-year basis.

***Debt Covenants Compliance***

The Company was in compliance with all of its debt covenants as of December 31, 2021.

***Other Debt Provisions***

Certain loan agreements and debt instruments entered into or guaranteed by the Company and its subsidiaries provide for default in the event of a specified change in control of the Company or particular subsidiaries of the Company.

***Debt Maturities***

Minimum annual payments for debt maturities are as follows *(in millions)*:

| Years | Long-Term Debt | Net Present Value Finance Leases | Total |
|---|---|---|---|
| 2022 | $ 4.3 | $ 4.5 | $ 8.8 |
| 2023 | 649.2 | 4.6 | 653.8 |
| 2024 | 4.6 | 2.4 | 7.0 |
| 2025 | 5.0 | 2.2 | 7.2 |
| 2026 | 255.0 | 1.7 | 256.7 |
| Thereafter | 2,888.6 | — | 2,888.6 |
| Total | $ 3,806.7 | $ 15.4 | $ 3,822.1 |

**Note 13. Income Taxes**

Current income tax expense represents the amounts expected to be reported on the Company's income tax returns, and deferred tax expense or benefit represents the change in net deferred tax assets and liabilities. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. Valuation allowances are recorded as appropriate to reduce deferred tax assets to the amount considered likely to be realized.

*Mexican Fuel Excise Tax Credit ("IEPS credit").* Fuel purchases in Mexico are subject to an excise tax that is included in the price of fuel. Through April 29, 2019, the Company was eligible for a credit for the excise tax included in the price of fuel that is purchased and consumed in locomotives and certain work equipment in Mexico. On April 29, 2019, the Servicio de Administración Tributaria (the "SAT"), the Mexican equivalent of the IRS, published the Miscellaneous Fiscal Resolution for 2019 ("2019 Resolution"), which eliminated the Company's eligibility for the IEPS credit effective beginning April 30, 2019. During the period of eligibility in 2019, the Company generated IEPS credits resulting in a $12.8 million net tax benefit, which was recognized as a reduction to income tax expense within the consolidated statements of income for the year ended December 31, 2019.

*Tax Expense.* Income tax expense consists of the following components *(in millions):*

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| *Current:* | | | |
| Federal | $ 18.1 | $ (1.9) | $ 22.3 |
| State and local | 2.7 | 1.6 | 1.8 |
| Foreign | 167.1 | 155.0 | 170.4 |
| Total current | 187.9 | 154.7 | 194.5 |
| *Deferred:* | | | |
| Federal | 21.2 | 49.4 | 27.5 |
| State and local | (1.6) | 13.8 | 14.8 |
| Foreign | 3.6 | (13.8) | 10.8 |
| Total deferred | 23.2 | 49.4 | 53.1 |
| Total income tax expense | $ 211.1 | $ 204.1 | $ 247.6 |

Income before income taxes consists of the following *(in millions)*:

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| *Income before income taxes:* | | | |
| U.S. | $ 148.6 | $ 329.0 | $ 250.3 |
| Foreign | 589.5 | 494.2 | 538.1 |
| Total income before income taxes | $ 738.1 | $ 823.2 | $ 788.4 |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31 follow *(in millions):*

| | 2021 | 2020 |
|---|---|---|
| *Assets:* | | |
| Reserves not currently deductible for tax | $ 42.5 | $ 44.6 |
| Compensation and benefits | 28.0 | 24.7 |
| Tax credit and loss carryovers | 26.4 | 25.4 |
| Lease liability | 19.4 | 19.7 |
| Other | 6.5 | 12.6 |
| Gross deferred tax assets before valuation allowance | 122.8 | 127.0 |
| Valuation allowance | (7.3) | (3.5) |
| Net deferred tax assets | 115.5 | 123.5 |
| *Liabilities:* | | |
| Property | (1,253.0) | (1,233.8) |
| Investments | (56.0) | (54.9) |
| Other | (20.2) | (20.2) |
| Gross deferred tax liabilities | (1,329.2) | (1,308.9) |
| Net deferred tax liability | $ (1,213.7) | $ (1,185.4) |

*Tax Rates.* Differences between the Company's effective income tax rate and the U.S. federal statutory income tax rate of 21% follow *(in millions):*

| | 2021 | | 2020 | | 2019 | |
|---|---|---|---|---|---|---|
| | Dollars | Percent | Dollars | Percent | Dollars | Percent |
| Income tax expense using the statutory rate in effect | $ 155.0 | 21.0% | $ 172.9 | 21.0% | $ 165.6 | 21.0% |
| Tax effect of: | | | | | | |
| Difference between U.S. and foreign tax rate | 51.9 | 7.0% | 44.1 | 5.4% | 47.6 | 6.0% |
| Share-based compensation | (25.2) | (3.4%) | (4.6) | (0.6%) | (2.4) | (0.3%) |
| Non-deductible executive compensation | 14.7 | 2.0% | 1.8 | 0.2% | 1.3 | 0.2% |
| Non-deductible transaction costs | 14.0 | 1.9% | — | — | — | — |
| Tax credits | (11.7) | (1.6%) | (13.8) | (1.7%) | (16.8) | (2.1%) |
| Inflation | (10.4) | (1.4%) | (4.9) | (0.6%) | (7.5) | (1.0%) |
| Withholding tax | 8.5 | 1.2% | 9.9 | 1.2% | 9.5 | 1.2% |
| Foreign exchange (i) | 5.9 | 0.8% | (3.4) | (0.4%) | 35.9 | 4.6% |
| Global intangible low-taxed income ("GILTI") tax, net | 0.4 | 0.1% | (14.5) | (1.8%) | 2.7 | 0.3% |
| State and local income tax provision, net | 0.2 | — | 12.5 | 1.5% | 11.5 | 1.5% |
| Mexican fuel excise tax credit, net (ii) | — | — | — | — | (12.8) | (1.6%) |
| Other, net | 7.8 | 1.0% | 4.1 | 0.6% | 13.0 | 1.6% |
| Income tax expense | $ 211.1 | 28.6% | $ 204.1 | 24.8% | $ 247.6 | 31.4% |

*(i)* The Company's Mexican subsidiaries have net U.S. dollar-denominated monetary liabilities which, for Mexican income tax purposes, are subject to periodic revaluation based on changes in the value of the Mexican peso against the U.S. dollar. This revaluation creates fluctuations in the Company's Mexican income tax expense in the consolidated statements of income and the amount of income taxes paid in Mexico. The Company also has net monetary assets denominated in Mexican pesos, that are subject to periodic re-measurement and settlement that creates fluctuations in foreign currency gains and losses in the consolidated statements of income. The Company hedges its net exposure to variations in earnings by entering into foreign currency forward contracts. The foreign currency forward contracts involve the Company's agreement to buy or sell pesos at an agreed-upon exchange rate on a future date. Refer to to Item 8, Financial Statements and Supplementary Data — Note 10, Derivative Instruments for further information.

*(ii)* Not eligible for Mexican fuel excise tax credit subsequent to April 30, 2019. See previous discussion within footnote.

*Difference Attributable to Foreign Investments.* The Company asserts that all foreign earnings will be indefinitely reinvested to the extent of local needs and earnings that would be distributed in a taxable manner. The Company therefore intends to limit distributions to earnings previously taxed in the U.S., or earnings that would qualify for the 100 percent dividends received deduction and earnings that would not result in any significant foreign taxes. Therefore, the Company has not recognized a deferred tax liability on its investment in foreign subsidiaries.

*Tax Carryovers.* The Company has both U.S. federal and state net operating losses which are carried forward indefinitely for federal tax purposes and from 10 to 20 years for state purposes. Both the federal and state loss carryovers are analyzed each year to determine the likelihood of realization. The U.S. federal loss carryover at December 31, 2021, was $23.6 million. The

state loss carryovers arise from both combined and separate tax filings from as early as 1999 and may expire as early as December 31, 2022 and as late as December 31, 2041. The state loss carryover at December 31, 2021 was $345.2 million resulting in a state deferred tax asset of $20.1 million.

The Mexico federal loss carryovers at December 31, 2021, were $9.6 million and, if not used, will begin to expire in 2026. A deferred tax asset was recognized in prior periods for the expected future tax benefit of these losses which will be carried forward to reduce only Mexican income tax payable in future years.

The valuation allowance for deferred tax assets as of December 31, 2021 and 2020, was $7.3 million and $3.5 million, respectively, primarily attributable to state net operating loss carryovers. The Company believes it is more likely than not that reversals of existing temporary differences that will produce future taxable income and the results of future operations will generate sufficient taxable income to realize the deferred tax assets, net of valuation allowances, related to loss carryovers.

*Uncertain Tax Positions.* The accounting guidance for uncertainty in income taxes prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance requires the Company to recognize in the consolidated financial statements the benefit of a tax position only if the impact is more likely than not of being sustained on audit based on the technical merits of the position. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (*in millions*):

| | 2021 | 2020 |
|---|---|---|
| Balance at January 1, | $ 2.2 | $ 2.2 |
| Additions for tax positions of prior years | — | — |
| Balance at December 31, | $ 2.2 | $ 2.2 |

The unrecognized tax benefit would affect the effective income tax rate if recognized, and is reasonably possible to be resolved over the next twelve months as part of an Internal Revenue Service ("IRS") examination.

Interest and penalties related to uncertain tax positions are included in income before taxes on the consolidated statements of income. Accrued interest and penalties on unrecognized tax benefits and interest and penalty expense was immaterial to the consolidated financial statements for all periods presented.

*Tax Contingencies*. Tax returns filed in the U.S. for periods after 2015 and in Mexico for periods after 2012 remain open to examination by the taxing authorities. The IRS has initiated an examination of the 2017 deemed mandatory repatriation tax included in the 2017 U.S. federal tax return and an examination of the 2016 U.S. federal tax return. The SAT has initiated examinations of the KCSM 2013 through 2020 Mexico tax returns and the Financiera Inspira, S.A. de C.V. SOFOM, E.N.R. 2016 and 2017 Mexico tax returns. The Company does not expect that these examinations will have a material impact on the consolidated financial statements. During the first quarter of 2017, the Company received audit assessments from the SAT for the KCSM 2009 and 2010 Mexico tax returns. In 2017, the Company commenced administrative actions with the SAT. During the first quarter of 2018, the audit assessments were nullified by the SAT. In the third quarter of 2018, the SAT issued new assessments and the Company filed administrative appeals with the SAT. The Company believes that it has strong legal arguments in its favor and it is more likely than not that it will prevail in any challenge of the assessments.

*Refundable Mexican Value Added Tax*. KCSM is not required to charge its customers VAT on international import or export transportation services, resulting in KCSM paying more VAT on its expenditures than it collects from customers. These excess VAT payments are refundable by the Mexican government. Prior to 2019, Mexican companies could offset their monthly refundable VAT balance with other tax obligations. In January 2019, Mexico tax reform eliminated the ability to offset other tax obligations with refundable VAT. Since January 2019, KCSM has generated a refundable VAT balance and filed refund claims with the SAT which have not been paid. KCSM has prior favorable Mexican court decisions and a legal opinion supporting its right under Mexican law to recover the refundable VAT balance from the Mexican government and believes the VAT to be fully recoverable.

In November 2021, changes to the VAT law were effective beginning January 1, 2022 that reduce the recoverability of VAT paid by KCSM on its expenditures that support international import transportation service revenues that are not subject to a VAT charge. As a result of the law change, in general, beginning in 2022, KCSM is changing its service offering for these services in a manner that either requires VAT to be charged to customers on KCSM's transportation service revenue, or the imposition by KCSM of a rate increase to offset the incremental expense of the unrecoverable VAT. As of December 31, 2021 and 2020, the KCSM refundable VAT balance was $152.2 million and $103.1 million, respectively. In the fourth quarter of 2021, $78.0 million of the refundable VAT balance was reclassified from a long-term asset to a short-term asset, which represents the estimated amount of VAT to be collected from customers and payable to the Mexican government in 2022 that will reduce the VAT receivable balance from the Mexican government.

**Note 14. Stockholder(s)' Equity**

Information regarding the Company's capital stock at December 31 follows:

| | Shares Authorized | | Shares Issued | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| $25 par, 4% noncumulative, preferred stock | — | 840,000 | — | 649,736 |
| $1 par, preferred stock | — | 2,000,000 | — | — |
| $0.01 par, common stock | 100 | 400,000,000 | 100 | 123,352,185 |

Shares outstanding at December 31:

| | 2021 | 2020 |
|---|---|---|
| $25 par, 4% noncumulative, preferred stock | — | 215,199 |
| $0.01 par, common stock | 100 | 91,047,107 |

*Merger Agreement*. As disclosed in Note 3, Merger Agreement, the merger transaction was completed through a series of mergers as outlined in the Merger Agreement. These mergers ultimately resulted in KCS being merged with and into Surviving Merger Sub, a wholly owned subsidiary of CP, with Surviving Merger Sub continuing as the surviving entity. On December 14, 2021, the merger of KCS and Surviving Merger Sub was accounted for as a recapitalization of KCS's equity. Pursuant to the Merger Agreement, KCS's issued and outstanding common stock and preferred stock was replaced by the common stock of Surviving Merger Sub, which consisted of 100 issued and outstanding shares at $0.01 par value with the remaining difference being reclassified to additional paid-in capital. Upon final control approval from the STB, the transaction will be accounted for as a business combination using the acquisition method of accounting.

*Share Repurchases*. In November 2020, the Company announced a new common share repurchase program authorizing the Company to purchase up to $3.0 billion of its outstanding shares of common stock through December 31, 2023 (the "2020

Program"). Share repurchases may be made in the open market, through privately negotiated transactions, or through Accelerated Share Repurchase ("ASR") transactions. The 2020 Program replaced KCS's $2.0 billion common share repurchase program announced on November 12, 2019 (the "2019 Program").

Under an ASR agreement, the Company pays a specified amount to a financial institution and receives an initial delivery of shares. The final number and total cost of shares repurchased is then based on the volume-weighted average price of the Company's common stock during the term of the agreements. The transactions are accounted for as equity transactions with any excess of repurchase price over par value allocated between additional paid-in capital and retained earnings. At the time the shares are received, there is an immediate reduction in the weighted-average number of shares outstanding for purposes of the basic and diluted earnings per share computation.

The terms of ASR agreements entered into during 2020 under the 2019 Program, structured as outlined above, were as follows:

| Third Party Institution | Agreement Date | Settlement Date | Total Amount of Agreement *(in millions)* | Initial Shares Delivered | Fair Market Value of Initial Shares *(in millions)* | Additional Shares Delivered | Fair Market Value of Additional Shares *(in millions)* | Total Shares Delivered | Weighted-Average Price Per Share |
|---|---|---|---|---|---|---|---|---|---|
| ASR Agreement #1 | October 2020 | January 2021 | $ 250.0 | 1,187,084 | $ 212.5 | 116,314 | $ 37.5 | 1,303,398 | $ 191.81 |
| ASR Agreement #2 | October 2020 | January 2021 | $ 250.0 | 1,187,084 | $ 212.5 | 117,088 | $ 37.5 | 1,304,172 | $ 191.69 |
| Total | | | $ 500.0 | 2,374,168 | $ 425.0 | 233,402 | $ 75.0 | 2,607,570 | $ 191.75 |

During 2021, KCS received 233,402 shares of common stock as final settlement of the forward contracts totaling $75.0 million under the ASR agreements entered into during October 2020 under the 2019 Program. The final weighted-average price per share of the shares repurchased under these ASR agreements was $191.75. The excess of repurchase price over par value was allocated between additional paid-in capital and retained earnings.

The Company terminated its share repurchase program upon entering into its initial merger agreement with CP in March 2021.

*Treasury Stock.* Shares of common stock in treasury and related activity follow:

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| Balance at beginning of year | 32,305,078 | 27,236,516 | 22,455,507 |
| Shares repurchased | 233,402 | 5,350,976 | 5,076,530 |
| Shares issued to fund stock option exercises | (189,775) | (133,951) | (109,560) |
| Employee stock purchase plan shares issued | (41,338) | (51,658) | (72,707) |
| Nonvested shares issued | (50,127) | (111,003) | (124,031) |
| Nonvested shares forfeited | 16,808 | 14,198 | 10,777 |
| Conversion of restricted shares to cash | 25,049 | — | — |
| Recapitalization of equity | (32,299,097) | — | — |
| Balance at end of year | — | 32,305,078 | 27,236,516 |

*Cash Dividends on Common Stock.* The following table presents the amount of cash dividends declared per common share by the Company's Board of Directors on the Company's historical common stock prior to the merger:

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| Cash dividends declared per common share | $ 1.62 | $ 1.64 | $ 1.48 |

**Note 15. Share-Based Compensation**

On May 4, 2017, the Company's stockholders approved the Kansas City Southern 2017 Equity Incentive Plan (the "2017 Plan"). Upon approval, the Company ceased issuing awards under the Kansas City Southern 2008 Stock Option and Performance Award Plan (the "2008 Plan"). The Board of Directors and its Compensation and Organization Committee had previously adopted the 2017 Plan, subject to stockholder approval, on January 26, 2017, and February 17, 2017, respectively. The 2017 Plan provided for the granting of up to 3,750,000 shares of the Company's common stock to eligible persons as defined in the 2017 Plan. Outstanding equity awards granted under the 2008 Plan and the 2017 Plan (the "Plans") were governed by the terms and conditions of each individual plan and the related award agreements. In March 2021, pursuant to the merger agreement in affect at that time, the number of share available to grant from the 2017 Plan was limited to a pool of 64,051 shares to be granted in the form of restricted share awards with a vesting period of not less than 1 year. The pool expired in August 2021 and no further awards were granted. In December 2021, upon the effective date of the merger, the 2017 Plan was terminated.

On December 14, 2021, upon CP's acquisition of the Company's common stock per the Merger Agreement, the vesting of certain unvested share-based compensation arrangements of the Company was accelerated. These awards included unvested restricted shares awarded prior to the initial merger announcement on March 21, 2021, and unvested options, which were cash settled at the Merger Consideration value less the option's exercise price. Unvested restricted shares awarded after the initial announcement of the merger on March 21, 2021, were replaced with a fixed, cash-based award that entitled the holder thereof, upon vesting at the end of the requisite service period, to receive an amount in cash equal to the Merger Consideration. Unvested performance share awards were replaced with a fixed, cash-based award that entitles the holder thereof, upon vesting at the end of the award's original, three-year requisite service period, to receive an amount in cash equal to the Merger Consideration value of $301.20 for each performance share award held multiplied by the maximum performance factor of 200% of the original target award. In the fourth quarter of 2021, the Company recognized $55.9 million of compensation expense from the accelerated vesting, increase in fair value and replacement of awards into a fixed, cash-based award in merger costs, net within the consolidated statements of income.

*Stock Options.* The exercise price for options granted under the Plans equaled the closing market price of the Company's stock on the date of grant. Options generally had a 3-year vesting period and were exercisable over the 10-year contractual term. The grant date fair value was recorded to expense on a straight-line basis over the vesting period.

The fair value of each option award was estimated on the date of grant using the Black-Scholes option pricing model. The weighted-average assumptions used were as follows:

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| Expected dividend yield | 0.83 % | 1.04 % | 1.33 % |
| Expected volatility | 30.86 % | 26.07 % | 26.38 % |
| Risk-free interest rate | 0.74 % | 1.27 % | 2.64 % |
| Expected term *(years)* | 6.0 | 5.7 | 5.7 |
| Weighted-average grant date fair value of stock options granted | $ 58.74 | $ 37.79 | $ 27.70 |

The expected dividend yield was calculated as the ratio of dividends paid per share of common stock to the stock price on the date of grant. The expected volatility was based on the historical volatility of the Company's stock price over a term equal to the estimated life of the options. The risk-free interest rate was determined based on U.S. Treasury rates for instruments with terms approximating the expected term of the options granted, which represents the period of time the awards are expected to be outstanding and based on the historical experience of similar awards.

A summary of stock option activity is as follows:

| | Number of Shares | Weighted-Average Exercise Price Per Share |
|---|---|---|
| Options outstanding at December 31, 2020 | 571,948 | $ 109.46 |
| Granted | 57,253 | 211.10 |
| Exercised | (189,775) | 84.82 |
| Forfeited or expired | (17,272) | 162.67 |
| Settled under the Merger Agreement | (422,154) | $ 123.09 |
| Options outstanding at December 31, 2021 | — | $ — |
| | | |
| Exercisable at December 31, 2021 | — | $ — |

Compensation cost, excluding the cost recognized in connection with the merger, of $3.9 million, $4.0 million, and $3.6 million was recognized for stock option awards for the years ended December 31, 2021, 2020, and 2019, respectively. The total income tax benefit recognized in the consolidated statements of income was $0.9 million, $1.0 million, and $0.9 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Upon CP's acquisition of the Company's common stock per the Merger Agreement, the unvested stock options were fully vested, and the Company recognized an additional $12.3 million in merger costs, net within the consolidated statements of income for the acceleration of vesting and the increase in fair value of the awards to the Merger Consideration of $301.20 less the applicable option's exercise price. The outstanding and unexercised options at the acquisition date were then cash settled by the Company for approximately $75.2 million prior to December 31, 2021, with a corresponding reduction to additional paid-in capital. The income tax benefit recognized within the consolidated statements of income from cash settling the stock options was $15.6 million.

Additional information regarding stock option exercises appears in the table below *(in millions)*:

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| Aggregate grant-date fair value of stock options vested | $ 8.5 | $ 3.7 | $ 3.0 |
| Intrinsic value of stock options exercised | 34.9 | 13.9 | 7.2 |
| Cash received from option exercises | 19.9 | 9.9 | 7.0 |
| Tax benefit from options exercised during the annual period | 7.8 | 3.5 | 1.8 |

*Nonvested Stock.* The Plans provided for the granting of nonvested stock awards to officers and other designated employees. The grant date fair value was based on the closing market price on the date of the grant. These awards are subject to forfeiture if employment terminates during the vesting period, which is generally 1 year or 5 years of vesting for employees. Awards granted to the Company's directors vested immediately on date of grant. The grant date fair value of nonvested shares was recognized to compensation expense on a straight-line basis over the vesting period.

A summary of nonvested stock activity is as follows:

| | Number of Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Nonvested stock at December 31, 2020 | 194,031 | $ 119.35 |
| Granted | 63,085 | 248.88 |
| Vested | (215,259) | 136.32 |
| Forfeited | (16,808) | 158.81 |
| Replaced with cash liability awards | (25,049) | $ 299.63 |
| Nonvested stock at December 31, 2021 | — | $ — |

The fair value (at vest date) of shares vested during the years ended December 31, 2021, 2020, and 2019 was $59.2 million, $15.3 million, and $15.2 million, respectively. The income tax benefit recognized for the shares vested during 2021 was $13.1 million.

The weighted-average grant date fair value of nonvested stock granted during 2021, 2020, and 2019 was $248.88, $147.82 and $114.69, respectively. Compensation cost for nonvested stock, excluding the cost recognized in connection with the Merger Agreement was $9.8 million, $10.5 million, and $10.7 million for the years ended December 31, 2021, 2020, and 2019, respectively. The total income tax benefit recognized within the consolidated statements of income was $2.4 million for the year ended December 31, 2021, and $2.6 million for both the years ended 2020, and 2019.

For the nonvested stock granted prior to March 21, 2021, the awards were fully vested on December 3, 2021, at a price of $290.71 per share. The grantee received KCS common shares, net of shares withheld for taxes, based on the $290.71 price per share for each nonvested share held at that date. The acceleration of vesting resulted in $9.6 million of additional expense recognized in merger costs, net within the consolidated statements of income. The income tax benefit recognized from the acceleration of vesting was $2.4 million. Upon CP's acquisition of the Company's common stock per the Merger Agreement, the grantee received the per share Merger Consideration value for each KCS common share held. For the nonvested stock granted after March 21, 2021, each nonvested share was replaced with a cash-based award that entitles the holder to receive a fixed amount in cash equal to the Merger Consideration value of $301.20 upon rendering of the requisite service. The remaining unamortized expense of $5.3 million will be recognized to merger costs on a straight-line basis over the remaining

vesting period, which is through 2026 and is subject to the terms of the original award agreement as modified by the Merger Agreement.

*Performance Based Awards.* The Company granted performance based nonvested stock awards during 2021 (the "2021 Awards"), 2020 (the "2020 Awards") and 2019 (the "2019 Awards"). The awards granted provided a target number of shares that generally vest at the end of a 3-year requisite service period following the grant date. In addition to the service condition, the number of nonvested shares to be received depended on the attainment of defined Company-wide performance goals based on operating ratio ("OR") and return on invested capital ("ROIC") over a 3-year performance period. The awards were also subject to a revenue growth multiplier based on a 3-year performance period calculated as defined in the related award agreement that can range from 80% to 120% of the award earned based on the OR and ROIC achieved. The number of nonvested shares ultimately earned would range between zero to 200% of the target award.

A summary of performance based nonvested stock activity at target is as follows:

| | Target Number of Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Nonvested stock, at December 31, 2020 | 140,560 | $ 124.98 |
| Granted | 37,650 | 211.10 |
| Vested | (52,878) | 114.11 |
| Forfeited | (11,698) | 169.44 |
| Replaced with a cash liability awards | (113,634) | $ 155.02 |
| Nonvested stock, at December 31, 2021 | — | $ — |

The weighted-average grant date fair value of performance based nonvested stock granted during 2021, 2020 and 2019 was $211.10, $157.75 and $110.13, respectively. The Company expensed the grant date fair value of the awards which were probable of being earned over the performance periods. Compensation cost on performance based awards, excluding the cost recognized in connection with the Merger Agreement was $10.1 million, $8.6 million and $8.2 million for the years ended December 31, 2021, 2020 and 2019, respectively. Total income tax benefit recognized within the consolidated statements of income for performance based awards was $2.5 million, $2.1 million and $2.0 million for the years ended December 31, 2021, 2020 and 2019, respectively.

The fair value (at vest date) of shares vested for the years ended December 31, 2021, 2020 and 2019 was $11.7 million, $7.8 million, and $5.7 million, respectively.

Upon CP's acquisition of the Company's common stock per the Merger Agreement, the unvested performance share awards were replaced with a fixed, cash-based award that entitles the holder thereof, upon vesting at the end of the award's original, three-year requisite service period, to receive an amount in cash equal to the Merger Consideration value of $301.20 for each performance share award held multiplied by the maximum performance factor of 200% of the original target award. The increase in the fair value of the award and the number of awards to be issued resulted in additional expense of $34.0 million recognized in merger costs, net within the consolidated statements of income for the requisite service that had been provided as of December 31, 2021. The income tax benefit recognized for the additional expense was $10.7 million. The remaining unamortized expense of $16.2 million will be recognized to merger costs over the remaining vesting period, which is through 2024 and is subject to the terms of the original award agreement as modified by the Merger Agreement.

*Employee Stock Purchase Plan.* The employee stock purchase plan ("ESPP") provided substantially all U.S. full-time employees of the Company, certain subsidiaries and certain other affiliated entities, with the right to subscribe to an aggregate of 4.0 million shares of common stock of the Company. Under the ESPP, eligible employees could contribute, through payroll deductions, up to 10% of their regular base compensation during six-month purchase periods at a purchase price equal to 85% of the closing market price on either the exercise date or the offering date, whichever was lower. The Company terminated its ESPP program upon entering into its initial merger agreement with CP in March 2021, thus only the January period was offered during 2021 and there were no remaining shares available for future ESPP offerings.

At the end of each purchase period, the accumulated deductions were applied toward the purchase of the Company's common stock. Both the discount in grant price and the share option purchase price were valued to derive the award's fair value. The awards vest and the expense was recognized ratably over the offering period.

The following table summarizes activity related to the various ESPP offerings:

| | Exercise Date | | | Received from Employees(i) In millions |
|---|---|---|---|---|
| | Date Issued | Purchase Price | Shares Issued | |
| January 2021 offering | July 1, 2021 | $ 170.83 | 18,046 | $ 3.1 |
| July 2020 offering | January 5, 2021 | $ 122.91 | 23,292 | $ 2.9 |
| January 2020 offering | July 2, 2020 | $ 126.90 | 23,709 | $ 3.0 |
| July 2019 offering | January 3, 2020 | $ 104.83 | 27,949 | $ 2.9 |
| January 2019 offering | July 2, 2019 | $ 81.83 | 36,735 | $ 3.0 |

(i) Represents amounts received from employees through payroll deductions for share purchases under applicable offering.

The fair value of the ESPP stock purchase rights was estimated on the date of grant using the Black-Scholes option pricing model. The weighted-average assumptions used for each of the respective periods were as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Expected dividend yield | 0.88 % | 1.07 % | 1.36 % |
| Expected volatility | 18.65 % | 30.55 % | 17.43 % |
| Risk-free interest rate | 0.05 % | 1.01 % | 2.31 % |
| Expected term *(years)* | 0.5 | 0.5 | 0.5 |
| Weighted-average grant date fair value | $ 40.40 | $ 35.14 | $ 21.56 |

Compensation expense of $0.7 million, $1.7 million, and $1.4 million was recognized for ESPP option awards for the years ended December 31, 2021, 2020, and 2019, respectively.

**Note 16. Commitments and Contingencies**

*Concession Duty.* Under KCSM's 50-year Concession, which could expire in 2047 unless extended, KCSM pays annual concession duty expense of 1.25% of gross revenues. For the year ended December 31, 2021, the concession duty expense, which is recorded within materials and other in operating expenses, was $18.7 million, compared to $17.4 million and $18.9 million for the same periods in 2020 and 2019, respectively.

*Litigation.* Occasionally, the Company is a party to various legal proceedings, regulatory examinations, investigations, administrative actions, and other legal matters, arising for the most part in the ordinary course of business, incidental to its operations. Included in these proceedings are various tort claims brought by current and former employees for job-related injuries and by third parties for injuries related to railroad operations. KCS aggressively defends these matters and has established liability provisions that management believes are adequate to cover expected costs. The outcome of litigation and other legal matters is always uncertain. KCS believes it has valid defenses to the legal matters currently pending against it, is defending itself vigorously, and has recorded accruals determined in accordance with U.S. GAAP, where appropriate. In making a determination regarding accruals, using available information, KCS evaluates the likelihood of an unfavorable outcome in legal or regulatory proceedings to which it is a party to and records a loss contingency when it is probable a liability has been incurred and the amount of the loss can be reasonably estimated. These subjective determinations are based on the status of such legal or regulatory proceedings, the merits of KCS's defenses and consultation with legal counsel. Actual outcomes of these legal and regulatory proceedings may materially differ from the current estimates. It is possible that resolution of one or more of the legal matters currently pending or threatened could result in losses material to KCS's consolidated results of operations, liquidity or financial condition.

*Environmental Liabilities.* The Company's U.S. operations are subject to extensive federal, state and local environmental laws and regulations. The major U.S. environmental laws to which the Company is subject include, among others, the federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA," also known as the Superfund law), the Toxic Substances Control Act, the Clean Water Act, and the Hazardous Materials Transportation Act. CERCLA can impose joint and several liabilities for cleanup and investigation costs, without regard to fault or legality of the original conduct, on current and predecessor owners and operators of a site, as well as those who generate, or arrange for the disposal of, hazardous substances. The Company does not believe that compliance with the requirements imposed by the environmental legislation will impair its competitive capability or result in any material additional capital expenditures, operating or maintenance costs. The Company is, however, subject to environmental remediation costs as described in the following paragraphs.

The Company's Mexico operations are subject to Mexican federal and state laws and regulations relating to the protection of the environment through the establishment of standards for water discharge, water supply, emissions, noise pollution, hazardous substances and transportation and handling of hazardous and solid waste. The Mexican government may bring administrative and criminal proceedings, impose economic sanctions against companies that violate environmental laws, and temporarily or even permanently close non-complying facilities.

The risk of incurring environmental liability is inherent in the railroad industry. As part of serving the petroleum and chemicals industry, the Company transports hazardous materials and has a professional team available to respond to and handle environmental issues that might occur in the transport of such materials.

The Company performs ongoing reviews and evaluations of the various environmental programs and issues within the Company's operations, and, as necessary, takes actions intended to limit the Company's exposure to potential liability. Although these costs cannot be predicted with certainty, management believes that the ultimate outcome of identified matters will not have a material adverse effect on the Company's consolidated financial statements.

*Personal Injury.* The Company's personal injury liability is based on semi-annual actuarial studies performed on an undiscounted basis by an independent third party actuarial firm and reviewed by management. This liability is based on personal injury claims filed and an estimate of claims incurred but not yet reported. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation. Adjustments to the liability are reflected within operating expenses in the period in which changes to estimates are known. Personal injury claims in excess of self-insurance levels are insured up to certain coverage amounts, depending on the type of claim and year of

occurrence. The personal injury liability as of December 31, 2021, is based on an updated actuarial study of personal injury claims through October 31, 2021, and review of the last two months' experience. For the years ended December 31, 2021 and 2020, the Company recognized a decrease of $1.4 million and an increase of $9.4 million, respectively, in personal injury liability, due to changes in estimates as a result of the Company's claims development and settlement experience.

The personal injury liability activity was as follows *(in millions):*

| | 2021 | 2020 |
|---|---|---|
| Balance at beginning of year | $ 31.3 | $ 20.9 |
| Accruals | 6.3 | 6.3 |
| Changes in estimate | (1.4) | 9.4 |
| Payments | (3.6) | (5.3) |
| Balance at end of year | $ 32.6 | $ 31.3 |

*Tax Contingencies.* Information regarding tax contingencies is included in Note 13, Income Taxes — Tax Contingencies.

*Contractual Agreements.* In the normal course of business, the Company enters into various contractual agreements related to commercial arrangements and the use of other railroads' or governmental entities' infrastructure needed for the operations of the business. The Company is involved or may become involved in certain disputes involving transportation rates, product loss or damage, charges, and interpretations related to these agreements. While the outcome of these matters cannot be predicted with certainty, the Company believes that, when resolved, these disputes will not have a material effect on its consolidated financial statements.

*Credit Risk.* The Company continually monitors risks related to economic changes and certain customer receivables concentrations. Significant changes in customer concentration or payment terms, deterioration of customer creditworthiness, bankruptcy, insolvency or liquidation of a customer, or weakening in economic trends could have a significant impact on the collectability of the Company's receivables and its operating results. If the financial condition of the Company's customers were to deteriorate and result in an impairment of their ability to make payments, additional allowances may be required. The Company has recorded provisions for uncollectability based on its best estimate as of December 31, 2021.

*Panama Canal Railway Company ("PCRC") Guarantees and Indemnities.* At December 31, 2021, the Company had issued and outstanding $5.7 million under a standby letter of credit to fulfill its obligation to fund fifty percent of the debt service reserve and liquidity reserve established by PCRC in connection with the issuance of the 7.0% Senior Secured Notes due November 1, 2026 (the "PCRC Notes"). Additionally, KCS has pledged its shares of PCRC as security for the PCRC Notes.

**Note 17. Quarterly Financial Data (Unaudited)**

| | Fourth | Third | Second | First |
|---|---|---|---|---|
| | (In millions, except per share amounts) | | | |
| **2021** | | | | |
| Revenues | $ 747.8 | $ 744.0 | $ 749.5 | $ 706.0 |
| Operating income (loss) (i) | 810.6 | 251.9 | (431.7) | 253.0 |
| Net income (loss) | 595.1 | 156.5 | (378.0) | 153.4 |
| Net income (loss) attributable to Kansas City Southern and subsidiaries | 594.5 | 156.2 | (378.5) | 153.0 |
| **2020** | | | | |
| Revenues | $ 693.4 | $ 659.6 | $ 547.9 | $ 731.7 |
| Operating income (ii)(iii) | 262.3 | 271.5 | 180.4 | 288.8 |
| Net income (iv) | 166.3 | 190.2 | 110.3 | 152.3 |
| Net income attributable to Kansas City Southern and subsidiaries | 165.7 | 189.8 | 109.7 | 151.8 |

(i) During the first, second, third and fourth quarters of 2021, the Company recognized pre-tax net merger costs (income) of $19.3 million, $720.8 million, $36.5 million, and $(512.6) million, respectively, related to the Company's various merger activities. The large fluctuations between the quarters are driven by the recognition and reversal of merger termination fees. See more details regarding the termination fees in Note 3, Merger Agreement.

(ii) During the first, second and third quarters of 2020, the Company recognized pre-tax restructuring charges of $6.0 million, $10.5 million and $0.5 million, respectively, within operating expenses related to the Company's voluntary separation program and the purchase of impaired, leased locomotives.

(iii) During the fourth quarter of 2020, the Company recognized $13.6 million of pre-tax expense within operating expenses related to the write-off of software development costs.

(iv) During the first, second and third quarters of 2020, the Company recognized tax expense of $2.2 million and $2.0 million, and a benefit of $4.2 million, respectively, for GILTI tax expense recognized in the first and second quarters of 2020, and subsequently reversed in the third quarter of 2020 when GILTI regulations were finalized. Additionally, during the third quarter of 2020, the Company recognized a $14.5 million tax benefit for the reversal of 2018 and 2019 GILTI tax expense recognized in prior years' consolidated financial statements.

**Note 18. Geographic Information**

The Company strategically manages its rail operations as one reportable business segment over a single coordinated rail network that extends from the midwest and southeast portions of the United States south into Mexico and connects with other Class I railroads. Financial information reported at this level, such as revenues, operating income and cash flows from operations, is used by corporate management, including the Company's chief operating decision-maker, in evaluating overall financial and operational performance, market strategies, as well as the decisions to allocate capital resources. The Company's chief operating decision-maker is the chief executive officer.

The following tables provide information by geographic area *(in millions)*:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Revenues | | | |
| U.S. | $ 1,580.6 | $ 1,388.5 | $ 1,493.5 |
| Mexico | 1,366.7 | 1,244.1 | 1,372.5 |
| Total revenues | $ 2,947.3 | $ 2,632.6 | $ 2,866.0 |

| | December 31, | |
|---|---|---|
| | 2021 | 2020 |
| Property and equipment (including Concession assets), net | | |
| U.S. | $ 5,744.4 | $ 5,594.6 |
| Mexico | 3,464.9 | 3,403.2 |
| Total property and equipment (including Concession assets), net | $ 9,209.3 | $ 8,997.8 |

**Note 19. Subsequent Events**

***KCS Dividend to CP***

On January 27, 2022, pursuant to the Merger Agreement, KCS paid a cash dividend of $265.0 million to a wholly-owned subsidiary of CP.

***Foreign Currency Hedging***

At December 31, 2021, the Company had outstanding foreign currency forward contracts with an aggregate notional amount of $270.0 million, which matured during January 2022 and obligated the Company to sell a total of Ps.5,583.3 million at a weighted-average rate of Ps.20.7 to each U.S. dollar. During January 2022, the Company entered into offsetting contracts with an aggregate notional amount of $271.1 million, which matured during January 2022 and obligated the Company to purchase a total of Ps.5,583.3 million at a weighted-average exchange rate of Ps.20.6 to each U.S. dollar, resulting in cash paid of $1.7 million.

During January 2022, the Company entered into several foreign currency forward contracts with an aggregate notional amount of $110.0 million and maturity dates in January 2023. These contracts obligated the Company to sell a total of Ps.2,426.2 million at a weighted-average exchange rate of Ps.22.1 to each U.S. dollar. During January 2022, as a result of a change in the Company's currency exposure, the Company entered into offsetting contracts with an aggregate notional amount of $50.5 million, which were settled during January 2022 and obligated the Company to purchase a total of Ps.1,105.3 million at a weighted-average exchange rate of Ps.21.9 to each U.S. dollar, resulting in cash paid of $0.5 million. As of the date of this filing, there were $60.0 million aggregate notional amount of contracts outstanding, which obligate the Company to sell a total of Ps.1,320.9 million at a weighted average exchange rate of Ps.22.0 to each U.S. dollar.

The Company has not designated these foreign currency derivative instruments as hedging instruments for accounting purposes. The Company will measure the foreign currency derivative instruments at fair value each period and will recognize any change in fair value in foreign exchange gain (loss) within the consolidated statements of income.