

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, 2024 in Item 1. Financial Statements, other information in this report, and Item 8. Financial Statements and Supplementary Data of the Company's 2023 Annual Report on Form 10-K. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars.

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

Available Information

The Company makes available on or through its website www.cpkcr.com free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such reports are filed with or furnished to the Securities and Exchange Commission ("SEC"). Our website also contains charters for our Board of Directors and each of its committees, our corporate governance guidelines and our Code of Business Ethics. SEC filings made by the Company are also accessible through the SEC's website at www.sec.gov. The information on our website is not part of this quarterly report on Form 10-Q.

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

Executive Summary

Second Quarter of 2024 Results

- Financial performance** - In the second quarter of 2024, the Company reported Diluted earnings per share ("EPS") of \$0.97, a decrease of 32% compared to the same period of 2023. Core adjusted combined diluted EPS was \$1.05, an increase of 27% compared to the same period of 2023. The Company reported Operating ratio of 64.8%, a 550 basis point improvement compared to the same period of 2023. Core adjusted combined operating ratio was 61.8%, a 280 basis point improvement compared to the same period of 2023. Core adjusted combined diluted EPS and Core adjusted combined operating ratio are defined and reconciled in the Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
- Total revenues** - Total revenues increased by 14% in the second quarter of 2024 to \$3,603 million, compared to the same period of 2023. The increase was primarily due to higher volumes as measured by revenue ton-miles ("RTMs"), the impact of the KCS acquisition, and increased freight revenue per RTM.

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		
	2024	2023	% Change	2024	2023	% Change
Operations Performance						
Gross ton-miles ("GTMs") (millions)	96,579	88,650	9	192,388	156,099	23
Train miles (thousands)	11,523	10,577	9	23,518	17,834	32
Fuel efficiency (U.S. gallons of locomotive fuel consumed / 1,000 GTMs)	1.027	1.036	(1)	1.046	1.009	4
Total employees (average)	20,441	19,579	4	20,219	16,257	24

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 2024 was primarily due to the impact of the KCS acquisition and higher volumes of Grain, Energy, chemicals and plastics, and Potash, partially offset by lower volumes of Metals, minerals and consumer products.

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

Train miles are defined as the sum of the distance moved by all trains operated on the network. Train miles provide a measure of the productive utilization of our network. A smaller increase in train miles relative to increases in volumes, as measured by RTMs, and/or workload, as measured by GTMs, indicates improved train productivity. The increase in train miles in the second quarter of 2024 reflects the impact of a 9% increase in workload (GTM), with minimal change in average train weights.

The increase in train miles in the first six months of 2024 reflected the impact of a 23% increase in workload (GTM) and a 7% decrease in average train weights, which was primarily due to the impact of the KCS acquisition.

Fuel efficiency is defined as U.S. gallons of locomotive fuel consumed per 1,000 GTMs. Fuel consumed includes gallons from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities. An improvement in fuel efficiency indicates operational cost savings. The improvement in fuel efficiency in the second quarter of 2024 was due to an improvement in horsepower utilization. The 4% increase in the first six months of 2024 was due to a decrease in average train weights by 7%, which was primarily due to lower horsepower utilization and harsher winter operating conditions in January 2024.

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

Financial Highlights

The following table presents selected financial data related to the Company's financial results for the three and six months ended, June 30, 2024 and the comparative periods in 2023. The financial highlights should be read in conjunction with Item 1. Financial Statements and this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

	For the three months ended June 30		For the six months ended June 30	
(in millions, except per share data, percentages and ratios)	2024	2023	2024	2023
Financial Performance				
Total revenues	\$ 3,603	\$ 3,174	\$ 7,123	\$ 5,440
Operating income	1,267	944	2,416	1,773
Net income attributable to controlling shareholders	905	1,324	1,680	2,124
Basic EPS	0.97	1.42	1.80	2.28
Diluted EPS	0.97	1.42	1.80	2.28
Core adjusted combined diluted EPS ⁽¹⁾	1.05	0.83	1.98	1.73
Dividends declared per share	0.19	0.19	0.38	0.38
Financial Ratios				
Operating ratio ⁽²⁾	64.8%	70.3%	66.1%	67.4%
Core adjusted combined operating ratio ⁽¹⁾	61.8%	64.6%	62.9%	64.0%

⁽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 Non-GAAP Measures section.

⁽²⁾ Operating ratio is defined as operating expenses divided by 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 of 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	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 3,534	\$ 3,101	\$ 433	14
Non-freight revenues (in millions)	69	73	(4)	(5)
Total revenues (in millions)	\$ 3,603	\$ 3,174	\$ 429	14
Carloads (in thousands)	1,085.4	1,069.7	15.7	1
Revenue ton-miles (in millions)	52,130	47,360	4,770	10
Freight revenue per carload (in dollars)	\$ 3,256	\$ 2,899	\$ 357	12
Freight revenue per revenue ton-mile (in cents)	6.78	6.55	0.23	4

Total Revenues

The increase in Freight revenues in the second quarter of 2024 was primarily due to higher volumes as measured by RTMs, the impact of the KCS acquisition of \$160 million, and increased freight revenue per RTM. The decrease in Non-freight revenues was primarily due to lower leasing revenue, partially offset by the impact of the KCS acquisition of \$4 million.

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 2024 was primarily due to the impact of the KCS acquisition and higher volumes of Grain, Energy, chemicals and plastics, and Potash, partially offset by lower volumes of Metals, minerals and consumer products.

Freight Revenue per RTM

Freight revenue per RTM is defined as freight revenue per revenue-producing ton of freight over a distance of one mile. This is an indicator of yield. The increase in freight revenue per RTM in the second quarter of 2024 was primarily due to higher freight rates and the favourable impact of the change in FX of \$50 million.

For the six months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 6,961	\$ 5,318	\$ 1,643	31
Non-freight revenues (in millions)	162	122	40	33
Total revenues (in millions)	\$ 7,123	\$ 5,440	\$ 1,683	31
Carloads (in thousands)	2,158.0	1,749.2	408.8	23
Revenue ton-miles (in millions)	103,968	84,909	19,059	22
Freight revenue per carload (in dollars)	\$ 3,226	\$ 3,040	\$ 186	6
Freight revenue per revenue ton-mile (in cents)	6.70	6.26	0.44	7

Total Revenues

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

RTMs

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

Freight Revenue per RTM

The increase in freight revenue per RTM in the first six months of 2024 was primarily due to higher freight rates and the favourable impact of the change in FX of \$47 million, partially offset by the unfavourable impact of lower fuel prices on fuel surcharge revenue of \$70 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 help reduce exposure to changing 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 \$442 million in the second quarter of 2024, an increase of \$39 million, or 10%, from \$403 million in the same period of 2023. This increase was primarily due to the impact of the KCS acquisition, the favourable impact of the change in FX, and higher volumes, partially offset by the unfavourable impact from the timing of recoveries under the Company's fuel cost adjustment program and lower fuel prices.

In the first six months of 2024, fuel surcharge revenues were \$854 million, an increase of \$139 million, or 19%, from \$715 million in the same period of 2023. This increase was primarily due to the impact of the KCS acquisition, higher volumes, and the favourable impact of the change in FX, partially offset by lower fuel prices and the unfavourable impact from the timing of recoveries under the Company's fuel cost adjustment program.

Lines of Business

Grain

For the three months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 665	\$ 537	\$ 128	24
Carloads (in thousands)	128.9	117.0	11.9	10
Revenue ton-miles (in millions)	13,240	10,947	2,293	21
Freight revenue per carload (in dollars)	\$ 5,159	\$ 4,590	\$ 569	12
Freight revenue per revenue ton-mile (in cents)	5.02	4.91	0.11	2

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

For the six months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 1,395	\$ 1,052	\$ 343	33
Carloads (in thousands)	261.2	221.8	39.4	18
Revenue ton-miles (in millions)	27,810	20,961	6,849	33
Freight revenue per carload (in dollars)	\$ 5,341	\$ 4,743	\$ 598	13
Freight revenue per revenue ton-mile (in cents)	5.02	5.02	—	—

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

Coal

For the three months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 236	\$ 219	\$ 17	8
Carloads (in thousands)	108.9	114.8	(5.9)	(5)
Revenue ton-miles (in millions)	5,794	5,694	100	2
Freight revenue per carload (in dollars)	\$ 2,167	\$ 1,908	\$ 259	14
Freight revenue per revenue ton-mile (in cents)	4.07	3.85	0.22	6

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

Carloads decreased while RTMs increased due to moving lower volumes of U.S. coal, which has a shorter average length of haul, and higher volumes of Canadian coal to Vancouver, which has a longer length of haul.

For the six months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 445	\$ 374	\$ 71	19
Carloads (in thousands)	217.1	187.2	29.9	16
Revenue ton-miles (in millions)	11,046	9,619	1,427	15
Freight revenue per carload (in dollars)	\$ 2,050	\$ 1,998	\$ 52	3
Freight revenue per revenue ton-mile (in cents)	4.03	3.89	0.14	4

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

Potash

For the three months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 180	\$ 144	\$ 36	25
Carloads (in thousands)	49.4	39.8	9.6	24
Revenue ton-miles (in millions)	4,965	4,490	475	11
Freight revenue per carload (in dollars)	\$ 3,644	\$ 3,618	\$ 26	1
Freight revenue per revenue ton-mile (in cents)	3.63	3.21	0.42	13

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

For the six months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 317	\$ 276	\$ 41	15
Carloads (in thousands)	86.4	76.7	9.7	13
Revenue ton-miles (in millions)	9,075	8,500	575	7
Freight revenue per carload (in dollars)	\$ 3,669	\$ 3,598	\$ 71	2
Freight revenue per revenue ton-mile (in cents)	3.49	3.25	0.24	7

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

Fertilizers and Sulphur

For the three months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 103	\$ 89	\$ 14	16
Carloads (in thousands)	17.0	15.2	1.8	12
Revenue ton-miles (in millions)	1,305	1,107	198	18
Freight revenue per carload (in dollars)	\$ 6,059	\$ 5,855	\$ 204	3
Freight revenue per revenue ton-mile (in cents)	7.89	8.04	(0.15)	(2)

The increase in Fertilizers and sulphur revenue in the second quarter of 2024 was primarily due to higher volumes of dry fertilizers and sulphur moving between Chicago and Alberta, higher volumes of wet fertilizers, higher freight rates, and the favourable impact of the change in FX. Freight revenue per RTM decreased due to moving higher volumes of dry fertilizers and sulphur between Chicago and Alberta, which have longer lengths of haul.

For the six months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 207	\$ 185	\$ 22	12
Carloads (in thousands)	34.2	32.2	2.0	6
Revenue ton-miles (in millions)	2,671	2,447	224	9
Freight revenue per carload (in dollars)	\$ 6,053	\$ 5,745	\$ 308	5
Freight revenue per revenue ton-mile (in cents)	7.75	7.56	0.19	3

The increase in Fertilizers and sulphur revenue in the first six months of 2024 was primarily due to higher volumes of dry fertilizers and sulphur between Chicago and Alberta, the impact of the KCS acquisition, and increased freight revenue per RTM. This increase was partially offset by the unfavourable impact of lower fuel prices on fuel surcharge revenue. Freight revenue per RTM increased due to higher freight rates. RTMs increased more than carloads due to moving higher volumes of dry fertilizers from Chicago to Alberta, which has a longer length of haul.

Forest Products

For the three months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 203	\$ 187	\$ 16	9
Carloads (in thousands)	34.6	34.8	(0.2)	(1)
Revenue ton-miles (in millions)	2,244	2,134	110	5
Freight revenue per carload (in dollars)	\$ 5,867	\$ 5,374	\$ 493	9
Freight revenue per revenue ton-mile (in cents)	9.05	8.76	0.29	3

The increase in Forest products revenue in the second quarter of 2024 was primarily due to the impact of the KCS acquisition, higher volumes of lumber from Alberta, B.C., and Ontario to Texas and the U.S. Midwest, and increased freight revenue per RTM. This increase was partially offset by lower volumes of paperboard from Texas to Mexico and lower volumes of wood pulp from Ontario. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX. RTMs increased while carloads decreased due to moving higher volumes of lumber from Alberta to Texas, which has a longer length of haul, and lower volumes of wood pulp from Ontario to the U.S. Northeast, which has a shorter length of haul.

For the six months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 405	\$ 290	\$ 115	40
Carloads (in thousands)	70.5	52.5	18.0	34
Revenue ton-miles (in millions)	4,488	3,512	976	28
Freight revenue per carload (in dollars)	\$ 5,745	\$ 5,524	\$ 221	4
Freight revenue per revenue ton-mile (in cents)	9.02	8.26	0.76	9

The increase in Forest products revenue in the first six months of 2024 was primarily due to the impact of the KCS acquisition, higher volumes of lumber from Alberta, B.C., and Ontario to the U.S. Midwest and Texas, higher freight rates, and the favourable impact of the change in FX. This increase was partially offset by lower volumes of wood pulp from Ontario, lower volumes of paperboard from Texas to Mexico, and the unfavourable impact of lower fuel prices on fuel surcharge revenue. Carloads increased more than RTMs due to the impact of the KCS acquisition as KCS has a shorter average length of haul.

Energy, Chemicals and Plastics

For the three months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 695	\$ 575	\$ 120	21
Carloads (in thousands)	142.4	127.5	14.9	12
Revenue ton-miles (in millions)	9,644	8,005	1,639	20
Freight revenue per carload (in dollars)	\$ 4,881	\$ 4,510	\$ 371	8
Freight revenue per revenue ton-mile (in cents)	7.21	7.18	0.03	—

The increase in Energy, chemicals and plastics revenue in the second quarter of 2024 was primarily due to higher volumes of conventional crude from Alberta to Chicago and DRUbit™ crude from Alberta to Port Arthur, Texas, higher volumes of liquefied petroleum gas ("L.P.G.") from Alberta to southern Texas and Mexico, higher volumes of plastics, fuel oil, diluents, and ethylene glycol, the impact of the KCS acquisition, higher freight rates, and the favourable impact of the change in FX. This increase was partially offset by the unfavourable impact of lower fuel prices on fuel surcharge revenue. RTMs increased more than carloads due to moving higher volumes of conventional crude from Alberta to Chicago and DRUbit™ crude from Alberta to Port Arthur as well as higher volumes of L.P.G. from Alberta to southern Texas and Mexico, which have longer lengths of haul.

For the six months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 1,397	\$ 941	\$ 456	48
Carloads (in thousands)	286.9	202.7	84.2	42
Revenue ton-miles (in millions)	19,363	14,212	5,151	36
Freight revenue per carload (in dollars)	\$ 4,869	\$ 4,642	\$ 227	5
Freight revenue per revenue ton-mile (in cents)	7.21	6.62	0.59	9

The increase in Energy, chemicals and plastics revenue in the first six months of 2024 was primarily due to the impact of the KCS acquisition, higher volumes of conventional crude from Alberta to Chicago and DRUbit™ crude from Alberta to Port Arthur, higher volumes of fuel oil, plastics, and ethylene glycol, higher freight rates, and the favourable impact of the change in FX. This increase was partially offset by the unfavourable impact of lower fuel prices on fuel surcharge revenue. Carloads increased more than RTMs due to the impact of the KCS acquisition as KCS has a shorter average length of haul.

Metals, Minerals and Consumer Products

For the three months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 464	\$ 440	\$ 24	5
Carloads (in thousands)	134.6	129.3	5.3	4
Revenue ton-miles (in millions)	4,974	5,152	(178)	(3)
Freight revenue per carload (in dollars)	\$ 3,447	\$ 3,403	\$ 44	1
Freight revenue per revenue ton-mile (in cents)	9.33	8.54	0.79	9

The increase in Metals, minerals and consumer products revenue in the second quarter of 2024 was primarily due to increased freight revenue per RTM and the impact of the KCS acquisition, partially offset by lower volumes of frac sand to the Bakken shale formation and lower volumes of steel and aggregates. Freight revenue per RTM increased primarily due to higher freight rates and the favourable impact of the change in FX. Carloads increased while RTMs decreased due to the impact of the KCS acquisition as KCS has a shorter average length of haul and moving lower volumes of frac sand to the Bakken shale formation, which has a longer length of haul.

For the six months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 904	\$ 673	\$ 231	34
Carloads (in thousands)	264.3	191.1	73.2	38
Revenue ton-miles (in millions)	9,675	8,063	1,612	20
Freight revenue per carload (in dollars)	\$ 3,420	\$ 3,522	\$ (102)	(3)
Freight revenue per revenue ton-mile (in cents)	9.34	8.35	0.99	12

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

Automotive

For the three months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 358	\$ 257	\$ 101	39
Carloads (in thousands)	66.1	56.2	9.9	18
Revenue ton-miles (in millions)	1,306	1,004	302	30
Freight revenue per carload (in dollars)	\$ 5,416	\$ 4,573	\$ 843	18
Freight revenue per revenue ton-mile (in cents)	27.41	25.60	1.81	7

The increase in Automotive revenue in the second quarter of 2024 was primarily due to higher volumes from Mexico to various locations in North America, from Vancouver to eastern Canada, and from Ontario to the U.S. Midwest, increased freight revenue per RTM, and the impact of the KCS acquisition. Freight revenue per RTM increased due to higher freight rates and the favourable impact of the change in FX. RTMs increased more than carloads due to moving higher volumes from Mexico to Canada and from Vancouver to eastern Canada, which have longer lengths of haul.

For the six months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 623	\$ 382	\$ 241	63
Carloads (in thousands)	121.8	84.9	36.9	43
Revenue ton-miles (in millions)	2,303	1,478	825	56
Freight revenue per carload (in dollars)	\$ 5,115	\$ 4,499	\$ 616	14
Freight revenue per revenue ton-mile (in cents)	27.05	25.85	1.20	5

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

Intermodal

For the three months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 630	\$ 653	\$ (23)	(4)
Carloads (in thousands)	403.5	435.1	(31.6)	(7)
Revenue ton-miles (in millions)	8,658	8,827	(169)	(2)
Freight revenue per carload (in dollars)	\$ 1,561	\$ 1,501	\$ 60	4
Freight revenue per revenue ton-mile (in cents)	7.28	7.40	(0.12)	(2)

The decrease in Intermodal revenue in the second quarter of 2024 was primarily due to lower international intermodal volumes to and from the Port of Vancouver and from the Port of Montreal, lower domestic intermodal volumes between Mexico and Texas, and decreased freight revenue per RTM. This decrease was partially offset by higher domestic intermodal wholesales volumes, the impact of the KCS acquisition, higher freight rates, and the favourable impact of the change in FX. Freight revenue per RTM decreased due to the unfavourable impact of lower fuel prices on fuel surcharge revenue. Carloads decreased more than RTMs due to moving lower domestic intermodal volumes between Mexico and Texas, which has a shorter length of haul.

For the six months ended June 30	2024	2023	Total Change	% Change
Freight revenues (in millions)	\$ 1,268	\$ 1,145	\$ 123	11
Carloads (in thousands)	815.6	700.1	115.5	16
Revenue ton-miles (in millions)	17,537	16,117	1,420	9
Freight revenue per carload (in dollars)	\$ 1,555	\$ 1,635	\$ (80)	(5)
Freight revenue per revenue ton-mile (in cents)	7.23	7.10	0.13	2

The increase in Intermodal revenue in the first six months of 2024 was primarily due to the impact of the KCS acquisition, higher domestic intermodal wholesale volumes, higher international intermodal volumes to and from the Port of Vancouver, higher freight rates, and the favourable impact of the change in FX. This increase was partially offset by lower international intermodal volumes to and from the Port of Montreal, lower domestic intermodal volumes between Mexico and Texas, and the unfavourable impact of lower fuel prices on fuel surcharge revenue. Carloads increased more than RTMs due to the impact of the KCS acquisition as KCS has a shorter average length of haul.

Operating Expenses

For the three months ended June 30 (in millions of Canadian dollars)	2024	2023	Total Change	% Change
Compensation and benefits	\$ 612	\$ 659	\$ (47)	(7)
Fuel	466	397	69	17
Materials	97	98	(1)	(1)
Equipment rents	82	80	2	3
Depreciation and amortization	473	410	63	15
Purchased services and other	606	586	20	3
Total operating expenses	\$ 2,336	\$ 2,230	\$ 106	5

For the six months ended June 30 (in millions of Canadian dollars)	2024	2023	Total Change	% Change
Compensation and benefits	\$ 1,302	\$ 1,097	\$ 205	19
Fuel	924	723	201	28
Materials	191	170	21	12
Equipment rents	164	110	54	49
Depreciation and amortization	940	635	305	48
Purchased services and other	1,186	932	254	27
Total operating expenses	\$ 4,707	\$ 3,667	\$ 1,040	28

Compensation and Benefits

Compensation and benefits expense includes employee wages, salaries, fringe benefits, and stock-based compensation. The decrease in Compensation and benefits expense in the second quarter of 2024 was primarily due to:

- lower acquisition-related costs incurred by CPKC primarily due to restructuring charges of \$50 million incurred by KCS in 2023;
- decrease in stock-based compensation of \$29 million driven by the changes in the common share price; and
- increased labour efficiencies, including the impact of decreased overtime and improved crew utilization.

This decrease was partially offset by the impact of the KCS acquisition of \$31 million, and the impact of wage and benefit inflation.

The increase in Compensation and benefits expense in the first six months of 2024 was primarily due to the impact of the KCS acquisition of \$243 million, and the impact of wage and benefit inflation.

This increase was partially offset by lower acquisition-related costs incurred by CPKC primarily due to restructuring charges of \$50 million incurred by KCS in 2023.

Fuel

Fuel expense consists mainly of fuel used by locomotives and includes provincial, state, and federal fuel taxes. The increase in Fuel expense in the second quarter of 2024 was primarily due to:

- the impact of higher fuel prices of \$24 million;
- an increase in workload, as measured by GTMs;
- the impact of the KCS acquisition of \$21 million; and
- the unfavorable impact of the change in FX of \$10 million.

This increase was partially offset by the favourable impact of an increase in fuel efficiency due to running longer and heavier trains.

The increase in Fuel expense in the first six months of 2024 was primarily due to the impact of the KCS acquisition of \$179 million and the increase in workload, as measured by GTMs.

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 decrease in Material expense in the second quarter of 2024 was primarily due to reduced locomotive maintenance, partially offset by the impact of the KCS acquisition of \$4 million.

The increase in Materials expense in the first six months of 2024 was primarily due to the impact of the KCS acquisition of \$33 million, partially offset by reduced freight car and locomotive maintenance.

Equipment Rents

Equipment rents expense includes the cost associated with using other railways' freight cars, intermodal equipment, and locomotives, net of recoveries received from other railways for the use of the Company's equipment. The increase in Equipment rents expense in the second quarter of 2024 was primarily due to the impact of the KCS acquisition of \$5 million and the impact of cost inflation. This was partially offset by reduced payments from the use of other railways' intermodal equipment and greater recoveries from other railways for their use of the Company's freight cars.

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

Depreciation and Amortization

Depreciation and amortization expense is the charge associated with the use of track and roadway, rolling stock, buildings, and other depreciable assets, including assets related to the Company's concession with the Mexican government, as well as amortization of finite life intangible assets. The increase in Depreciation and amortization expense in the second quarter of 2024 was primarily due to the impact of the KCS acquisition of \$31 million and a higher depreciable asset base.

The increase in Depreciation and amortization expense in the first six months of 2024 was primarily due to the impact of the KCS acquisition of \$255 million and a higher depreciable asset base.

Purchased Services and Other

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

- the impact of the KCS acquisition of \$28 million;
- the impact of cost inflation;
- higher environmental management expenses;
- higher terminal service costs; and
- the impact of the change in FX of \$9 million.

This increase was partially offset by a reduction in casualty incident costs, lower personal injury costs and lower acquisition-related costs incurred by CPKC.

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

- the impact of the KCS acquisition of \$235 million;
- the impact of cost inflation;
- higher terminal service costs;
- higher environmental management expenses; and
- the impact of the change in FX of \$9 million.

The increase was partially offset by:

- a one-time fee of \$34 million (U.S. \$25 million) received in connection with the Company's agreement to waive a departing executive's non-competition agreement with respect to their employment with Norfolk Southern Corporation;
- a reduction in casualty incident costs and lower personal injury costs; and
- lower acquisition-related costs incurred by CPKC.

Other Income Statement Items

Equity Earnings of Kansas City Southern

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

The Company recognized \$26 million (U.S. \$19 million) and \$230 million (U.S. \$170 million) of equity earnings of KCS for the period from April 1 to April 13, 2023 and the period from January 1 to April 13, 2023, respectively. These amounts were net of amortization of basis differences of \$6 million (U.S. \$4 million) and \$48 million (U.S. \$35 million) associated with KCS purchase accounting, and were net of acquisition-related costs (net of tax) incurred by KCS. These basis differences related to depreciable property, plant and equipment, intangible assets with definite lives, and long-term debt, and were amortized over the related assets' remaining useful lives and the remaining terms to maturity of the debt instruments. Acquisition-related costs (net of tax) incurred by KCS in the period from April 1 to April 13, 2023 and the period from January 1 to April 13, 2023, were \$1 million (U.S. \$1 million) and \$11 million (U.S. \$8 million), respectively. KCS U.S. dollar historical results were translated at the average FX rate for the period April 1 to April 13, 2023 and the period January 1 to April 13, 2023 of \$1.00 USD = \$1.35 CAD.

Other (Income) Expense

Other (income) expense consists of gains and losses from the change in FX on cash and working capital, the impact of foreign currency forwards, financing costs, shareholder costs, equity earnings, and other non-operating expenditures. Other income was \$40 million in the second quarter of 2024, a change of \$61 million, from Other expense of \$21 million in the same period of 2023. For the first six months of 2024 Other income was \$42 million, a change of \$65 million, from Other expense of \$23 million in the same period of 2023. These changes were primarily due to:

- higher equity income of \$30 million primarily due to a settlement of a property disposition by an equity investee;

- a decrease in foreign exchange loss on forward contracts to sell Mexican pesos and buy U.S.dollars (see Item 1. Financial Statements, Note 11 Financial Instruments for details); and
- a gain on debt extinguishment of \$16 million (see Item 1. Financial Statements, Note 10 Debt for details).

These changes were partially offset by the unfavourable impact of an increase in FX loss on re-measurement of net monetary assets and liabilities denominated in Mexican pesos.

Other Components of Net Periodic Benefit Recovery

Other components of net periodic benefit recovery are related to the Company's pension and other post-retirement and post-employment benefit plans. It includes interest cost on benefit obligation, expected return on plan assets, recognized net actuarial loss, and amortization of prior service costs. Other components of net periodic benefit recovery was \$88 million and \$176 million for the three and six months ended June 30, 2024, an increase of \$5 million or 6%, and \$7 million or 4%, respectively, compared to the same periods of 2023. These increases were primarily due to a decrease in interest cost on benefit obligation for the three and six months ended June 30, 2024 of \$5 million and \$8 million, respectively, and an increase in expected return on plan assets of \$1 million and \$4 million, respectively, partially offset by an increase in recognized net actuarial loss of \$2 million and \$4 million, respectively.

Net Interest Expense

Net interest expense includes interest on long-term debt and finance leases. Net interest expense was \$200 million in the second quarter of 2024, a decrease of \$4 million, or 2%, from \$204 million in the same period of 2023. The decrease was primarily due to lower interest expense of \$11 million following repayment of maturing long-term debt, partially offset by the impact of the KCS acquisition of \$5 million.

Net interest expense was \$406 million in the first six months of 2024, an increase of \$48 million, or 13%, from \$358 million in the same period of 2023. This increase was primarily due to interest of \$41 million incurred on debt previously issued by KCS and exchanged with Canadian Pacific Railway Company ("CPRC") following the acquisition of control, and higher interest on commercial paper of \$18 million as a result of higher borrowings along with higher interest rates. This increase was partially offset by a favourable impact of \$15 million following the repayment of maturing long-term debt.

Remeasurement Loss of Kansas City Southern

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

Income Tax Expense (Recovery)

Income tax expense was \$292 million in the second quarter of 2024, a change of \$7,964 million, or 104%, from an income tax recovery of \$7,672 million in the same period of 2023. The change was primarily due to:

- a deferred tax recovery of \$7,832 million, recorded in the second quarter of 2023, on the derecognition of the deferred income tax liability on the outside basis difference of the investment in KCS upon acquiring control of KCS;
- higher current tax expense due to higher taxable earnings; and
- a deferred tax recovery of \$51 million, recorded in the second quarter of 2023, on the revaluation of deferred income tax balances on unitary state apportionment changes.

Income tax expense was \$551 million in the first six months of 2024, a change of \$8,060 million, or 107%, from an income tax recovery of \$7,509 million in the same period of 2023. The change was primarily due to:

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

The effective tax rates in the second quarter and first six months of 2024 were 24.40% and 24.72%, respectively, compared to 120.88% and 139.47% in the same periods of 2023. The Core adjusted effective income tax rates in the second quarter and first six months of 2024 were 25.00%, compared to 25.18% and 24.88%, respectively, for the same periods in 2023. The Company's 2024 Core adjusted effective tax rate is expected to be approximately 25.00%. The Core adjusted effective tax rate is a Non-GAAP measure, calculated as the effective tax rate adjusted for significant items as they are not considered indicative of future

financial trends either by nature or amount nor provide comparability to past performance. The Company uses the Core adjusted effective tax rate to evaluate CPKC's operating performance and for planning and forecasting future profitability. Core adjusted effective tax rate also excludes equity earnings of KCS (net of tax) and KCS purchase accounting to provide financial statement users with additional transparency by isolating the impact of KCS purchase accounting. This Non-GAAP measure does not have a standardized meaning and is not defined by GAAP and, therefore, may not be comparable to similar measures presented by other companies. Significant items and KCS purchase accounting are discussed further in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. The Company's 2024 outlook for its Core adjusted effective tax rate is based on certain assumptions about events and developments that may or may not materialize, or that may be offset entirely or partially by new events and developments. This is discussed further in Item 1A. Risk Factors of the Company's 2023 Annual Report on Form 10-K.

Impact of FX on Earnings and Foreign Exchange Risk

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

In the second quarter of 2024, the U.S. dollar has strengthened to an average rate of \$1.37 Canadian/U.S. dollar and the Mexican Peso has strengthened to an average rate of Ps. 12.61 Mexican Peso/Canadian dollar, compared to \$1.34 Canadian/U.S. dollar and Ps. 13.16 Mexican Peso/Canadian dollar in the second quarter of 2023, resulting in an increase in Total revenues of \$51 million, an increase in Total operating expenses of \$35 million, and an increase in Net interest expense of \$3 million from the same period of 2023.

In the first six months of 2024, the U.S. dollar has strengthened to an average rate of \$1.36 Canadian/U.S. dollar and the Mexican peso has strengthened to an average rate of Ps. 12.61 Mexican Peso/Canadian dollar, compared to \$1.35 Canadian/U.S. dollar and Ps. 13.47 Mexican Peso/Canadian dollar in the first six months of 2023, resulting in an increase in Total revenues of \$48 million, an increase in Total operating expenses of \$33 million, and an increase in interest expense of \$3 million from the same period of 2023.

On an annualized basis, the Company expects that every \$0.01 weakening (or strengthening) of the Canadian dollar relative to the U.S. dollar, positively (or negatively) impacts Total revenues by approximately \$75 million (December 31, 2023 – approximately \$75 million), negatively (or positively) impacts Operating expenses by approximately \$46 million (December 31, 2023 – approximately \$46 million), and negatively (or positively) impacts Net interest expense by approximately \$6 million (December 31, 2023 – approximately \$5 million).

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

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

Impact of Fuel Price on Earnings

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

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

In the second quarter of 2024, the unfavourable impact of fuel prices on Operating income was \$26 million. Higher fuel prices in expense resulted in an increase in Total operating expenses of \$24 million from the same period of 2023. The unfavourable impact of the timing of recoveries under the Company's fuel cost adjustment program and lower fuel surcharge prices, partially offset by increased carbon levy surcharge revenue, resulted in a decrease in Total revenues of \$2 million.

In the first six months of 2024, the unfavourable impact of fuel prices on Operating income was \$67 million. Lower fuel prices and the unfavourable impact of the timing of recoveries under the Company's fuel cost adjustment program, partially offset by increased carbon levy surcharge revenue, resulted in a decrease in Total revenues of \$70 million. Lower fuel prices resulted in a decrease in Total operating expenses of \$3 million from the same period of 2023.

Impact of Share Price on Earnings and Stock-Based Compensation

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

In the second quarter of 2024, the change in Common Share prices resulted in a decrease in stock-based compensation expense of \$21 million, a change of \$27 million, compared to an increase of \$6 million in the same period of 2023.

In the first six months of 2024, the change in Common Share prices stayed the same, resulting in a stock-based compensation expense of \$nil, a change of \$10 million, compared to an increase of \$10 million in the same period of 2023.

Based on information available at June 30, 2024 and expectations for 2024 share-based grants, for every \$1.00 change in share price, stock-based compensation expense has a corresponding change of approximately \$2.0 million to \$2.2 million (December 31, 2023 - approximately \$1.6 million to \$2.3 million). This excludes the impact of changes in Common Share price relative to the S&P/TSX 60 Index, S&P 500 Industrials Index, and to Class I railways, which may trigger different performance share unit payouts. Stock-based compensation may also be impacted by non-market performance conditions.

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

Liquidity and Capital Resources

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

As at June 30, 2024, the Company had \$557 million of Cash and cash equivalents compared to \$464 million at December 31, 2023.

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

During the second quarter of 2024, the Company repurchased certain Senior Notes on the open market. These repurchases were accounted for as debt extinguishments, with gains recorded in "Other (income) expense" on the Company's Interim Consolidated Statements of Income. During the three and six months ended June 30, 2024, the Company repurchased U.S. \$110 million (\$151 million) of Senior Notes, and recognized a gain of \$16 million in "Other (income) expense". During the second quarter of 2024 the company also committed to the repurchase of U.S. \$26 million (\$35 million) in Senior Notes that were extinguished subsequent to June 30, 2024.

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

The Company has a commercial paper program that enables it to issue commercial paper in the form of unsecured promissory notes. The Company's existing commercial paper program is backed by the revolving credit facility. As at June 30, 2024, the Company had total commercial paper borrowings outstanding of U.S. \$536 million (\$734 million) (December 31, 2023 - U.S. \$800 million).

The Company has bilateral letter of credit facilities with six highly rated financial institutions to support its requirement to post letters of credit in the ordinary course of business. Under these agreements, the Company has the option to post collateral in the form of cash or cash equivalents, equal at least to the face value of the letter of credit issued. These agreements permit the Company to withdraw amounts posted as collateral at any time; therefore, the amounts posted as collateral are presented as "Cash and cash equivalents" on the Company's Consolidated Balance Sheets. As at June 30, 2024, the Company did not have any collateral posted on its bilateral letter of credit facilities (December 31, 2023 - \$nil) and had letters of credit drawn of \$92 million (December 31, 2023 - \$93 million) from a total available amount of \$300 million.

Contractual Commitments

The Company's material cash requirements from known contractual obligations and commitments to make future payments primarily consist of long-term debt and related interest, supplier purchases, capital commitments, leases, and other long term liabilities. As at June 30, 2024, debt and finance leases, interest obligations related to debt and finance leases, and letters of credit amount to \$3,684 million, \$777 million, and \$92 million within the next 12 months, respectively, with the remaining amounts committed thereafter of \$19,642 million, \$16,640 million and \$nil, respectively. Future capital commitments amount to \$1,237 million within the next 12 months, and \$1,612 million committed thereafter.

Supplier purchase agreements and other long-term liabilities amount to \$849 million and \$68 million within the next 12 months, respectively, with remaining amounts committed thereafter of \$2,706 million and \$644 million, respectively. Other long-term liabilities include expected cash payments for environmental remediation, post-retirement benefits, worker's compensation benefits, long-term disability benefits, pension benefit payments for the Company's non-registered supplemental pension plan, and certain other long-term liabilities. Pension payments are discussed further in Critical Accounting Estimates of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company's 2023 Annual Report on Form 10-K.

Concession Duty

Under Kansas City Southern de México, S.A. de C.V. (also known as Canadian Pacific Kansas City Mexico) ("CPKCM")'s 50-year Concession, which could expire in 2047 unless extended, CPKCM pays annual concession duty expense of 1.25% of its gross revenues.

Guarantees

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

Operating Activities

Cash provided by operating activities increased \$386 million in the second quarter of 2024 and \$519 million in the first six months of 2024, compared to the same periods in 2023. These increases were primarily due to higher cash generating income.

Investing Activities

Cash used in investing activities increased \$165 million in the second quarter of 2024 and \$305 million in the first six months of 2024, compared to the same periods in 2023. These increases were primarily due to higher capital additions and the impact of cash acquired on control of KCS in 2023. These increases were partially offset by the investment in government securities towards satisfaction and discharge of debt in 2023.

Financing Activities

Cash used in financing activities was \$464 million in the second quarter of 2024, an increase of \$231 million, compared to \$233 million in the same period of 2023. The increase was primarily due to net repayments of commercial paper of \$157 million in the second quarter of 2024, compared to net issuances of \$550 million in the same period of 2023. This increase was partially offset by \$134 million (U.S. \$98 million) of debt repurchases on Senior Notes in the second quarter of 2024, compared to principal repayments of \$592 million (U.S. \$439 million) of 3.00% 10-year Senior Notes in the same period of 2023.

Cash used in financing activities was \$895 million in the first six months of 2024, an increase of \$17 million, compared to \$878 million in the same period of 2023. The increase was primarily due to net repayments of commercial paper of \$362 million in the second quarter of 2024, compared to net issuances of \$550 million in the same period of 2023. This increase was partially offset by \$134 million (U.S. \$98 million) of debt repurchases on Senior Notes and principal repayments of \$66 million (U.S. \$48 million) on the 5.41% Senior Secured Notes during the first six months of 2024, compared to repayments of long-term debt of \$592 million (U.S. \$439 million) of 3.00% 10-year Senior Notes and \$479 million (U.S. \$350 million) of 4.45% 12.5-year Notes at maturity during the first six months of 2023.

Credit Measures

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

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

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

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

Credit ratings as at June 30, 2024⁽¹⁾

Long-term debt		Outlook
Standard & Poor's	BBB+	stable
Moody's	Baa2	positive
Commercial paper program		
Standard & Poor's	A-2	N/A
Moody's	P-2	N/A

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

Supplemental Guarantor Financial Information

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

As of the date of the filing of the Form 10-Q, CPRC had U.S. \$14,552 million principal amount of debt securities outstanding due through 2115, and U.S. \$30 million and GBP £3 million in perpetual 4% consolidated debenture stock, for all of which CPKC is the guarantor subject to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended. As of the same date, CPRC also had \$2,300 million principal amount of debt securities issued under Canadian Securities Law due through 2050 for which CPKC is the guarantor and not subject to the Exchange Act.

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

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

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

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

Summarized Financial Information

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

Statements of Income

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPKC (Parent)	
	For the six months ended June 30, 2024	For the year ended December 31, 2023
Total revenues	\$ 3,383	\$ 6,577
Total operating expenses	2,178	4,074
Operating income ⁽¹⁾	1,205	2,503
Less: Other ⁽²⁾	146	468
Income before income tax expense	1,059	2,035
Net income	\$ 751	\$ 1,480

⁽¹⁾ Includes net lease costs incurred from non-guarantor subsidiaries for the six months ended June 30, 2024 and for the year ended December 31, 2023 of \$228 million and \$463 million, respectively.

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

Balance Sheets

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPKC (Parent)	
	As at June 30, 2024	As at December 31, 2023
Assets		
Current assets	\$ 1,266	\$ 1,240
Properties	12,717	12,327
Other non-current assets	3,762	3,562
Liabilities		
Current liabilities	\$ 4,959	\$ 4,359
Long-term debt	18,772	19,169
Other non-current liabilities	3,497	3,412

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

Transactions with Non-Guarantor Subsidiaries

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPKC (Parent)	
	For the six months ended June 30, 2024	For the year ended December 31, 2023
Dividend income from non-guarantor subsidiaries	\$ 137	\$ 309
Capital contributions to non-guarantor subsidiaries	—	(4,324)

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPKC (Parent)	
	As at June 30, 2024	As at December 31, 2023
Assets		
Accounts receivable, intercompany	\$ 470	\$ 455
Short-term advances to affiliates	1,691	1,788
Long-term advances to affiliates	11,231	7,072
Liabilities		
Accounts payable, intercompany	\$ 241	\$ 347
Short-term advances from affiliates	2,570	2,783
Long-term advances from affiliates	3,968	—

Share Capital

At July 29, 2024, the latest practicable date, there were 933,125,135 Common Shares and no preferred shares issued and outstanding, which consists of 13,561 holders of record of the Common Shares. In addition, the Company has a Management Stock Option Incentive Plan ("MSOIP"), under which key officers and employees are granted options to purchase the Common Shares. All number of options presented herein are shown on the basis of the number of shares subject to the options. At July 29, 2024, 6,202,776 options were outstanding under the MSOIP and stand-alone option agreements entered into with Mr. Keith Creel. There are 21,032,475 options available to be issued by the Company's MSOIP in the future. The Company also has a Director's Stock Option Plan ("DSOP"), under which directors are granted options to purchase Common Shares. There are no outstanding options under the DSOP, which has 1,700,000 options available to be issued in the future.

Non-GAAP Measures

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

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

Non-GAAP Performance Measures

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

Management believes these Non-GAAP measures provide meaningful supplemental information about our operating results because they exclude certain significant items that are not considered indicative of future financial trends either by nature or amount or provide improved comparability to past performance. As a result, these items are excluded for management's assessment of operational performance, allocation of resources, and preparation of annual budgets. These significant items may include, but are not limited to, restructuring and asset impairment charges, individually significant gains and losses from sales of assets, acquisition-related costs, adjustments to provisions and settlements of Mexican taxes, KCS's gain on unwinding of

interest rate hedges (net of CPKC's associated purchase accounting basis differences and tax), as recognized within "Equity earnings of Kansas City Southern" in the Company's Interim Consolidated Statements of Income, loss on derecognition of CPKC's previously held equity method investment in KCS, discrete tax items, changes in the outside basis tax difference between the carrying amount of CPKC's equity investment in KCS and its tax basis of this investment, a deferred tax recovery related to the elimination of the deferred tax liability on the outside basis difference of the investment, changes in income tax rates, changes to an uncertain tax item, and certain items outside the control of management. Acquisition-related costs include legal, consulting, integration costs including third-party services and system migration, debt exchange transaction costs, community investments, fair value gain or loss on foreign exchange ("FX") forward contracts and interest rate hedges, FX gain on U.S. dollar-denominated cash on hand from the issuances of long-term debt to fund the KCS acquisition, restructuring, employee retention and synergy incentive costs, and transaction and integration costs incurred by KCS. These items may not be non-recurring and may include items that are settled in cash. Specifically, due to the magnitude of the acquisition, its significant impact to the Company's business and complexity of integrating the acquired business and operations, the Company expects to incur acquisition-related costs beyond the year of acquisition. Management believes excluding these significant items from GAAP results provides an additional viewpoint which may give users a consistent understanding of CPKC's financial performance when performing a multi-period assessment including assessing the likelihood of future results. Accordingly, these Non-GAAP financial measures may provide additional insight to investors and other external users of CPKC's financial information.

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

Reconciliation of GAAP Performance Measures to Non-GAAP Performance Measures

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

Core Adjusted Combined Diluted Earnings per Share

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

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

- in the second quarter, a deferred tax recovery of \$3 million due to a decrease in the Arkansas state corporate income tax rate, that had minimal impact on Diluted EPS;
- in the first quarter, adjustments to provisions and settlements of Mexican taxes of \$10 million (\$10 million after deferred tax recovery) recognized in "Compensation and benefits", that unfavourably impacted Diluted EPS by 1 cent; and
- during the first six months, acquisition-related costs of \$54 million in connection with the KCS acquisition (\$39 million after current tax recovery of \$15 million), including costs of \$6 million recognized in "Compensation and benefits", \$4 million recognized in "Materials", and \$44 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 4 cents as follows:
 - in the second quarter, acquisition-related costs of \$28 million in connection with the KCS acquisition (\$19 million after current tax recovery of \$9 million) including costs of \$2 million recognized in "Compensation and benefits", \$2 million recognized in "Materials", and \$24 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 2 cents; and
 - in the first quarter, acquisition-related costs of \$26 million in connection with the KCS acquisition (\$20 million after current tax recovery of \$6 million) including costs of \$4 million recognized in "Compensation and benefits", \$2 million recognized in "Materials", and \$20 million recognized in "Purchased services and other", that unfavourably impacted Diluted EPS by 2 cents.

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

- in the second quarter, a remeasurement loss of KCS of \$7,175 million recognized in "Remeasurement loss of Kansas City Southern" due to the derecognition of CPKC's previously held equity method investment in KCS and remeasurement at its Control Date fair value, that unfavourably impacted Diluted EPS by \$7.68;
- in the second quarter, a deferred tax recovery of \$51 million due to CPKC unitary state apportionment changes, that favourably impacted Diluted EPS by 5 cents;
- during the first six months, deferred tax recoveries of \$7,855 million on changes in the outside basis difference on the equity investment in KCS, that favourably impacted Diluted EPS by \$8.42 as follows:
 - in the second quarter, a deferred tax recovery of \$7,832 million related to the elimination of the deferred tax liability on the outside basis difference of the investment in KCS, that favourably impacted Diluted EPS by \$8.39; and
 - in the first quarter, a deferred tax recovery of \$23 million on changes in the outside basis difference of the equity investment in KCS, that favourably impacted Diluted EPS by 3 cents; and
- during the first six months, acquisition-related costs of \$145 million in connection with the KCS acquisition (\$122 million after current tax recovery of \$23 million), including an expense of \$63 million recognized in "Compensation and benefits", \$128 million recognized in "Purchased services and other", \$6 million recognized in "Other (income) expense", and \$11 million recognized in "Equity earnings of Kansas City Southern", that unfavourably impacted Diluted EPS by 13 cents as follows:
 - in the second quarter, acquisition-related costs of \$120 million (\$101 million after current tax recovery of \$19 million), including costs of \$63 million recognized in "Compensation and benefits", \$53 million recognized in "Purchased services and other", \$3 million recognized in "Other (income) expense", and \$1 million recognized in "Equity earnings of Kansas City Southern", that unfavourably impacted Diluted EPS by 11 cents; and
 - in the first quarter, acquisition-related costs of \$25 million (\$21 million after current tax recovery of \$4 million), including costs of \$12 million recognized in "Purchased services and other", \$3 million recognized in "Other (income) expense", and \$10 million recognized in "Equity earnings of Kansas City Southern", that unfavourably impacted Diluted EPS by 2 cents.

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

2024:

- during the first six months ended June 30, 2024, KCS purchase accounting of \$170 million (\$123 million after deferred tax recovery of \$47 million), including costs of \$161 million recognized in "Depreciation and amortization", \$2 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 \$4 million recognized in "Net (loss) income attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 13 cents as follows:
 - in the second quarter, KCS purchase accounting of \$86 million (\$62 million after deferred tax recovery of \$24 million), including costs of \$82 million recognized in "Depreciation and amortization", \$1 million recognized in "Purchased services and other" related to the amortization of equity investments, \$5 million recognized in "Net interest expense", and a recovery of \$2 million recognized in "Net (loss) income attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 6 cents; and
 - in the first quarter, KCS purchase accounting of \$84 million (\$61 million after deferred tax recovery of \$23 million), including costs of \$79 million recognized in "Depreciation and amortization", \$1 million recognized in "Purchased services and other" related to the amortization of equity investments, \$5 million recognized in "Net interest expense", \$1 million recognized in "Other (income) expense", and a recovery of \$2 million recognized in "Net (loss) income attributable to non-controlling interest", that unfavourably impacted Diluted EPS by 7 cents.

2023:

- during the first six months ended June 30, 2023, KCS purchase accounting of \$123 million (\$103 million after deferred tax recovery of \$20 million), including costs of \$68 million recognized in "Depreciation and amortization", \$6 million recognized in "Net interest expense", \$1 million recognized in "Other (income) expense", and \$48 million recognized in "Equity earnings of Kansas City Southern" that unfavourably impacted Diluted EPS by 11 cents as follows:
 - in the second quarter, KCS purchase accounting of \$81 million (\$61 million after deferred tax recovery of \$20 million), including costs of \$68 million recognized in "Depreciation and amortization", \$6 million recognized in "Net interest expense", \$1 million recognized in "Other (income) expense", and \$6 million recognized in "Equity earnings of Kansas City Southern", that unfavourably impacted Diluted EPS by 6 cents; and
 - in the first quarter, KCS purchase accounting of \$42 million recognized in "Equity earnings of Kansas City Southern", that unfavourably impacted Diluted EPS by 5 cents.

	For the three months ended June 30		For the six months ended June 30	
	2024	2023	2024	2023
CPKC diluted earnings per share as reported	\$ 0.97	\$ 1.42	\$ 1.80	\$ 2.28
Less:				
Significant items (pre-tax):				
Remeasurement loss of KCS	—	(7.68)	—	(7.68)
Adjustments to provisions and settlements of Mexican taxes	—	—	(0.01)	—
Acquisition-related costs	(0.03)	(0.13)	(0.06)	(0.16)
KCS purchase accounting	(0.09)	(0.09)	(0.18)	(0.14)
Add:				
Tax effect of adjustments ⁽¹⁾	(0.04)	(0.05)	(0.07)	(0.06)
Income tax rate changes	—	(0.05)	—	(0.05)
Deferred tax recovery on the outside basis difference of the investment in KCS	—	(8.39)	—	(8.42)
Core adjusted combined diluted earnings per share	\$ 1.05	\$ 0.83	\$ 1.98	\$ 1.73

⁽¹⁾ The tax effect of adjustments was calculated as the pre-tax effect of the significant items and KCS purchase accounting listed above multiplied by the applicable tax rate for the above items of 28.72% and 26.61% for the three and six months ended June 30, 2024, respectively, and 0.54% and 0.58% for the three and six months ended June 30, 2023, respectively. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the adjustments.

Core Adjusted Combined Operating Ratio

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

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

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

2024:

- in the first quarter, adjustments to provisions and settlements of Mexican taxes of \$10 million recognized in "Compensation and benefits", that unfavourably impacted operating ratio by 0.1% for the first six months ended June 30, 2024; and
- during the six months ended June 30, 2024, acquisition-related costs were \$54 million in connection with the KCS acquisition including costs of \$6 million recognized in "Compensation and benefits", \$4 million recognized in "Materials", and \$44 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 0.8% as follows:
 - in the second quarter, acquisition-related costs of \$28 million including costs of \$2 million recognized in "Compensation and benefits", \$2 million recognized in "Materials", and \$24 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 0.7%; and
 - in the first quarter, acquisition-related costs of \$26 million including costs of \$4 million recognized in "Compensation and benefits", \$2 million recognized in "Materials", and \$20 million recognized in "Purchased services and other", that unfavourably impacted operating ratio by 0.8%.

2023:

- during the six months ended June 30, 2023, acquisition-related costs were \$141 million in connection with the KCS acquisition including costs of \$74 million recognized in "Compensation and benefits" and \$67 million recognized in "Purchased services and other", that unfavourably impacted operating ratio on a combined basis, calculated in a manner consistent with Article 11, by 2.1% as follows:
 - in the second quarter, acquisition-related costs of \$116 million including costs of \$63 million recognized in "Compensation and benefits", and \$53 million recognized in "Purchased services and other", that unfavourably impacted operating ratio on a combined basis by 3.5%; and

- in the first quarter, acquisition-related costs of \$25 million including costs of \$11 million recognized in "Compensation and benefits", and \$14 million recognized in "Purchased services and other", that unfavourably impacted operating ratio on a combined basis by 0.7%.

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

2024:

- during the six months ended June 30, 2024, KCS purchase accounting of \$163 million including \$161 million recognized in "Depreciation and amortization" and \$2 million recognized in "Purchased services and other" related to the amortization of equity investments, that unfavourably impacted operating ratio by 2.3% as follows:
 - in the second quarter, KCS purchase accounting of \$83 million including \$82 million recognized in "Depreciation and amortization" and \$1 million recognized in "Purchased services and other" related to the amortization of equity investments, that unfavourably impacted operating ratio by 2.3%; and
 - in the first quarter, KCS purchase accounting of \$80 million including \$79 million recognized in "Depreciation and amortization" and \$1 million recognized in "Purchased services and other" related to the amortization of equity investments, that unfavourably impacted operating ratio by 2.3%.

2023:

- during the six months ended June 30, 2023, KCS purchase accounting of \$160 million, recognized in "Depreciation and amortization", that unfavourably impacted operating ratio on a combined basis, calculated in a manner consistent with Article 11, by 2.4% as follows:
 - in the second quarter, KCS purchase accounting of \$80 million, that unfavourably impacted operating ratio on a combined basis by 2.4%; and
 - in the first quarter, KCS purchase accounting of \$80 million, that unfavourably impacted operating ratio on a combined basis by 2.3%.

	For the three months ended June 30		For the six months ended June 30	
	2024	2023	2024	2023
CPKC operating ratio as reported	64.8 %	70.3 %	66.1 %	67.4 %
Add:				
KCS operating income as reported prior to Control Date ⁽¹⁾	— %	(0.2)%	— %	(0.3)%
Pro forma Article 11 transaction accounting adjustments ⁽²⁾	— %	0.4 %	— %	1.4 %
	64.8 %	70.5 %	66.1 %	68.5 %
Less:				
Adjustments to provisions and settlements of Mexican taxes	— %	— %	0.1 %	— %
Acquisition-related costs	0.7 %	3.5 %	0.8 %	2.1 %
KCS purchase accounting in Operating expenses	2.3 %	2.4 %	2.3 %	2.4 %
Core adjusted combined operating ratio	61.8 %	64.6 %	62.9 %	64.0 %

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

⁽²⁾ Pro forma Article 11 transaction accounting adjustments for January 1 through April 13, 2023 represent adjustments made in a manner consistent with Article 11, these include:

- For April 1 through April 13, 2023 in the three months ended June 30, 2023, depreciation and amortization of differences between the historic carrying values and the fair values of KCS's tangible and intangible assets and investments prior to the Control Date that unfavourably impacted operating ratio by 0.4% and miscellaneous immaterial amounts that have been reclassified across revenue, operating expenses, and non-operating income or expense, consistent with CPKC's financial statement captions; and
- For January 1 through April 13, 2023 in the six months ended June 30, 2023, depreciation and amortization of differences between the historic carrying values and the fair values of KCS's tangible and intangible assets and investments prior to the Control Date that unfavourably impacted operating ratio by 1.4% and miscellaneous immaterial amounts that have been reclassified across revenue, operating expenses, and non-operating income or expense, consistent with CPKC's financial statement captions.

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

Critical Accounting Estimates

To prepare Consolidated Financial Statements that conform with GAAP, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses during the reported periods. Using the most current information available, the Company reviews estimates on an ongoing basis, including those related to business acquisitions, goodwill and intangible assets, environmental liabilities, pensions and other benefits, property, plant and equipment, deferred income taxes, and personal injury and other claims liabilities. Additional information concerning critical accounting estimates is included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company's 2023 Annual Report on Form 10-K.

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

Forward-Looking Statements

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

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

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

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

Undue reliance should not be placed on forward-looking statements as actual results may differ materially from those expressed or implied by forward-looking statements. By their nature, forward-looking statements involve numerous inherent risks and uncertainties that could cause actual results to differ materially from the forward-looking statements, including but not limited to the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks associated with agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demand; changes in commodity prices; uncertainty surrounding timing and volumes of commodities being shipped via the Company; inflation; geopolitical instability; changes in laws, regulations and government policies, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; changes in fuel prices; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions and discount rates on the financial position of pension plans and investments; trade restrictions or other changes to international trade arrangements; climate change; various events that could

disrupt operations, including severe weather, such as droughts, floods, avalanches, volcanism and earthquakes, and cybersecurity attacks, as well as security threats and governmental response to them, and technological changes; and the outbreak of a pandemic or contagious disease and the resulting effects on economic conditions, the demand environment for logistics requirements and energy prices, restrictions imposed by public health authorities or governments, fiscal and monetary policy responses by governments and financial institutions, and disruptions to global supply chains. The foregoing list of factors is not exhaustive.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

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

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

The fair value of the Company's fixed rate debt may fluctuate with changes in market interest rates. A hypothetical one percentage point decrease in interest rates as of June 30, 2024 would increase the fair value of the Company's debt as at June 30, 2024 by approximately \$1.8 billion (June 30, 2023 - approximately \$1.9 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, 2024, an evaluation was carried out under the supervision of and with the participation of the Company's management, including its CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the *Exchange Act*. Based on that evaluation, the CEO and CFO concluded that these disclosure controls and procedures were effective as at June 30, 2024, to ensure that information required to be disclosed by the Company in reports that it files or submits under the *Exchange Act* is (i) recorded, processed, summarized and reported within the time periods specified by the SEC rules and forms and (ii) accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

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

PART II

ITEM 1. LEGAL PROCEEDINGS

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

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

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