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 six months ended June 30, 2026 in Item 1. Financial Statements, other information in this report, and Item 8. Financial Statements and Supplementary Data of the Company's 2025 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" or "our" are to Canadian Pacific Kansas City Limited ("CPKC") and its subsidiaries.

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 ("CFO") 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

Second Quarter of 2026 Results

- Total revenues were $4,164 million, an increase of 13% compared to $3,699 million in 2025.
- Diluted earnings per share ("EPS") was $1.15, a decrease of 14% compared to $1.33 in 2025.
- Core adjusted diluted EPS was $1.27, an increase of 13% compared to $1.12 in 2025.
- Operating ratio was 64.6%, a 90 basis point increase from 63.7% in 2025.
- Core adjusted operating ratio was 61.6%, a 90 basis point increase from 60.7% in 2025.

Core adjusted diluted EPS and Core adjusted 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.

Performance Indicators

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

	For the three months ended June 30			For the six months ended June 30		
	2026	2025	% Change	**2026**	2025	% Change
Operations Performance						
Gross ton-miles ("GTMs") (millions)	**107,585**	101,973	6	**208,210**	200,385	4
Train miles (thousands)	**12,389**	11,960	4	**23,912**	23,764	1
Fuel efficiency (U.S. gallons of locomotive fuel consumed / 1,000 GTMs)	**0.992**	1.034	(4)	**1.017**	1.049	(3)
Total employees (average)	**19,835**	20,138	(2)	**19,687**	19,943	(1)

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 second quarter of 2026 was primarily due to higher volumes of Grain, Energy, chemicals and plastics, and Metals, minerals and consumer products, partially offset by lower volumes of Coal.

The increase in GTMs in the first six months of 2026 was primarily due to higher volumes of Grain, crude, and Metals, minerals and consumer products, partially offset by lower volumes of Coal and Energy, chemicals and plastics, excluding crude.

Train miles are defined as the sum of the distance moved by all trains operated on the network. Train miles provide a measure of the productive utilization of our network. A smaller increase in train miles relative to increases in volumes, as measured by Revenue ton-miles ("RTMs"), and/or workload, as measured by GTMs, indicates improved train productivity. The increase in train miles in the second quarter of 2026 reflected the impact of a 6% increase in workload (GTMs), partially offset by a 1% increase in average train weights, which was primarily due to an improvement in operating plan efficiency.

The increase in train miles in the first six months of 2026 reflected the impact of a 4% increase in workload (GTMs), partially offset by a 2% increase in average train weights, which was primarily due to an improvement in operating plan efficiency.

Fuel efficiency is defined as United States ("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 improvements in Fuel efficiency in the second quarter and in the first six months of 2026 were due to the improvements in locomotive productivity as measured by GTMs / operating horsepower.

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 of total compensation and benefits costs. The decreases in the average number of total employees in the second quarter and in the first six months of 2026 were primarily due to the completion of systems integration in 2025 and efficient resource planning.

Financial Highlights

The following table presents selected financial data related to the Company’s financial results for the three and six months ended June 30, 2026 and the comparative periods in 2025:

	For the three months ended June 30		For the six months ended June 30	
(in millions, except per share data, percentages and ratios)	**2026**	2025	**2026**	2025
Financial Performance				
Total revenues	**$ 4,164**	$ 3,699	**$ 7,865**	$ 7,494
Operating income	**1,472**	1,343	**2,730**	2,660
Net income attributable to controlling shareholders	**1,024**	1,234	**1,870**	2,144
Basic EPS	**1.16**	1.34	**2.10**	2.31
Diluted EPS	**1.15**	1.33	**2.10**	2.31
Core adjusted diluted EPS(1)	**1.27**	1.12	**2.30**	2.18
Dividends declared per share	**0.268**	0.228	**0.496**	0.418
Financial Ratios				
Operating ratio(2)	**64.6 %**	63.7 %	**65.3%**	64.5%
Core adjusted operating ratio(1)	**61.6 %**	60.7 %	**62.3%**	61.6%

(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 June 30		**2026**		2025		Total Change	% Change
Freight revenues (in millions)	**$**	**4,088**	$	3,629	$	459	13
Non-freight revenues (in millions)		**76**		70		6	9
Total revenues (in millions)	**$**	**4,164**	$	3,699	$	465	13
Carloads (in thousands)		**1,149.1**		1,147.0		2.1	—
Revenue ton-miles (in millions)		**57,577**		55,529		2,048	4
Freight revenue per carload (in dollars)	**$**	**3,558**	$	3,164	$	394	12
Freight revenue per revenue ton-mile (in cents)		**7.10**		6.54		0.56	9

Total Revenues
The increase in Freight revenues in the second quarter of 2026 was primarily due to an increase in freight revenue per RTM and higher volumes as measured by RTMs. The increase in Non-freight revenues was primarily due to higher revenues from logistical services and subsurface fibre optic agreements.

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 second quarter of 2026 was primarily due to higher volumes of Grain, Energy, chemicals and plastics, and Metals, minerals and consumer products, partially offset by lower volumes of Coal.

Freight Revenue per RTM
Freight revenue per RTM is defined as freight revenue per revenue-producing ton of freight over a distance of one mile. This is an indicator of yield. The increase in freight revenue per RTM in the second quarter of 2026 was primarily due to the favourable impact of higher fuel prices on fuel surcharge revenue of $257 million, higher freight rates, and the favourable impact of the change in foreign exchange ("FX") rates of $21 million.

For the six months ended June 30		**2026**		2025		Total Change	% Change
Freight revenues (in millions)	**$**	**7,716**	$	7,356	$	360	5
Non-freight revenues (in millions)		**149**		138		11	8
Total revenues (in millions)	**$**	**7,865**	$	7,494	$	371	5
Carloads (in thousands)		**2,232.6**		2,251.6		(19.0)	(1)
Revenue ton-miles (in millions)		**112,302**		109,253		3,049	3
Freight revenue per carload (in dollars)	**$**	**3,456**	$	3,267	$	189	6
Freight revenue per revenue ton-mile (in cents)		**6.87**		6.73		0.14	2

Total Revenues
The increase in Freight revenues in the first six months of 2026 was primarily due to higher volumes as measured by RTMs and an increase in freight revenue per RTM. The increase in Non-freight revenues was primarily due to higher revenues from subsurface fibre optic agreements.

RTMs
The increase in RTMs in the first six months of 2026 was primarily due to higher volumes of Grain, crude, and Metals, minerals and consumer products, partially offset by lower volumes of Coal and Energy, chemicals and plastics, excluding crude.

Freight Revenue per RTM
Freight revenue per RTM in the first six months of 2026 increased primarily due to the favourable impact of higher fuel prices on fuel surcharge revenue of $217 million and higher freight rates, partially offset by the unfavourable impact of the change in FX rates of $60 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 $608 million in the second quarter of 2026, an increase of $258 million, or 74%, from $350 million in the same period of 2025. This increase was primarily due to higher fuel prices and the favourable impact of the change in FX rates, partially offset by the unfavourable impact from the timing of recoveries under the Company's fuel cost adjustment program.

In the first six months of 2026, fuel surcharge revenues were $960 million, an increase of $208 million, or 28%, from $752 million in the same period of 2025. This increase was primarily due to higher fuel prices, partially offset by the unfavourable impact from the timing of recoveries under the Company's fuel cost adjustment program and lower carbon levy surcharge revenue due to the elimination of the Canadian federal carbon tax program effective April 1, 2025.

Lines of Business

Grain

For the three months ended June 30	**2026**	2025	Total Change	% Change
Freight revenues (in millions)	**$ 925**	$ 743	$ 182	24
Carloads (in thousands)	**168.0**	142.6	25.4	18
Revenue ton-miles (in millions)	**17,814**	14,970	2,844	19
Freight revenue per carload (in dollars)	**$ 5,506**	$ 5,210	$ 296	6
Freight revenue per revenue ton-mile (in cents)	**5.19**	4.96	0.23	5

The increase in Grain revenue in the second quarter of 2026 was primarily due to higher volumes of Canadian grain to Vancouver, British Columbia ("B.C."), Mexico, eastern Canada, and the U.S. Midwest, higher volumes of U.S. grain to Mexico and the U.S. Pacific Northwest, and an increase in freight revenue per RTM due to higher fuel surcharge revenue and higher freight rates.

For the six months ended June 30	**2026**	2025	Total Change	% Change
Freight revenues (in millions)	**$ 1,796**	$ 1,531	$ 265	17
Carloads (in thousands)	**317.1**	276.3	40.8	15
Revenue ton-miles (in millions)	**34,599**	29,912	4,687	16
Freight revenue per carload (in dollars)	**$ 5,664**	$ 5,541	$ 123	2
Freight revenue per revenue ton-mile (in cents)	**5.19**	5.12	0.07	1

The increase in Grain revenue in the first six months of 2026 was primarily due to higher volumes of Canadian grain to Vancouver, eastern Canada, Mexico, and the U.S. Midwest, higher volumes of U.S. grain to Mexico and the U.S. Pacific Northwest, and an increase in freight revenue per RTM. Freight revenue per RTM increased due to higher freight rates and higher fuel surcharge revenue, partially offset by the unfavourable impact of the change in FX rates.

Coal

For the three months ended June 30	**2026**	2025	Total Change	% Change
Freight revenues (in millions)	**$ 209**	$ 256	$ (47)	(18)
Carloads (in thousands)	**94.4**	118.6	(24.2)	(20)
Revenue ton-miles (in millions)	**4,338**	6,073	(1,735)	(29)
Freight revenue per carload (in dollars)	**$ 2,214**	$ 2,159	$ 55	3
Freight revenue per revenue ton-mile (in cents)	**4.82**	4.22	0.60	14

The decrease in Coal revenue in the second quarter of 2026 was primarily due to lower volumes of Canadian coal to Vancouver, Kamloops, B.C., and Thunder Bay, Ontario due to lower production and maintenance at both the mines and the ports, as well as lower volumes of U.S. coal, partially offset by an increase in freight revenue per RTM due to higher fuel surcharge revenue and higher freight rates. RTMs decreased more than carloads due to moving proportionately lower volumes of Canadian coal, which has a longer length of haul.

For the six months ended June 30	2026	2025	Total Change	% Change
Freight revenues (in millions)	**$ 435**	$ 513	$ (78)	(15)
Carloads (in thousands)	**203.9**	237.0	(33.1)	(14)
Revenue ton-miles (in millions)	**9,522**	11,856	(2,334)	(20)
Freight revenue per carload (in dollars)	**$ 2,133**	$ 2,165	$ (32)	(1)
Freight revenue per revenue ton-mile (in cents)	**4.57**	4.33	0.24	6

The decrease in Coal revenue in the first six months of 2026 was primarily due to lower volumes of Canadian coal to Vancouver, Kamloops, and Thunder Bay due to lower production and maintenance at both the mines and at the ports, as well as lower volumes of U.S. coal, partially offset by an increase in freight revenue per RTM. Freight revenue per RTM increased due to higher fuel surcharge revenue and higher freight rates, partially offset by the unfavourable impact of the change in FX rates. RTMs decreased more than carloads due to moving proportionately lower volumes of Canadian coal, which has a longer length of haul.

Potash

For the three months ended June 30	2026	2025	Total Change	% Change
Freight revenues (in millions)	**$ 184**	$ 167	$ 17	10
Carloads (in thousands)	**45.7**	47.4	(1.7)	(4)
Revenue ton-miles (in millions)	**5,217**	5,304	(87)	(2)
Freight revenue per carload (in dollars)	**$ 4,026**	$ 3,523	$ 503	14
Freight revenue per revenue ton-mile (in cents)	**3.53**	3.15	0.38	12

The increase in Potash revenue in the second quarter of 2026 was primarily due to an increase in freight revenue per RTM and higher volumes of export potash to Kansas City, Missouri, partially offset by lower volumes of export potash to the U.S. Pacific Northwest and Chicago, Illinois. Freight revenue per RTM increased due to higher fuel surcharge revenue and higher freight rates.

For the six months ended June 30	2026	2025	Total Change	% Change
Freight revenues (in millions)	**$ 333**	$ 323	$ 10	3
Carloads (in thousands)	**87.7**	87.2	0.5	1
Revenue ton-miles (in millions)	**9,728**	9,723	5	—
Freight revenue per carload (in dollars)	**$ 3,797**	$ 3,704	$ 93	3
Freight revenue per revenue ton-mile (in cents)	**3.42**	3.32	0.10	3

The increase in Potash revenue in the first six months of 2026 was primarily due to an increase in freight revenue per RTM and higher volumes of export potash to Kansas City and Kamloops, partially offset by lower volumes of export potash to the U.S. Pacific Northwest and Vancouver and lower volumes of domestic potash. Freight revenue per RTM increased due to higher fuel surcharge revenue and higher freight rates, partially offset by the unfavourable impact of the change in FX rates.

Fertilizers and Sulphur

For the three months ended June 30	2026	2025	Total Change	% Change
Freight revenues (in millions)	**$ 110**	$ 98	$ 12	12
Carloads (in thousands)	**16.1**	15.6	0.5	3
Revenue ton-miles (in millions)	**1,227**	1,220	7	1
Freight revenue per carload (in dollars)	**$ 6,832**	$ 6,282	$ 550	9
Freight revenue per revenue ton-mile (in cents)	**8.96**	8.03	0.93	12

The increase in Fertilizers and sulphur revenue in the second quarter of 2026 was primarily due to an increase in freight revenue per RTM and higher volumes of dry and wet fertilizers, partially offset by lower volumes of sulphur. Freight revenue per RTM increased due to higher fuel surcharge revenue and higher freight rates.

For the six months ended June 30		2026		2025		Total Change	% Change
Freight revenues (in millions)	$	222	$	212	$	10	5
Carloads (in thousands)		33.8		33.4		0.4	1
Revenue ton-miles (in millions)		2,616		2,647		(31)	(1)
Freight revenue per carload (in dollars)	$	6,568	$	6,347	$	221	3
Freight revenue per revenue ton-mile (in cents)		8.49		8.01		0.48	6

The increase in Fertilizers and sulphur revenue in the first six months of 2026 was primarily due to an increase in freight revenue per RTM and higher volumes of dry and wet fertilizers, partially offset by lower volumes of sulphur. Freight revenue per RTM increased due to higher freight rates and higher fuel surcharge revenue, partially offset by the unfavourable impact of the change in FX rates.

Forest Products

For the three months ended June 30		2026		2025		Total Change	% Change
Freight revenues (in millions)	$	198	$	195	$	3	2
Carloads (in thousands)		31.1		32.8		(1.7)	(5)
Revenue ton-miles (in millions)		2,194		2,236		(42)	(2)
Freight revenue per carload (in dollars)	$	6,367	$	5,945	$	422	7
Freight revenue per revenue ton-mile (in cents)		9.02		8.72		0.30	3

The increase in Forest products revenue in the second quarter of 2026 was primarily due to an increase in freight revenue per RTM and higher volumes of printing papers and paperboard, partially offset by lower volumes of wood pulp and newsprint. Freight revenue per RTM increased due to higher fuel surcharge revenue and higher freight rates. Carloads decreased more than RTMs due to moving lower volumes of paperboard from Mississippi to Texas and from Louisiana to the U.S. Midwest, which have shorter lengths of haul.

For the six months ended June 30		2026		2025		Total Change	% Change
Freight revenues (in millions)	$	379	$	412	$	(33)	(8)
Carloads (in thousands)		61.6		67.6		(6.0)	(9)
Revenue ton-miles (in millions)		4,300		4,579		(279)	(6)
Freight revenue per carload (in dollars)	$	6,153	$	6,095	$	58	1
Freight revenue per revenue ton-mile (in cents)		8.81		9.00		(0.19)	(2)

The decrease in Forest products revenue in the first six months of 2026 was primarily due to lower volumes of wood pulp, newsprint, and paperboard and a decrease in freight revenue per RTM. Freight revenue per RTM decreased due to the unfavourable impact of the change in FX rates, partially offset by higher fuel surcharge revenue and higher freight rates. Carloads decreased more than RTMs due to moving lower volumes of paperboard from Louisiana to the U.S. Midwest, which has a shorter length of haul.

Energy, Chemicals and Plastics

For the three months ended June 30		2026		2025		Total Change	% Change
Freight revenues (in millions)	$	777	$	712	$	65	9
Carloads (in thousands)		140.4		142.7		(2.3)	(2)
Revenue ton-miles (in millions)		9,715		9,148		567	6
Freight revenue per carload (in dollars)	$	5,534	$	4,989	$	545	11
Freight revenue per revenue ton-mile (in cents)		8.00		7.78		0.22	3

The increase in Energy, chemicals and plastics revenue in the second quarter of 2026 was primarily due to higher volumes of crude, styrene, and asphalt and an increase in freight revenue per RTM, partially offset by lower volumes of fuel oil. Freight revenue per RTM increased due to higher fuel surcharge revenue, higher freight rates, and the favourable impact of the change in FX rates. RTMs increased while carloads decreased due to moving higher volumes of crude, which has a longer length of haul, and moving lower volumes of fuel oil from the southern U.S. to Mexico and within Mexico, which have shorter lengths of haul.

For the six months ended June 30	**2026**	2025	Total Change	% Change
Freight revenues (in millions)	**$ 1,477**	$ 1,470	$ 7	—
Carloads (in thousands)	**275.4**	285.2	(9.8)	(3)
Revenue ton-miles (in millions)	**18,892**	18,849	43	—
Freight revenue per carload (in dollars)	**$ 5,363**	$ 5,154	$ 209	4
Freight revenue per revenue ton-mile (in cents)	**7.82**	7.80	0.02	—

Energy, chemicals and plastics revenue was relatively flat in the first six months of 2026 primarily due to higher fuel surcharge revenue, higher freight rates, and higher volumes of crude, offset by lower volumes of fuel oil and liquefied petroleum gas and the unfavourable impact of the change in FX rates. Carloads decreased while RTMs remained flat due to moving lower volumes of fuel oil within Mexico and from the southern U.S. to Mexico, which have shorter lengths of haul, and moving higher volumes of crude, which has a longer length of haul.

Metals, Minerals and Consumer Products

For the three months ended June 30	**2026**	2025	Total Change	% Change
Freight revenues (in millions)	**$ 524**	$ 444	$ 80	18
Carloads (in thousands)	**134.1**	125.4	8.7	7
Revenue ton-miles (in millions)	**5,248**	4,905	343	7
Freight revenue per carload (in dollars)	**$ 3,908**	$ 3,541	$ 367	10
Freight revenue per revenue ton-mile (in cents)	**9.98**	9.05	0.93	10

The increase in Metals, minerals and consumer products revenue in the second quarter of 2026 was primarily due to an increase in freight revenue per RTM and higher volumes of steel and sand and stone. Freight revenue per RTM increased due to higher fuel surcharge revenue, higher freight rates, and the favourable impact of the change in FX rates.

For the six months ended June 30	**2026**	2025	Total Change	% Change
Freight revenues (in millions)	**$ 962**	$ 892	$ 70	8
Carloads (in thousands)	**251.0**	249.8	1.2	—
Revenue ton-miles (in millions)	**10,051**	9,586	465	5
Freight revenue per carload (in dollars)	**$ 3,833**	$ 3,571	$ 262	7
Freight revenue per revenue ton-mile (in cents)	**9.57**	9.31	0.26	3

The increase in Metals, minerals and consumer products revenue in the first six months of 2026 was primarily due to higher volumes of sand and stone and steel and an increase in freight revenue per RTM due to higher freight rates and higher fuel surcharge revenue. RTMs increased while carloads remained flat due to moving higher volumes of sand and stone from Wisconsin to Mexico, which has a longer length of haul.

Automotive

For the three months ended June 30	**2026**	2025	Total Change	% Change
Freight revenues (in millions)	**$ 403**	$ 330	$ 73	22
Carloads (in thousands)	**64.6**	62.4	2.2	4
Revenue ton-miles (in millions)	**1,525**	1,416	109	8
Freight revenue per carload (in dollars)	**$ 6,238**	$ 5,288	$ 950	18
Freight revenue per revenue ton-mile (in cents)	**26.43**	23.31	3.12	13

The increase in Automotive revenue in the second quarter of 2026 was primarily due to an increase in freight revenue per RTM and higher volumes from Mexico to Canada, from Vancouver to eastern Canada, and from Ontario to Mexico, partially offset by lower volumes from the U.S. Midwest. Freight revenue per RTM increased due to higher fuel surcharge revenue, higher freight rates, and the favourable impact of the change in FX rates. RTMs increased more than carloads due to moving higher volumes from Mexico to Canada, from Vancouver to eastern Canada, and from Ontario to Mexico, which have longer lengths of haul.

For the six months ended June 30		2026		2025		Total Change	% Change
Freight revenues (in millions)	$	**699**	$	645	$	54	8
Carloads (in thousands)		**116.3**		120.2		(3.9)	(3)
Revenue ton-miles (in millions)		**2,786**		2,649		137	5
Freight revenue per carload (in dollars)	$	**6,010**	$	5,366	$	644	12
Freight revenue per revenue ton-mile (in cents)		**25.09**		24.35		0.74	3

The increase in Automotive revenue in the first six months of 2026 was primarily due to higher volumes from Mexico to Canada, and an increase in freight revenue per RTM, partially offset by lower volumes from the U.S. Midwest. Freight revenue per RTM increased due to higher fuel surcharge revenue, higher freight rates, and the favourable impact of the change in FX rates. RTMs increased while carloads decreased due to moving higher volumes from Mexico to Canada, which has a longer length of haul, and moving lower volumes from Ontario to Chicago and New York, which have shorter lengths of haul.

Intermodal

For the three months ended June 30		2026		2025		Total Change	% Change
Freight revenues (in millions)	$	**758**	$	684	$	74	11
Carloads (in thousands)		**454.7**		459.5		(4.8)	(1)
Revenue ton-miles (in millions)		**10,299**		10,257		42	—
Freight revenue per carload (in dollars)	$	**1,667**	$	1,489	$	178	12
Freight revenue per revenue ton-mile (in cents)		**7.36**		6.67		0.69	10

The increase in Intermodal revenue in the second quarter of 2026 was primarily due to an increase in freight revenue per RTM and higher domestic intermodal wholesale and cross-border volumes, partially offset by lower international intermodal volumes to and from the Port of Vancouver and the Port of Saint John. Freight revenue per RTM increased due to higher fuel surcharge revenue and higher freight rates.

For the six months ended June 30		2026		2025		Total Change	% Change
Freight revenues (in millions)	$	**1,413**	$	1,358	$	55	4
Carloads (in thousands)		**885.8**		894.9		(9.1)	(1)
Revenue ton-miles (in millions)		**19,808**		19,452		356	2
Freight revenue per carload (in dollars)	$	**1,595**	$	1,517	$	78	5
Freight revenue per revenue ton-mile (in cents)		**7.13**		6.98		0.15	2

The increase in Intermodal revenue in the first six months of 2026 was primarily due to an increase in freight revenue per RTM, higher international intermodal volumes to and from the Port of Vancouver, and higher domestic intermodal wholesale volumes, partially offset by lower international intermodal volumes to and from the Port of Saint John and the Port of Montréal. Freight revenue per RTM increased due to higher fuel surcharge revenue and higher freight rates, partially offset by the unfavourable impact of the change in FX rates. RTMs increased while carloads decreased due to moving higher international intermodal volumes to and from the Port of Vancouver, which has a longer length of haul, and moving lower international intermodal volumes to and from the Port of Saint John and the Port of Montréal, which have shorter lengths of haul.

Operating Expenses

	For the three months ended June 30						
(in millions of Canadian dollars)		2026		2025		Total Change	% Change
Compensation and benefits	$	**723**	$	659	$	64	10
Fuel		**618**		405		213	53
Materials		**130**		124		6	5
Equipment rents		**97**		103		(6)	(6)
Depreciation and amortization		**519**		493		26	5
Purchased services and other		**605**		572		33	6
Total operating expenses	$	**2,692**	$	2,356	$	336	14

	For the six months ended June 30			
(in millions of Canadian dollars)	**2026**	2025	Total Change	% Change
Compensation and benefits	**$ 1,414**	$ 1,341	$ 73	5
Fuel	**1,076**	886	190	21
Materials	**257**	248	9	4
Equipment rents	**192**	202	(10)	(5)
Depreciation and amortization	**1,031**	997	34	3
Purchased services and other	**1,165**	1,160	5	—
Total operating expenses	**$ 5,135**	$ 4,834	$ 301	6

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 second quarter of 2026 was primarily due to:

- increased stock-based compensation of $35 million, primarily due to changes in payout rates;
- the impact of wage and benefit inflation;
- higher volume variable expense as a result of increased workload as measured by GTMs; and
- the unfavourable impact of the change in FX of $10 million.

This increase was partially offset by efficiencies gained by a reduction in headcount due to the completion of systems integration in 2025 and efficient resource planning, including the impacts of increased train weights.

The increase in Compensation and benefits expense in the first six months of 2026 was primarily due to:

- increased stock-based compensation expense of $51 million, primarily due to changes in payout rates and changes in the Common Share price;
- the impact of wage and benefit inflation;
- increased volume variable expenses as a result of increased workload as measured by GTMs;
- the unfavourable impact of the change in FX of $6 million.

This increase was partially offset by efficiencies gained by a reduction in headcount due to the completion of systems integration in 2025 and efficient resource planning, including the impacts of increased train weights.

Fuel

Fuel expense consists primarily of fuel used by locomotives and includes provincial, state, and federal fuel taxes. The increase in Fuel expense in the second quarter of 2026 was primarily due to:

- the impact of higher fuel prices of $200 million due to higher diesel benchmark prices net of purchasing discounts;
- an increase in workload, as measured by GTMs; and
- the unfavourable impact of the change in FX of $10 million.

This increase was partially offset by the favourable impact of improved fuel efficiency due to the improvement in locomotive productivity as measured by GTMs / operating horsepower.

The increase in Fuel expense in the first six months of 2026 was primarily due to:

- the impact of higher fuel prices of $179 million due to higher diesel benchmark prices net of purchasing discounts, partially offset by lower carbon tax expense following the elimination of the Canadian federal carbon tax program effective April 1, 2025;
- an increase in workload, as measured by GTMs; and
- the unfavourable impact of the change in FX of $6 million.

This increase was partially offset by the favourable impact of improved fuel efficiency due to the improvement in locomotive productivity as measured by GTMs / operating horsepower.

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 increases in Materials expense in the second quarter and in the first six months of 2026 were primarily due to cost inflation and increased locomotive maintenance. These increases were partially offset by reduced safety materials costs.

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 second quarter of 2026 was primarily due to the lower use of other railways' freight cars due to improved cycle times and higher usage of the Company's freight cars by other railways, partially offset by higher expenses related to leased freight cars.

The decrease in Equipment rents expense in the first six months of 2026 was primarily due to the lower use of other railways' freight cars due to improved cycle times.

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 granted by the Mexican government, as well as amortization of finite life intangible assets. The increase in Depreciation and amortization expense in the second quarter of 2026 was primarily due to a larger depreciable asset base as a result of capital program spending.

The increase in Depreciation and amortization expense in the first six months of 2026 was primarily due to a larger depreciable asset base as a result of capital program spending, partially offset by the favourable impact of the change in FX of $14 million.

Purchased Services and Other

Purchased services and other expense encompasses a wide range of third-party costs, including expenses for joint facilities, personal injury and damage claims, environmental remediation, property taxes, contractor and consulting fees, and insurance premiums. The increase in Purchased services and other expense in the second quarter of 2026 was primarily due to:

- an increase in casualty incident costs;
- advisory costs related to the analysis and advocacy in connection with the U.S. Surface Transportation Board's (the "STB") review of the proposed merger between Union Pacific Corporation and Norfolk Southern Corporation of $14 million;
- the impact of cost inflation; and
- the unfavourable impact of the change in FX of $6 million.

This increase was partially offset by lower acquisition-related and other operating costs across several areas, including intermodal operations, track repair and infrastructure projects, terminal services and crew costs.

The increase in Purchased services and other expense in the first six months of 2026 was primarily due to:

- an increase in casualty incident costs;
- advisory costs related to the analysis and advocacy in connection with the STB's review of the proposed merger between Union Pacific Corporation and Norfolk Southern Corporation of $27 million; and
- the impact of cost inflation.

This increase was partially offset by lower acquisition-related and other operating costs across several areas, including intermodal operations, track repair and infrastructure projects, terminal services, crew costs and support, and environmental.

Other Income Statement Items

Other (Income) Expense

Other (income) expense consists of gains and losses from the change in FX rates on cash and working capital, financing costs, shareholder costs, equity earnings, and other non-operating expenditures. Other income was $14 million in the second quarter of 2026, a decrease of $2 million, or 13%, from Other income of $16 million in the same period of 2025. This decrease was primarily due to net FX losses from the re-measurement of working capital denominated in U.S. dollars and Mexican pesos of $13 million, partially offset by higher equity income.

Other expense was $6 million in the first six months of 2026, a change of $15 million, or 167%, from Other income of $9 million in the same period of 2025. This change was primarily driven by net FX losses from the re-measurement of working capital and cash denominated in U.S. dollars of $23 million, partially offset by higher equity income.

Other Components of Net Periodic Benefit Recovery

Other components of net periodic benefit recovery is related to the Company's defined benefit 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 gain, and amortization of prior service costs. Other components of net periodic benefit recovery was $110 million and $220 million for the three and six months ended June 30, 2026, an increase of $3 million or 3%, and $6 million or 3%, respectively, compared to the same periods of 2025. These increases were primarily due to an increase in the expected return on plan assets for the three and six months ended June 30, 2026 of $3 million and $5 million, respectively, and an increase in the recognized net actuarial gain of $2 million and $5 million, respectively.

Net Interest Expense

Net interest expense includes interest on long-term debt, short-term debt, and finance leases. Net interest expense was $237 million in the second quarter of 2026, an increase of $29 million, or 14%, from $208 million in the same period of 2025. The increase was primarily due to interest of $32 million incurred on long-term notes issued in 2025 and 2026. This increase was partially offset by lower interest costs of $9 million due to a reduction in outstanding commercial paper borrowings and repayment of maturing long-term debt.

Net interest expense was $465 million in the first six months of 2026, an increase of $41 million, or 10%, from $424 million in the same period of 2025. The increase was primarily due to interest of $70 million incurred on long-term notes issued in 2025 and 2026. This increase was partially offset by lower interest costs of $22 million due to there being no short-term borrowings in 2026 compared to interest incurred on short-term borrowings in the same period of 2025 and a reduction in outstanding commercial paper borrowings, along with the favourable impact of the change in FX of $9 million.

Gain on Sale of Equity Investment

On April 1, 2025, CPKC sold its 50% equity method investment in the Panama Canal Railway Company to APM Terminals. The Company recognized a pre-tax gain of U.S. $232 million ($333 million). See Item 1. Financial Statements, Note 4 Gain on sale of equity investment for further details.

Income Tax Expense

Income tax expense was $335 million and $610 million in the second quarter and first six months of 2026, respectively, a decrease of $22 million or 6% and $39 million or 6%, from $357 million and $649 million in the same periods of 2025. These decreases were primarily due to $51 million of income tax expense from a gain on sale of equity investment recorded in 2025, partially offset by higher taxable earnings.

The effective income tax rates for the second quarter and first six months of 2026 were 24.65% and 24.63%, respectively, compared to 22.45% and 23.26% for the same periods in 2025. The Core adjusted effective tax rate for the second quarter and first six months of 2026 was 24.75%, compared to 24.50% for the same periods in 2025. The Company's 2026 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 or past financial trends either by nature or amount. 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 Kansas City Southern ("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 outlook for the Company's 2026 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 2025 Annual Report on Form 10-K. Refer also to "Forward-Looking Statements" below for further details.

Impact of FX on Earnings and FX 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 ("Ps."). 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 rates affect the Company's financial results because revenues and expenses denominated in U.S. dollars and Mexican pesos are translated into Canadian dollars. U.S. dollar-denominated revenues and expenses increase (decrease) when the Canadian dollar weakens (strengthens) in relation to the U.S. dollar. Mexican peso-denominated revenues and expenses increase (decrease) when the U.S. dollar weakens (strengthens) in relation to the Mexican peso.

In the second quarter of 2026, the U.S. dollar remained flat to an average rate of $1.38 Canadian/U.S. dollar and the Mexican peso strengthened to an average rate of Ps. 12.55/Canadian dollar, compared to $1.38 Canadian/U.S. dollar and Ps. 14.09/ Canadian dollar in the second quarter of 2025, resulting in an increase in "Total revenues" of $21 million, and an increase in "Total operating expenses" of $28 million.

In the first six months of 2026, the U.S. dollar weakened to an average rate of $1.38 Canadian/U.S. dollar and the Mexican peso strengthened to an average rate of Ps. 12.67 Mexican Peso/Canadian dollar, compared to $1.41 Canadian/U.S. dollar and Ps. 14.16 Mexican Peso/Canadian dollar in the first six months of 2025, resulting in a decrease in "Total revenues" of $61 million, a decrease in "Total operating expenses" of $7 million, and a decrease in "Net interest expense" of $9 million from the same period of 2025.

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 $79 million (December 31, 2025 – approximately $78 million), negatively (or positively) impacts Operating expenses by approximately $49 million (December 31, 2025 – approximately $45 million), and negatively (or positively) impacts "Net interest expense" by approximately $6 million (December 31, 2025 – approximately $6 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 $8 million (December 31, 2025 – approximately $7 million) and negatively (or positively) impacts Operating expenses by approximately $9 million (December 31, 2025 – approximately $8 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 expenses. As fuel prices fluctuate, there will be an impact on earnings due to the timing of recoveries from the Company's fuel cost adjustment program.

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 second quarter of 2026, the favourable impact of fuel prices on "Operating income" was $57 million compared to the same period of 2025. Higher fuel prices, partially offset by the unfavourable impact from the timing of recoveries under the Company's fuel cost adjustment program, resulted in an increase in "Total revenues" of $257 million. Higher fuel prices net of purchasing discounts, resulted in an increase in "Total operating expenses" of $200 million.

In the first six months of 2026, the favourable impact of fuel prices on "Operating income" was $38 million compared to the same period of 2025. Higher fuel prices, partially offset by the unfavourable impact from the timing of recoveries under the Company's fuel cost adjustment program and lower carbon levy surcharge revenue following the elimination of the Canadian federal carbon tax program effective April 1, 2025, resulted in an increase in "Total revenues" of $217 million. Higher fuel prices net of purchasing discounts, partially offset by lower carbon tax expense due to the elimination of the Canadian federal carbon tax program effective April 1, 2025, resulted in an increase in "Total operating expenses" of $179 million.

Impact of Share Price on Earnings and Stock-Based Compensation

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

In the second quarter of 2026, the change in the Company's Common Share price resulted in stock-based compensation expense of $26 million, an increase of $4 million, compared to an expense of $22 million in the same period of 2025.

In the first six months of 2026, the change in the Company's Common Share price resulted in stock-based compensation expense of $37 million, an increase of $24 million, compared to an expense of $13 million in the same period of 2025.

Based on information available at June 30, 2026 and expectations for 2026 share-based grants, for every $1.00 change in the Company's Common Share price, stock-based compensation expense has a corresponding change of approximately $2.2 million to $2.4 million (December 31, 2025 - approximately $1.3 million to $1.9 million). This excludes the impact of changes in Common Share price relative to the Standard and Poor's ("S&P")/TSX 60 Index, S&P 500 Industrials Index, and to other Class I railways, which may trigger different performance share unit payouts. Stock-based compensation expense may also be impacted by non-market performance conditions and the impact of the change in FX rates on units tied to the NYSE versus the TSX.

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, revolving credit facility, 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 June 30, 2026, the Company had $366 million of Cash and cash equivalents compared to $184 million at December 31, 2025.

During the six months ended June 30, 2026, the Company repaid, at maturity, U.S. $250 million ($339 million) 3.70% 10.5-year notes and U.S. $250 million ($345 million) 3.125% 10-year notes.

During the six months ended June 30, 2026, the Company issued U.S. $600 million ($821 million) 4.00% 3-year unsecured notes due March 15, 2029 for net proceeds of U.S. $597 million ($816 million) and U.S. $600 million ($821 million) 5.50% 30-year unsecured notes due March 15, 2056 for net proceeds of U.S. $589 million ($805 million).

Effective July 6, 2026, the Company amended its revolving credit facility agreement (the "facility") to extend the maturity dates of its two-year U.S. $1.1 billion tranche and five-year U.S. $1.1 billion tranche to June 25, 2028, and June 25, 2031, respectively. As at June 30, 2026, the facility was undrawn (December 31, 2025 - undrawn).

The Company has a commercial paper program that enables it to issue commercial paper in the form of unsecured promissory notes. Effective March 27, 2026, the Company increased the maximum size of its commercial paper program through the addition of a Canadian dollar commercial paper program which allows the Company to borrow Canadian dollars in the form of unsecured promissory notes. This increased the maximum amount the Company can borrow under the program from U.S. $1.5 billion to U.S. $2.2 billion, or the Canadian dollar equivalent, on a combined basis. Both the Canadian and U.S. dollar commercial paper programs are backed by the U.S. $2.2 billion revolving credit facility. As at June 30, 2026, the Company had total commercial paper borrowings outstanding of U.S. $1,028 million ($1,461 million) (December 31, 2025 - U.S. $850 million ($1,165 million)).

The Company has bilateral letter of credit facilities with six financial institutions to support its requirement to post letters of credit in the ordinary course of business. Under these agreements, the Company has the option to post collateral in the form of cash or cash equivalents, equal at least to the face value of the letter of credit issued. These agreements permit the Company to withdraw amounts posted as collateral at any time; therefore, the amounts posted as collateral are presented as “Cash and cash equivalents” on the Company’s Interim Consolidated Balance Sheets. As at June 30, 2026, the Company did not have any collateral posted on its bilateral letter of credit facilities (December 31, 2025 - $nil) and had letters of credit drawn of $83 million (December 31, 2025 - $79 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 relate to long-term debt and related interest, capital commitments, supplier purchases, leases, and other long term liabilities.

As at June 30, 2026, other than changes to long-term debt, there have been no material changes in our contractual commitments since December 31, 2025, a description of which can be found in Contractual Commitments of Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations of the Company's Annual Report on Form 10-K. For further information concerning long-term debt, refer to Item 1. Financial Statements, Note 9 Debt.

Concession Duty

The Company's subsidiary, Kansas City Southern de México, S.A. de C.V. (also known as Canadian Pacific Kansas City Mexico) ("CPKCM") has a fifty-year concession (the "Concession"), which will expire in 2047 but is renewable under certain conditions, for additional periods, each up to 50 years. Under the Concession, CPKCM pays annual concession duties equal to 1.25% of its gross revenues.

Guarantees

The Company accrues for all guarantees that it expects to pay. As at June 30, 2026, these accruals amounted to $19 million (December 31, 2025 - $16 million).

Cash Flow

Operating Activities

Net cash provided by operating activities increased $371 million in the second quarter of 2026, compared to the same period in 2025. The increase was primarily due to higher cash generating operating income and favourable changes in working capital and other operating activities.

Net cash provided by operating activities increased $191 million in the first six months of 2026, compared to the same period in 2025. The increase was primarily due to higher cash generating operating income and a favourable change in other operating activities.

Investing Activities

Net cash used in investing activities increased $456 million and $413 million in the second quarter and the first six months of 2026, respectively, compared to the same periods in 2025. These increases were primarily due to proceeds received from the sale of an equity investment of $493 million, partially offset by transaction costs paid on the sale in 2025.

Financing Activities

Net cash used in financing activities increased $130 million in the second quarter of 2026, compared to the same period in 2025. The increase was primarily due to net proceeds from debt issuances of $1,392 million in the second quarter of 2025 and higher principal repayments on long-term debt driven by repayment of the U.S. $250 million ($345 million) 3.125% 10-year notes at maturity in the second quarter of 2026. This increase was partially offset by net issuance of commercial paper of $778 million in the second quarter of 2026 compared to net repayments of $722 million in the same period of 2025, and lower share repurchases of $110 million.

Net cash used in financing activities decreased $273 million in the first six months of 2026, compared to the same period in 2025. The decrease was primarily due to net issuance of commercial paper of $284 million in the first six months of 2026 compared to net repayments of $1,175 million in the same period of 2025, and a $243 million decrease in principal repayments on long-term debt. This decrease was partially offset by a $1,481 million decrease in net proceeds from debt issuances and higher share repurchases of $223 million.

Credit Measures

Credit ratings provide information relating to the Company's operations and liquidity, and affect the Company's ability to obtain short-term and long-term financing and/or the cost of such financing. The margin that applies to outstanding loans under the Company's revolving credit facility is based on the credit rating assigned to the Company's senior unsecured and unsubordinated debt. If the Company's credit ratings were to decline to below investment-grade levels, the Company could experience a significant increase in its interest cost for new debt along with a negative effect on its ability to readily issue new debt.

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

As at June 30, 2026, the Company's credit ratings from Standard & Poor's Rating Services ("Standard & Poor's") on its long-term debt and U.S. commercial paper program remain unchanged from December 31, 2025 and the Company's credit rating on its Canadian dollar commercial paper program remains unchanged from March 31, 2026. The following table shows the ratings issued for the Company by the rating agencies noted as at June 30, 2026 and is being presented as it relates to the Company's cost of funds and liquidity.

Credit ratings as at June 30, 2026[1]

Long-term debt		Outlook
Standard & Poor's	**BBB+**	positive
Moody's	**Baa1**	stable
U.S. Commercial paper program		
Standard & Poor's	**A-2**	N/A
Moody's	**P-2**	N/A
CAD Commercial paper program		
Standard & Poor's	**A-1 (Low)**	N/A

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

Supplemental Guarantor Financial Information

Canadian Pacific Railway Company ("CPRC"), a wholly owned subsidiary of CPKC, is the issuer of certain securities that are fully and unconditionally guaranteed by CPKC on an unsecured basis. The subsidiaries of CPRC do not guarantee the securities and are referred to below as the “Non-Guarantor Subsidiaries”.

As of the date of filing this Form 10-Q, CPRC had U.S. $14,390 million in principal amount of SEC-registered debt securities, outstanding due through 2115, issued in the U.S. pursuant to a trust indenture, and U.S. $30 million and £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*, as amended (the "*Exchange Act*"). As of the same date, CPRC also had $3,700 million in principal amount of debt securities outstanding due through 2055, issued in Canada 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 guarantees are CPKC’s unsubordinated and unsecured obligations and rank equally with all of CPKC’s other unsecured, unsubordinated obligations. CPKC will be released and relieved of its obligations under the guarantees after all obligations to the holders are satisfied in accordance with the terms of the respective instruments. More information on the securities under this guarantee structure can be found in Exhibit 22.1 List of Issuers and Guarantor Subsidiaries of this quarterly report.

Pursuant to Rules 3-01 and 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.

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 between CPRC and CPKC; (ii) equity in earnings from and investments in the Non-Guarantor Subsidiaries; and (iii) intercompany dividend income:

Statement of Income Information

	CPRC (Subsidiary Issuer) and CPKC (Parent Guarantor)	
(in millions of Canadian dollars)	**For the six months ended June 30, 2026**	For the year ended December 31, 2025
Total revenues	**$ 3,786**	$ 7,184
Total operating expenses	**2,342**	4,398
Operating income[1]	**1,444**	2,786
Less: Other[2]	**364**	360
Income before income tax expense	**1,080**	2,426
Net income	**$ 771**	$ 1,803

[1] Includes net lease costs incurred from Non-Guarantor Subsidiaries for the six months ended June 30, 2026 and the year ended December 31, 2025 of $221 million and $441 million, respectively.

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

Balance Sheet Information

	CPRC (Subsidiary Issuer) and CPKC (Parent Guarantor)	
(in millions of Canadian dollars)	**As at June 30, 2026**	As at December 31, 2025
Assets		
Current assets	**$ 1,365**	$ 1,144
Properties	**14,441**	13,904
Other non-current assets	**5,686**	5,462
Liabilities		
Current liabilities	**$ 4,328**	$ 4,529
Long-term debt	**22,107**	19,811
Other non-current liabilities	**4,331**	4,150

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

Transactions with Non-Guarantor Subsidiaries

	CPRC (Subsidiary Issuer) and CPKC (Parent Guarantor)	
(in millions of Canadian dollars)	**For the six months ended June 30, 2026**	For the year ended December 31, 2025
Dividend income from Non-Guarantor Subsidiaries	**$ 273**	$ 690

Balances with Non-Guarantor Subsidiaries

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPKC (Parent Guarantor)	
	As at June 30, 2026	As at December 31, 2025
Assets		
Accounts receivable, intercompany	**$ 442**	$ 370
Short-term advances to affiliates	**4,888**	5,193
Long-term advances to affiliates	**4,277**	4,125
Liabilities		
Accounts payable, intercompany	**$ 412**	$ 369
Short-term advances from affiliates	**335**	254
Long-term advances from affiliates	**3,968**	3,968

Share Capital

As of July 28, 2026, the latest practicable date, there were 879,079,224 Common Shares outstanding, which consisted of 12,990 holders of record of the Common Shares, and no Preferred Shares outstanding. 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 July 28, 2026, 5,603,580 options were outstanding under the MSOIP and stand-alone option agreements entered into with Mr. Keith Creel. There are 19,011,037 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, namely Core adjusted operating ratio and Core adjusted diluted EPS, to provide a basis for evaluating underlying earnings trends in the Company's current period's financial results that can be compared with the results of operations in prior periods. Management believes these Non-GAAP measures facilitate a multi-period assessment of long-term profitability.

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

Non-GAAP Performance Measures

CPKC presents Core adjusted measures to provide a comparison to prior period financial information as adjusted to exclude certain significant items and KCS purchase accounting.

Management believes these Non-GAAP measures provide meaningful supplemental information about our financial results and improved comparability to past performance because they exclude certain significant items that are not considered indicative of future or past financial trends either by nature or amount. 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 or equity investments, acquisition-related costs, certain adjustments to provisions and settlements of Mexican taxes, advisory costs related to rail consolidation matters, discrete tax items, changes in income tax rates, changes to uncertain tax items, and certain items that are not typical of normal business activities or are outside the control of management. Acquisition-related costs include legal, consulting, integration costs including third-party services and system migration, restructuring and special termination benefit costs, employee retention and synergy incentive costs. These items may not be non-recurring and may include items that are settled in cash. Specifically, due to the magnitude of the KCS acquisition, its significant impact to the Company's business and complexity of integrating the acquired business and operations, the Company continues to expect to incur acquisition-related costs. Management believes excluding these significant items from GAAP results provides an additional viewpoint which may give users a consistent understanding of the Company'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 the Company's financial information.

In addition, Core adjusted operating ratio and Core adjusted diluted EPS exclude KCS purchase accounting. KCS purchase accounting represents the amortization of basis differences being the incremental depreciation or amortization in relation to fair value adjustments to properties, intangible assets, and KCS's investments, the change in fair value of debt of KCS assumed on April 14, 2023, and fair value adjustments that are attributable to the non-controlling interest, as recognized within "Depreciation and amortization", "Purchased services and other", "Other (income) expense", "Net interest expense", and "Net loss attributable to non-controlling interest", respectively, 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.

Significant items recognized in "Net income attributable to controlling shareholders" as reported on a GAAP basis for the first six months of 2026 and 2025 include:

2026:

- during the first six months, acquisition-related costs of $36 million in connection with the KCS acquisition ($27 million after current income tax recovery of $9 million) including $25 million recognized in "Compensation and benefits" primarily related to synergy related incentive compensation and restructuring costs, and $11 million recognized in "Purchased services and other" primarily related to system migration, legal fees, and other third party purchased services, that unfavourably impacted Diluted EPS by 3 cents as follows:
  - in the second quarter, acquisition-related costs of $27 million ($20 million after current income tax recovery of $7 million) including $21 million recognized in "Compensation and benefits", and $6 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 3 cents;
  - in the first quarter, acquisition-related costs of $9 million ($7 million after current income tax recovery of $2 million) including $4 million recognized in "Compensation and benefits", and $5 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 1 cent;
- during the first six months, advisory costs related to the analysis and advocacy in connection with the STB's review of the proposed merger between Union Pacific Corporation and Norfolk Southern Corporation of $27 million ($21 million after current income tax recovery of $6 million) recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 2 cents as follows:
  - in the second quarter, advisory costs of $14 million ($11 million after current income tax recovery of $3 million) recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 1 cent; and
  - in the first quarter, advisory costs of $13 million ($10 million after current income tax recovery of $3 million) recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 1 cent.

2025:

- in the second quarter, a gain on sale of an equity investment of $333 million ($282 million after current income tax expense of $76 million net of deferred income tax recovery of $25 million) recognized in "Gain on sale of equity investment", that favourably impacted Diluted EPS by 30 cents;
- during the first six months, acquisition-related costs of $39 million in connection with the KCS acquisition ($29 million after current income tax recovery of $10 million), including an expense of $12 million recognized in "Compensation and benefits" primarily related to retention and synergy related incentive compensation costs; $1 million recognized in "Materials"; and $26 million recognized in "Purchased services and other" primarily related to system migration, legal fees, and other third party purchased services, that unfavourably impacted Diluted EPS by 3 cents as follows:
  - in the second quarter, acquisition-related costs of $19 million ($14 million after current income tax recovery of $5 million) including $7 million recognized in "Compensation and benefits", and $12 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 2 cents; and
  - in the first quarter, acquisition-related costs of $20 million ($15 million after current income tax recovery of $5 million) including $5 million recognized in "Compensation and benefits", $1 million recognized in "Materials", and $14 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 2 cents.

KCS purchase accounting recognized in "Net income attributable to controlling shareholders" as reported on a GAAP basis for the first six months of 2026 and 2025 was as follows:

2026:

- during the first six months, KCS purchase accounting of $184 million ($134 million after deferred income tax recovery of $50 million), including costs of $175 million recognized in "Depreciation and amortization", $1 million recognized in "Purchased services and other" related to the amortization of equity investments, $11 million recognized in "Net interest expense", and a recovery of $3 million recognized in "Net loss attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 15 cents as follows:
  - in the second quarter, KCS purchase accounting of $93 million ($68 million after deferred income tax recovery of $25 million), including costs of $88 million recognized in "Depreciation and amortization", $6 million recognized in "Net interest expense", and a recovery of $1 million recognized in "Net loss attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 8 cents; and
  - in the first quarter, KCS purchase accounting of $91 million ($66 million after deferred income tax recovery of $25 million), including costs of $87 million recognized in "Depreciation and amortization", $1 million recognized in

"Purchased services and other", $5 million recognized in "Net interest expense", and a recovery of $2 million recognized in "Net loss attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 8 cents.

2025:

- during the first six months, KCS purchase accounting of $187 million ($137 million after deferred income tax recovery of $50 million), including costs of $178 million recognized in "Depreciation and amortization", $1 million recognized in "Purchased services and other" related to the amortization of equity investments, $10 million recognized in "Net interest expense", $1 million recognized in "Other (income) expense", and a recovery of $3 million recognized in "Net loss attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 14 cents as follows:
  - in the second quarter, KCS purchase accounting of $95 million ($70 million after deferred income tax recovery of $25 million), including costs of $91 million recognized in "Depreciation and amortization", $5 million recognized in "Net interest expense", and a recovery of $1 million recognized in "Net loss attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 7 cents; and
  - in the first quarter, KCS purchase accounting of $92 million ($67 million after deferred income tax recovery of $25 million), including costs of $87 million recognized in "Depreciation and amortization", $1 million recognized in "Purchased services and other", $5 million recognized in "Net interest expense", $1 million recognized in "Other (income) expense", and a recovery of $2 million recognized in "Net loss attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 7 cents.

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 Diluted EPS

Core adjusted diluted EPS is calculated using Diluted EPS reported on a GAAP basis adjusted for significant items less KCS purchase accounting.

	For the three months ended June 30		**For the six months ended June 30**	
	2026	2025	**2026**	2025
Diluted EPS as reported	**$ 1.15**	$ 1.33	**$ 2.10**	$ 2.31
Less:				
Significant items (pre-tax):				
Gain on sale of equity investment	**—**	0.36	**—**	0.36
Acquisition-related costs	**(0.03)**	(0.02)	**(0.04)**	(0.04)
Advisory costs related to rail consolidation matters	**(0.01)**	—	**(0.03)**	—
KCS purchase accounting	**(0.11)**	(0.10)	**(0.20)**	(0.20)
Add:				
Tax effect of adjustments(1)	**(0.03)**	0.03	**(0.07)**	(0.01)
Core adjusted diluted EPS	**$ 1.27**	$ 1.12	**$ 2.30**	$ 2.18

(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 26.10% and 26.31% for the three and six months ended June 30, 2026, and 9.45% and 8.67% for the three and six months ended June 30, 2025, respectively. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the adjustments.

Core Adjusted Operating Ratio

Core adjusted operating ratio is calculated from reported GAAP revenue and operating expenses adjusted for, where applicable, (1) significant items (acquisition-related costs and advisory costs related to rail consolidation matters) that are reported within Operating income, and (2) KCS purchase accounting recognized in "Depreciation and amortization" and "Purchased services and other".

	For the three months ended June 30		For the six months ended June 30	
	2026	2025	**2026**	2025
Operating ratio as reported	**64.6 %**	63.7 %	**65.3 %**	64.5 %
Less:				
Acquisition-related costs	**0.6 %**	0.5 %	**0.5 %**	0.5 %
Advisory costs related to rail consolidation matters	**0.3 %**	— %	**0.3 %**	— %
KCS purchase accounting in Operating expenses	**2.1 %**	2.5 %	**2.2 %**	2.4 %
Core adjusted operating ratio	**61.6 %**	60.7 %	**62.3 %**	61.6 %

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 goodwill and intangible assets, pensions and other benefits, properties, contingent liabilities, and deferred income taxes. 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 2025 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 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 include, but are not limited to, statements concerning expectations, beliefs, plans, goals, objectives, assumptions and statements about possible future events, conditions, and results of operations or performance. Forward-looking statements may contain statements with the words or headings such as “financial expectations”, “key assumptions”, “anticipate”, “believe”, “expect”, "project", "estimate", "forecast", “plan”, "intend", "target", “will”, “outlook”, "guidance", “should” or similar words suggesting future outcomes. All statements other than statements of historical fact may be forward-looking statements. To the extent that the Company has provided forecasts or targets using Non-GAAP financial measures, the Company may not be able to provide a reconciliation to the most directly comparable GAAP measures without unreasonable efforts, due to unknown variables and uncertainty related to future results. These unknown variables may include unpredictable transactions of significant value. In recent years, CPKC has recognized acquisition-related costs, KCS purchase accounting, adjustments to provisions and settlements of Mexican taxes, changes in income tax rates, a gain on the sale of an equity investment, advisory costs related to rail consolidation matters, and a change to an uncertain tax item. These or other similar large unforeseen transactions affect CPKC's results on a GAAP basis but may be excluded from CPKC’s Non-GAAP financial measures. Additionally, the U.S. dollar and Mexican peso exchange rates relative to the Canadian dollar are unpredictable and can have a significant impact on CPKC’s reported results but may be excluded from CPKC’s Non-GAAP financial measures.

This Management's Discussion and Analysis of Financial Condition and Results of Operations and Quarterly Report on Form 10-Q includes forward-looking statements concerning, but not limited to, the integration of KCS and the realization and timing of anticipated benefits and synergies from the CP-KCS combination, the expected impact of changes in FX rates (including the U.S. dollar and Mexican peso relative to the Canadian dollar), the Company’s expected core adjusted effective tax rate, share-price sensitivity of stock-based compensation, expectations for 2026 share-based grants, the impact of fuel prices, including the timing of recoveries under the Company’s fuel cost adjustment program, the Company’s operations, anticipated financial performance, business prospects and strategies, the sufficiency of cash flow from operations and available financing to meet short-term and long-term obligations, anticipated capital programs, future payments, including income taxes, and the outcomes of tax and other legal proceedings.

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 include, but are not limited to, expectations, estimates, projections and assumptions relating to: changes in business strategies; North American and global economic growth and conditions; commodity demand growth; sustainable industrial and agricultural production; commodity prices and interest rates; FX rates; core adjusted effective tax rates (as specified herein); performance of the Company's assets and equipment; sufficiency of the Company;s budgeted capital expenditures in carrying out our business plan; geopolitical conditions; applicable laws, regulations and government policies, including, without limitation, those relating to regulation of rates, tariffs, import/export, trade, taxes, wages, labour and immigration; the availability and cost of labour, services and infrastructure; labour disruptions; the satisfaction by third parties of their obligations to the Company; and carbon markets, evolving sustainability strategies, and scientific or technological developments. Although the Company believes the expectations, estimates, projections and assumptions reflected in the forward-looking statements presented herein are reasonable as of the date hereof, there can be no assurance that they will prove to be correct. Current conditions, economic and otherwise, render assumptions, although reasonable when made, subject to greater uncertainty.

Undue reliance should not be placed on forward-looking statements as actual results may differ materially from those expressed or implied by forward-looking statements. By their nature, forward-looking statements involve numerous inherent risks and uncertainties that could cause actual results to differ materially from the forward-looking statements, including, but not limited to, the following factors: changes in business strategies and strategic opportunities; general Canadian, U.S., Mexican and global social, economic, political, credit and business conditions; risks associated with agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures, including competition from other rail carriers, trucking companies and maritime shippers in Canada, the U.S. and Mexico; North American and global economic growth and conditions; industry capacity; shifts in market demand; changes in commodity prices and commodity demand; uncertainty surrounding timing and volumes of commodities being shipped by the Company; inflation; geopolitical instability; changes in laws, regulations and government policies, including, without limitation, those relating to regulation of rates, tariffs, import/export, trade, wages, labour and immigration; changes in taxes and tax rates; potential increases in maintenance and operating costs; changes in fuel prices; disruption of fuel supplies; uncertainties of investigations, proceedings or other types of claims and litigation; compliance with environmental regulations; labour disputes; changes in labour costs and labour difficulties; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; sufficiency of budgeted capital expenditures in carrying out business plans; services and infrastructure; the satisfaction by third parties of their obligations; currency and interest rate fluctuations; FX rates; effects of changes in market conditions and discount rates on the financial position of pension plans and investments; trade restrictions, including the imposition of any tariffs, or other changes to international trade arrangements; the effects of current and future multinational trade agreements on or other developments affecting the level of trade among Canada, the U.S. and Mexico; climate change and the market and regulatory responses to climate change; anticipated in-service dates; success of hedging activities; operational performance and reliability; customer, regulatory and other stakeholder approvals and support; regulatory and legislative decisions and actions; the adverse impact of any termination or revocation by the Mexican government of the Concession; public opinion; various events that could disrupt operations, including severe weather, such as droughts, floods, avalanches, volcanism and earthquakes, and cybersecurity attacks, as well as security threats and governmental response to them, and technological changes; acts of terrorism, war or other acts of violence or crime or risk of such activities; insurance coverage limitations; material adverse changes in economic and industry conditions; the outbreak of a pandemic or contagious disease and the resulting effects on economic conditions; the demand environment for logistics requirements and energy prices; restrictions imposed by public health authorities or governments; fiscal and monetary policy responses by governments and financial institutions; disruptions to global supply chains; the realization of anticipated benefits and synergies of the CP-KCS transaction and the timing thereof; the satisfaction of the conditions imposed by the STB in its March 15, 2023 decision; the successful integration of KCS into the Company; the focus of management time and attention on the CP-KCS integration and other disruptions arising from the CP-KCS integration; estimated future dividends; financial strength and flexibility; debt and equity market conditions, including the ability to access capital markets on favourable terms or at all; cost of debt and equity capital; improvement in data collection and measuring systems; industry-driven changes to methodologies; and the ability of the management of CPKC to execute key priorities, including those in connection with the CP-KCS transaction. The foregoing list of factors is not exhaustive.

These and other 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 are detailed from time to time in reports filed by CPKC with securities regulators in Canada and the United States, which can be accessed on SEDAR+ (www.sedarplus.ca) and EDGAR (www.sec.gov). Reference should be made to "Part I – Item 1A – Risk Factors" and "Part II – Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Forward-Looking Statements" in the Company's Annual Report on Form 10-K and "Part II – Item 1A – Risk Factors" of the Company's Quarterly Reports on Form 10-Q.

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 FX 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 June 30, 2026, 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 June 30, 2026 would increase the fair value of the Company's debt as at June 30, 2026 by approximately $1.9 billion (December 31, 2025 - approximately $1.8 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 June 30, 2026, 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 June 30, 2026, 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 second quarter of 2026, 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 or a final demand for corrective or mitigating actions, 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. However, any potential civil penalty amount is not anticipated to be material. The Company will continue to fully cooperate and engage in discussions to resolve the matter.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchase of Equity Securities

The Company has established a share repurchase program which is further described in Item 1. Financial Statements, Note 11 Share repurchases. The following table presents the number of Common Shares repurchased during each month of the second quarter of 2026 and the average price paid by CPKC for the repurchase of such Common Shares:

Period	Total Number of Shares (or Units) Purchased[1]	Average Price Paid per Share (or Unit)[2]	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Number of Shares (or Units) that may yet be purchased under the Plans or Programs
Common Stock				
April 1-30, 2026	5,143,778	$ 115.14	5,143,778	33,985,939
May 1-31, 2026	2,406,921	$ 120.03	2,406,921	31,579,018
June 1-30, 2026	3,305,000	$ 126.21	3,305,000	28,274,018
Total	10,855,699	$ 119.60	10,855,699	28,274,018

(1) Includes shares repurchased but not yet cancelled at end of period.

(2) Includes brokerage fees and applicable tax on share repurchases.