ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 Interim Consolidated Financial Statements and the related notes as at and for the three and nine months ended September 30, 2024 in Item 1. Financial Statements, other information in this report, and Item 8. Financial Statements and Supplementary Data of the Company's 2023 Annual Report on Form 10-K. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars.

In this Quarterly Report on Form 10-Q, unless the context indicates otherwise, references to "CPKC", "the Company", "our", or "us" are to Canadian Pacific Kansas City Limited ("CPKC") and its subsidiaries, which includes Kansas City Southern ("KCS") as a consolidated subsidiary on and from April 14, 2023 (the "Control Date"). For the period beginning on January 1, 2023 and ending on April 13, 2023, the Company's 100% interest in KCS was accounted for and reported as an equity-method investment.

Available Information

The Company makes available on or through its website www.cpkcr.com 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 as soon as reasonably practicable after such reports are filed with or furnished to the Securities and Exchange Commission (“SEC”). Our website also contains charters for our Board of Directors and each of its committees, our corporate governance guidelines and our Code of Business Ethics. SEC filings made by the Company are also accessible through the SEC’s website at www.sec.gov. The information on our website is not part of this quarterly report on Form 10-Q.

The Company has included the Chief Executive Officer's (“CEO”) and Chief Financial Officer's certifications regarding the Company's public disclosure required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits to this report.

Executive Summary

Third Quarter of 2024 Results

- Total revenues were $3,549 million, an increase of 6% compared to the same period of 2023. The increase was primarily due to higher volumes as measured by revenue ton-miles ("RTMs") and increased freight revenue per RTM.
- Diluted earnings per share ("EPS") was $0.90, an increase of 7% compared to the same period of 2023.
- Core adjusted combined diluted EPS was $0.99, an increase of 8% compared to the same period of 2023.
- Operating ratio was 66.1%, a 120 basis point increase compared to the same period of 2023.
- Core adjusted combined operating ratio was 62.9%, a 120 basis point increase compared to the same period of 2023.

Core adjusted combined diluted EPS and Core adjusted combined operating ratio are defined and reconciled in the "Non-GAAP Measures" section of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Recent Developments

- On August 9, 2024, CPKC issued a notice to the Teamsters Canada Rail Conference ("TCRC") - Train and Engine ("T&E") division and TCRC - Rail Traffic Controller ("RCTC") division, of its plan to lock out employees if the TCRC leadership and the Company were unable to come to a negotiated settlement or agree to binding interest arbitration. On August 18, 2024, the TCRC - T&E division and TCRC - RCTC division issued notice to CPKC, of their plan to exercise their right to strike if the parties were unable to reach negotiated settlements. On August 22, 2024, a work stoppage commenced. The TCRC - T&E represents approximately 3,200 locomotive engineers, conductors and train and yard workers, and the TCRC - RCTC represents approximately 80 rail traffic controllers, all in Canada. On August 26, 2024, CPKC announced it restarted railway operations in Canada following the Canada Industrial Relations Board's order imposing binding interest arbitration and requiring CPKC to resume operations and TCRC employees to resume their duties.

- On December 1, 2023, CPKC and Genesee & Wyoming Inc. ("G&W") entered into an agreement in which G&W will transfer to CPKC the track and roadway assets owned by Meridian & Bigbee Railroad, L.L.C. (a G&W-owned company) located between Meridian, Mississippi and Myrtlewood, Alabama, and in exchange, CPKC will transfer certain assets and operating rights to G&W or its subsidiaries. The transaction was approved subject to certain conditions, by the United States Surface Transportation Board (the “STB”), on October 17, 2024 and the STB’s decision will be effective on November 16, 2024.

Performance Indicators

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

	For the three months ended September 30			For the nine months ended September 30		
	2024	2023	% Change	**2024**	2023	% Change
Operations Performance						
Gross ton-miles (“GTMs”) (millions)	**94,869**	90,987	4	**287,257**	247,086	16
Train miles (thousands)	**11,257**	10,979	3	**34,776**	28,813	21
Fuel efficiency (U.S. gallons of locomotive fuel consumed / 1,000 GTMs)	**1.016**	1.036	(2)	**1.036**	1.019	2
Total employees (average)	**20,164**	20,310	(1)	**20,201**	17,608	15

These key measures are used by management in the planning process to facilitate decisions that continue to drive further productivity improvements in the Company's operations. These key measures reflect how effective the Company’s management is at controlling costs and executing the Company’s operating plan and strategy. Continued monitoring of these key measures enables the Company to take appropriate actions to deliver superior service and grow its business at low incremental cost.

A **GTM** is defined as the movement of one ton of train weight over one mile. GTMs are calculated by multiplying total train weight by the distance the train moved. Total train weight comprises the weight of the freight cars, their contents, and any inactive locomotives. An increase in GTMs indicates additional workload. The increase in GTMs in the third quarter of 2024 was primarily due to higher volumes of Grain, Potash, Energy, chemicals and plastics, and international intermodal, partially offset by lower volumes of Metals, minerals and consumer products.

The increase in GTMs in the first nine months of 2024 was primarily due to the impact of the KCS acquisition and higher volumes of U.S. grain, Energy, chemicals and plastics, Potash, international intermodal, and Automotive, partially offset by lower volumes of Metals, minerals and consumer products.

Train miles are defined as the sum of the distance moved by all trains operated on the network. Train miles provide a measure of the productive utilization of our network. A smaller increase in train miles relative to increases in volumes, as measured by RTMs, and/or workload, as measured by GTMs, indicates improved train productivity. The increase in train miles in the third quarter of 2024 reflected the impact of a 4% increase in workload (GTMs), partially offset by a 2% increase in average train weights.

The increase in train miles in the first nine months of 2024 reflected the impact of a 16% increase in workload (GTMs) and a 4% decrease in average train weights, which was primarily due to the impact of the KCS acquisition.

Fuel efficiency is defined as U.S. gallons of locomotive fuel consumed per 1,000 GTMs. Fuel consumed includes gallons from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities. An improvement in fuel efficiency indicates operational cost savings. The improvement in fuel efficiency in the third quarter of 2024 was due to an improvement in horsepower utilization. The 2% increase in the first nine months of 2024 was due to a decrease in average train weights by 4%, which was primarily due to lower horsepower utilization and harsher winter operating conditions in January 2024.

An **employee** is defined as an individual currently engaged in full-time, part-time, or seasonal employment with the Company. The Company monitors employment and workforce levels in order to efficiently meet service and strategic requirements. The number of employees is a key driver to total compensation and benefits costs. The average number of total employees in the third quarter was relatively unchanged. The increase in the average number of total employees in the first nine months of 2024 was primarily due to the acquisition of KCS.

Financial Highlights

The following table presents selected financial data related to the Company's financial results for the three and nine months ended September 30, 2024 and the comparative periods in 2023.

	For the three months ended September 30		For the nine months ended September 30	
(in millions, except per share data, percentages and ratios)	**2024**	2023	**2024**	2023
Financial Performance				
Total revenues	**$ 3,549**	$ 3,339	**$ 10,672**	$ 8,779
Operating income	**1,203**	1,173	**3,619**	2,946
Net income attributable to controlling shareholders	**837**	780	**2,517**	2,904
Basic EPS	**0.90**	0.84	**2.70**	3.12
Diluted EPS	**0.90**	0.84	**2.69**	3.11
Core adjusted combined diluted EPS(1)	**0.99**	0.92	**2.96**	2.66
Dividends declared per share	**0.19**	0.19	**0.57**	0.57
Financial Ratios				
Operating ratio(2)	**66.1%**	64.9%	**66.1%**	66.4%
Core adjusted combined operating ratio(1)	**62.9%**	61.7%	**62.9%**	63.3%

(1) These measures have no standardized meanings prescribed by accounting principles generally accepted in the United States of America ("GAAP") and, therefore, may not be comparable to similar measures presented by other companies. These measures are defined and reconciled in the Non-GAAP Measures section.

(2) Operating ratio is defined as total operating expenses divided by total revenues.

Results of Operations

Operating Revenues

The Company's revenues are primarily derived from transporting freight. Changes in freight volumes generally contribute to corresponding changes in Freight revenues and certain variable expenses such as fuel, equipment rents, and crew costs. Non-freight revenues are generated from leasing certain assets, interline switching, and other arrangements including contracts with passenger service operators, subsurface and mineral rights agreements, and logistical services.

For the three months ended September 30	**2024**	2023	Total Change	% Change
Freight revenues (in millions)	**$ 3,461**	$ 3,266	$ 195	6
Non-freight revenues (in millions)	**88**	73	15	21
Total revenues (in millions)	**$ 3,549**	$ 3,339	$ 210	6
Carloads (in thousands)	**1,092.1**	1,129.3	(37.2)	(3)
Revenue ton-miles (in millions)	**51,520**	49,320	2,200	4
Freight revenue per carload (in dollars)	**$ 3,169**	$ 2,892	$ 277	10
Freight revenue per revenue ton-mile (in cents)	**6.72**	6.62	0.10	2

Total Revenues

The increase in Freight revenues in the third quarter of 2024 was primarily due to higher volumes as measured by RTMs and increased freight revenue per RTM. The increase in Non-freight revenues was primarily due to higher leasing revenues.

RTMs

RTMs are defined as the movement of one revenue-producing ton of freight over a distance of one mile. RTMs measure the relative weight and distance of rail freight moved by the Company. The increase in RTMs in the third quarter of 2024 was primarily due to moving higher volumes of Grain, Potash, Energy, chemicals and plastics, and international intermodal, partially offset by lower volumes of Metals, minerals and consumer products.

Freight Revenue per RTM

Freight revenue per RTM is defined as freight revenue per revenue-producing ton of freight over a distance of one mile. This is an indicator of yield. The increase in freight revenue per RTM in the third quarter of 2024 was primarily due to higher freight rates and the favourable impact of the change in foreign exchange "FX" of $20 million, partially offset by the unfavourable impact of lower fuel prices on fuel surcharge revenue of $7 million.

For the nine months ended September 30	**2024**	2023	Total Change	% Change
Freight revenues (in millions)	**$ 10,422**	$ 8,584	$ 1,838	21
Non-freight revenues (in millions)	**250**	195	55	28
Total revenues (in millions)	**$ 10,672**	$ 8,779	$ 1,893	22
Carloads (in thousands)	**3,250.1**	2,878.5	371.6	13
Revenue ton-miles (in millions)	**155,488**	134,229	21,259	16
Freight revenue per carload (in dollars)	**$ 3,207**	$ 2,982	$ 225	8
Freight revenue per revenue ton-mile (in cents)	**6.70**	6.40	0.30	5

Total Revenues
The increase in Freight revenues in the first nine months of 2024 was primarily due to the impact of the KCS acquisition of $1,375 million, higher volumes as measured by RTMs, and increased freight revenue per RTM. The increase in Non-freight revenues was primarily due to higher revenue from a fibre optic agreement and the impact of the KCS acquisition of $21 million.

RTMs
The increase in RTMs in the first nine months of 2024 was primarily due to the impact of the KCS acquisition and higher volumes of U.S. grain, Energy, chemicals and plastics, Potash, international intermodal, and Automotive, partially offset by lower volumes of Metals, minerals and consumer products.

Freight Revenue per RTM
The increase in freight revenue per RTM in the first nine months of 2024 was primarily due to higher freight rates and the favourable impact of the change in FX of $67 million, partially offset by the unfavourable impact of lower fuel prices on fuel surcharge revenue of $77 million.

Fuel Cost Adjustment Program

Freight revenues include fuel surcharge revenues associated with the Company's fuel cost adjustment program, which is designed to respond to fluctuations in fuel prices and reduce exposure to changes in fuel prices. The surcharge is applied to shippers through tariffs and by contract, within agreed-upon guidelines. This program includes recoveries of carbon taxes, levies, and obligations under cap-and-trade programs. Freight revenues included fuel surcharge revenues of $400 million in the third quarter of 2024, a decrease of $1 million from $401 million in the same period of 2023. This decrease was primarily due to lower fuel prices, partially offset by the favourable impact from the timing of recoveries under the Company's fuel cost adjustment program, increased carbon levy surcharge revenue, and higher volumes.

In the first nine months of 2024, fuel surcharge revenues were $1,254 million, an increase of $138 million, or 12%, from $1,116 million in the same period of 2023. This increase was primarily due to the impact of the KCS acquisition, higher volumes, increased carbon levy surcharge revenue, the favourable impact from the timing of recoveries under the Company's fuel cost adjustment program, and the favourable impact of the change in FX, partially offset by lower fuel prices.

Lines of Business

Grain

For the three months ended September 30	**2024**	2023	Total Change	% Change
Freight revenues (in millions)	**$ 668**	$ 600	$ 68	11
Carloads (in thousands)	**127.0**	127.4	(0.4)	—
Revenue ton-miles (in millions)	**13,193**	12,284	909	7
Freight revenue per carload (in dollars)	**$ 5,260**	$ 4,710	$ 550	12
Freight revenue per revenue ton-mile (in cents)	**5.06**	4.88	0.18	4

The increase in Grain revenue in the third quarter of 2024 was primarily due to higher volumes of U.S. grain, primarily soybeans and wheat to Mexico and corn to the U.S. Pacific Northwest, higher volumes of Canadian grain to Mexico and Vancouver, British Columbia ("B.C."), and increased freight revenue per RTM. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX. RTMs increased while carloads remained flat due to moving higher volumes of U.S. grain from the U.S. Midwest to Mexico and the U.S. Pacific Northwest, which have longer lengths of haul.

For the nine months ended September 30	**2024**	2023	Total Change	% Change
Freight revenues (in millions)	**$ 2,063**	$ 1,652	$ 411	25
Carloads (in thousands)	**388.2**	349.2	39.0	11
Revenue ton-miles (in millions)	**41,003**	33,245	7,758	23
Freight revenue per carload (in dollars)	**$ 5,314**	$ 4,731	$ 583	12
Freight revenue per revenue ton-mile (in cents)	**5.03**	4.97	0.06	1

The increase in Grain revenue in the first nine months of 2024 was primarily due to the impact of the KCS acquisition, higher volumes of U.S. corn to the U.S. Pacific Northwest and Mexico, higher volumes of U.S. soybeans and wheat and Canadian grain to Mexico, and increased freight revenue per RTM. This increase was partially offset by lower volumes of Canadian grain to Vancouver due to a smaller 2023-2024 crop size and the unfavourable impact of lower fuel prices on fuel surcharge revenue. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX. RTMs increased more than carloads due to moving higher volumes of U.S. grain from the U.S. Midwest to the U.S. Pacific Northwest and Mexico, which have longer lengths of haul.

Coal

For the three months ended September 30	**2024**	2023	Total Change	% Change
Freight revenues (in millions)	**$ 248**	$ 229	$ 19	8
Carloads (in thousands)	**121.7**	128.4	(6.7)	(5)
Revenue ton-miles (in millions)	**5,951**	6,081	(130)	(2)
Freight revenue per carload (in dollars)	**$ 2,038**	$ 1,783	$ 255	14
Freight revenue per revenue ton-mile (in cents)	**4.17**	3.77	0.40	11

The increase in Coal revenue in the third quarter of 2024 was primarily due to increased freight revenue per RTM and higher volumes of Canadian coal to Kamloops, B.C. This increase was partially offset by lower volumes of U.S. coal primarily driven by lower natural gas prices, which decreases demand for thermal coal, lower volumes of Canadian coal to Vancouver, and the unfavourable impact of lower fuel prices on fuel surcharge revenue. Freight revenue per RTM increased due to higher freight rates. Carloads decreased more than RTMs due to moving lower volumes of U.S. coal versus Canadian coal, which has a shorter average length of haul.

For the nine months ended September 30	**2024**	2023	Total Change	% Change
Freight revenues (in millions)	**$ 693**	$ 603	$ 90	15
Carloads (in thousands)	**338.8**	315.6	23.2	7
Revenue ton-miles (in millions)	**16,997**	15,700	1,297	8
Freight revenue per carload (in dollars)	**$ 2,045**	$ 1,911	$ 134	7
Freight revenue per revenue ton-mile (in cents)	**4.08**	3.84	0.24	6

The increase in Coal revenue in the first nine months of 2024 was primarily due to the impact of the KCS acquisition, increased freight revenue per RTM, and higher volumes of Canadian coal to Vancouver. This increase was partially offset by lower volumes of U.S. coal driven by lower natural gas prices, which decreases demand for thermal coal, lower volumes of Canadian coal to Kamloops, and the unfavourable impact of lower fuel prices on fuel surcharge revenue. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX.

Potash

For the three months ended September 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	**$ 144**	$ 133	$ 11	8
Carloads (in thousands)	**40.6**	34.9	5.7	16
Revenue ton-miles (in millions)	**4,484**	3,736	748	20
Freight revenue per carload (in dollars)	**$ 3,547**	$ 3,811	$ (264)	(7)
Freight revenue per revenue ton-mile (in cents)	**3.21**	3.56	(0.35)	(10)

The increase in Potash revenue in the third quarter of 2024 was primarily due to higher volumes of export potash to Vancouver and Kamloops as a result of the prior year impact of the International Longshore and Warehouse Union's ("ILWU") strike in July 2023, higher volumes of export potash to the U.S. Pacific Northwest due to recovery of operations following an equipment failure at the Port of Portland, Oregon in 2023, and higher freight rates. This increase was partially offset by decreased freight revenue per RTM, lower volumes of export potash to Chicago, Illinois, and lower volumes of domestic potash. Freight revenue per RTM decreased due to the unfavourable impact of lower fuel prices on fuel surcharge revenue. RTMs increased more than carloads due to moving higher volumes of export potash to Vancouver, which has a longer length of haul.

For the nine months ended September 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	**$ 461**	$ 409	$ 52	13
Carloads (in thousands)	**127.0**	111.6	15.4	14
Revenue ton-miles (in millions)	**13,559**	12,236	1,323	11
Freight revenue per carload (in dollars)	**$ 3,630**	$ 3,665	$ (35)	(1)
Freight revenue per revenue ton-mile (in cents)	**3.40**	3.34	0.06	2

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

Fertilizers and Sulphur

For the three months ended September 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	**$ 91**	$ 91	$ —	—
Carloads (in thousands)	**15.4**	15.4	—	—
Revenue ton-miles (in millions)	**1,167**	1,151	16	1
Freight revenue per carload (in dollars)	**$ 5,909**	$ 5,909	$ —	—
Freight revenue per revenue ton-mile (in cents)	**7.80**	7.91	(0.11)	(1)

Fertilizers and sulphur revenue was flat in the third quarter of 2024 primarily due to higher freight rates, higher volumes of wet fertilizers, and the favourable impact of the change in FX, offset by decreased freight revenue per RTM. Freight revenue per RTM decreased due to the unfavourable impact of lower fuel prices on fuel surcharge revenue.

For the nine months ended September 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	**$ 298**	$ 276	$ 22	8
Carloads (in thousands)	**49.6**	47.6	2.0	4
Revenue ton-miles (in millions)	**3,838**	3,598	240	7
Freight revenue per carload (in dollars)	**$ 6,008**	$ 5,798	$ 210	4
Freight revenue per revenue ton-mile (in cents)	**7.76**	7.67	0.09	1

The increase in Fertilizers and sulphur revenue in the first nine months of 2024 was primarily due to higher volumes of dry fertilizers and sulphur moving between Chicago and Alberta, higher volumes of wet fertilizers, the impact of the KCS acquisition, and increased freight revenue per RTM, partially offset by the unfavourable impact of lower fuel prices on fuel surcharge revenue. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX. RTMs increased more than carloads due to moving higher volumes of dry fertilizers and sulphur between Chicago and Alberta, which have longer lengths of haul.

Forest Products

For the three months ended September 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	**$ 198**	$ 199	$ (1)	(1)
Carloads (in thousands)	**33.9**	37.0	(3.1)	(8)
Revenue ton-miles (in millions)	**2,224**	2,256	(32)	(1)
Freight revenue per carload (in dollars)	**$ 5,841**	$ 5,378	$ 463	9
Freight revenue per revenue ton-mile (in cents)	**8.90**	8.82	0.08	1

The decrease in Forest products revenue in the third quarter of 2024 was primarily due to lower volumes of paperboard and wood pulp and the unfavourable impact of lower fuel prices on fuel surcharge revenue. This decrease was partially offset by increased freight revenue per RTM and higher volumes of lumber from Alberta to Texas. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX. Carloads decreased more than RTMs due to moving lower volumes of wood pulp from Ontario to the U.S. Northeast and Québec, which have shorter lengths of haul, and from moving higher volumes of lumber from Alberta to Texas, which has a longer length of haul.

For the nine months ended September 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	**$ 603**	$ 489	$ 114	23
Carloads (in thousands)	**104.4**	89.5	14.9	17
Revenue ton-miles (in millions)	**6,712**	5,768	944	16
Freight revenue per carload (in dollars)	**$ 5,776**	$ 5,464	$ 312	6
Freight revenue per revenue ton-mile (in cents)	**8.98**	8.48	0.50	6

The increase in Forest products revenue in the first nine months of 2024 was primarily due to the impact of the KCS acquisition, higher volumes of lumber from Alberta, B.C., and Ontario to Texas and the U.S. Midwest, higher freight rates, and the favourable impact of the change in FX. This increase was partially offset by lower volumes of wood pulp and paperboard and the unfavourable impact of lower fuel prices on fuel surcharge revenue.

Energy, Chemicals and Plastics

For the three months ended September 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	**$ 712**	$ 643	$ 69	11
Carloads (in thousands)	**145.6**	139.0	6.6	5
Revenue ton-miles (in millions)	**9,548**	9,006	542	6
Freight revenue per carload (in dollars)	**$ 4,890**	$ 4,626	$ 264	6
Freight revenue per revenue ton-mile (in cents)	**7.46**	7.14	0.32	4

The increase in Energy, chemicals and plastics revenue in the third quarter of 2024 was primarily due to higher volumes of fuel oil, plastics, ethylene glycol, and biofuels, and increased freight revenue per RTM, partially offset by the unfavourable impact of lower fuel prices on fuel surcharge revenue. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX.

For the nine months ended September 30	**2024**	2023	Total Change	% Change
Freight revenues (in millions)	**$ 2,109**	$ 1,584	$ 525	33
Carloads (in thousands)	**432.5**	341.7	90.8	27
Revenue ton-miles (in millions)	**28,911**	23,218	5,693	25
Freight revenue per carload (in dollars)	**$ 4,876**	$ 4,636	$ 240	5
Freight revenue per revenue ton-mile (in cents)	**7.29**	6.82	0.47	7

The increase in Energy, chemicals and plastics revenue in the first nine months of 2024 was primarily due to the impact of the KCS acquisition, higher volumes of fuel oil, conventional crude from Alberta to Chicago, plastics, and ethylene glycol, and increased freight revenue per RTM, partially offset by the unfavourable impact of lower fuel prices on fuel surcharge revenue. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX.

Metals, Minerals and Consumer Products

For the three months ended September 30	**2024**	2023	Total Change	% Change
Freight revenues (in millions)	**$ 443**	$ 455	$ (12)	(3)
Carloads (in thousands)	**127.9**	133.7	(5.8)	(4)
Revenue ton-miles (in millions)	**4,865**	5,279	(414)	(8)
Freight revenue per carload (in dollars)	**$ 3,464**	$ 3,403	$ 61	2
Freight revenue per revenue ton-mile (in cents)	**9.11**	8.62	0.49	6

The decrease in Metals, minerals and consumer products revenue in the third quarter of 2024 was primarily due to lower volumes of steel and aggregates, lower volumes of frac sand to the Bakken and Permian Basin shale formations, and the unfavourable impact of lower fuel prices on fuel surcharge revenue, partially offset by increased freight revenue per RTM. Freight revenue per RTM increased due to higher freight rates. RTMs decreased more than carloads due to moving lower volumes of frac sand to the Bakken shale formation, which has a longer length of haul.

For the nine months ended September 30	**2024**	2023	Total Change	% Change
Freight revenues (in millions)	**$ 1,347**	$ 1,128	$ 219	19
Carloads (in thousands)	**392.2**	324.8	67.4	21
Revenue ton-miles (in millions)	**14,540**	13,342	1,198	9
Freight revenue per carload (in dollars)	**$ 3,434**	$ 3,473	$ (39)	(1)
Freight revenue per revenue ton-mile (in cents)	**9.26**	8.45	0.81	10

The increase in Metals, minerals and consumer products revenue in the first nine months of 2024 was primarily due to the impact of the KCS acquisition and increased freight revenue per RTM. This increase was partially offset by lower volumes of frac sand to the Bakken and Permian Basin shale formations, lower volumes of steel and aggregates, and the unfavourable impact of lower fuel prices on fuel surcharge revenue. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX. Carloads increased more than RTMs due to the impact of the KCS acquisition as KCS has a shorter average length of haul and due to moving lower volumes of frac sand to the Bakken shale formation, which has a longer length of haul.

Automotive

For the three months ended September 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	**$ 333**	$ 266	$ 67	25
Carloads (in thousands)	**63.7**	58.5	5.2	9
Revenue ton-miles (in millions)	**1,391**	1,029	362	35
Freight revenue per carload (in dollars)	**$ 5,228**	$ 4,547	$ 681	15
Freight revenue per revenue ton-mile (in cents)	**23.94**	25.85	(1.91)	(7)

The increase in Automotive revenue in the third quarter of 2024 was primarily due to higher volumes from Mexico to various locations in North America and from Vancouver to eastern Canada and higher freight rates, partially offset by decreased freight revenue per RTM. Freight revenue per RTM decreased due to the unfavourable impact of lower fuel prices on fuel surcharge revenue and the unfavourable impact of the change in FX. RTMs increased more than carloads due to moving higher volumes from Mexico to the U.S. Midwest and from Vancouver to eastern Canada, which have longer lengths of haul.

For the nine months ended September 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	**$ 956**	$ 648	$ 308	48
Carloads (in thousands)	**185.5**	143.4	42.1	29
Revenue ton-miles (in millions)	**3,694**	2,507	1,187	47
Freight revenue per carload (in dollars)	**$ 5,154**	$ 4,519	$ 635	14
Freight revenue per revenue ton-mile (in cents)	**25.88**	25.85	0.03	—

The increase in Automotive revenue in the first nine months of 2024 was primarily due to higher volumes from Mexico to various locations in North America, from Vancouver to eastern Canada, and from Ontario to the U.S. Midwest, the impact of the KCS acquisition, higher freight rates, and the favourable impact of the change in FX. This increase was partially offset by the unfavourable impact of lower fuel prices on fuel surcharge revenue. RTMs increased more than carloads due to moving higher volumes from Mexico to the U.S. Midwest and from Vancouver to eastern Canada, which have longer lengths of haul.

Intermodal

For the three months ended September 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	**$ 624**	$ 650	$ (26)	(4)
Carloads (in thousands)	**416.3**	455.0	(38.7)	(9)
Revenue ton-miles (in millions)	**8,697**	8,498	199	2
Freight revenue per carload (in dollars)	**$ 1,499**	$ 1,429	$ 70	5
Freight revenue per revenue ton-mile (in cents)	**7.17**	7.65	(0.48)	(6)

The decrease in Intermodal revenue in the third quarter of 2024 was primarily due to decreased freight revenue per RTM and lower domestic intermodal volumes between Mexico and Texas. This decrease was partially offset by higher international intermodal volumes to and from the Port of Vancouver, B.C. due to onboarding a new customer and the prior year impact of the ILWU's strike in July 2023, higher freight rates, and the favourable impact of the change in FX. Freight revenue per RTM decreased due to the unfavourable impact of lower fuel prices on fuel surcharge revenue. Carloads decreased while RTMs increased due to moving lower domestic intermodal volumes between Mexico and Texas, which has a shorter length of haul, and moving higher international intermodal volumes to and from the Port of Vancouver, which has a longer length of haul.

For the nine months ended September 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	**$ 1,892**	$ 1,795	$ 97	5
Carloads (in thousands)	**1,231.9**	1,155.1	76.8	7
Revenue ton-miles (in millions)	**26,234**	24,615	1,619	7
Freight revenue per carload (in dollars)	**$ 1,536**	$ 1,554	$ (18)	(1)
Freight revenue per revenue ton-mile (in cents)	**7.21**	7.29	(0.08)	(1)

The increase in Intermodal revenue in the first nine months of 2024 was primarily due to the impact of the KCS acquisition, higher international intermodal volumes to and from the Port of Vancouver, including onboarding a new customer, higher domestic intermodal wholesale volumes, higher freight rates, and the favourable impact of the change in FX. This increase was partially offset by decreased freight revenue per RTM, lower domestic intermodal volumes between Mexico and Texas, and lower international intermodal volumes to and from the Port of Montréal, Québec. Freight revenue per RTM decreased due to the unfavourable impact of lower fuel prices on fuel surcharge revenue.

Operating Expenses

For the three months ended September 30 (in millions of Canadian dollars)	2024	2023	Total Change	% Change
Compensation and benefits	**$ 644**	$ 598	$ 46	8
Fuel	**419**	430	(11)	(3)
Materials	**99**	90	9	10
Equipment rents	**89**	91	(2)	(2)
Depreciation and amortization	**472**	451	21	5
Purchased services and other	**623**	506	117	23
Total operating expenses	**$ 2,346**	$ 2,166	$ 180	8

For the nine months ended September 30 (in millions of Canadian dollars)	2024	2023	Total Change	% Change
Compensation and benefits	**$ 1,946**	$ 1,695	$ 251	15
Fuel	**1,343**	1,153	190	16
Materials	**290**	260	30	12
Equipment rents	**253**	201	52	26
Depreciation and amortization	**1,412**	1,086	326	30
Purchased services and other	**1,809**	1,438	371	26
Total operating expenses	**$ 7,053**	$ 5,833	$ 1,220	21

Compensation and Benefits

Compensation and benefits expense includes employee wages, salaries, fringe benefits, and stock-based compensation. The increase in Compensation and benefits expense in the third quarter of 2024 was primarily due to an increase in stock-based compensation of $39 million largely driven by the changes in the common share price and the impact of wage and benefit inflation.

The increase in Compensation and benefits expense in the first nine months of 2024 was primarily due to the impact of the KCS acquisition of $243 million and the impact of wage and benefit inflation. This increase was partially offset by lower acquisition-related costs incurred by CPKC primarily due to restructuring charges of $50 million incurred by KCS in 2023.

Fuel

Fuel expense consists mainly of fuel used by locomotives and includes provincial, state, and federal fuel taxes. The decrease in Fuel expense in the third quarter of 2024 was primarily due to the impact of lower fuel price of $15 million and improved efficiency from running longer and heavier trains. This decrease was partially offset by an increase in workload, as measured by GTMs.

The increase in Fuel expense in the first nine months of 2024 was primarily due to the impact of the KCS acquisition of $179 million and the increase in workload, as measured by GTMs. This increase was partially offset by the impact of lower fuel prices of $18 million.

Materials

Materials expense includes the cost of materials used for the maintenance of track, locomotives, freight cars, and buildings, as well as software sustainment. The increase in Materials expense in the third quarter of 2024 was primarily due to increased locomotive maintenance.

The increase in Materials expense in the first nine months of 2024 was primarily due to the impact of the KCS acquisition of $33 million, partially offset by a decrease in freight car maintenance.

Equipment Rents

Equipment rents expense includes the cost associated with using other railways' freight cars, intermodal equipment, and locomotives, net of recoveries received from other railways for the use of the Company’s equipment. The decrease in Equipment rents expense in the third quarter of 2024 was primarily due to reduced payments from the use of other railways' freight cars and greater recoveries from other railways for their use of the Company's freight cars. This decrease was partially offset by cost inflation.

The increase in Equipment rents expense in the first nine months of 2024 was primarily due to the impact of the KCS acquisition of $37 million and lower recoveries from other railways for their use of the Company's locomotives. This increase was partially offset by greater recoveries from other railways for their use of the Company's freight cars.

Depreciation and Amortization

Depreciation and amortization expense is the charge associated with the use of track and roadway, rolling stock, buildings, and other depreciable assets, including assets related to the Company's concession with the Mexican government, as well as amortization of finite life intangible assets. The increase in Depreciation and amortization expense in the third quarter of 2024, compared to the same period in 2023, was primarily due to a larger depreciable asset base.

The increase in Depreciation and amortization expense in the first nine months of 2024, compared to the same period in 2023, was primarily due to the impact of the KCS acquisition of $255 million and a larger depreciable asset base.

Purchased Services and Other

Purchased services and other expense encompasses a wide range of third-party costs, including expenses for joint facilities, personal injury and damage claims, environmental remediation, property taxes, contractor and consulting fees, and insurance. The increase in Purchased services and other expense in the third quarter of 2024 was primarily due to:

- a 2023 business interruption insurance recovery of $51 million as a result of settlements reached with insurers by the Company related to a wildfire and flooding in B.C. in 2021;
- higher casualty incident cost; and
- the impact of cost inflation.

The increase in Purchased services and other expense in the first nine months of 2024 was primarily due to:

- the impact of the KCS acquisition of $235 million;
- a 2023 business interruption insurance recovery of $51 million as a result of settlements reached with insurers by the Company related to a wildfire and flooding in B.C. in 2021;
- higher casualty incident cost;
- the impact of cost inflation;
- higher terminal service costs;
- higher environmental management expenses; and
- the impact of the change in FX of $10 million.

This increase was partially offset by a one-time fee of $34 million (U.S. $25 million) received in connection with the Company's agreement to waive a departing executive's non-competition agreement with respect to their employment with Norfolk Southern Corporation and lower acquisition-related costs incurred by CPKC.

Other Income Statement Items

Equity Earnings of Kansas City Southern

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

The Company recognized $230 million (U.S. $170 million) of equity earnings of KCS for the period from January 1 to April 13, 2023. This amount was net of amortization of basis differences of $48 million (U.S. $35 million) associated with KCS purchase accounting, and was net of acquisition-related costs (net of tax) incurred by KCS. These basis differences related to depreciable property, plant and equipment, intangible assets with definite lives, and long-term debt, and were amortized over the related assets' remaining useful lives and the remaining terms to maturity of the debt instruments. Acquisition-related costs (net of tax) incurred by KCS in the period from January 1 to April 13, 2023, were $11 million (U.S. $8 million). KCS U.S. dollar historical results were translated at the average FX rate for the period January 1 to April 13, 2023 of $1.00 USD = $1.35 CAD.

Other Expense (Income)

Other expense (income) consists of gains and losses from the change in FX on cash and working capital, the impact of foreign currency forwards, financing costs, shareholder costs, equity earnings, and other non-operating expenditures.

In the third quarter of 2024, Other expense was $1 million, a decrease of $12 million, or 92%, from Other expense of $13 million in the same period of 2023. This change was primarily due to the favourable impact of a decrease in FX loss on re-measurement of net monetary assets and liabilities denominated in Mexican pesos.

In the first nine months of 2024, Other income was $41 million, a change of $77 million, or 214%, from Other expense of $36 million in the same period of 2023. This change was primarily due to:

- higher equity income of $30 million due to a settlement of a property disposition by an equity investee;
- a decrease in FX loss of $25 million on forward contracts to sell Mexican pesos and buy U.S.dollars (see Item 1. Financial Statements, Note 11 Financial Instruments for details); and
- a gain on debt extinguishment of $22 million (see Item 1. Financial Statements, Note 10 Debt for details).

Other Components of Net Periodic Benefit Recovery

Other components of net periodic benefit recovery are related to the Company's pension and other post-retirement and post-employment benefit plans. It includes interest cost on benefit obligation, expected return on plan assets, recognized net actuarial loss, and amortization of prior service costs. Other components of net periodic benefit recovery was $89 million and $265 million for the three and nine months ended September 30, 2024, an increase of $4 million or 5%, and $11 million or 4%, respectively, compared to the same periods of 2023. These increases were primarily due to a decrease in the interest cost on benefit obligation for the three and nine months ended September 30, 2024 of $5 million and $13 million, respectively.

Net Interest Expense

Net interest expense includes interest on long-term debt and finance leases. Net interest expense was $192 million in the third quarter of 2024, a decrease of $15 million, or 7%, from $207 million in the same period of 2023. The decrease was primarily due to lower interest expense of $12 million following repayment of maturing long-term debt.

Net interest expense was $598 million in the first nine months of 2024, an increase of $33 million, or 6%, from $565 million in the same period of 2023. The increase was primarily due to interest of $41 million incurred on debt previously issued by KCS and exchanged with Canadian Pacific Railway Company ("CPRC") following the acquisition of control.

Remeasurement Loss of Kansas City Southern

On April 14, 2023, the Company assumed control of KCS and began accounting for its acquisition as a business combination achieved in stages. The initial investment was accounted for using the equity method of accounting prior to assuming control. On control, the carrying value of the previously held equity investment in KCS was remeasured to its fair value and upon derecognition a loss of $7,175 million was recognized in the Company's Interim Consolidated Statements of Income. This loss was primarily due to the outside basis tax initially recognized upon investment in KCS.

Income Tax Expense (Recovery)

Income tax expense was $262 million in the third quarter of 2024, an increase of $4 million, or 2%, from $258 million in the same period of 2023. The increase was primarily due to higher taxable earnings.

Income tax expense was $813 million in the first nine months of 2024, an increase of $8,064 million, or 111%, from an income tax recovery of $7,251 million in the same period of 2023. The increase was primarily due to:

- a deferred income tax recovery of $7,832 million, recorded in the second quarter of 2023, on the derecognition of the deferred income tax liability on the outside basis difference of the investment in KCS upon acquiring control of KCS;
- the impact of the KCS acquisition of $103 million;
- higher current income tax expense due to higher taxable earnings;
- a deferred income tax recovery of $51 million, recorded in the second quarter of 2023, on the revaluation of deferred income tax balances on unitary state apportionment changes; and
- outside basis deferred income tax recovery of $23 million, recorded in the first quarter of 2023, arising from the change in the carrying amount of CP's investment in KCS for financial reporting.

The effective tax rates in the third quarter and first nine months of 2024 were 23.88% and 24.44%, respectively, compared to 24.88% and 166.83% in the same periods of 2023. The Core adjusted effective income tax rates in the third quarter and first nine months of 2024 were 24.24% and 24.75%, compared to 24.96% and 24.91%, respectively, for the same periods in 2023. The Company's 2024 Core adjusted effective tax rate is expected to be approximately 24.75%. The Core adjusted effective tax rate is a Non-GAAP measure, calculated as the effective tax rate adjusted for significant items as they are not considered indicative of future financial trends either by nature or amount nor provide comparability to past performance. The Company uses the Core adjusted effective tax rate to evaluate CPKC's operating performance and for planning and forecasting future profitability. Core adjusted effective tax rate also excludes equity earnings of KCS (net of tax) and KCS purchase accounting to provide financial statement users with additional transparency by isolating the impact of KCS purchase accounting. This Non-GAAP measure does not have a standardized meaning and is not defined by GAAP and, therefore, may not be comparable to similar measures presented by other companies. Significant items and KCS purchase accounting are discussed further in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. The Company's 2024 outlook for its Core adjusted 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. This is discussed further in Item 1A. Risk Factors of the Company's 2023 Annual Report on Form 10-K.

Impact of FX on Earnings and Foreign Exchange Risk

Although the Company is headquartered in Canada and reports in Canadian dollars, a significant portion of its revenues, expenses, assets and liabilities including debt are denominated in U.S. dollars and Mexican pesos. In addition, equity earnings of KCS recognized through April 13, 2023 are denominated in U.S. dollars. The value of the Canadian dollar is affected by a number of domestic and international factors, including, without limitation, economic performance, commodity prices, and Canadian, U.S., and international monetary policies. Fluctuations in FX affect the Company's results because revenues and expenses denominated in U.S. dollars and Mexican pesos are translated into Canadian dollars. U.S. dollar-denominated revenues and expenses increase (decrease) when the Canadian dollar weakens (strengthens) in relation to the U.S. dollar. Mexican peso-denominated revenues and expenses increase (decrease) when the U.S. dollar weakens (strengthens) in relation to the Mexican peso.

In the third quarter of 2024, the U.S. dollar strengthened to an average rate of $1.36 Canadian/U.S. dollar and the Mexican Peso weakened to an average rate of Ps. 13.88 Mexican Peso/Canadian dollar, compared to $1.34 Canadian/U.S. dollar and Ps. 12.72 Mexican Peso/Canadian dollar in the third quarter of 2023, resulting in an increase in Total revenues of $20 million, an increase in Total operating expenses of $2 million, and an increase in Net interest expense of $3 million from the same period of 2023.

In the first nine months of 2024, the U.S. dollar strengthened to an average rate of $1.36 Canadian/U.S. dollar and the Mexican peso strengthened to an average rate of Ps. 13.00 Mexican Peso/Canadian dollar, compared to $1.35 Canadian/U.S. dollar and Ps. 13.20 Mexican Peso/Canadian dollar in the first nine months of 2023, resulting in an increase in Total revenues of $68 million, an increase in Total operating expenses of $35 million, and an increase in interest expense of $6 million from the same period of 2023.

On an annualized basis, the Company expects that every $0.01 weakening (or strengthening) of the Canadian dollar relative to the U.S. dollar, positively (or negatively) impacts Total revenues by approximately $73 million (December 31, 2023 – approximately $75 million), negatively (or positively) impacts Operating expenses by approximately $46 million (December 31, 2023 – approximately $46 million), and negatively (or positively) impacts Net interest expense by approximately $5 million (December 31, 2023 – approximately $5 million).

On an annualized basis, the Company expects that every Ps.0.10 strengthening (or weakening) of the Mexican peso relative to the Canadian dollar, positively (or negatively) impacts Total revenues by approximately $6 million (December 31, 2023 – approximately $7 million) and negatively (or positively) impacts Operating expenses by approximately $6 million (December 31, 2023 – approximately $7 million).

To manage its exposure to fluctuations in exchange rates between Canadian dollars, U.S. dollars, and or Mexican pesos, the Company may sell or purchase U.S. dollar or Mexican peso forwards at fixed rates in future periods. In addition, changes in the exchange rate between the Canadian dollar and other currencies (including the U.S. dollar and Mexican peso) make the goods transported by the Company more or less competitive in the world marketplace and may in turn positively or negatively affect revenues.

Impact of Fuel Price on Earnings

Fluctuations in fuel prices affect the Company's results because fuel expense constitutes a significant portion of the Company's operating costs. As fuel prices fluctuate, there will be a timing impact on earnings due to the timing of recoveries from the Company's fuel cost adjustment program.

The impact of fuel price on earnings includes the impacts of carbon taxes, levies, and obligations under cap-and-trade programs recovered and paid, on revenues and expenses, respectively.

In the third quarter of 2024, the favourable impact of fuel prices on Operating income was $8 million. Lower fuel prices in expense resulted in a decrease in Total operating expenses of $15 million from the same period of 2023. Lower fuel prices, partially offset by the favourable impact from the timing of recoveries under the Company's fuel cost adjustment program and increased carbon levy surcharge revenue, resulted in a decrease in Total revenues of $7 million.

In the first nine months of 2024, the unfavourable impact of fuel prices on Operating income was $59 million. Lower fuel prices, partially offset by increased carbon levy surcharge revenue and the favourable impact from the timing of recoveries under the Company's fuel cost adjustment program, resulted in a decrease in Total revenues of $77 million. Lower fuel prices resulted in a decrease in Total operating expenses of $18 million from the same period of 2023.

Impact of Share Price on Earnings and Stock-Based Compensation

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

In the third quarter of 2024, the change in Common Share prices resulted in an increase in stock-based compensation expense of $16 million, a change of $29 million, compared to a decrease of $13 million in the same period of 2023.

In the first nine months of 2024, the change in Common Share prices resulted in an increase in a stock-based compensation expense of $16 million, a change of $19 million, compared to a decrease of $3 million in the same period of 2023.

Based on information available at September 30, 2024 and expectations for 2024 share-based grants, for every $1.00 change in share price, stock-based compensation expense has a corresponding change of approximately $2.1 million to $2.2 million (December 31, 2023 - approximately $1.6 million to $2.3 million). This excludes the impact of changes in Common Share price relative to the S&P/TSX 60 Index, S&P 500 Industrials Index, and to Class I railways, which may trigger different performance share unit payouts. Stock-based compensation may also be impacted by non-market performance conditions.

Additional information concerning stock-based compensation is included in Item 1. Financial Statements, Note 13 Stock-based compensation.

Liquidity and Capital Resources

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

As at September 30, 2024, the Company had $463 million of Cash and cash equivalents compared to $464 million at December 31, 2023.

During the nine months ended September 30, 2024, the Company repaid U.S. $48 million ($66 million) 5.41% Senior Secured Notes.

During the three and nine months ended September 30, 2024, the Company repurchased, on the open market, certain Senior Notes with principal values of U.S. $66 million ($90 million) and U.S. $176 million ($241 million), respectively. These repurchases were accounted for as debt extinguishments, with gains of $6 million and $22 million, respectively, recorded in “Other expense (income)" on the Company's Interim Consolidated Statements of Income.

Effective June 25, 2024, the Company entered into a third amended and restated revolving credit facility (the "facility") agreement to extend the maturity dates under the facility. The amendment extended the maturity date of the five-year U.S.$1.1 billion tranche from May 11, 2028 to June 25, 2029. The amendment also extended the maturity date of the two-year U.S. $1.1 billion tranche from May 11, 2025 to June 25, 2026.

The Company has a commercial paper program that enables it to issue commercial paper in the form of unsecured promissory notes. The Company's existing commercial paper program is backed by the revolving credit facility. As at September 30, 2024, the Company had total commercial paper borrowings outstanding of U.S. $280 million ($378 million) (December 31, 2023 - U.S. $800 million).

The Company 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 the Company to withdraw amounts posted as collateral at any time; therefore, the amounts posted as collateral are presented as “Cash and cash equivalents” on the Company’s Consolidated Balance Sheets. As at September 30, 2024, the Company did not have any collateral posted on its bilateral letter of credit facilities (December 31, 2023 - $nil) and had letters of credit drawn of $91 million (December 31, 2023 - $93 million) from a total available amount of $300 million.

Contractual Commitments

The Company's material cash requirements from known contractual obligations and commitments to make future payments primarily consist of long-term debt and related interest, capital commitments, supplier purchases, leases, and other long term liabilities. As at September 30, 2024, debt and finance leases, interest obligations related to debt and finance leases, and letters of credit amount to $3,213 million, $753 million, and $92 million within the next 12 months, respectively, with the remaining amounts committed thereafter of $19,385 million, $16,265 million and $nil, respectively. Future capital commitments amount to $1,132 million within the next 12 months, and $1,407 million thereafter.

Supplier purchase agreements and other long-term liabilities amount to $818 million and $68 million within the next 12 months, respectively, with remaining amounts committed thereafter of $2,736 million and $635 million, respectively. Other long-term liabilities include expected cash payments for environmental remediation, post-retirement benefits, worker's compensation benefits, long-term disability benefits, pension benefit payments for the Company's non-registered supplemental pension plan, and certain other long-term liabilities. Pension payments are discussed further in Critical Accounting Estimates of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company's 2023 Annual Report on Form 10-K.

Concession Duty

The Company's subsidiary, Kansas City Southern de México, S.A. de C.V. ("CPKCM") has a fifty-year concession, which will expire in 2047 unless the fifty-year renewal option is exercised. Under the concession, CPKCM pays annual concession duties equal to 1.25% of its gross revenues.

Guarantees

The Company accrues provisions for all guarantees that it expects to pay. As at September 30, 2024, these provisions amounted to $15 million (December 31, 2023 - $8 million).

Cash Flow

Operating Activities

Net cash provided by operating activities increased $245 million in the third quarter of 2024 and $764 million in the first nine months of 2024, compared to the same periods in 2023. These increases were primarily due to higher cash generating income.

Investing Activities

Net cash used in investing activities increased $18 million in the third quarter of 2024, compared to the same period in 2023. This increase was primarily due to an increase in capital additions.

Net cash used in investing activities increased $323 million in the first nine months of 2024, compared to the same period in 2023. This increase was primarily due to an increase in capital additions and the impact of cash acquired on control of KCS in 2023, partially offset by the investment in government securities towards satisfaction and discharge of debt in 2023.

Financing Activities

Net cash used in financing activities increased $272 million in the third quarter of 2024, compared to the same period in 2023. The increase was primarily due to an increase in net repayments of commercial paper of $196 million in the third quarter of 2024, compared to the same period of 2023, and an increase in repayments of long term debt of $77 million in the third quarter of 2024 primarily driven by cash paid to repurchase Senior Notes of $84 million.

Net cash used in financing activities increased $289 million in the first nine months of 2024, compared to the same period in 2023. The increase was primarily due to net repayments of commercial paper of $705 million in the first nine months of 2024, compared to net issuances of commercial paper of $403 million in the same period of 2023. This increase was partially offset by a decrease in repayments of long term debt of $799 million in the first nine months of 2024, driven primarily by cash paid to repurchase Senior Notes of $218 million and repayments of $66 million (U.S. $48 million) on the 5.41% Senior Secured Notes at maturity, compared to repayments of $592 million (U.S. $439 million) of 3.00% 10-year Senior Notes and $479 million (U.S. $350 million) of 4.45% 12.5-year Notes at maturity during the first nine months of 2023.

Credit Measures

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

If the Company's credit ratings were to decline to below investment-grade levels, the Company could experience a significant increase in its interest cost for new debt along with a negative effect on its ability to readily issue new debt.

Credit ratings and outlooks are based on the rating agencies' methodologies and can change from time to time to reflect their views of the Company. Their views are affected by numerous factors including, but not limited to, the Company's financial position and liquidity along with external factors beyond the Company's control.

As at September 30, 2024, the Company's credit ratings from Standard & Poor's Rating Services ("Standard & Poor's") remain unchanged from December 31, 2023. During the first quarter of 2024, Moody's Investor Service ("Moody's") upgraded the Company's outlook from stable to positive. The following table shows the ratings issued for the Company by the rating agencies noted as at September 30, 2024 and is being presented as it relates to the Company's cost of funds and liquidity.

Credit ratings as at September 30, 2024[(1)]

Long-term debt		**Outlook**
Standard & Poor's	**BBB+**	stable
Moody's	**Baa2**	positive
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.

Supplemental Guarantor Financial Information

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

As of the date of the filing of the Form 10-Q, CPRC had U.S. $14,538 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 CPKC is the guarantor subject to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended. As of the same date, CPRC also had $2,300 million principal amount of debt securities issued under Canadian Securities Law due through 2050 for which CPKC is the guarantor and not subject to the Exchange Act.

CPKC fully and unconditionally guarantees the payment of the principal (and premium, if any) and interest on the debt securities and consolidated debenture stock issued by CPRC, any sinking fund or analogous payments payable with respect to such securities, and any additional amounts payable when they become due, whether at maturity or otherwise. The guarantee is CPKC's unsubordinated and unsecured obligation and ranks equally with all of CPKC's other unsecured, unsubordinated obligations.

CPKC will be released and relieved of its obligations under the guarantees after obligations to the holders are satisfied in accordance with the terms of the respective instruments.

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 quarterly report.

Summarized Financial Information

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

Statements of Income

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPKC (Parent)	
	For the nine months ended September 30, 2024	For the year ended December 31, 2023
Total revenues	**$ 4,985**	$ 6,577
Total operating expenses	**3,245**	4,074
Operating income(1)	**1,740**	2,503
Less: Other(2)	**240**	468
Income before income tax expense	**1,500**	2,035
Net income	**$ 1,036**	$ 1,480

(1) Includes net lease costs incurred from non-guarantor subsidiaries for the nine months ended September 30, 2024 and for the year ended December 31, 2023 of $342 million and $463 million, respectively.

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

Balance Sheets

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPKC (Parent)	
	As at September 30, 2024	As at December 31, 2023
Assets		
Current assets	**$ 1,254**	$ 1,240
Properties	**12,815**	12,327
Other non-current assets	**3,895**	3,562
Liabilities		
Current liabilities	**$ 4,470**	$ 4,359
Long-term debt	**18,533**	19,169
Other non-current liabilities	**3,578**	3,412

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

Transactions with Non-Guarantor Subsidiaries

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPKC (Parent)	
	For the nine months ended September 30, 2024	For the year ended December 31, 2023
Dividend income from non-guarantor subsidiaries	**$ 341**	$ 309
Capital contributions to non-guarantor subsidiaries	**—**	(4,324)

Balances with Non-Guarantor Subsidiaries

	CPRC (Subsidiary Issuer) and CPKC (Parent)	
(in millions of Canadian dollars)	**As at September 30, 2024**	As at December 31, 2023
Assets		
Accounts receivable, intercompany	**$ 314**	$ 455
Short-term advances to affiliates	**1,573**	1,788
Long-term advances to affiliates	**11,076**	7,072
Liabilities		
Accounts payable, intercompany	**$ 285**	$ 347
Short-term advances from affiliates	**2,577**	2,783
Long-term advances from affiliates	**3,968**	—

Share Capital

As of October 22, 2024, the latest practicable date, there were 933,344,882 Common Shares and no preferred shares issued and outstanding, which consists of 13,153 holders of record of the Common Shares. In addition, the Company has a Management Stock Option Incentive Plan ("MSOIP"), under which key officers and employees are granted options to purchase Common Shares. All number of options presented herein are shown on the basis of the number of common shares subject to the options. As of October 22, 2024, 5,965,139 options were outstanding under the MSOIP and stand-alone option agreements entered into with Mr. Keith Creel. There are 21,050,365 options available to be issued by the Company's MSOIP in the future. The Company also has a Directors' Stock Option Plan ("DSOP"), under which directors are granted options to purchase Common Shares. There are no outstanding options under the DSOP, which has 1,700,000 options available to be issued in the future.

Non-GAAP Measures

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

These Non-GAAP measures have no standardized 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

On April 14, 2023, Canadian Pacific Railway Limited obtained control of KCS and CPKC began consolidating KCS, which had been accounted for under the equity method of accounting between December 14, 2021 and April 13, 2023. On the Control Date, CPKC's previously-held interest in KCS was remeasured to its Control Date fair value. CPKC presents Core adjusted combined measures to provide a comparison to prior period financial information as adjusted to exclude certain significant items and KCS purchase accounting. The most directly comparable GAAP measures to certain Non-GAAP measures already include KCS's net income attributable to shareholders as a result of applying the equity method of accounting following the acquisition of shares of KCS on December 14, 2021. For example, CPKC's nine months ended September 30, 2023 diluted earnings per share, which included equity earnings of KCS for the period January 1 through April 13, 2023, is used to reconcile to Core adjusted combined diluted earnings per share. Conversely, the most directly comparable GAAP measure to certain other Non-GAAP measures does not include KCS's equity earnings. For example, the operating ratio, which is used to reconcile to Core adjusted combined operating ratio, did not include KCS's operating ratio for the period January 1 through April 13, 2023, as equity income was recognized within non-operating earnings. These measures are calculated by (1) adding KCS historical GAAP results and giving effect to transaction accounting adjustments in a consistent manner with Regulation S-X Article 11 ("Article 11"), where applicable, and (2) adjusting for KCS purchase accounting and significant items that management believes affect the comparability between periods.

Management believes these Non-GAAP measures provide meaningful supplemental information about our operating results because they exclude certain significant items that are not considered indicative of future financial trends either by nature or amount or provide improved comparability to past performance. As a result, these items are excluded for management's assessment of operational performance, allocation of resources, and preparation of annual budgets. These significant items may include, but are not limited to, restructuring and asset impairment charges, individually significant gains and losses from sales of assets, acquisition-related costs, adjustments to provisions and settlements of Mexican taxes, KCS's gain on unwinding of interest rate hedges (net of CPKC's associated purchase accounting basis differences and tax), as recognized within "Equity earnings of Kansas City Southern" in the Company's Interim Consolidated Statements of Income, loss on derecognition of CPKC's previously held equity method investment in KCS, discrete tax items, changes in the outside basis tax difference between the carrying amount of CPKC's equity investment in KCS and its tax basis of this investment, a deferred income tax recovery related to the elimination of the deferred income tax liability on the outside basis difference of the investment, changes in income tax rates, changes to an uncertain tax item, and certain items outside the control of management. Acquisition-related costs include legal, consulting, integration costs including third-party services and system migration, debt exchange transaction costs, community investments, fair value gain or loss on FX forward contracts and interest rate hedges, FX gain on U.S. dollar-denominated cash on hand from the issuances of long-term debt to fund the KCS acquisition, restructuring, employee retention and synergy incentive costs, and transaction and integration costs incurred by KCS. These items may not be non-recurring and may include items that are settled in cash. Specifically, due to the magnitude of the acquisition, its significant impact to the Company's business and complexity of integrating the acquired business and operations, the Company expects to incur acquisition-related costs beyond the year of acquisition. Management believes excluding these significant items from GAAP results provides an additional viewpoint which may give users a consistent understanding of CPKC's financial performance when performing a multi-period assessment including assessing the likelihood of future results. Accordingly, these Non-GAAP financial measures may provide additional insight to investors and other external users of CPKC's financial information.

In addition, Core adjusted combined operating ratio and Core adjusted combined diluted earnings per share exclude KCS purchase accounting. KCS purchase accounting represents the amortization of basis differences being the incremental depreciation and amortization in relation to fair value adjustments to properties and intangible assets, incremental amortization in relation to fair value adjustments to KCS's investments, amortization of the change in fair value of debt of KCS assumed on the Control Date, and depreciation and amortization of fair value adjustments that are attributable to the non-controlling interest, as recognized within "Depreciation and amortization", "Other expense (income)", "Net interest expense", and "Net (loss) income attributable to non-controlling interest", respectively, in the Company's Interim Consolidated Statements of Income. During the periods that KCS was equity accounted for, from December 14, 2021 to April 13, 2023, KCS purchase accounting represents the amortization of basis differences, being the difference in value between the consideration paid to acquire KCS and the underlying carrying value of the net assets of KCS immediately prior to its acquisition by the Company, net of tax, as recognized within "Equity earnings of Kansas City Southern" in the Company's Interim Consolidated Statements of Income. All assets subject to KCS purchase accounting contribute to income generation and will continue to amortize over their estimated useful lives. Excluding KCS purchase accounting from GAAP results provides financial statement users with additional transparency by isolating the impact of KCS purchase accounting.

Reconciliation of GAAP Performance Measures to Non-GAAP Performance Measures

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

Core Adjusted Combined Diluted Earnings per Share

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

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

- in the second quarter, a deferred income tax recovery of $3 million due to a decrease in the Arkansas state corporate income tax rate, that had minimal impact on Diluted EPS;
- during the first nine months, adjustments to provisions and settlements of Mexican taxes of $3 million expense ($4 million after deferred income tax expense of $1 million) recognized in "Compensation and benefits", that had minimal impact on Diluted EPS as follows:
  - in the third quarter, adjustments to provisions and settlements of Mexican taxes of $7 million recovery ($6 million after deferred income tax expense of $1 million) recognized in "Compensation and benefits", that favourably impacted Diluted EPS by 1 cent; and
  - in the first quarter, adjustments to provisions and settlements of Mexican taxes of $10 million expense ($10 million after deferred income tax recovery) recognized in "Compensation and benefits", that unfavourably impacted Diluted EPS by 1 cent; and
- during the first nine months, acquisition-related costs of $90 million in connection with the KCS acquisition ($65 million after current income tax recovery of $25 million), including costs of $17 million recognized in "Compensation and benefits",

$5 million recognized in "Materials", and $68 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 7 cents as follows:

  – in the third quarter, acquisition-related costs of $36 million in connection with the KCS acquisition ($26 million after current income tax recovery of $10 million) including costs of $11 million recognized in "Compensation and benefits", $1 million recognized in "Materials", and $24 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 3 cents;
  – in the second quarter, acquisition-related costs of $28 million in connection with the KCS acquisition ($19 million after current income tax recovery of $9 million) including costs of $2 million recognized in "Compensation and benefits", $2 million recognized in "Materials", and $24 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 2 cents; and
  – in the first quarter, acquisition-related costs of $26 million in connection with the KCS acquisition ($20 million after current income tax recovery of $6 million) including costs of $4 million recognized in "Compensation and benefits", $2 million recognized in "Materials", and $20 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 2 cents.

During the first nine months of 2023, there were five significant items included in Net income attributable to controlling shareholders as reported on a GAAP basis as follows:

- in the third quarter, a total current tax expense of $15 million related to a tax settlement with the SAT of $9 million and a reserve for the estimated impact of potential future audit settlements of $6 million, that unfavourably impacted Diluted EPS by 2 cents;
- in the second quarter, a remeasurement loss of KCS of $7,175 million recognized in "Remeasurement loss of Kansas City Southern" due to the derecognition of CPKC's previously held equity method investment in KCS and remeasurement at its Control Date fair value that unfavourably impacted Diluted EPS by $7.68;
- during the first nine months, deferred income tax recovery of $65 million on account of changes in tax rates and apportionment, that favourably impacted Diluted EPS by 6 cents as follows:
  – in the third quarter, a deferred income tax recovery of $14 million due to decreases in the Iowa and Arkansas state corporate income tax rates, that favourably impacted Diluted EPS by 2 cents; and
  – in the second quarter, a deferred income tax recovery of $51 million due to CPKC unitary state apportionment changes, that favourably impacted Diluted EPS by 5 cents;
- during the first nine months, deferred income tax recoveries of $7,855 million on changes in the outside basis difference on the equity investment in KCS, that favourably impacted Diluted EPS by $8.42 as follows:
  – in the second quarter, a deferred income tax recovery of $7,832 million related to the elimination of the deferred income tax liability on the outside basis difference of the investment in KCS, that favourably impacted Diluted EPS by $8.39; and
  – in the first quarter, a deferred income tax recovery of $23 million on changes in the outside basis difference of the equity investment in KCS, that favourably impacted Diluted EPS by 3 cents; and
- during the first nine months, acquisition-related costs of $169 million in connection with the KCS acquisition ($140 million after current income tax recovery of $29 million), including an expense of $64 million recognized in "Compensation and benefits", $1 million recognized in "Materials", $87 million recognized in "Purchased services and other", $6 million recognized in "Other expense (income)", and $11 million recognized in "Equity earnings of Kansas City Southern", that unfavourably impacted Diluted EPS by 15 cents as follows:
  – in the third quarter, acquisition-related costs of $24 million ($18 million after current income tax recovery of $6 million), including costs of $1 million recognized in "Compensation and benefits", $1 million recognized in "Materials", and $22 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 2 cents;
  – in the second quarter, acquisition-related costs of $120 million ($101 million after current income tax recovery of $19 million), including costs of $63 million recognized in "Compensation and benefits", $53 million recognized in "Purchased services and other", $3 million recognized in "Other expense (income)", and $1 million recognized in "Equity earnings of Kansas City Southern", that unfavourably impacted Diluted EPS by 11 cents; and
  – in the first quarter, acquisition-related costs of $25 million ($21 million after current income tax recovery of $4 million), including costs of $12 million recognized in "Purchased services and other", $3 million recognized in "Other expense (income)", and $10 million recognized in "Equity earnings of Kansas City Southern", that unfavourably impacted Diluted EPS by 2 cents.

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

2024:

- during the first nine months, KCS purchase accounting of $259 million ($188 million after deferred income tax recovery of $71 million), including costs of $246 million recognized in "Depreciation and amortization", $2 million recognized in "Purchased services and other" related to the amortization of equity investments, $14 million recognized in "Net interest expense", $2 million recognized in "Other expense (income)", and a recovery of $5 million recognized in "Net (loss) income attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 20 cents as follows:
  - in the third quarter, KCS purchase accounting of $89 million ($65 million after deferred income tax recovery of $24 million), including costs of $85 million recognized in "Depreciation and amortization", $4 million recognized in "Net interest expense", $1 million recognized in "Other expense (income)",and a recovery of $1 million recognized in "Net (loss) income attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 7 cents;
  - in the second quarter, KCS purchase accounting of $86 million ($62 million after deferred income tax recovery of $24 million), including costs of $82 million recognized in "Depreciation and amortization", $1 million recognized in "Purchased services and other" related to the amortization of equity investments, $5 million recognized in "Net interest expense", and a recovery of $2 million recognized in "Net (loss) income attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 6 cents; and
  - in the first quarter, KCS purchase accounting of $84 million ($61 million after deferred income tax recovery of $23 million), including costs of $79 million recognized in "Depreciation and amortization", $1 million recognized in "Purchased services and other" related to the amortization of equity investments, $5 million recognized in "Net interest expense", $1 million recognized in "Other expense (income)", and a recovery of $2 million recognized in "Net (loss) income attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 7 cents.

2023:

- during the first nine months, KCS purchase accounting of $210 million ($166 million after deferred income tax recovery of $44 million), including costs of $68 million recognized in "Depreciation and amortization", $6 million recognized in "Net interest expense", $1 million recognized in "Other expense (income)", and $48 million recognized in "Equity earnings of Kansas City Southern" that unfavourably impacted Diluted EPS by 11 cents as follows:
  - in the third quarter, KCS purchase accounting of $87 million ($63 million after deferred income tax recovery of $24 million), including costs of $81 million recognized in "Depreciation and amortization", $5 million recognized in "Net interest expense", and $1 million in recognized in "Other expense (income)", that unfavourably impacted Diluted EPS by 7 cents;
  - in the second quarter, KCS purchase accounting of $81 million ($61 million after deferred income tax recovery of $20 million), including costs of $68 million recognized in "Depreciation and amortization", $6 million recognized in "Net interest expense", $1 million recognized in "Other expense (income)", and $6 million recognized in "Equity earnings of Kansas City Southern", that unfavourably impacted Diluted EPS by 6 cents; and
  - in the first quarter, KCS purchase accounting of $42 million recognized in "Equity earnings of Kansas City Southern", that unfavourably impacted Diluted EPS by 5 cents.

	For the three months ended September 30		For the nine months ended September 30	
	2024	2023	**2024**	2023
CPKC diluted earnings per share as reported	**$ 0.90**	$ 0.84	**$ 2.69**	$ 3.11
Less:				
Significant items (pre-tax):				
Remeasurement loss of KCS	**—**	—	**—**	(7.68)
Adjustments to provisions and settlements of Mexican taxes	**0.01**	—	**—**	—
Acquisition-related costs	**(0.04)**	(0.03)	**(0.10)**	(0.19)
KCS purchase accounting	**(0.10)**	(0.09)	**(0.28)**	(0.23)
Add:				
Tax effect of adjustments[(1)]	**(0.04)**	(0.04)	**(0.11)**	(0.09)
Adjustments to provisions and settlements of Mexican taxes	**—**	0.02	**—**	0.02
Income tax rate changes	**—**	(0.02)	**—**	(0.06)
Deferred income tax recovery on the outside basis difference of the investment in KCS	**—**	—	**—**	(8.42)
Core adjusted combined diluted earnings per share	**$ 0.99**	$ 0.92	**$ 2.96**	$ 2.66

(1) The tax effect of adjustments was calculated as the pre-tax effect of the significant items and KCS purchase accounting listed above multiplied by the applicable tax rate for the above items of 28.01% and 27.08% for the three and nine months ended September 30, 2024, respectively, and 26.55% and 0.97% for the three and nine months ended September 30, 2023, respectively. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the adjustments.

Core Adjusted Combined Operating Ratio

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

This combined measure does not purport to represent what the actual consolidated results of operations would have been had the Company obtained control of KCS and consolidation actually occurred on January 1, 2022, nor is it indicative of future results. This information is based upon assumptions that CPKC believes reasonably reflect the impact to CPKC's historical financial information, on a supplemental basis, of obtaining control of KCS had it occurred as of January 1, 2022. This information does not include anticipated costs related to integration activities, cost savings or synergies that may be achieved by the combined company.

Significant items included in operating ratio on a combined basis were as follows:

2024:
- during the first nine months, adjustments to provisions and settlements of Mexican taxes of $3 million expense recognized in "Compensation and benefits", that unfavourably impacted operating ratio by 0.1% as follows:
  - in the third quarter, adjustments to provisions and settlements of Mexican taxes of $7 million recovery recognized in "Compensation and benefits", that favourably impacted operating ratio by 0.2%; and
  - in the first quarter, adjustments to provisions and settlements of Mexican taxes of $10 million expense recognized in "Compensation and benefits", that unfavourably impacted operating ratio by 0.3%; and
- during the first nine months, acquisition-related costs were $90 million in connection with the KCS acquisition including costs of $17 million recognized in "Compensation and benefits", $5 million recognized in "Materials", and $68 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 0.8% as follows:
  - in the third quarter, acquisition-related costs of $36 million including costs of $11 million recognized in "Compensation and benefits", $1 million recognized in "Materials", and $24 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 1.0%;
  - in the second quarter, acquisition-related costs of $28 million including costs of $2 million recognized in "Compensation and benefits", $2 million recognized in "Materials", and $24 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 0.7%; and
  - in the first quarter, acquisition-related costs of $26 million including costs of $4 million recognized in "Compensation and benefits", $2 million recognized in "Materials", and $20 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 0.8%.

2023:
- during the first nine months, acquisition-related costs were $165 million in connection with the KCS acquisition including costs of $75 million recognized in "Compensation and benefits", $1 million recognized in "Materials" and $89 million recognized in "Purchased services and other", that unfavourably impacted operating ratio on a combined basis, calculated in a manner consistent with Article 11, by 1.6% as follows:
  - in the third quarter, acquisition-related costs of $24 million including costs of $1 million recognized in "Compensation and benefits", $1 million recognized in "Materials", and $22 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 0.8%;
  - in the second quarter, acquisition-related costs of $116 million including costs of $63 million recognized in "Compensation and benefits", and $53 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 3.5%; and
  - in the first quarter, acquisition-related costs of $25 million including costs of $11 million recognized in "Compensation and benefits", and $14 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 0.7%.

KCS purchase accounting included in operating ratio on a combined basis was as follows:

2024:
- during the first nine months, KCS purchase accounting of $248 million including $246 million recognized in "Depreciation and amortization" and $2 million recognized in "Purchased services and other" related to the amortization of equity investments, that unfavourably impacted operating ratio by 2.3% as follows:
  - in the third quarter, KCS purchase accounting of $85 million recognized in "Depreciation and amortization", that unfavourably impacted operating ratio by 2.4%;
  - in the second quarter, KCS purchase accounting of $83 million including $82 million recognized in "Depreciation and amortization" and $1 million recognized in "Purchased services and other" related to the amortization of equity investments, that unfavourably impacted operating ratio by 2.3%; and

– in the first quarter, KCS purchase accounting of $80 million including $79 million recognized in "Depreciation and amortization" and $1 million recognized in "Purchased services and other" related to the amortization of equity investments, that unfavourably impacted operating ratio by 2.3%.

2023:

- during the first nine months, KCS purchase accounting of $241 million, recognized in "Depreciation and amortization", that unfavourably impacted operating ratio on a combined basis, calculated in a manner consistent with Article 11, by 2.4% as follows:
  – in the third quarter, KCS purchase accounting of $81 million that unfavourably impacted operating ratio on a combined basis by 2.4%;
  – in the second quarter, KCS purchase accounting of $80 million that unfavourably impacted operating ratio on a combined basis by 2.4%; and
  – in the first quarter, KCS purchase accounting of $80 million that unfavourably impacted operating ratio on a combined basis by 2.3%.

	For the three months ended September 30		**For the nine months ended September 30**	
	2024	2023	**2024**	2023
CPKC operating ratio as reported	**66.1 %**	64.9 %	**66.1 %**	66.4 %
Add:				
KCS operating income as reported prior to Control Date[1]	**— %**	— %	**— %**	(0.2)%
Pro forma Article 11 transaction accounting adjustments[2]	**— %**	— %	**— %**	1.1 %
	66.1 %	64.9 %	**66.1 %**	67.3 %
Less:				
Adjustments to provisions and settlements of Mexican taxes	**(0.2)%**	— %	**0.1 %**	— %
Acquisition-related costs	**1.0 %**	0.8 %	**0.8 %**	1.6 %
KCS purchase accounting in Operating expenses	**2.4 %**	2.4 %	**2.3 %**	2.4 %
Core adjusted combined operating ratio	**62.9 %**	61.7 %	**62.9 %**	63.3 %

(1) KCS results were translated into Canadian dollars at the Bank of Canada average FX rate for January 1 through April 13, 2023 of $1.35.

(2) Pro forma Article 11 transaction accounting adjustments for January 1 through April 13, 2023 represent adjustments made in a manner consistent with Article 11. For January 1 through April 13, 2023 in the nine months ended September 30, 2023, depreciation and amortization of differences between the historical carrying values and the fair values of KCS's tangible and intangible assets and investments prior to the Control Date that unfavourably impacted operating ratio by 1.1% and miscellaneous immaterial amounts that have been reclassified across revenue, operating expenses, and non-operating income or expense, consistent with CPKC's financial statement captions.

For more information about these pro forma transaction accounting adjustments for the three months ended March 31, 2023, please see Exhibit 99.1 “Selected Unaudited Combined Summary of Historical Financial Data” of CPKC’s Current Report on Form 8-K furnished with the Securities and Exchange Commission on May 15, 2023.

Critical Accounting Estimates

To prepare 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 business acquisitions, goodwill and intangible assets, environmental liabilities, pensions and other benefits, property, plant and equipment, deferred income taxes, and personal injury and other claims liabilities. Additional information concerning critical accounting estimates is included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company's 2023 Annual Report on Form 10-K.

The development, selection and disclosure of these estimates, and this MD&A, have been reviewed by the Board of Directors’ Audit and Finance Committee, which is composed entirely of independent directors.

Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the *United States Private Securities Litigation Reform Act of 1995* and forward-looking information within the meaning of other relevant securities legislation, including applicable securities laws in Canada (collectively referred to herein as "forward-looking statements"). Forward-looking statements typically include words such as “financial expectations”, “key assumptions”, “anticipate”, “believe”, “expect”, "project", "estimate", "forecast", “plan”, "intend", "target", “will”, “outlook”, "guidance", “should” or similar words suggesting future outcomes. All statements other than statements of historical fact may be forward-looking statements. To the extent that the Company has provided forecasts or targets using Non-GAAP financial measures, the Company may not be able to provide a reconciliation to a GAAP measure without unreasonable efforts, due to unknown variables and uncertainty related to future results.

This Management's Discussion and Analysis of Financial Condition and Results of Operations and Quarterly Report on Form 10-Q includes forward-looking statements relating, but not limited to, statements concerning the Company's expected impacts resulting from changes in the U.S. dollar and Mexican peso exchange rates relative to the Canadian dollar, and the effective tax rate, as well as statements concerning the Company's operations, anticipated financial performance, business prospects and strategies, including statements concerning the anticipation that cash flow from operations and various sources of financing will be sufficient to meet debt repayments and obligations in the foreseeable future and concerning anticipated capital programs, and statements regarding future payments including income taxes.

The forward-looking statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and Quarterly Report on Form 10-Q are based on current expectations, estimates, projections and assumptions, having regard to the Company's experience and its perception of historical trends, and includes, but is not limited to, expectations, estimates, projections and assumptions relating to: change in business strategies; North American and global economic growth; commodity demand growth; sustainable industrial and agricultural production; commodity prices and interest rates; foreign exchange rates (as specified herein); effective tax rates (as specified herein); performance of our assets and equipment; sufficiency of our budgeted capital expenditures in carrying out our business plan; geopolitical conditions; applicable laws, regulations and government policies; the availability and cost of labour, services and infrastructure; labour disruptions; and the satisfaction by third parties of their obligations to the Company. Although the Company believes the expectations, estimates, projections and assumptions reflected in the forward-looking statements presented herein are reasonable as of the date hereof, there can be no assurance that they will prove to be correct. Current conditions, economic and otherwise, render assumptions, although reasonable when made, subject to greater uncertainty.

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

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

There are more specific factors that could cause actual results to differ materially from those described in the forward-looking statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and Quarterly Report on Form 10-Q. These more specific factors are identified and discussed in Item 1A. Risk Factors of the Company's 2023 Annual Report on Form 10-K. Other risks are detailed from time to time in reports filed by the Company with securities regulators in Canada and the United States.

The forward-looking statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and Quarterly Report on Form 10-Q are made as of the date hereof. Except as required by law, the Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements, or the foregoing assumptions and risks affecting such forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information concerning market risk sensitive instruments is set forth under Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Impact of FX on Earnings and Foreign Exchange Risk and Impact of Share Price on Earnings and Stock-Based Compensation.

Interest Rate Risk

Debt financing forms part of the Company's capital structure. The debt agreements entered into expose the Company to increased interest costs on future fixed debt instruments and existing variable rate debt instruments, should market rates increase.

As at September 30, 2024, a hypothetical one percentage point change in interest rates on the Company's floating rate debt obligations outstanding is not material. In addition, the present value of the Company's assets and liabilities will also vary with interest rate changes. To manage interest rate exposure, the Company may enter into forward rate agreements such as treasury rate locks or bond locks that protect against interest rate increases. The Company may also enter into swap agreements whereby one party agrees to pay a fixed rate of interest while the other party pays a floating rate. Contingent on the direction of interest rates, the Company may incur higher costs depending on the contracted rate.

The fair value of the Company's fixed rate debt may fluctuate with changes in market interest rates. A hypothetical one percentage point decrease in interest rates as of September 30, 2024 would increase the fair value of the Company's debt as at September 30, 2024 by approximately $1.8 billion (September 30, 2023 - approximately $1.7 billion). Fair values of the Company's fixed rate debt are estimated by considering the impact of the hypothetical interest rates on quoted market prices and current borrowing rates, but do not consider other factors that could impact actual results.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As at September 30, 2024, an evaluation was carried out under the supervision of and with the participation of the Company's management, including its CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the *Exchange Act*. Based on that evaluation, the CEO and CFO concluded that these disclosure controls and procedures were effective as at September 30, 2024, to ensure that information required to be disclosed by the Company in reports that it files or submits 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.

Changes in Internal Control over Financial Reporting

During the third quarter of 2024, the Company has not identified any changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

For further details refer to Item 1. Financial Statements, Note 14 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.

From time to time, the Company or its subsidiaries may be subject to information requests from U.S. State or Federal environmental regulatory authorities inquiring as to the Company's compliance or remediation practices in the U.S. In September 2020, the Company received an initial request for information from the U.S. Environmental Protection Agency ("EPA") inquiring into the Company's compliance with the mobile source provisions of the Clean Air Act ("CAA"). The Company has been providing information in response to the EPA's initial and follow-up requests, and the EPA has issued Notices of Violations, which preliminarily identify certain categories of alleged non-compliance with civil provisions of the CAA pertaining to locomotives and locomotive engines. In December 2022, the U.S. Department of Justice ("DOJ") sent a communication requesting a meeting with the Company to discuss potentially resolving any alleged noncompliance which included an initial draft consent decree from the DOJ. That initial meeting occurred in January 2023 and communications are ongoing. Neither the EPA nor the DOJ has issued a final compendium of alleged violations, demand for corrective or mitigating actions, or articulated a preliminary civil penalty assessment, and it remains too early to provide a fulsome evaluation of the likely outcome with respect to either the nature of any alleged violations or the amount of any potential civil penalty. The Company will continue to fully cooperate and engage in discussions to resolve the matter.