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The Honorable Cynthia T. Brown
Chief, Section of Administration, Office of Proceedings
Surface Transportation Board
395 E Street S.W.
Washington, D.C. 20423

Re: Finance Docket No. 36500, *Canadian Pacific Ry. – Control – Kansas City Southern*

Dear Ms. Brown:

Pursuant to 49 C.F.R. § 1180.6(b)(4) (2000), Applicants are submitting the attached Form 10-Q filed by Canadian Pacific Railway Limited with the SEC on April 28, 2022, and the attached Form 10-Q filed by Kansas City Southern with the SEC, also on April 28, 2022. This submission updates Exhibit 9 of the Application, set forth at Volume 1 (CP-25/KCS-13) (at 1-49 to -50) and in Volume 4 (CP-28/KCS-16).

Applicants will continue to supplement the Application with any additional annual and quarterly reports filed with the SEC over the duration of the proceeding.

Please contact me with any questions.

Respectfully submitted,



David L. Meyer

*Attorney for Canadian Pacific Railway
Limited*

Attachments

cc: William A. Mullins, Esq.
All Parties of Record

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2022

OR

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

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

Canadian Pacific Railway Limited

(Exact name of registrant as specified in its charter)

Canada

(State or Other Jurisdiction
of Incorporation or Organization)

98-0355078

(IRS Employer
Identification No.)

**7550 Ogden Dale Road S.E.
Calgary AB**

(Address of Principal Executive Offices)

T2C 4X9

(Zip Code)

Registrant's Telephone Number, Including Area Code: (403) 319-7000

Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-accelerated Filer ☐

Smaller Reporting Company ☐

Emerging Growth Company ☐

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

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

As of the close of business on April 26, 2022, there were 929,873,437 of the registrant's Common Shares issued and outstanding.

CANADIAN PACIFIC RAILWAY LIMITED
FORM 10-Q
TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

	<u>Page</u>
Item 1. Financial Statements:	
Interim Consolidated Statements of Income For the Three Months Ended March 31, 2022 and 2021	2
Interim Consolidated Statements of Comprehensive Income For the Three Months Ended March 31, 2022 and 2021	3
Interim Consolidated Balance Sheets As at March 31, 2022 and December 31, 2021	4
Interim Consolidated Statements of Cash Flows For the Three Months Ended March 31, 2022 and 2021	5
Interim Consolidated Statements of Changes in Shareholders' Equity For the Three Months Ended March 31, 2022 and 2021	6
Notes to Interim Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Executive Summary	17
Performance Indicators	18
Financial Highlights	21
Results of Operations	22
Liquidity and Capital Resources	31
Share Capital	35
Non-GAAP Measures	36
Critical Accounting Estimates	44
Forward-Looking Statements	44
Item 3. Quantitative and Qualitative Disclosures about Market Risk	46
Item 4. Controls and Procedures	47

PART II - OTHER INFORMATION

Item 1. Legal Proceedings	48
Item 1A. Risk Factors	48
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	48
Item 3. Defaults Upon Senior Securities	48
Item 4. Mine Safety Disclosures	48
Item 5. Other Information	48
Item 6. Exhibits	49
Signature	50

PART I

ITEM 1. FINANCIAL STATEMENTS

INTERIM CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	For the three months ended March 31	
	2022	2021
(in millions of Canadian dollars, except share and per share data)		
Revenues (Note 3)		
Freight	\$ 1,796	\$ 1,918
Non-freight	42	41
Total revenues	1,838	1,959
Operating expenses		
Compensation and benefits	413	405
Fuel	273	206
Materials	62	59
Equipment rents	35	33
Depreciation and amortization	210	202
Purchased services and other (Note 10)	310	274
Total operating expenses	1,303	1,179
Operating income	535	780
Less:		
Equity earnings of Kansas City Southern (Note 10)	(198)	—
Other income (Note 4, 10)	(1)	(28)
Other components of net periodic benefit recovery (Note 15)	(101)	(95)
Net interest expense	160	110
Income before income tax expense	675	793
Income tax expense (Note 5)	85	191
Net income	\$ 590	\$ 602
Earnings per share (Note 1, 6)		
Basic earnings per share	\$ 0.63	\$ 0.90
Diluted earnings per share	\$ 0.63	\$ 0.90
Weighted-average number of shares (millions) (Note 1, 6)		
Basic	929.7	666.5
Diluted	932.7	669.6
Dividends declared per share (Note 1)	\$ 0.190	\$ 0.190

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

(in millions of Canadian dollars)	For the three months ended March 31	
	2022	2021
Net income	\$ 590	\$ 602
Net (loss) gain in foreign currency translation adjustments, net of hedging activities	(336)	10
Change in derivatives designated as cash flow hedges	1	25
Change in pension and post-retirement defined benefit plans	39	53
Equity accounted investments	62	—
Other comprehensive (loss) income before income taxes	(234)	88
Income tax expense on above items	(36)	(30)
Other comprehensive (loss) income (Note 7)	(270)	58
Comprehensive income	\$ 320	\$ 660

See Notes to Interim Consolidated Financial Statements.

**INTERIM CONSOLIDATED BALANCE SHEETS AS AT
(unaudited)**

(in millions of Canadian dollars)	March 31 2022	December 31 2021
Assets		
Current assets		
Cash and cash equivalents	\$ 85	\$ 69
Restricted cash and cash equivalents	13	13
Accounts receivable, net (Note 8)	818	819
Materials and supplies	251	235
Other current assets	240	216
	1,407	1,352
Investment in Kansas City Southern (Note 11)	41,626	42,309
Investments	201	209
Properties	21,120	21,200
Goodwill and intangible assets	366	371
Pension asset	2,428	2,317
Other assets	444	419
Total assets	\$ 67,592	\$ 68,177
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,445	\$ 1,609
Long-term debt maturing within one year (Note 12, 13)	1,746	1,550
	3,191	3,159
Pension and other benefit liabilities	715	718
Other long-term liabilities	521	542
Long-term debt (Note 12, 13)	17,917	18,577
Deferred income taxes	11,263	11,352
Total liabilities	33,607	34,348
Shareholders' equity		
Share capital	25,486	25,475
Additional paid-in capital	68	66
Accumulated other comprehensive loss (Note 7)	(2,373)	(2,103)
Retained earnings	10,804	10,391
	33,985	33,829
Total liabilities and shareholders' equity	\$ 67,592	\$ 68,177

See Contingencies (Note 17).

See Notes to Interim Consolidated Financial Statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in millions of Canadian dollars)	For the three months ended March 31	
	2022	2021
Operating activities		
Net income	\$ 590	\$ 602
Reconciliation of net income to cash provided by operating activities:		
Depreciation and amortization	210	202
Deferred income tax (recovery) expense (Note 5)	(1)	51
Pension recovery and funding (Note 15)	(72)	(61)
Equity earnings of Kansas City Southern (Note 10)	(198)	—
Foreign exchange gain on debt and lease liabilities (Note 4)	—	(33)
Dividend from Kansas City Southern (Note 10)	334	—
Other operating activities, net	(83)	(88)
Change in non-cash working capital balances related to operations	(167)	(91)
Cash provided by operating activities	613	582
Investing activities		
Additions to properties	(226)	(323)
Proceeds from sale of properties and other assets	15	37
Other	5	—
Cash used in investing activities	(206)	(286)
Financing activities		
Dividends paid	(177)	(127)
Issuance of CP Common Shares	8	8
Repayment of long-term debt, excluding commercial paper (Note 12)	(542)	(21)
Net issuance of commercial paper (Note 12)	320	93
Acquisition-related financing fees (Note 10)	—	(33)
Cash used in financing activities	(391)	(80)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	—	(3)
Cash position		
Increase in cash, cash equivalents, and restricted cash	16	213
Cash, cash equivalents, and restricted cash at beginning of period	82	147
Cash, cash equivalents, and restricted cash at end of period	\$ 98	\$ 360
Supplemental disclosures of cash flow information:		
Income taxes paid	\$ 159	\$ 133
Interest paid	\$ 150	\$ 155

See Notes to Interim Consolidated Financial Statements.

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

(in millions of Canadian dollars except per share data)	For the three months ended March 31					
	Common Shares (in millions)	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at January 1, 2022	929.7	\$ 25,475	\$ 66	\$ (2,103)	\$ 10,391	\$ 33,829
Net income	—	—	—	—	590	590
Other comprehensive loss (Note 7)	—	—	—	(270)	—	(270)
Dividends declared (\$0.190 per share)	—	—	—	—	(177)	(177)
Effect of stock-based compensation expense	—	—	7	—	—	7
Shares issued for Kansas City Southern acquisition	—	—	(2)	—	—	(2)
Shares issued under stock option plan	0.2	11	(3)	—	—	8
Balance at March 31, 2022	929.9	\$ 25,486	\$ 68	\$ (2,373)	\$ 10,804	\$ 33,985
Balance at January 1, 2021	666.3	\$ 1,983	\$ 55	\$ (2,814)	\$ 8,095	\$ 7,319
Net income	—	—	—	—	602	602
Other comprehensive income (Note 7)	—	—	—	58	—	58
Dividends declared (\$0.190 per share) (Note 1)	—	—	—	—	(126)	(126)
Effect of stock-based compensation expense	—	—	5	—	—	5
Shares issued under stock option plan	0.3	10	(2)	—	—	8
Balance at March 31, 2021	666.6	\$ 1,993	\$ 58	\$ (2,756)	\$ 8,571	\$ 7,866

See Notes to Interim Consolidated Financial Statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2022

(unaudited)

1 Basis of presentation

These unaudited Interim Consolidated Financial Statements ("Interim Consolidated Financial Statements") of Canadian Pacific Railway Limited ("CPRL") and its subsidiaries (collectively, "CP", or "the Company"), expressed in Canadian dollars, reflect management's estimates and assumptions that are necessary for their fair presentation in conformity with generally accepted accounting principles in the United States of America ("GAAP"). They do not include all disclosures required under GAAP for annual financial statements and should be read in conjunction with the 2021 annual Consolidated Financial Statements and notes included in CP's 2021 Annual Report on Form 10-K. The accounting policies used are consistent with the accounting policies used in preparing the 2021 annual Consolidated Financial Statements.

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

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

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

2 Accounting changes

Implemented in 2022

Government Assistance

On January 1, 2022, the Company adopted the new Accounting Standards Update ("ASU") 2021-10, issued by the Financial Accounting Standards Board ("FASB"), and all related amendments under FASB Accounting Standards Codification ("ASC") Topic 832, Government Assistance. The amendment is made to increase transparency by introducing specific disclosure requirements for entities who apply a grant or contribution model by analogy to account for transactions with a government. This update will be applied to government assistance transactions within the scope of this amendment that are in the financial statements at the date of initial application and prospectively to new transactions entered into after initial application. See Note 9 for further discussion on government assistance.

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

Future changes

Contract Assets and Contract Liabilities Acquired in a Business Combination

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. This amendment introduces the requirement for an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with the requirements of FASB ASC Topic 606, Revenue from Contracts with Customers, rather than at fair value. This amendment will be effective prospectively from January 1, 2023, with early adoption permitted. The Company is currently assessing the impact of this amendment.

All other recently issued accounting pronouncements issued, but not effective until after March 31, 2022 have been assessed and are not expected to have a material impact on the Company's Consolidated Financial Statements and related disclosures.

3 Revenues

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

(in millions of Canadian dollars)	For the three months ended March 31	
	2022	2021
Freight		
Grain	\$ 360	\$ 448
Coal	139	163
Potash	104	101
Fertilizers and sulphur	78	77
Forest products	86	80
Energy, chemicals and plastics	310	388
Metals, minerals and consumer products	181	159
Automotive	91	108
Intermodal	447	394
Total freight revenues	1,796	1,918
Non-freight excluding leasing revenues	22	24
Revenues from contracts with customers	1,818	1,942
Leasing revenues	20	17
Total revenues	\$ 1,838	\$ 1,959

Contract liabilities

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

The following table summarizes the changes in contract liabilities:

(in millions of Canadian dollars)	For the three months ended March 31	
	2022	2021
Opening balance	\$ 67	\$ 61
Revenue recognized that was included in the contract liability balance at the beginning of the period	(7)	(11)
Increase due to consideration received, net of revenue recognized during the period	7	64
Closing balance	\$ 67	\$ 114

4 Other income

(in millions of Canadian dollars)	For the three months ended March 31	
	2022	2021
Foreign exchange gain on debt and lease liabilities	\$ —	\$ (33)
Other foreign exchange (gains) losses	(2)	1
Acquisition-related costs (Note 10)	—	3
Other	1	1
Other income	\$ (1)	\$ (28)

5 Income taxes

(in millions of Canadian dollars)	For the three months ended March 31	
	2022	2021
Current income tax expense	\$ 86	\$ 140
Deferred income tax (recovery) expense	(1)	51
Income tax expense	\$ 85	\$ 191

The effective tax rates including discrete items for the three months ended March 31, 2022 was 12.67%, compared to 24.05% for the same period of 2021.

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

For the three months ended March 31, 2021, the effective tax rate was 24.60%, excluding acquisition-related costs incurred by CP of \$36 million and the FX gain of \$33 million on debt and lease liabilities.

6 Earnings per share

Basic earnings per share has been calculated using Net income for the period divided by the weighted-average number of shares outstanding during the period. The number of shares used in the earnings per share calculations are reconciled as follows:

(in millions)	For the three months ended March 31	
	2022	2021
Weighted-average basic shares outstanding	929.7	666.5
Dilutive effect of stock options	3.0	3.1
Weighted-average diluted shares outstanding	932.7	669.6

For the three months ended March 31, 2022, there were nil options excluded from the computation of diluted earnings per share because their effects were not dilutive (three months ended March 31, 2021 - nil).

7 Changes in Accumulated other comprehensive loss ("AOCL") by component

(in millions of Canadian dollars)	For the three months ended March 31				
	Foreign currency net of hedging activities ⁽¹⁾	Derivatives ⁽¹⁾⁽²⁾	Pension and post-retirement defined benefit plans ⁽¹⁾	Equity accounted investments ⁽¹⁾⁽²⁾	Total ⁽¹⁾
Opening balance, January 1, 2022	\$ (182)	\$ (4)	\$ (1,915)	\$ (2)	(2,103)
Other comprehensive (loss) income before reclassifications	(349)	—	—	46	(303)
Amounts reclassified from accumulated other comprehensive loss	—	1	31	1	33
Net other comprehensive (loss) income	(349)	1	31	47	(270)
Closing balance, March 31, 2022	\$ (531)	\$ (3)	\$ (1,884)	\$ 45	(2,373)
Opening balance, January 1, 2021	\$ 112	\$ (40)	\$ (2,878)	\$ (8)	(2,814)
Other comprehensive income before reclassifications	—	17	—	—	17
Amounts reclassified from accumulated other comprehensive loss	—	2	39	—	41
Net other comprehensive income	—	19	39	—	58
Closing balance, March 31, 2021	\$ 112	\$ (21)	\$ (2,839)	\$ (8)	(2,756)

⁽¹⁾ Amounts are presented net of tax.

⁽²⁾ Comparative figures have been reclassified to conform with current period presentation.

Amounts in Pension and post-retirement defined benefit plans reclassified from AOCL are as follows:

(in millions of Canadian dollars)	For the three months ended March 31	
	2022	2021
Recognition of net actuarial loss ⁽¹⁾	\$ 39	\$ 53
Income tax recovery	(8)	(14)
Total net of income tax	\$ 31	\$ 39

⁽¹⁾ Impacts "Other components of net periodic benefit recovery" on the Interim Consolidated Statements of Income.

8 Accounts receivable, net

(in millions of Canadian dollars)	As at March 31, 2022			As at December 31, 2021		
	Freight	Non-freight	Total	Freight	Non-freight	Total
Total accounts receivable	\$ 599	\$ 255	\$ 854	\$ 614	\$ 239	\$ 853
Allowance for credit losses	(22)	(14)	(36)	(20)	(14)	(34)
Total accounts receivable, net	\$ 577	\$ 241	\$ 818	\$ 594	\$ 225	\$ 819

(in millions of Canadian dollars)	For the three months ended March 31, 2022			For the three months ended March 31, 2021		
	Freight	Non-freight	Total	Freight	Non-freight	Total
Allowance for credit losses, opening balance	\$ (20)	\$ (14)	\$ (34)	\$ (25)	\$ (15)	\$ (40)
Current period credit loss provision, net	(2)	—	(2)	1	—	1
Allowance for credit losses, closing balance	\$ (22)	\$ (14)	\$ (36)	\$ (24)	\$ (15)	\$ (39)

9 Government Assistance

By analogy to the grant model of accounting within International Accounting Standards ("IAS") 20, Accounting for Government Grants and Disclosure of Government Assistance, CP records government assistance from various levels of Canadian and U.S. governments and government agencies when the conditions of their receipt are complied with and there is reasonable assurance that the assistance will be received.

Government assistance related to properties have as a primary condition that CP should purchase, construct, or otherwise acquire property, plant and equipment. Under certain government assistance arrangements, there is a secondary condition which requires CP to repay a portion of the assistance if certain conditions related to the assets are not adhered to during a specified period. In these cases, it is CP's intention to comply with all conditions imposed by the terms of the government assistance. Government assistance received or receivable related to CP's property assets are deducted from the cost of the assets in the Consolidated Balance Sheets and amortized over the same period as the related assets in "Depreciation and amortization" in the Consolidated Statements of Income.

During the three months ended March 31, 2022, the Company received \$13 million of government assistance towards the purchase and construction of properties. Government assistance received is netted against "Properties" in the Company's Interim Consolidated Balance Sheets. As of March 31, 2022, the total Properties balance of \$21,120 million is net of \$269 million of unamortized government assistance (December 31, 2021 - \$259 million), primarily related to the enhancement of CP's track and roadway infrastructure. Amortization expense related to government assistance for the three months ended March 31, 2022 was \$3 million (three months ended March 31, 2021 - \$3 million).

10 Business acquisition

Kansas City Southern

The Company accounts for its investment in KCS using the equity method of accounting while the United States Surface Transportation Board's ("STB") considers the Company's application to control KCS. The STB review of CP's proposed control of KCS while KCS is in the voting trust is expected to be completed in the first quarter of 2023. The investment in KCS of \$41,626 million at March 31, 2022 includes \$198 million of equity earnings of KCS for the first quarter of 2022, offset by a dividend received of \$334 million on January 27, 2022. Included within the \$198 million of equity earnings of KCS in the first quarter of 2022 is \$40 million amortization (net of tax) of the approximately \$30 billion basis difference, representing the difference in value between the consideration paid to acquire KCS and the underlying carrying value of the net assets of KCS as at December 14, 2021, immediately prior to the acquisition by CP. The basis difference is related to depreciable property, plant and equipment, intangible assets with definite lives, and long-term debt, and is amortized over the related assets' remaining useful lives, and the remaining terms to maturity of the debt instruments.

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

During the three months ended March 31, 2021, the Company incurred \$36 million in acquisition-related costs, of which \$33 million was recorded within "Purchased services and other" and \$3 million was recorded within "Other income" including the amortization of financing fees associated with new credit facilities. Total financing fees paid for a bridge facility associated with the KCS acquisition during the three months ended March 31, 2021 were \$33 million, presented under Cash used in financing activities in the Company's Interim Consolidated Statements of Cash Flows.

11 Investment in KCS

The KCS investment carrying cost of \$41,626 million reported on the Company's Interim Consolidated Balance Sheets as at March 31, 2022 reflects the consideration paid to acquire KCS, the asset recorded upon recognition of a deferred tax liability computed on an outside basis (see Note 5), the subsequent recognition of equity earnings, the dividend received from KCS, and foreign currency translation based on the quarter-end exchange rate.

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

Statement of Income

(in millions of Canadian dollars) ⁽¹⁾	For the three months ended March 31, 2022	
Total revenues	\$	986
Total operating expenses		617
Operating Income		369
Less: Other ⁽²⁾		39
Income before income taxes		330
Net Income	\$	238

⁽¹⁾ Amounts translated at the average FX rate for the three months ended March 31, 2022 of \$1.00 USD = \$1.27 CAD.

⁽²⁾ Includes Equity in net earnings of KCS's affiliates, Interest expense, FX loss, and Other income, net.

12 Debt

During the three months ended March 31, 2022, the Company repaid at maturity \$125 million 5.100% 10-year Medium Term Notes, U.S. \$250 million (\$313 million) 4.500% 10-year Notes, and a U.S. \$76 million (\$97 million) 6.99% finance lease.

Credit Facility

Effective March 14, 2022, the Company extended the maturity date of the U.S. \$500 million unsecured non-revolving term credit facility (the "term facility") to September 15, 2022. As at March 31, 2022, the Company had borrowings of U.S. \$500 million (\$625 million) under this term facility (December 31, 2021 - U.S. \$500 million) at a weighted-average interest rate of 1.55% (December 31, 2021 - 1.38%).

Commercial paper program

The Company has a commercial paper program which enables it to issue commercial paper up to a maximum aggregate principal amount of U.S. \$1.0 billion in the form of unsecured promissory notes. This commercial paper program is backed by the U.S. \$1.3 billion revolving credit facility. As at March 31, 2022, the Company had total commercial paper borrowings of U.S. \$520 million (\$650 million), included in "Long-term debt maturing within one year" on the Company's Interim Consolidated Balance sheets (December 31, 2021 - U.S. \$265 million). The weighted-average interest rate on these borrowings was 0.82% (December 31, 2021 - 0.32%). The Company presents issuances and repayments of commercial paper, all of which have a maturity of less than 90 days, in the Company's Interim Consolidated Statements of Cash Flows on a net basis.

13 Financial instruments

A. Fair values of financial instruments

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

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

The carrying value of the Company's long-term debt and finance lease liabilities does not approximate their fair value. Their estimated fair value has been determined based on market information, where available, or by discounting future payments of principal and interest at estimated interest rates expected to be available to the Company at period end. All measurements are classified as Level 2. The Company's long-term debt and finance lease liabilities, including current maturities, with a carrying value of \$18,389 million at March 31, 2022 (December 31, 2021 - \$19,151 million), had a fair value of \$18,699 million (December 31, 2021 - \$21,265 million).

B. Financial risk management

FX management

Net investment hedge

The effect of the Company's net investment hedge for the three months ended March 31, 2022 was an unrealized FX gain of \$98 million (three months ended March 31, 2021 - unrealized FX gain of \$76 million) recognized in "Other comprehensive (loss) income".

14 Shareholders' equity

On January 27, 2021, the Company announced a normal course issuer bid ("NCIB"), commencing January 29, 2021, to purchase up to 16.7 million Common Shares in the open market for cancellation on or before January 28, 2022. Upon expiry of this NCIB, the Company had not purchased any Common Shares under this NCIB.

15 Pension and other benefits

In the three months ended March 31, 2022, the Company made contributions to its defined benefit pension plans of \$3 million (three months ended March 31, 2021 - \$4 million).

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

(in millions of Canadian dollars)	For the three months ended March 31			
	Pensions		Other benefits	
	2022	2021	2022	2021
Current service cost (benefits earned by employees)	\$ 37	\$ 43	\$ 2	\$ 3
Other components of net periodic benefit (recovery) cost:				
Interest cost on benefit obligation	96	88	4	4
Expected return on fund assets	(240)	(240)	—	—
Recognized net actuarial loss	38	52	1	1
Total other components of net periodic benefit (recovery) cost	(106)	(100)	5	5
Net periodic benefit (recovery) cost	\$ (69)	\$ (57)	\$ 7	\$ 8

16 Stock-based compensation

At March 31, 2022, the Company had several stock-based compensation plans including stock option plans, various cash-settled liability plans, and an employee share purchase plan. These plans resulted in an expense for the three months ended March 31, 2022 of \$44 million (three months ended March 31, 2021 - expense of \$24 million).

Stock option plan

In the three months ended March 31, 2022, under CP's stock option plans, the Company issued 819,760 options at the weighted-average price of \$90.86 per share, based on the closing price on the grant date. Pursuant to the employee plan, these options may be exercised upon vesting, which is between 12 months and 48 months after the grant date, and will expire after seven years.

Under the fair value method, the fair value of the stock options at grant date was approximately \$15 million. The weighted-average fair value assumptions were approximately:

	For the three months ended March 31, 2022
Expected option life (years) ⁽¹⁾	4.75
Risk-free interest rate ⁽²⁾	1.59%
Expected share price volatility ⁽³⁾	26.84%
Expected annual dividends per share ⁽⁴⁾	\$0.760
Expected forfeiture rate ⁽⁵⁾	2.98%
Weighted-average grant date fair value per option granted during the period	\$18.69

⁽¹⁾ Represents the period of time that awards are expected to be outstanding. Historical data on exercise behaviour or, when available, specific expectations regarding future exercise behaviour were used to estimate the expected life of the option.

⁽²⁾ Based on the implied yield available on zero-coupon government issues with an equivalent term commensurate with the expected term of the option.

⁽³⁾ Based on the historical volatility of the Company's share price over a period commensurate with the expected term of the option.

⁽⁴⁾ Determined by the current annual dividend at the time of grant. The Company does not employ different dividend yields throughout the contractual term of the option.

⁽⁵⁾ The Company estimates forfeitures based on past experience. This rate is monitored on a periodic basis.

Performance share unit plans

During the three months ended March 31, 2022, the Company issued 411,999 Performance Share Units ("PSUs") with a grant date fair value of approximately \$36 million and 13,506 Performance Deferred Share Units ("PDSUs") with a grant date fair value, including the value of expected future matching units, of approximately \$2 million. PSUs and PDSUs attract dividend equivalents in the form of additional units based on dividends paid on the Company's Common Shares, and vest approximately three years after the grant date, contingent upon CP's performance ("performance factor"). The fair value of these PSUs and PDSUs is measured periodically until settlement. Vested PSUs are settled in cash. Vested PDSUs are settled in cash pursuant to the Deferred Share Unit ("DSU") Plan and are eligible for a 25% match if the holder has not exceeded their share ownership requirements, and are paid out only when the holder ceases their employment with CP.

The performance period for PSUs and PDSUs issued in the three months ended March 31, 2022 is January 1, 2022 to December 31, 2024 and the performance factors are Free Cash Flow ("FCF"), Adjusted Net Debt to Adjusted earnings before interest, tax, depreciation, and amortization ("EBITDA") Modifier, Total Shareholder Return ("TSR") compared to the S&P/TSX 60 Index, and TSR compared to S&P 500 Industrials Index.

The performance period for PSUs issued in 2019 was January 1, 2019 to December 31, 2021. The performance factors for 668,405 PSUs were Return on Invested Capital ("ROIC"), TSR compared to the S&P/TSX 60 Index, and TSR compared to Class I Railways. The resulting payout was 200% of the outstanding units multiplied by the Company's average share price calculated using the last 30 trading days preceding December 31, 2021. In the first quarter of 2022, payouts occurred on 631,457 total outstanding awards, including dividends reinvested, totalling \$116 million.

Deferred share unit plan

During the three months ended March 31, 2022, the Company granted 39,409 DSUs with a grant date fair value of approximately \$4 million. DSUs vest over various periods of up to 36 months and are only redeemable for a specified period after employment is terminated. The expense for DSUs is recognized over the vesting period for both the initial subscription price and the change in value between reporting periods.

17 Contingencies

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damage to property. The Company maintains provisions it considers to be adequate for such actions. While the final outcome with respect to actions outstanding or pending at March 31, 2022 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's business, financial position or results of operations. However, an unexpected adverse resolution of one or more of these legal actions could have a material adverse effect on the Company's business, financial position, results of operations, or liquidity in a particular quarter or fiscal year.

Legal proceedings related to Lac-Mégantic rail accident

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

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

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

- (1) Québec's Minister of Sustainable Development, Environment, Wildlife and Parks ordered various parties, including CP, to remediate the derailment site (the "Cleanup Order") and served CP with a Notice of Claim for \$95 million for those costs. CP appealed the Cleanup Order and contested the Notice of Claim with the Administrative Tribunal of Québec. These proceedings are stayed pending determination of the Attorney General of Québec ("AGQ") action (paragraph 2 below).
- (2) The AGQ sued CP in the Québec Superior Court claiming \$409 million in damages, which was amended and reduced to \$315 million (the "AGQ Action"). The AGQ Action alleges that: (i) CP was responsible for the petroleum crude oil from its point of origin until its delivery to Irving Oil Ltd.; and (ii) CP is vicariously liable for the acts and omissions of the MMA Group.
- (3) A class action in the Québec Superior Court on behalf of persons and entities residing in, owning or leasing property in, operating a business in, or physically present in Lac-Mégantic at the time of the derailment was certified against CP on May 8, 2015 (the "Class Action"). Other defendants including MMAC and Mr. Thomas Harding ("Harding") were added to the Class Action on January 25, 2017. On November 28, 2019, the plaintiffs' motion to discontinue their action against Harding was granted. The Class Action seeks unquantified damages, including for wrongful death, personal injury, property damage, and economic loss.
- (4) Eight subrogated insurers sued CP in the Québec Superior Court claiming approximately \$16 million in damages, which was amended and reduced to approximately \$15 million (the "Promutuel Action"), and two additional subrogated insurers sued CP claiming approximately \$3 million in damages (the "Royal Action"). Both actions contain similar allegations as the AGQ Action. The actions do not identify the subrogated parties. As such, the extent of any overlap between the damages claimed in these actions and under the Plans is unclear. The Royal Action is stayed pending determination of the consolidated proceedings described below.

On December 11, 2017, the AGQ Action, the Class Action and the Promutuel Action were consolidated. The joint liability trial of these consolidated claims commenced on September 21, 2021 and will be followed by a damages trial, if necessary.

- (5) Forty-eight plaintiffs (all individual claims joined in one action) sued CP, MMAC, and Harding in the Québec Superior Court claiming approximately \$5 million in damages for economic loss and pain and suffering, and asserting similar allegations as in the Class Action and the AGQ Action. The majority of the plaintiffs opted-out of the Class Action and all but two are also plaintiffs in litigation against CP, described in paragraph 7 below. This action is stayed pending determination of the consolidated claims described above.
- (6) The MMAR U.S. bankruptcy estate representative commenced an action against CP in November 2014 in the Maine Bankruptcy Court claiming that CP failed to abide by certain regulations and seeking approximately U.S. \$30 million in damages for MMAR's loss in business value according to a recent expert report filed by the bankruptcy estate. This action asserts that CP knew or ought to have known that the shipper misclassified the petroleum crude oil and therefore should have refused to transport it.
- (7) The class and mass tort action commenced against CP in June 2015 in Texas (on behalf of Lac-Mégantic residents and wrongful death representatives) and the wrongful death and personal injury actions commenced against CP in June 2015 in Illinois and Maine, were all transferred and consolidated in Federal District Court in Maine (the "Maine Actions"). The Maine Actions allege that CP negligently misclassified and improperly packaged the petroleum crude oil. On CP's motion, the Maine Actions were dismissed. The plaintiffs appealed the dismissal decision to the United States First Circuit Court of Appeals, which dismissed the plaintiffs' appeal on June 2, 2021. The plaintiffs further petitioned the United States First Circuit Court of Appeals for a rehearing, which was denied on September 8, 2021. On January 24, 2022, the plaintiffs further appealed to the U.S. Supreme Court on two bankruptcy procedural grounds. CP filed its opposition to the appeal on April 20, 2022.
- (8) The trustee for the wrongful death trust commenced Carmack Amendment claims against CP in North Dakota Federal Court, seeking to recover approximately U.S. \$6 million for damaged rail cars and lost crude and reimbursement for the settlement paid by the consignor and the consignee under the Plans (alleged to be U.S. \$110 million and U.S. \$60 million, respectively). The Court issued an Order on August 6, 2020 granting and denying in parts the parties' summary judgment motions which has been reviewed and confirmed following motions by the parties for clarification and reconsideration. This action is scheduled for trial on July 11 to 14, 2022.

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

Environmental liabilities

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

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

The expense included in "Purchased services and other" in the Company's Interim Consolidated Statements of Income for the three months ended March 31, 2022 was \$2 million (three months ended March 31, 2021 - \$2 million). Provisions for environmental remediation costs are recorded in the Company's Interim Consolidated Balance Sheets in "Other long-term liabilities", except for the current portion which is recorded in "Accounts payable and accrued liabilities". The total amount provided at March 31, 2022 was \$79 million (December 31, 2021 - \$79 million). Payments are expected to be made over 10 years through 2031.

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 for the three months ended March 31, 2022 in Item 1. Financial Statements, other information in this report, and Item 8. Financial Statements and Supplementary Data of the Company's 2021 Annual Report on Form 10-K. Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars.

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

Available Information

CP makes available on or through its website www.cpr.ca free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports 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 CP 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 ("CEO") and Chief Financial Officer ("CFO") certifications regarding the Company's public disclosure required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits to this report.

Executive Summary

First Quarter of 2022 Results

- Financial performance** - In the first quarter of 2022, CP reported Diluted earnings per share ("EPS") of \$0.63 and Adjusted diluted EPS of \$0.63, both a decrease of 30% compared to the same period in 2021. Core adjusted diluted EPS, which excludes the impact of Kansas City Southern ("KCS") purchase accounting, was \$0.67 in the first quarter of 2022, a decrease of 26% compared to the same period of 2021. These decreases were primarily due to a higher average number of shares outstanding due to shares issued for the KCS acquisition and lower volumes as measured by revenue ton-miles ("RTM"), partially offset by equity earnings of KCS.

CP reported Net income of \$590 million and Adjusted income was \$588 million in the first quarter of 2022, both a decrease of 2% compared to the same period in 2021. These decreases were primarily due to lower volumes as measured by RTMs and lower gains on land sales, partially offset by equity earnings of KCS. Core adjusted income, which excludes the impact of KCS purchase accounting from Adjusted income, was \$628 million in the first quarter of 2022, an increase of 5% compared to the same period of 2021. This increase was due to equity earnings of KCS, adjusted for acquisition-related costs incurred by KCS and the impact of KCS purchase accounting, partially offset by lower volumes as measured by RTMs.

CP reported an Operating ratio of 70.9% in the first quarter of 2022, a 1,070 basis point increase compared to the same period of 2021. Adjusted operating ratio was 69.8%, a 1,130 basis point increase compared to the same period of 2021. These increases were primarily due to lower volumes as measured by RTMs, lower gains on land sale, cost inflation and the unfavourable impact of changes in fuel prices, net of recoveries.

Adjusted diluted EPS, Core adjusted diluted EPS, Adjusted income, Core adjusted income, and Adjusted Operating ratio are defined and reconciled in Non-GAAP Measures and discussed further in Results of Operations of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

- Total revenues** - Total revenues decreased by 6% in the first quarter of 2022 to \$1,838 million compared to the same period of 2021. This decrease was primarily due to lower volumes as measured by RTMs, partially offset by increased freight revenue per RTM.
- Operating performance** - CP's average train weight was flat at 9,757 tons as a result of lower volumes of heavier commodities such as Canadian Grain and Coal, offset by improvements in operating plan efficiency. CP's average train length increased by 1% to 8,050 feet, compared to the same period in 2021. This increase was a result of improvements in operating plan efficiency. These metrics are discussed further in Performance Indicators of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Recent Developments

- On March 16, 2022, CP issued a 72-hour notice to the Teamsters Canada Rail Conference ("TCRC") - Train & Engine, of its plan to lock-out employees at 00:01 Eastern Time on March 20, 2022 if the TCRC leadership and the Company were unable to come to a negotiated settlement or agree to binding arbitration. The TCRC represents approximately 3,000 locomotive engineers, conductors, and train and yard workers across Canada. On March 19, 2022, while the Company was still engaged in ongoing negotiations facilitated by federal mediators, the TCRC withdrew its services in the final hours before the deadline for a legal strike or lockout to potentially occur. On March 22, 2022, CP reached an agreement with the TCRC Negotiating Committee to enter into binding arbitration. This agreement enabled CP employees to return to work effective noon March 22, 2022 local time to resume our essential services for our customers and the North American supply chain.

The work stoppage resulted in lower volumes during the first quarter. Once the TCRC members returned to work on March 22, 2022, the Company quickly re-established service.

- The United States Surface Transportation Board's ("STB") review of CP's proposed control of KCS while KCS is in the voting trust is expected to be completed in the first quarter of 2023. Prior to obtaining STB control approval, KCS's management and Board of Directors will continue to steward KCS while it is in trust, pursuing its independent business plan and growth strategies.

Specific risk factors related to the KCS acquisition and pending KCS business combination are provided in Part I, Item 1A. Risk Factors of the Company's 2021 Annual Report on Form 10-K.

- In the first quarter of 2022, CP's Pandemic Team continued to proactively monitor guidance and orders from governments, public health authorities, and regulatory agencies.

Additional information concerning the impact that COVID-19 may have to our future business and results of operations is provided in Part I, Item 1A. Risk Factors of the Company's 2021 Annual Report on Form 10-K.

Performance Indicators

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

	For the three months ended March 31		
	2022	2021	% Change
Operations Performance			
Gross ton-miles ("GTMs") (millions)	62,182	71,326	(13)
Train miles (thousands)	6,893	7,803	(12)
Average train weight - excluding local traffic (tons)	9,757	9,795	—
Average train length - excluding local traffic (feet)	8,050	7,972	1
Average terminal dwell (hours)	8.7	7.4	18
Average train speed (miles per hour, or "mph")	21.2	20.9	1
Locomotive productivity (GTMs / operating horsepower)	178	201	(11)
Fuel efficiency (U.S. gallons of locomotive fuel consumed / 1,000 GTMs)	0.994	0.958	4
Total Employees and Workforce			
Total employees (average)	11,767	12,061	(2)
Total employees (end of period)	11,942	12,398	(4)
Workforce (end of period)	11,977	12,426	(4)
Safety Indicators⁽¹⁾			
FRA personal injuries per 200,000 employee-hours	1.31	1.16	13
FRA train accidents per million train-miles	1.04	1.39	(25)

⁽¹⁾ Federal Railroad Administration ("FRA") personal injuries per 200,000 employee-hours for the three months ended March 31, 2021, previously reported as 1.20, was restated to 1.16 in this Earnings Release. FRA train accidents per million train-miles for the three months ended March 31, 2021, previously reported as 1.28, was restated to 1.39 in this Earnings Release. These restatements reflect new information available within specified periods stipulated by the FRA but that exceed the Company's financial reporting timeline.

For key measures of the Company's revenue performance, refer to Operating Revenues of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Operations Performance

These key measures are used by management as comparisons to historical operating results and in the planning process to facilitate decisions that continue to drive further productivity improvements in the Company's operations. Results of these key measures reflect how effective CP's management is at controlling costs and executing the Company's operating plan and strategy. Continued monitoring of these key measures ensures that the Company can take appropriate actions to ensure the delivery of superior service and be able to grow its business at low incremental cost.

Three months ended March 31, 2022 compared to the three months ended March 31, 2021

- A **GTM** is defined as the movement of one ton of train weight over one mile. GTMs are calculated by multiplying total train weight by the distance the train moved. Total train weight comprises the weight of the freight cars, their contents, and any inactive locomotives. An increase in GTMs indicates additional workload. GTMs decreased by 13% in the first quarter of 2022 compared to the same period of 2021. This decrease was primarily driven by lower volumes of Canadian grain, Energy, chemicals and plastics, and Coal. This decrease was partially offset by higher volumes of U.S. grain.
- **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, indicate improved train productivity. Train miles decreased by 12% in the first quarter of 2022 compared to the same period of 2021. This decrease was driven by a 13% decrease in GTMs.
- **Average train weight** is defined as the average gross weight of CP trains, both loaded and empty. This excludes trains in short-haul service, work trains used to move CP's track equipment and materials, and the haulage of other railroads' trains on CP's network. An increase in average train weight indicates improved asset utilization and may also be the result of moving heavier commodities. Average train weight was flat in the first quarter of 2022 compared to the same period of 2021.
- **Average train length** is defined as the average total length of CP trains, both loaded and empty. This includes all cars and locomotives on the train and is calculated as the sum of each car or locomotive's length multiplied by the distance travelled, divided by train miles. This excludes trains in short-haul service, work trains used to move CP's track equipment and materials, and the haulage of other railroads' trains on CP's network. An increase in average train length indicates improved asset utilization. Average train length increased by 1% in the first quarter of 2022 compared to the same period of 2021. This increase was a result of improvements in operating plan efficiency.
- **Average terminal dwell** is defined as the average time a freight car resides within terminal boundaries expressed in hours. The timing starts with a train arriving at the terminal, a customer releasing the car to the Company, or a car arriving at interchange from another railroad. The timing ends when the train leaves, a customer receives the car from CP, or the freight car is transferred to another railroad. Freight cars are excluded if they are being stored at the terminal or used in track repairs. A decrease in average terminal dwell indicates improved terminal performance resulting in faster cycle times and improved railcar utilization. Average terminal dwell increased by 18% in the first quarter of 2022 compared to the same period of 2021, primarily as a result of proportionally lower volumes of bulk commodities which require less processing time in yards, and harsher winter operating conditions.
- **Average train speed** is defined as a measure of the line-haul movement from origin to destination including terminal dwell hours. It is calculated by dividing the total train miles travelled by the total train hours operated. This calculation does not include delay time related to customers or foreign railroads and excludes the time and distance travelled by: i) trains used in or around CP's yards; ii) passenger trains; and iii) trains used for repairing track. An increase in average train speed indicates improved on-time performance resulting in improved asset utilization. Average train speed increased by 1% in the first quarter of 2022 compared to the same period of 2021 primarily as a result of lower volumes of Canadian grain and Coal trains through western Canada, which generally have lower train speeds.
- **Locomotive productivity** is defined as the daily average GTMs divided by daily average operating horsepower. Operating horsepower excludes units offline, tied up or in storage, or in use on other railways, and includes foreign units online. An increase in locomotive productivity indicates more efficient locomotive utilization and may also be the result of moving heavier commodities. Locomotive productivity decreased by 11% in the first quarter of 2022 compared to the same period of 2021 as a result of harsher winter operating conditions.
- **Fuel efficiency** is defined as U.S. gallons of locomotive fuel consumed per 1,000 GTMs. Fuel consumed includes gallons from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities. An improvement in fuel efficiency indicates operational cost savings and CP's commitment to corporate sustainability through a reduction of greenhouse gas emissions intensity. Fuel efficiency decreased by 4% in the first quarter of 2022 compared to the same period of 2021. This decrease in efficiency was due to lower locomotive productivity and harsher winter operating conditions.

Total Employees and Workforce

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

The average number of total employees was 11,767 for the three months ended March 31, 2022, a decrease of 294 or 2% for the three months ended March 31, 2022, compared to 12,061 for the same period of 2021. The total number of employees as at March 31, 2022 was 11,942, a decrease of 456, or 4%, compared to 12,398 as at March 31, 2021. The total workforce as at March 31, 2022 was 11,977, a decrease of 449 or 4%, compared to 12,426 as at March 31, 2021. The decrease in total employees (average), total employees (end of period) and workforce is to accommodate a decrease in workload.

Safety Indicators

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

The **FRA personal injuries per 200,000 employee-hours** frequency is the number of personal injuries, multiplied by 200,000 and divided by total employee hours. Personal injuries are defined as injuries that require employees to lose time away from work, modify their normal duties, or obtain medical treatment beyond minor first aid. FRA employee-hours are the total hours worked, excluding vacation and sick time, by all employees, excluding contractors. The FRA personal injuries per 200,000 employee-hours frequency for CP was 1.31 in the first quarter of 2022, an increase from 1.16 in the same period of 2021.

The **FRA train accidents per million train-miles** frequency is the number of train accidents, multiplied by 1,000,000 and divided by total train miles. Train accidents included in this metric meet or exceed the FRA reporting threshold of U.S. \$11,300 in 2022 and U.S. \$11,200 in damage for 2021. The FRA train accidents per million train-miles was 1.04 in the first quarter of 2022, a decrease from 1.39 in the same period of 2021.

Financial Highlights

The following table presents selected financial data related to the Company's financial results as of, and for the three months ended, March 31, 2022 and the comparative figures in 2021. 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.

(in millions, except per share data, percentages and ratios)	For the three months ended March 31	
	2022	2021
Financial Performance and Liquidity		
Total revenues	\$ 1,838	\$ 1,959
Operating income	535	780
Adjusted operating income ⁽¹⁾	555	813
Net income	590	602
Adjusted income ⁽¹⁾	588	600
Core adjusted income ⁽¹⁾	628	600
Basic EPS	0.63	0.90
Diluted EPS	0.63	0.90
Adjusted diluted EPS ⁽¹⁾	0.63	0.90
Core adjusted diluted EPS ⁽¹⁾	0.67	0.90
Dividends declared per share	0.190	0.190
Cash provided by operating activities	613	582
Cash used in investing activities	(206)	(286)
Cash used in financing activities	(391)	(80)
Free cash ⁽¹⁾	424	296
Financial Position		
	As at March 31, 2022	As at December 31, 2021
Total assets	\$ 67,592	\$ 68,177
Total long-term debt, including current portion	19,663	20,127
Total shareholders' equity	33,985	33,829
Financial Ratios		
	For the three months ended March 31	
	2022	2021
Operating ratio ⁽²⁾	70.9 %	60.2 %
Adjusted operating ratio ⁽¹⁾	69.8 %	58.5 %
	For the twelve months ended March 31	
	2022	2021
Return on average shareholders' equity ⁽³⁾	13.6 %	35.6 %
Adjusted return on invested capital ("Adjusted ROIC") ⁽¹⁾	8.2 %	15.8 %
Long-term debt to Net income ratio ⁽⁴⁾	6.9	3.7
Adjusted net debt to adjusted EBITDA ratio ⁽¹⁾	4.7	2.4
Pro-forma adjusted Net Debt to Pro-forma adjusted EBITDA Ratio ⁽¹⁾	4.1	N/A

⁽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 of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

⁽²⁾ Operating ratio is defined as operating expenses divided by revenues, further discussed in Results of Operations of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

⁽³⁾ Return on average shareholders' equity is defined as Net income divided by average shareholders' equity, averaged between the beginning and ending balance over a trailing twelve month period, further discussed in Results of Operations of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

⁽⁴⁾ Long-term debt to Net income ratio is defined as long-term debt, including long-term debt maturing within one year, divided by Net income, further discussed in Liquidity and Capital Resources of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Three months ended March 31, 2022 compared to the three months ended March 31, 2021

Income

Operating income was \$535 million in the first quarter of 2022, a decrease of \$245 million, or 31%, from \$780 million in the same period of 2021. This decrease was primarily due to:

- lower freight volumes as measured by RTMs;
- a gain on exchange of property and easements in Chicago of \$50 million in 2021;
- cost inflation; and
- higher operating costs primarily driven by harsher winter operating conditions.

This decrease was partially offset by higher freight rates and lower casualty costs incurred in 2022.

Adjusted operating income, defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, was \$555 million in the first quarter of 2022, a decrease of \$258 million, or 32%, from \$813 million in the same period of 2021. This decrease reflected the same factors discussed above except that Adjusted operating income excludes the acquisition-related costs associated with the KCS acquisition that were recognized in Purchased services and other in both periods.

Net income was \$590 million in the first quarter of 2022, a decrease of \$12 million, or 2%, from \$602 million in the same period of 2021. This decrease was primarily due to lower Operating income and higher interest expense primarily due to debt issued related to the KCS acquisition, partially offset by equity earnings of KCS and lower income tax expense due to lower taxable earnings.

Adjusted income, defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, was \$588 million in the first quarter of 2022, a decrease of \$12 million, or 2%, from \$600 million in the same period of 2021. This decrease was primarily due to lower Adjusted operating income, partially offset by equity earnings of KCS excluding acquisition-related costs incurred by KCS.

Core adjusted income, defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, was \$628 million in the first quarter of 2022, an increase of \$28 million, or 5%, from \$600 million in the same period of 2021. This increase was due to equity earnings of KCS excluding acquisition-related costs and the impact of KCS purchase accounting and lower income tax expense on taxable earnings, partially offset by lower Adjusted operating income and higher interest expense due to debt issued related to the KCS acquisition.

Diluted Earnings per Share

Diluted EPS was \$0.63 in the first quarter of 2022, a decrease of \$0.27, or 30%, from \$0.90 in the same period of 2021. This decrease was due to a higher average number of outstanding shares driven by shares issued for the KCS acquisition and lower Net income.

Adjusted diluted EPS, defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, was \$0.63 in the first quarter of 2022, a decrease of \$0.27, or 30%, from \$0.90 in the same period of 2021. This decrease was due to a higher average number of outstanding shares driven by shares issued for the KCS acquisition and lower Adjusted income.

Core adjusted diluted EPS, defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, was \$0.67 in the first quarter of 2022, a decrease of \$0.23, or 26%, from \$0.90 in the same period of 2021. The decrease was due to a higher average number of outstanding shares driven by shares issued for the KCS acquisition, partially offset by higher Core adjusted income.

Operating Ratio

The Operating ratio provides the percentage of revenues used to operate the railway. A lower percentage normally indicates higher efficiency in the operation of the railway. The Company's Operating ratio was 70.9% in the first quarter of 2022, a 1,070 basis point increase from 60.2% in the same period of 2021. This increase was primarily due to:

- lower freight volumes as measured by RTMs;
- a gain on exchange of property and easements in Chicago in 2021;
- cost inflation;
- the unfavourable impact of changes in fuel prices, net of recoveries; and
- higher operating costs primarily driven by harsher winter operating conditions.

This increase was partially offset by higher freight rates.

Adjusted operating ratio, defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, which excludes the acquisition-related costs associated with the KCS transaction, was 69.8% in the first quarter of 2022, a 1,130 basis points increase from the same period of 2021. This increase was due to the same factors discussed above for the increase in Operating ratio.

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

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

Return on average shareholders' equity was 13.6% for the twelve months ended March 31, 2022, a 2,200 basis point decrease compared to 35.6% for the twelve months ended March 31, 2021, primarily due to higher average shareholder's equity driven by shares issued for the KCS acquisition and accumulated Net income.

Adjusted ROIC was 8.2% for the twelve months ended March 31, 2022, a 760 basis point decrease compared to 15.8% for the twelve months ended March 31, 2021, primarily due to the shares issued for the KCS acquisition and higher average long-term debt, and accumulated Adjusted income. Adjusted ROIC is a Non-GAAP measure, which is defined and reconciled from Return on average shareholders' equity, the most comparable measure calculated in accordance with GAAP, in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Impact of FX on Earnings

Fluctuations in FX affect the Company's results because U.S. dollar-denominated revenues and expenses are translated into Canadian dollars. U.S. dollar-denominated revenues and expenses increase (decrease) when the Canadian dollar weakens (strengthens) in relation to the U.S. dollar.

On April 22, 2022, the noon buying rate certified for customs purposes by the U.S. Federal Reserve Bank of New York was U.S. \$1.00 = \$1.27 Canadian dollar.

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

Average exchange rates (Canadian/U.S. dollar)	2022	2021
For the three months ended - March 31	\$ 1.27	\$ 1.27
Ending exchange rates (Canadian/U.S. dollar)	2022	2021
Beginning of year - January 1	\$ 1.28	\$ 1.28
End of quarter - March 31	\$ 1.25	\$ 1.26
	For the three months ended March 31	
High/Low exchange rates (Canadian/U.S. dollar)	2022	2021
High	\$ 1.29	\$ 1.28
Low	\$ 1.25	\$ 1.24

In the first quarter of 2022, the impact of a slightly stronger U.S. dollar resulted in an increase in total revenues of \$1 million. There was no impact on total operating expenses or net interest expense from the same period of 2021.

The impact of FX on total revenues and operating expenses is discussed further in Item 3. Quantitative and Qualitative Disclosures About Market Risk, in the Foreign Exchange Risk section.

Impact of Fuel Price on Earnings

Fluctuations in fuel prices affect the Company's results because fuel expense constitutes a significant portion of CP's operating costs. As fuel prices fluctuate, there will be an impact on earnings due to the timing of recoveries from CP's fuel cost adjustment program. The following table indicates the average fuel price for the three months ended March 31, 2022 and the comparative periods of 2021.

Average Fuel Price (U.S. dollars per U.S. gallon)	2022	2021
For the three months ended - March 31	\$ 3.49	\$ 2.39

The impact of fuel prices 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 first quarter of 2022, the favourable impact of fuel prices on Operating income was \$17 million. Higher fuel prices and increased carbon tax recoveries resulted in an increase in Total revenues of \$113 million from the same period of 2021. Higher fuel prices resulted in an increase in Total operating expenses of \$96 million.

Impact of Share Price on Earnings

Fluctuations in the Common Share price affect the Company's operating expenses because share-based liabilities are measured at fair value. The Company's Common Shares are listed on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE") with ticker symbol "CP". The following tables indicate the opening and closing Common Share price on the TSX and the NYSE for the three months ended March 31, 2022 and the comparative period in 2021.

TSX (in Canadian dollars)	2022	2021
Opening Common Share price, as at January 1	\$ 90.98	\$ 88.31
Ending Common Share price, as at March 31	\$ 103.18	\$ 96.00
Change in Common Share price for the three months ended March 31	\$ 12.20	\$ 7.69

NYSE (in U.S. dollars)	2022	2021
Opening Common Share price, as at January 1	\$ 71.94	\$ 69.34
Ending Common Share price, as at March 31	\$ 82.54	\$ 75.86
Change in Common Share price for the three months ended March 31	\$ 10.60	\$ 6.52

In the first quarter of 2022, the impact of the change in Common Share prices resulted in an increase in stock-based compensation expense of \$21 million compared to an increase of \$17 million in the same period of 2021.

The impact of share price on stock-based compensation is discussed further in Item 3. Quantitative and Qualitative Disclosures About Market Risk, Share Price Impact on Stock-Based Compensation.

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 revenue is generated from leasing of certain assets; other arrangements, including contracts with passenger service operators and logistical services; and switching fees.

For the three months ended March 31	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽²⁾
Freight revenues (in millions) ⁽¹⁾	\$ 1,796	\$ 1,918	\$ (122)	(6)	(6)
Non-freight revenues (in millions)	42	41	1	2	2
Total revenues (in millions)	\$ 1,838	\$ 1,959	\$ (121)	(6)	(6)
Carloads (in thousands)	625.7	691.4	(65.7)	(10)	N/A
Revenue ton-miles (in millions)	33,693	39,273	(5,580)	(14)	N/A
Freight revenue per carload (in dollars)	\$ 2,870	\$ 2,774	\$ 96	3	3
Freight revenue per revenue ton-mile (in cents)	5.33	4.88	0.45	9	9

⁽¹⁾ Freight revenues include fuel surcharge revenues of \$189 million in 2022 and \$85 million in 2021. Fuel surcharge revenues include recoveries of carbon taxes, levies, and obligations under cap-and-trade programs.

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

Freight revenues were \$1,796 million in the first quarter of 2022, a decrease of \$122 million, or 6%, from \$1,918 million in the same period of 2021. This decrease was primarily due to lower volumes as measured by RTMs, partially offset by increased freight revenue per RTM.

RTMs are defined as the movement of one revenue-producing ton of freight over a distance of one mile. RTMs measure the relative weight and distance of rail freight moved by the Company. RTMs for the first quarter of 2022 were 33,693 million, a decrease of 5,580 million, or 14%, compared with 39,273 million in the same period of 2021. This decrease was mainly attributable to lower volumes of Canadian grain, Coal, and Energy, chemicals and plastics. This decrease was partially offset by higher volumes of U.S. grain. The work stoppage contributed to the reduction in volumes during the first quarter. Once the TCRC members returned to work on March 22, 2022, the Company quickly re-established service.

Freight revenue per RTM is defined as freight revenue per revenue-producing ton of freight over a distance of one mile. This is an indicator of yield. Freight revenue per RTM was 5.33 cents in the first quarter of 2022, an increase of 0.45 cents, or 9%, from 4.88 cents in the same period of 2021. This increase was primarily due to higher fuel surcharge revenue as a result of higher fuel prices of \$113 million and higher freight rates. This increase was partially offset by lower crude liquidated damages, including customer volume commitments, due to the completion of customer contracts.

Carloads are defined as revenue-generating shipments of containers and freight cars. Carloads were 625.7 thousand in the first quarter of 2022, a decrease of 65.7 thousand, or 10%, from 691.4 thousand in the same period of 2021. This decrease was primarily due to lower volumes of Canadian grain, Energy, chemicals and plastics, and Automotive. This decrease was partially offset by higher volumes of U.S. grain.

Freight revenue per carload is defined as freight revenue per revenue-generating shipment of containers or freight cars. This is an indicator of yield. Freight revenue per carload was \$2,870 in the first quarter of 2022, an increase of \$96, or 3%, from \$2,774 in the same period of 2021. This increase was primarily due to higher fuel surcharge revenue as a result of higher fuel prices of \$113 million and higher freight rates. This increase was partially offset by lower crude liquidated damages, including customer volume commitments, due to the completion of customer contracts.

Non-freight revenues were \$42 million in the first quarter of 2022, an increase of \$1 million, or 2%, from \$41 million in the same period of 2021. This increase was primarily due to revenue recognized for construction easements in Chicago of \$3 million, higher revenue from passenger service operators, and higher leasing revenues, partially offset by lower revenue from logistical services and switching fees.

Fuel Cost Adjustment Program

Freight revenues include fuel surcharge revenues associated with CP'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 \$189 million in the first quarter of 2022, an increase of \$104 million, or 122%, from \$85 million in the same period of 2021. This increase was primarily due to higher fuel prices and increased carbon tax recoveries, partially offset by lower volumes.

Lines of Business

Grain

For the three months ended March 31	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 360	\$ 448	\$ (88)	(20)	(20)
Carloads (in thousands)	83.7	116.4	(32.7)	(28)	N/A
Revenue ton-miles (in millions)	7,974	10,773	(2,799)	(26)	N/A
Freight revenue per carload (in dollars)	\$ 4,301	\$ 3,849	\$ 452	12	12
Freight revenue per revenue ton-mile (in cents)	4.51	4.16	0.35	8	8

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Grain revenue was \$360 million in the first quarter of 2022, a decrease of \$88 million, or 20%, from \$448 million in the same period of 2021. This decrease was primarily due to lower volumes of Canadian grain to Vancouver and eastern Canada due to drought conditions that impacted the Canadian crop size. This decrease was partially offset by higher volumes of U.S. corn from the U.S. Midwest to western Canada and increased freight revenue per RTM. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices and higher freight rates. Carloads decreased more than RTMs due to moving higher volumes of U.S. corn from the U.S. Midwest to western Canada, which has a longer length of haul.

Coal

For the three months ended March 31	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 139	\$ 163	\$ (24)	(15)	(15)
Carloads (in thousands)	69.9	72.0	(2.1)	(3)	N/A
Revenue ton-miles (in millions)	3,997	5,280	(1,283)	(24)	N/A
Freight revenue per carload (in dollars)	\$ 1,989	\$ 2,264	\$ (275)	(12)	(12)
Freight revenue per revenue ton-mile (in cents)	3.48	3.09	0.39	13	13

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Coal revenue was \$139 million in the first quarter of 2022, a decrease of \$24 million, or 15%, from \$163 million in the same period of 2021. This decrease was primarily due to lower volumes of Canadian coal to Vancouver, partially offset by higher volumes of Canadian coal to Kamloops, B.C. and increased freight revenue per RTM. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices. RTMs decreased more than carloads due to moving lower volumes of Canadian coal to Vancouver, which has a longer length of haul, and moving higher volumes of Canadian coal to Kamloops, B.C., which has a shorter length of haul.

Potash

For the three months ended March 31	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 104	\$ 101	\$ 3	3	3
Carloads (in thousands)	32.1	34.4	(2.3)	(7)	N/A
Revenue ton-miles (in millions)	3,652	3,786	(134)	(4)	N/A
Freight revenue per carload (in dollars)	\$ 3,240	\$ 2,936	\$ 304	10	10
Freight revenue per revenue ton-mile (in cents)	2.85	2.67	0.18	7	7

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Potash revenue was \$104 million in the first quarter of 2022, an increase of \$3 million, or 3%, from \$101 million in the same period of 2021. This increase was primarily due to increased freight revenue per RTM and higher volumes of export potash to the U.S. Pacific Northwest due to prior year construction at the Port of Portland. 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 fuel

surcharge revenue as a result of higher fuel prices and higher freight rates. Carloads decreased more than RTMs due to moving lower volumes of domestic potash within western Canada, which has a shorter length of haul.

Fertilizers and Sulphur

For the three months ended March 31	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 78	\$ 77	\$ 1	1	—
Carloads (in thousands)	15.9	16.3	(0.4)	(2)	N/A
Revenue ton-miles (in millions)	1,219	1,269	(50)	(4)	N/A
Freight revenue per carload (in dollars)	\$ 4,906	\$ 4,724	\$ 182	4	3
Freight revenue per revenue ton-mile (in cents)	6.40	6.07	0.33	5	4

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Fertilizers and sulphur revenue was \$78 million in the first quarter of 2022, an increase of \$1 million, or 1%, from \$77 million in the same period of 2021. This increase was primarily due to increased freight revenue per RTM, partially offset by lower volumes of wet fertilizers. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices and higher freight rates. RTMs decreased more than carloads due to moving lower volumes of wet fertilizers from Alberta to the U.S. Midwest, which has a longer length of haul.

Forest Products

For the three months ended March 31	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 86	\$ 80	\$ 6	8	8
Carloads (in thousands)	17.4	17.5	(0.1)	(1)	N/A
Revenue ton-miles (in millions)	1,361	1,363	(2)	—	N/A
Freight revenue per carload (in dollars)	\$ 4,943	\$ 4,571	\$ 372	8	8
Freight revenue per revenue ton-mile (in cents)	6.32	5.87	0.45	8	8

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forest products revenue was \$86 million in the first quarter of 2022, an increase of \$6 million, or 8%, from \$80 million in the same period of 2021. This increase was primarily due to increased freight revenue per RTM and higher volumes of newsprint and wood pulp from Saint John, NB, partially offset by lower volumes of lumber. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices and higher freight rates.

Energy, Chemicals and Plastics

For the three months ended March 31	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 310	\$ 388	\$ (78)	(20)	(20)
Carloads (in thousands)	72.6	87.2	(14.6)	(17)	N/A
Revenue ton-miles (in millions)	5,907	7,142	(1,235)	(17)	N/A
Freight revenue per carload (in dollars)	\$ 4,270	\$ 4,450	\$ (180)	(4)	(4)
Freight revenue per revenue ton-mile (in cents)	5.25	5.43	(0.18)	(3)	(3)

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Energy, chemicals and plastics revenue was \$310 million in the first quarter of 2022, a decrease of \$78 million, or 20%, from \$388 million in the same period of 2021. This decrease was primarily due to lower volumes of crude, petroleum products, chemicals, and plastics and decreased freight revenue per RTM. This decrease was partially offset by higher fuel surcharge revenue as a result of higher fuel prices and higher freight rates. Freight revenue per RTM decreased due to lower crude liquidated damages, including customer volume commitments, as a result of the completion of customer contracts.

Metals, Minerals and Consumer Products

For the three months ended March 31	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 181	\$ 159	\$ 22	14	14
Carloads (in thousands)	54.6	55.7	(1.1)	(2)	N/A
Revenue ton-miles (in millions)	2,519	2,499	20	1	N/A
Freight revenue per carload (in dollars)	\$ 3,315	\$ 2,855	\$ 460	16	16
Freight revenue per revenue ton-mile (in cents)	7.19	6.36	0.83	13	13

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Metals, minerals and consumer products revenue was \$181 million in the first quarter of 2022, an increase of \$22 million, or 14%, from \$159 million in the same period of 2021. This increase was primarily due to increased freight revenue per RTM and higher volumes of frac sand, partially offset by lower volumes of steel, aggregates, and consumer products. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices and higher freight rates. Carloads decreased while RTMs increased due to moving lower volumes of aggregates and consumer products, which have a shorter length of haul.

Automotive

For the three months ended March 31	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 91	\$ 108	\$ (17)	(16)	(16)
Carloads (in thousands)	24.1	33.4	(9.3)	(28)	N/A
Revenue ton-miles (in millions)	403	508	(105)	(21)	N/A
Freight revenue per carload (in dollars)	\$ 3,776	\$ 3,234	\$ 542	17	17
Freight revenue per revenue ton-mile (in cents)	22.58	21.26	1.32	6	6

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Automotive revenue was \$91 million in the first quarter of 2022, a decrease of \$17 million, or 16%, from \$108 million in the same period of 2021. This decrease was primarily due to lower volumes as a result of the global semiconductor chip shortage. This decrease was partially offset by increased freight revenue per RTM due to higher fuel surcharge revenue as a result of higher fuel prices. Carloads decreased more than RTMs due to moving proportionately lower volumes from the U.S. Midwest to the U.S. Northeast, which has a shorter length of haul.

Intermodal

For the three months ended March 31	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Freight revenues (in millions)	\$ 447	\$ 394	\$ 53	13	13
Carloads (in thousands)	255.4	258.5	(3.1)	(1)	N/A
Revenue ton-miles (in millions)	6,661	6,653	8	—	N/A
Freight revenue per carload (in dollars)	\$ 1,750	\$ 1,524	\$ 226	15	15
Freight revenue per revenue ton-mile (in cents)	6.71	5.92	0.79	13	13

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Intermodal revenue was \$447 million in the first quarter of 2022, an increase of \$53 million, or 13%, from \$394 million in the same period of 2021. This increase was primarily due to increased freight revenue per RTM and onboarding new international intermodal customers. This increase was partially offset by lower volumes of international intermodal to and from the Port of Vancouver and lower volumes of domestic intermodal. Freight revenue per RTM increased due to higher fuel surcharge revenue as a result of higher fuel prices, higher intermodal ancillary revenue, and higher freight rates.

Operating Expenses

For the three months ended March 31
(in millions of Canadian dollars)

	2022	2021	Total Change	% Change	FX Adjusted % Change ⁽¹⁾
Compensation and benefits	\$ 413	\$ 405	\$ 8	2	2
Fuel	273	206	67	33	33
Materials	62	59	3	5	5
Equipment rents	35	33	2	6	6
Depreciation and amortization	210	202	8	4	4
Purchased services and other	310	274	36	13	13
Total operating expenses	\$ 1,303	\$ 1,179	\$ 124	11	11

⁽¹⁾ FX Adjusted % Change does not have any standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to similar measures presented by other companies. FX Adjusted % Change is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Operating expenses were \$1,303 million in the first quarter of 2022, an increase of \$124 million, or 11%, from \$1,179 million in the same period of 2021. This increase was primarily due to:

- the unfavourable impact of higher fuel prices of \$96 million;
- a gain on exchange of property and easements in Chicago of \$50 million in 2021;
- cost inflation;
- higher operating costs primarily driven by harsher winter operating conditions; and
- higher stock-based compensation of \$20 million.

This increase was partially offset by lower volume variable expenses and lower casualty costs incurred in 2022.

Compensation and Benefits

Compensation and benefits expense includes employee wages, salaries, fringe benefits, and stock-based compensation. Compensation and benefits expense was \$413 million in the first quarter of 2022, an increase of \$8 million, or 2%, from \$405 million in the same period of 2021. This increase was primarily due to:

- higher stock-based compensation of \$20 million;
- the impact of wage and benefit inflation;
- labour inefficiencies associated with the reduction in volumes; and
- the impact of weather related costs as a result of harsher winter operating conditions.

This increase was partially offset by:

- lower volume variable expenses as a result of a decrease in workload as measured by GTMs;
- decreased incentive compensation costs; and
- lower defined benefit pension current service costs of \$6 million.

Fuel

Fuel expense consists mainly of fuel used by locomotives and includes provincial, state, and federal fuel taxes. Fuel expense was \$273 million in the first quarter of 2022, an increase of \$67 million, or 33%, from \$206 million in the same period of 2021. This increase was primarily due to the unfavourable impact of \$96 million from higher fuel prices and a decrease in fuel efficiency of 4% due to lower locomotive productivity and harsher winter operating conditions. This increase was partially offset by a decrease 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. Materials expense was \$62 million in the first quarter of 2022, an increase of \$3 million, or 5% from \$59 million in the same period of 2021. This increase was primarily due to the impact of inflation and increased fuel prices, partially offset by a decrease in freight car maintenance.

Equipment Rents

Equipment rents expense includes the cost associated with using other railways' freight cars, intermodal equipment, and locomotives, net of rental income received from other railroads for the use of CP's equipment. Equipment rents expense was \$35 million in the first quarter of 2022, an increase of \$2 million, or 6%, from \$33 million in the same period of 2021. This increase was primarily due to inefficiencies in usage of pooled freight cars by CP as a result of harsher winter operating conditions.

Depreciation and Amortization

Depreciation and amortization expense represents the charge associated with the use of track and roadway, buildings, rolling stock, information systems, and other depreciable assets. Depreciation and amortization expense was \$210 million in the first quarter of 2022, an increase of \$8 million, or 4%, from \$202 million in the same period of 2021. This increase was primarily due to a higher depreciable asset base.

Purchased Services and Other

For the three months ended March 31
(in millions of Canadian dollars)

	2022	2021	Total Change	% Change
Support and facilities	\$ 84	\$ 72	\$ 12	17
Track and operations	73	60	13	22
Intermodal	51	53	(2)	(4)
Equipment	29	29	—	—
Casualty	21	39	(18)	(46)
Property taxes	35	34	1	3
Other	27	41	(14)	(34)
Land sales	(10)	(54)	44	(81)
Total Purchased services and other	\$ 310	\$ 274	\$ 36	13

Purchased services and other expense encompasses a wide range of third-party costs, including expenses for joint facilities, personal injuries and damage claims, environmental remediation, property taxes, contractor and consulting fees, insurance, and gains on land sales. Purchased services and other expense was \$310 million in the first quarter of 2022, an increase of \$36 million, or 13%, from \$274 million in the same period of 2021. This increase was primarily due to:

- a gain on exchange of property and easements in Chicago of \$50 million in 2021;
- cost inflation;
- a \$7 million arbitration settlement in 2021, reported in Track and operations; and
- increased purchased services due to harsher weather conditions, reported in Track and operations.

This increase was partially offset by:

- lower expenses primarily due to the reduced number of casualty incidents, reported in Casualty;
- lower acquisition-related costs of \$13 million associated with the KCS acquisition, reported in Other; and
- lower variable expenses from lower volumes, reported in Intermodal, and Track and operations.

Other Income Statement Items

Equity Earnings of Kansas City Southern

In the first quarter of 2022, the Company recognized \$198 million (U.S. \$156 million) of equity income related to the KCS acquisition in the Company's Interim Consolidated Statements of Income. This amount is net of amortization of basis differences of \$40 million (U.S. \$31 million) associated with KCS purchase accounting. No similar equity income existed in the same period of 2021 as CP acquired KCS into trust on December 14, 2021.

On a historical basis, without any effect of purchase accounting, KCS recorded net income attributable to controlling interests of \$238 million (U.S. \$187 million) in the first quarter of 2022, an increase of \$44 million (U.S. \$34 million), or 23%, from \$194 million (U.S. \$153 million) in the same period of 2021. This increase was primarily due to higher revenues of \$91 million (U.S. \$72 million) partially offset by higher fuel cost of \$33 million (U.S. \$26 million). Acquisition-related costs (net of tax) incurred by KCS in the first quarter of 2022 were \$13 million (U.S. \$10 million), a decrease of \$6 million (U.S. \$5 million), or 32%, from \$19 million (U.S. \$15 million) in the same period of 2021. These values have been translated at the average FX rate of \$1.27 CAD per USD for the three months periods ended March 31, 2022 and 2021.

Other Income

Other income consists of gains and losses from the change in FX on debt and lease liabilities and working capital, costs related to financing, shareholder costs, equity income, and other non-operating expenditures. Other income was \$1 million in the first quarter of 2022, a decrease of \$27 million, or 96%, compared to income of \$28 million in the same period of 2021. This decrease was primarily due to a FX translation gain of \$33 million in the first quarter of 2021 and nil in the same period of 2022 as a result of the designation of all U.S. dollar-denominated debt and lease liabilities as a hedge of the Company's net investment in foreign operations following the acquisition of KCS in the fourth quarter of 2021.

FX translation gains and losses on debt and lease liabilities are discussed further in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Other Components of Net Periodic Benefit Recovery

Other components of net periodic benefit recovery is related to the Company's pension and other post-retirement and post-employment benefit plans. It includes interest cost on benefit obligations, expected return on fund assets, recognized net actuarial losses, and amortization of prior service costs. Other components of net periodic benefit recovery was \$101 million in the first quarter of 2022, an increase of \$6 million, or 6%, from \$95 million in the same period of 2021. This increase was due to a decrease in recognized net actuarial losses of \$14 million, partially offset by an increase in the interest cost on benefit obligations of \$8 million.

Net Interest Expense

Net interest expense includes interest on long-term debt and finance leases. Net interest expense was \$160 million in the first quarter of 2022, an increase of \$50 million, or 45%, from \$110 million in the same period of 2021. This increase was primarily due to interest of \$63 million incurred on long-term debt issued in the last quarter of 2021 related to the KCS acquisition, partially offset by the favourable impacts of \$9 million related to repayment of maturing long-term debt and \$4 million as a result of a lower effective interest rate.

Income Tax Expense

Income tax expense was \$85 million in the first quarter of 2022, a decrease of \$106 million, or 55%, from \$191 million in the same period of 2021. This decrease was due to:

- lower taxable earnings;
- a deferred tax recovery on the change in the equity investment in KCS, driven by the dividend of \$334 million received in the period, partially offset by equity earnings of KCS of \$198 million; and
- a lower effective tax rate.

The effective tax rate in the first quarter of 2022, including equity earnings of KCS and discrete items, was 12.67% compared to 24.05% in the same period of 2021. The effective tax rate in the first quarter of 2022, excluding equity earnings of KCS and discrete items, was 24.25%, compared to 24.60% in the same period of 2021.

The Company's expected 2022 effective tax rate is between 24% and 24.5%, which excludes the impact of the change in the equity investment in KCS and associated deferred tax on the outside basis difference during the year. The Company's 2022 outlook for its annualized effective income 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 CP's 2021 Annual Report on Form 10-K.

Liquidity and Capital Resources

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

As at March 31, 2022, the Company had \$85 million of Cash and cash equivalents compared to \$69 million at December 31, 2021.

As at March 31, 2022, the Company's existing revolving credit facility was undrawn, unchanged from December 31, 2021, from a total available amount of U.S. \$1.3 billion. Effective March 14, 2022, the Company amended its U.S. \$500 million unsecured non-revolving term credit facility, extending the maturity to September 15, 2022. As at March 31, 2022, the unsecured non-revolving term credit facility was fully drawn, unchanged from December 31, 2021. The credit facility agreements require the Company to maintain a financial covenant. As at March 31, 2022, the Company was in compliance with all terms and conditions of the credit facility arrangements and satisfied the financial covenant.

The Company has a commercial paper program that enables it to issue commercial paper up to a maximum aggregate principal amount of U.S. \$1.0 billion in the form of unsecured promissory notes. This commercial paper program is backed by the revolving credit facility. As at March 31, 2022, total commercial paper borrowings were U.S. \$520 million, compared to U.S. \$265 million as at December 31, 2021.

As at March 31, 2022, under its bilateral letter of credit facilities, the Company had letters of credit drawn of \$57 million, compared to \$58 million as at December 31, 2021, from a total available amount of \$300 million. Under the bilateral letter of credit facilities, the Company has the option to post collateral in the form of Cash or cash equivalents, equal at least to the face

value of the letter of credit issued. As at March 31, 2022 and December 31, 2021, the Company did not have any collateral posted on its bilateral letter of credit facilities.

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, future capital commitments, supplier purchases, leases, and other long term liabilities. Debt and finance leases, interest obligations related to debt and finance leases, and letters of credit amount to \$1,746 million, \$619 million and \$57 million within the next 12 months, respectively, with the remaining amount committed thereafter of \$18,103 million, \$13,181 million and nil respectively. Future capital commitments amount to \$385 million within the next 12 months, with the remaining amount committed thereafter of \$147 million.

Supplier purchase agreements, operating leases, and other long-term liabilities amount to \$938 million, \$70 million, and \$56 million within the next 12 months, respectively, with the remaining amount committed thereafter of \$973 million, \$235 million and \$422 million, respectively. Other long-term liabilities includes expected cash payments for environmental remediation, post-retirement benefits, worker's compensation benefits, long-term disability benefits, pension benefit payments for the Company's non-registered supplemental pension plan, and certain other long-term liabilities. Pension payments are discussed further in Critical Accounting Estimates of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Guarantees

The Company accrues for all guarantees that it expects to pay. As at March 31, 2022, these accruals amounted to \$9 million (December 31, 2021 - \$14 million).

Operating Activities

Cash provided by operating activities was \$613 million in the first quarter of 2022, an increase of \$31 million, or 5%, compared to \$582 million in the same period of 2021. This increase was primarily due to the dividend received from KCS of \$334 million during the first quarter of 2022, partially offset by lower cash generating income compared to the same period of 2021.

Investing Activities

Cash used in investing activities was \$206 million in the first quarter of 2022, a decrease of \$80 million, or 28%, compared to \$286 million in the same period of 2021. This decrease was primarily due to lower capital additions during the first quarter of 2022 compared to the same period of 2021 partially offset by lower proceeds from the sale of properties and other assets.

Free Cash

CP generated positive Free cash of \$424 million in the first quarter of 2022, an increase of \$128 million, or 43%, from \$296 million in the same period of 2021. This increase was primarily due to a decrease in cash used in investing activities and an increase in cash provided by operating activities.

Free cash is affected by seasonal fluctuations and by other factors including the size of the Company's capital programs. Free cash is defined and reconciled in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Financing Activities

Cash used in financing activities was \$391 million in the first quarter of 2022, an increase of \$311 million, or 389%, compared to \$80 million in the same period of 2021. This increase was primarily due to principal repayments of \$125 million of the Company's 5.100% 10-year Medium Term Notes and \$313 million (U.S. \$250 million) of the Company's 4.500% 10-year Notes at maturity in January 2022, principal repayment of \$97 million (U.S. \$76 million) of the Company's 6.99% Finance lease at maturity in March 2022, and higher dividends paid as a result of a higher number of shares outstanding associated with the shares issued to acquire KCS in the fourth quarter of 2021. This increase was partially offset by higher net issuances of commercial paper during the first quarter of 2022, compared to the same period of 2021, and acquisition-related financing fees amounting to \$33 million paid during the first quarter of 2021 related to the KCS acquisition.

Credit Measures

Credit ratings provide information relating to the Company's operations and liquidity, and affect the Company's ability to obtain short-term and long-term financing and/or the cost of such financing.

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

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

As at March 31, 2022, CP's credit ratings from Standard & Poor's Rating Services ("Standard & Poor's") and Moody's Investor Service ("Moody's") remain unchanged from December 31, 2021.

Credit ratings as at March 31, 2022⁽¹⁾

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

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

Financial Ratios

The Long-term debt to Net income ratio for the twelve months ended March 31, 2022 and March 31, 2021 was 6.9 and 3.7, respectively. This increase was primarily due to a higher debt balance.

The Adjusted net debt to Adjusted earnings before interest, tax, depreciation and amortization ("EBITDA") ratio for the twelve months ended March 31, 2022 and March 31, 2021 was 4.7 and 2.4, respectively. The increase was primarily due to a higher debt balance in connection with the KCS acquisition. The Adjusted net debt to Adjusted EBITDA ratio is a Non-GAAP measure, which is defined and reconciled from the Long-term debt to Net income ratio, the most comparable measure calculated in accordance with GAAP, in Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Over the long term, CP targets an Adjusted net debt to Adjusted EBITDA ratio of 2.0 to 2.5.

The Pro-forma Adjusted Net Debt to Pro-forma Adjusted EBITDA ratio for the trailing twelve month ended March 31, 2022 was 4.1. This increase from the Adjusted net debt to Adjusted EBITDA ratio in the same period of 2021 was primarily due to a higher debt balance in connection with the KCS acquisition. Beginning in the first quarter of 2022, CP added disclosure of Pro-forma Adjusted Net Debt to Pro-forma Adjusted EBITDA Ratio to better align with CP's debt covenant calculation, which takes into account the trailing twelve month adjusted EBITDA of KCS as well as KCS's outstanding debt. Please see Non-GAAP Measures of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion.

Although CP has provided a target Non-GAAP measure (Adjusted Net Debt to Adjusted EBITDA ratio), management is unable to reconcile, without unreasonable efforts, the target Adjusted Net Debt to Adjusted EBITDA ratio to the most comparable GAAP measure (Long-term debt to Net income ratio), due to unknown variables and uncertainty related to future results. These unknown variables may include unpredictable transactions of significant value. In recent years, CP has recognized acquisition-related costs, the merger termination payment received, changes in the outside basis tax difference between the carrying amount of CP's equity investment in KCS and its tax basis of the investment, changes in income tax rates, and a change to an uncertain tax item. Acquisition-related costs include legal, consulting, financing fees, integration planning costs consisting of third-party services and system migration, fair value gain or loss on FX forward contracts and interest rate hedges, FX gain on U.S. dollar-denominated cash on hand from the issuances of long-term debt to fund the KCS acquisition, and transaction and integration costs (net of tax) incurred by KCS which were recognized within the Equity loss of KCS. KCS has also recognized significant transaction costs and FX gains and losses. These or other similar, large unforeseen transactions affect Net income but may be excluded from CP's Adjusted EBITDA. Additionally, the U.S.-to-Canada dollar exchange rate is unpredictable and can have a significant impact on CP's reported results but may be excluded from CP's Adjusted EBITDA. In particular, CP excludes the FX impact of translating the Company's debt and lease liabilities, interest and taxes from Adjusted EBITDA. Please see

Forward-Looking Statements in this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion.

Supplemental Guarantor Financial Information

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

As of the date of the filing of the Form 10-Q, CPRC had U.S. \$12,050 million principal amount of debt securities outstanding due through 2115, and U.S. \$30 million and GBP £3 million in perpetual 4% consolidated debenture stock, for all of which CPRL is the guarantor subject to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended. As of the same date, CPRC also had \$3,300 million principal amount of debt securities issued under Canadian securities law due through 2050 for which CPRL is the guarantor and not subject to the Exchange Act.

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

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

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

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

Summarized Financial Information

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

Statements of Income

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPRL (Parent Guarantor)	
	For the three months ended March 31, 2022	For the year ended December 31, 2021
Total revenues	\$ 1,297	\$ 5,924
Total operating expenses	964	3,712
Operating income ⁽¹⁾	333	2,212
Less: Other ⁽²⁾	53	(522)
Income before income tax expense	280	2,734
Net income	\$ 193	\$ 2,548

⁽¹⁾ Includes net lease costs incurred from non-guarantor subsidiaries for the three months ended March 31, 2022 and for the year ended December 31, 2021 of \$108 million and \$431 million, respectively.

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

Balance Sheets

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPRL (Parent Guarantor)	
	As at March 31, 2022	As at December 31, 2021
Assets		
Current assets	\$ 1,029	\$ 963
Properties	11,346	11,342
Other non-current assets	2,671	2,536
Liabilities		
Current liabilities	\$ 2,865	\$ 2,789
Long-term debt	17,914	18,574
Other non-current liabilities	3,055	3,008

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

Cash Transactions with Non-Guarantor Subsidiaries

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPRL (Parent Guarantor)	
	For the three months ended March 31, 2022	For the year ended December 31, 2021
Dividend income from non-guarantor subsidiaries	\$ 37	\$ 297
Capital contributions to non-guarantor subsidiaries	—	(134)
Redemption of shares by non-guarantor subsidiaries	115	1,370

Balances with Non-Guarantor Subsidiaries

(in millions of Canadian dollars)	CPRC (Subsidiary Issuer) and CPRL (Parent Guarantor)	
	As at March 31, 2022	As at December 31, 2021
Assets		
Accounts receivable, intercompany	\$ 231	\$ 344
Short-term advances to affiliates	2,585	2,859
Long-term advances to affiliates	7,365	7,616
Liabilities		
Accounts payable, intercompany	\$ 192	\$ 212
Short-term advances from affiliates	2,604	2,777
Long-term advances from affiliates	81	82

Share Capital

At April 26, 2022, the latest practicable date, there were 929,873,437 Common Shares and no preferred shares issued and outstanding, which consists of 15,294 holders of record of the Common Shares. In addition, CP has a Management Stock Option Incentive Plan ("MSOIP"), under which key officers and employees are granted options to purchase the Common Shares. Options issued prior to the share split described in the Executive Summary now each provide rights over five shares. For consistency, all number of options presented herein are shown on the basis of the number of shares subject to the options. At April 26, 2022, 7,979,317 options were outstanding under the MSOIP and stand-alone option agreements entered into with Mr. Keith Creel. There are 2,507,632 options available to be issued by the Company's MSOIP in the future. CP 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.

On April 27, 2022, at the Annual and Special Meeting, the Company's shareholders approved an amendment to the MSOIP to increase the maximum number of shares available for issuance under the MSOIP, effective at and after April 27, 2022, by 20,000,000 Common Shares.

Non-GAAP Measures

The Company presents Non-GAAP measures to provide a basis for evaluating underlying earnings and liquidity trends in the Company's business that can be compared with the results of operations in prior periods. In addition, these Non-GAAP measures facilitate a multi-period assessment of long-term profitability, allowing management and other external users of the Company's consolidated financial information to compare profitability on a long-term basis, including assessing future profitability, with that of the Company's peers.

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

Non-GAAP Performance Measures

The Company uses adjusted earnings results including Adjusted income, Adjusted diluted earnings per share, Adjusted operating income and Adjusted operating ratio to evaluate the Company's operating performance and for planning and forecasting future business operations and future profitability. Core adjusted income and Core adjusted diluted earnings per share are presented to provide financial statement users with additional transparency by isolating for the impact of KCS purchase accounting. 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. All assets subject to KCS purchase accounting contribute to income generation and will continue to amortize over their estimated useful lives. These Non-GAAP measures are presented in Financial Highlights and discussed further in other sections of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. These Non-GAAP measures provide meaningful supplemental information regarding operating results because they exclude certain significant items that are not considered indicative of future financial trends either by nature or amount or provide improved comparability to past performance. As a result, these items are excluded for management assessment of operational performance, allocation of resources and preparation of annual budgets. These significant items may include, but are not limited to, restructuring and asset impairment charges, individually significant gains and losses from sales of assets, acquisition-related costs, the merger termination payment received, the foreign exchange ("FX") impact of translating the Company's debt and lease liabilities (including borrowings under the credit facility), discrete tax items, changes in the outside basis tax difference between the carrying amount of CP's equity investment in KCS and its tax basis of this investment, changes in income tax rates, changes to an uncertain tax item, and certain items outside the control of management. Acquisition-related costs include legal, consulting, financing fees, integration planning costs consisting of third-party services and system migration, fair value gain or loss on FX forward contracts and interest rate hedges, FX gain on U.S. dollar-denominated cash on hand from the issuances of long-term debt to fund the KCS acquisition, and transaction and integration costs incurred by KCS which were recognized within Equity earnings of Kansas City Southern in the Company's Interim Consolidated Statements of Income. These items may not be non-recurring. However, excluding these significant items from GAAP results allows for a consistent understanding of the Company's consolidated financial performance when performing a multi-period assessment including assessing the likelihood of future results. Accordingly, these Non-GAAP financial measures may provide insight to investors and other external users of the Company's consolidated financial information.

In the first three months of 2022, there were two significant items included in Net income as follows:

- Deferred tax recovery of \$32 million on changes in the outside basis difference of the equity investment in KCS that favourably impacted Diluted EPS by 3 cents; and
- Acquisition-related costs of \$33 million in connection with the KCS acquisition (\$30 million after current tax recovery of \$3 million), including an expense of \$20 million recognized in Purchased services and other and \$13 million recognized in Equity earnings of KCS that unfavourably impacted Diluted EPS by 3 cents.

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

- In the fourth quarter, a deferred tax recovery of \$33 million on changes in the outside basis difference of the equity investment in KCS that favourably impacted Diluted EPS by 5 cents;
- in the second quarter, merger termination payment received of \$845 million (\$748 million after current taxes) in connection with KCS's termination of the Original Merger Agreement effective May 21, 2021, that favourably impacted Diluted EPS by \$1.11;
- during the course of the year, acquisition-related costs of \$599 million in connection with the KCS acquisition (\$500 million after current tax recovery of \$107 million net of deferred tax expense of \$8 million), including an expense of \$183 million recognized in Purchased services and other, \$169 million recognized in Equity loss of KCS, and \$247 million recognized in Other expense (income), that unfavourably impacted Diluted EPS by 75 cents as follows:
 - in the fourth quarter, acquisition-related costs of \$157 million (\$157 million after current tax recovery of \$13 million net of deferred tax expense of \$13 million), including costs of \$36 million recognized in Purchased services and other, \$169

- million in Equity loss of KCS, and a \$48 million recovery recognized in Other (income) expense, that unfavourably impacted Diluted EPS by 22 cents;
- in the third quarter, acquisition-related costs of \$98 million (\$80 million after current tax recovery of \$61 million net of deferred tax expense of \$43 million), including costs of \$15 million recognized in Purchased services and other and \$83 million recognized in Other expense (income), that unfavourably impacted Diluted EPS by 12 cents;
- in the second quarter, acquisition-related costs of \$308 million (\$236 million after current taxes of \$25 million and deferred taxes of \$47 million), including costs of \$99 million recognized in Purchased services and other and \$209 million recognized in Other expense (income), that unfavourably impacted Diluted EPS by 35 cents; and
- in the first quarter, acquisition-related costs of \$36 million (\$27 million after current taxes of \$8 million and deferred taxes of \$1 million), including costs of \$33 million recognized in Purchased services and other and \$3 million recognized in Other expense (income), that unfavourably impacted Diluted EPS by 4 cents; and
- during the course of the year, a net non-cash gain of \$7 million (\$6 million after deferred tax) due to FX translation of debt and lease liabilities that favourably impacted Diluted EPS by 1 cent as follows:
 - in the fourth quarter, a \$32 million loss (\$28 million after deferred tax) that unfavourably impacted Diluted EPS by 4 cents;
 - in the third quarter, a \$46 million loss (\$40 million after deferred tax) that unfavourably impacted Diluted EPS by 6 cents;
 - in the second quarter, a \$52 million gain (\$45 million after deferred tax) that favourably impacted Diluted EPS by 7 cents; and
 - in the first quarter, a \$33 million gain (\$29 million after deferred tax) that favourably impacted Diluted EPS by 4 cents.

In the nine months ended December 31, 2020, there were two significant items included in Net income as follows:

- In the fourth quarter, a deferred tax recovery of \$29 million due to a change relating to a tax return filing election for the state of North Dakota that favourably impacted Diluted EPS by 5 cents; and
- during the course of the year, a net non-cash gain of \$229 million (\$210 million after deferred tax) due to FX translation of debt and lease liabilities that favourably impacted Diluted EPS by 31 cents as follows:
 - in the fourth quarter, a \$103 million gain (\$90 million after deferred tax) that favourably impacted Diluted EPS by 13 cents;
 - in the third quarter, a \$40 million gain (\$38 million after deferred tax) that favourably impacted Diluted EPS by 6 cents; and
 - in the second quarter, an \$86 million gain (\$82 million after deferred tax) that favourably impacted Diluted EPS by 12 cents.

Reconciliation of GAAP Performance Measures to Non-GAAP Performance Measures

The following tables reconcile the most directly comparable measures presented in accordance with GAAP to the Non-GAAP measures presented in Financial Highlights and discussed further in other sections of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations:

Adjusted income is calculated as Net income reported on a GAAP basis adjusted for significant items. Core adjusted income is calculated as Adjusted income less KCS purchase accounting.

(in millions of Canadian dollars)	For the three months ended March 31	
	2022	2021
Net income as reported	\$ 590	\$ 602
Less significant items (pre-tax):		
Acquisition-related costs	(33)	(36)
Impact of FX translation gain on debt and lease liabilities	—	33
Add:		
Tax effect of adjustments ⁽¹⁾	(3)	(5)
Deferred tax recovery on the outside basis difference of the investment in KCS	(32)	—
Adjusted income	\$ 588	\$ 600
Less: KCS purchase accounting	(40)	—
Core adjusted income	\$ 628	\$ 600

⁽¹⁾ The tax effect of adjustments was calculated as the pre-tax effect of the adjustments multiplied by the applicable tax rate for the above items of 8.69% for the three months ended March 31, 2022, and 223.54% for the three months ended March 31, 2021, respectively. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the significant items.

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

	For the three months ended March 31	
	2022	2021
Diluted earnings per share as reported	\$ 0.63	\$ 0.90
Less significant items (pre-tax):		
Acquisition-related costs	(0.04)	(0.06)
Impact of FX translation gain on debt and lease liabilities	—	0.05
Add:		
Tax effect of adjustments ⁽¹⁾	(0.01)	(0.01)
Deferred tax recovery on the outside basis difference of the investment in KCS	(0.03)	—
Adjusted diluted earnings per share	\$ 0.63	\$ 0.90
Less: KCS purchase accounting	(0.04)	—
Core adjusted diluted earnings per share	\$ 0.67	\$ 0.90

⁽¹⁾ The tax effect of adjustments was calculated as the pre-tax effect of the adjustments multiplied by the applicable tax rate for the above items of 8.69% for the three months ended March 31, 2022, and 223.54% for the three months ended March 31, 2021, respectively. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the significant items.

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

(in millions of Canadian dollars)	For the three months ended March 31	
	2022	2021
Operating income as reported	\$ 535	\$ 780
Less significant item:		
Acquisition-related costs	(20)	(33)
Adjusted operating income	\$ 555	\$ 813

Adjusted operating ratio excludes those significant items that are reported within operating income.

	For the three months ended March 31	
	2022	2021
Operating ratio as reported	70.9 %	60.2 %
Less significant item:		
Acquisition-related costs	1.1 %	1.7 %
Adjusted operating ratio	69.8 %	58.5 %

Adjusted ROIC

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

Highlights and discussed further in Results of Operations of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Calculation of Return on average shareholders' equity

(in millions of Canadian dollars, except for percentages)	For the twelve months ended March 31	
	2022	2021
Net income as reported	\$ 2,840	\$ 2,637
Average shareholders' equity	\$ 20,926	\$ 7,411
Return on average shareholders' equity	13.6 %	35.6 %

Reconciliation of Net income to Adjusted return

(in millions of Canadian dollars)	For the twelve months ended March 31	
	2022	2021
Net income as reported	\$ 2,840	\$ 2,637
Add:		
Net interest expense	490	454
Tax on interest ⁽¹⁾	(117)	(112)
Significant items (pre-tax):		
Acquisition-related costs	596	36
Merger termination fee	(845)	—
Impact of FX translation loss (gain) on debt and lease liabilities	26	(262)
Tax on significant items ⁽²⁾	1	14
Income tax rate changes	—	(29)
Deferred tax recovery on the outside basis difference of the investment in KCS	(65)	—
Adjusted return	\$ 2,926	\$ 2,738

⁽¹⁾ Tax was calculated at the adjusted annualized effective tax rate of 23.75% and 24.55% for the twelve months ended March 31, 2022 and 2021, respectively.

⁽²⁾ Tax was calculated as the pre-tax effect of the adjustments multiplied by the applicable tax rate for the above items of 0.32% and 5.92% for the twelve months ended March 31, 2022 and 2021, respectively. The applicable tax rates reflect the taxable jurisdictions and nature, being on account of capital or income, of the significant items.

Reconciliation of Average shareholders' equity to Adjusted average invested capital

(in millions of Canadian dollars)	For the twelve months ended March 31	
	2022	2021
Average shareholders' equity	\$ 20,926	\$ 7,411
Average long-term debt, including long-term debt maturing within one year	14,701	9,905
	\$ 35,627	\$ 17,316
Less:		
Significant items (pre-tax):		
Acquisition-related costs	(298)	(18)
Merger termination fee	423	—
Tax on significant items ⁽¹⁾	(2)	4
Deferred tax recovery on the outside basis difference of the investment in KCS	32	—
Income tax rate changes	—	15
Adjusted average invested capital	\$ 35,472	\$ 17,315

⁽¹⁾ Tax was calculated at the pre-tax effect of the adjustment multiplied by the applicable tax rate of 1.71% and 26.13% for the twelve months ended March 31, 2022 and 2021, respectively. The applicable tax rate reflects the taxable jurisdiction and nature, being on account of capital or income, of the significant item.

Calculation of Adjusted ROIC

(in millions of Canadian dollars, except for percentages)	For the twelve months ended March 31	
	2022	2021
Adjusted return	\$ 2,926	\$ 2,738
Adjusted average invested capital	\$ 35,472	\$ 17,315
Adjusted ROIC	8.2 %	15.8 %

Free Cash

Free cash is calculated as Cash provided by operating activities, less Cash used in investing activities, adjusted for changes in cash and cash equivalents balances resulting from FX fluctuations and the operating cash flow impacts of acquisition-related costs associated with the KCS transaction. Free cash is a measure that management considers to be a valuable indicator of liquidity. Free cash is useful to investors and other external users of the Company's Consolidated Financial Statements as it assists with the evaluation of the Company's ability to generate cash to satisfy debt obligations and discretionary activities such as dividends, share repurchase programs, and other strategic opportunities. The acquisition-related costs associated with the KCS acquisition are not indicative of operating trends and have been excluded from Free cash. Free cash should be considered in addition to, rather than as a substitute for, Cash provided by operating activities. Free cash is presented in Financial Highlights and discussed further in Liquidity and Capital Resources of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Reconciliation of Cash Provided by Operating Activities to Free Cash

(in millions of Canadian dollars)	For the three months ended March 31	
	2022	2021
Cash provided by operating activities	\$ 613	\$ 582
Cash used in investing activities	(206)	(286)
Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents	—	(3)
Less:		
Acquisition-related costs	(17)	(3)
Free cash	\$ 424	\$ 296

Foreign Exchange Adjusted % Change

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

FX adjusted % changes in revenues are further used in calculating FX adjusted % change in freight revenue per carload and RTM. These items are presented in Operating Revenues of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. FX adjusted % changes in revenues are as follows:

(in millions of Canadian dollars)	For the three months ended March 31				
	Reported 2022	Reported 2021	Variance due to FX	FX Adjusted 2021	FX Adjusted % Change
Freight revenues by line of business					
Grain	\$ 360	\$ 448	\$ —	\$ 448	(20)
Coal	139	163	—	163	(15)
Potash	104	101	—	101	3
Fertilizers and sulphur	78	77	1	78	—
Forest products	86	80	—	80	8
Energy, chemicals and plastics	310	388	—	388	(20)
Metals, minerals and consumer products	181	159	—	159	14
Automotive	91	108	—	108	(16)
Intermodal	447	394	—	394	13
Freight revenues	1,796	1,918	1	1,919	(6)
Non-freight revenues	42	41	—	41	2
Total revenues	\$ 1,838	\$ 1,959	\$ 1	\$ 1,960	(6)

FX adjusted % changes in operating expenses are presented in Operating Expenses of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. FX adjusted % changes in operating expenses are as follows:

(in millions of Canadian dollars)	For the three months ended March 31				
	Reported 2022	Reported 2021	Variance due to FX	FX Adjusted 2021	FX Adjusted % Change
Compensation and benefits	\$ 413	\$ 405	\$ —	\$ 405	2
Fuel	273	206	—	206	33
Materials	62	59	—	59	5
Equipment rents	35	33	—	33	6
Depreciation and amortization	210	202	—	202	4
Purchased services and other	310	274	—	274	13
Total operating expenses	\$ 1,303	\$ 1,179	\$ —	\$ 1,179	11

Adjusted Net Debt to Adjusted EBITDA Ratio and Pro-forma adjusted Net Debt to Pro-forma adjusted EBITDA Ratio

Adjusted net debt to Adjusted earnings before interest, tax, depreciation and amortization ("EBITDA") ratio is calculated as Adjusted net debt divided by Adjusted EBITDA. The Adjusted net debt to Adjusted EBITDA ratio is a key credit measure used to assess the Company's financial capacity. The ratio provides information on the Company's ability to service its debt and other long-term obligations from operations, excluding significant items. The Adjusted net debt to Adjusted EBITDA ratio, which is reconciled below from the Long-term debt to Net income ratio, the most comparable measure calculated in accordance with GAAP, is also presented in Financial Highlights and discussed further in Results of Operations of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Beginning in the first quarter of 2022, CP added disclosure of Pro-forma adjusted net debt to Pro-forma adjusted EBITDA ratio to better align with CP's debt covenant calculation, which incorporates the trailing twelve month adjusted EBITDA of KCS as well as KCS's outstanding debt. CP is incorporating the trailing twelve month adjusted EBITDA of KCS on a pro-forma basis, as CP is not entitled to earnings prior to the acquisition date of December 14, 2021. CP does not control KCS while it is in voting trust during review of our merger application by the STB, though CP is the beneficial owner of KCS's outstanding shares and receives cash dividends from KCS. The adjustment to include the trailing twelve month EBITDA and KCS's outstanding debt provides users of the financial statements with better insight into CP's progress in achieving deleveraging commitments. KCS's disclosed U.S. dollar financial values for the trailing twelve month ended March 31, 2022 were adjusted to Canadian dollars reflecting the FX rate for the appropriate periods presented. We have not presented 2021 Pro-forma adjusted net debt to Pro-forma adjusted EBITDA as CP was not the beneficial owner of KCS's shares as at March 31, 2021.

Calculation of Long-term Debt to Net Income Ratio

(in millions of Canadian dollars, except for ratios)	2022	2021
Long-term debt including long-term debt maturing within one year as at March 31	\$ 19,663	\$ 9,740
Net income for the twelve months ended March 31	2,840	2,637
Long-term debt to Net income ratio	6.9	3.7

Reconciliation of Long-term Debt to Adjusted Net Debt and Pro-forma Adjusted Net Debt

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

(in millions of Canadian dollars) ⁽¹⁾	2022	2021
CP Long-term debt including long-term debt maturing within one year as at March 31	\$ 19,663	\$ 9,740
Add:		
Pension plans deficit ⁽²⁾	263	327
Operating lease liabilities	279	284
Less:		
Cash and cash equivalents	85	360
CP Adjusted net debt as at March 31	\$ 20,120	\$ 9,991
KCS Long-term debt including long-term debt maturing within one year as at March 31	\$ 4,726	N/A
Add:		
KCS operating lease liabilities	79	N/A
Less:		
KCS cash and cash equivalents	131	N/A
KCS Adjusted net debt as at March 31	4,674	N/A
CP Adjusted net debt as at March 31	20,120	N/A
Pro-forma Adjusted net debt as at March 31	\$ 24,794	N/A

⁽¹⁾ KCS's amounts were translated at the March 31, 2022 period end FX rate of \$1.25.

⁽²⁾ Pension plans deficit is the total funded status of the Pension plans in deficit only.

Reconciliation of Net Income to EBIT, Adjusted EBIT and Adjusted EBITDA and Pro-forma Adjusted EBITDA

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

(in millions of Canadian dollars) ⁽¹⁾	For the twelve months ended March 31	
	2022	2021
CP Net income as reported	\$ 2,840	\$ 2,637
Add:		
Net interest expense	490	454
Income tax expense	662	764
EBIT	3,992	3,855
Less significant items (pre-tax):		
Acquisition-related costs	(596)	(36)
Merger termination fee	845	—
Impact of FX translation (loss) gain on debt and lease liabilities	(26)	262
Adjusted EBIT	3,769	3,629
Add:		
Operating lease expense	73	76
Depreciation and amortization	819	789
Less:		
Other components of net periodic benefit recovery	393	352
CP Adjusted EBITDA	\$ 4,268	\$ 4,142
Net income attributable to KCS and subsidiaries	\$ 718	N/A
Add:		
KCS interest expense	195	N/A
KCS income tax expense	287	N/A
KCS EBIT	1,200	N/A
Less significant items (pre-tax):		
KCS merger costs	(302)	N/A
KCS Adjusted EBIT	1,502	N/A
Add:		
KCS total lease cost	40	N/A
KCS depreciation and amortization	464	N/A
KCS Adjusted EBITDA	2,006	N/A
CP Adjusted EBITDA	4,268	N/A
Less:		
Equity earnings of KCS ⁽²⁾	57	N/A
Acquisition-related costs of KCS ⁽³⁾	182	N/A
Pro-forma Adjusted EBITDA	\$ 6,035	N/A

⁽¹⁾ KCS's amounts were translated at the quarterly average FX rate of \$1.27, \$1.26, \$1.26, and \$1.23 for Q1 2022, Q4 2021, Q3 2021 and Q2 2021, respectively.

⁽²⁾ Equity earnings of KCS were part of CP's reported net income and therefore have been deducted in arriving to the Pro-forma Adjusted EBITDA.

⁽³⁾ Acquisition-related costs of KCS have been adjusted in CP's Adjusted EBITDA calculation above, therefore have been deducted in arriving to the Pro-forma Adjusted EBITDA.

Calculation of Adjusted Net Debt to Adjusted EBITDA Ratio and Pro-forma Adjusted Net Debt to Pro-forma Adjusted EBITDA Ratio

(in millions of Canadian dollars, except for ratios)	2022	2021
Adjusted net debt as at March 31	\$ 20,120	\$ 9,991
Adjusted EBITDA for the twelve months ended March 31	4,268	4,142
Adjusted net debt to Adjusted EBITDA ratio	4.7	2.4

(in millions of Canadian dollars, except for ratios)

	2022	2021
Pro-forma adjusted net debt as at March 31	\$ 24,794	N/A
Pro-forma adjusted EBITDA for the twelve months ended March 31	6,035	N/A
Pro-forma adjusted net debt to Pro-forma adjusted EBITDA ratio	4.1	N/A

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 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 supplemented in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company's 2021 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", "plan", "will", "outlook", "should" or similar words suggesting future outcomes. To the extent that CP has provided forecasts or targets using Non-GAAP financial measures, the Company may not be able to provide a reconciliation to a GAAP measure without unreasonable efforts, due to unknown variables and uncertainty related to future results.

This Management's Discussion and Analysis of Financial Condition and Results of Operations and 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.-to-Canadian dollar exchange rate, and the effective tax rate, as well as statements concerning the Company's operations, anticipated financial performance, business prospects and strategies, including statements concerning the anticipation that cash flow from operations and various sources of financing will be sufficient to meet debt repayments and obligations in the foreseeable future and concerning anticipated capital programs, and statements regarding future payments including income taxes.

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: changes 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; the satisfaction by third parties of their obligations to the Company; and the anticipated impacts of the COVID-19 pandemic on the Company's business, operating results, cash flows and/or financial condition. Although the Company believes the expectations, estimates, projections and assumptions reflected in the forward-looking statements presented herein are reasonable as of the date hereof, there can be no assurance that they will prove to be correct. Current conditions, economic and otherwise, render assumptions, although reasonable when made, subject to greater uncertainty.

With respect to the pending KCS business combination, we can provide no assurance when or if the combination will be completed. Completion of the combination is subject to the receipt of final approval from the STB of the CP-KCS control application by December 31, 2023. There can be no assurance of receipt of this final approval by December 31, 2023 or, if received, the successful integration of KCS.

Undue reliance should not be placed on forward-looking statements as actual results may differ materially from those expressed or implied by forward-looking statements. By their nature, forward-looking statements involve numerous inherent risks and uncertainties that could cause actual results to differ materially from the forward-looking statements, including but not limited to the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks associated with agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demand;

changes in commodity prices; uncertainty surrounding timing and volumes of commodities being shipped via CP; inflation; geopolitical instability; changes in laws, regulations and government policies, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; changes in fuel prices; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions and discount rates on the financial position of pension plans and investments; trade restrictions or other changes to international trade arrangements; climate change; various events that could disrupt operations, including severe weather, such as droughts, floods, avalanches and earthquakes, and cybersecurity attacks, as well as security threats and governmental response to them, and technological changes; and the pandemic created by the outbreak of COVID-19 and its variants and resulting effects on economic conditions, the demand environment for logistics requirements and energy prices, restrictions imposed by public health authorities or governments, fiscal and monetary policy responses by governments and financial institutions, and disruptions to global supply chains. The foregoing list of factors is not exhaustive.

There are more specific factors that could cause actual results to differ materially from those described in the forward-looking statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and Quarterly Report on Form 10-Q. These more specific factors are identified and discussed in Item 1A. Risk Factors of CP's 2021 Annual Report on Form 10-K. Other risks are detailed from time to time in reports filed by CP with securities regulators in Canada and the United States.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

Although CP conducts business primarily in Canada, a significant portion of its revenues, expenses, assets, and liabilities including debt are denominated in U.S. dollars. In addition, equity earnings or losses of KCS are denominated in U.S. dollars. The value of the Canadian dollar is affected by a number of domestic and international factors, including, without limitation, economic performance, and Canadian, U.S., and international monetary policies. Consequently, the Company's results are affected by fluctuations in the exchange rate between these currencies. On an annualized basis, a \$0.01 weakening (or strengthening) of the Canadian dollar relative to the U.S. dollar positively (or negatively) impacts Total revenues by approximately \$30 million (December 31, 2021 - approximately \$30 million), negatively (or positively) impacts Operating expenses by approximately \$13 million (December 31, 2021 - approximately \$13 million), and negatively (or positively) impacts Net interest expense by approximately \$3 million (December 31, 2021 - approximately \$3 million).

CP uses U.S. dollar-denominated debt and operating lease liabilities to hedge its net investment in U.S. operations. As at March 31, 2022, the net investment in U.S. operations is greater than the total U.S. dollar-denominated long-term debt and operating lease liabilities. Consequently, FX translation on the Company's unhedged net investment in U.S. operations is recognized in Other comprehensive income. There is no additional impact on earnings in Other income related to the FX translation on the Company's debt and operating lease liabilities. For further information on the net investment hedge, please refer to Financial Statements, Note 19 Financial instruments of CP's 2021 Annual Report on Form 10-K.

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

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

Share Price Impact on Stock-Based Compensation

Based on information available at March 31, 2022, for every \$1.00 change in share price, stock-based compensation expense has a corresponding change of approximately \$1.6 million to \$1.9 million (December 31, 2021 - approximately \$1.5 million to \$2.0 million). This excludes the impact of changes in share price relative to the S&P/TSX 60 Index, S&P 500 Industrials Index, and to Class I railways, which may trigger different performance share unit payouts. Stock-based compensation may also be impacted by non-market performance conditions.

Additional information concerning stock-based compensation is included in Item 1. Financial Statements, Note 16 Stock-based compensation.

Interest Rate Risk

Debt financing forms part of the Company's capital structure. The debt agreements entered into expose CP to increased interest costs on future fixed debt instruments and existing variable rate debt instruments, should market rates increase. As at March 31, 2022, a hypothetical one percentage point change in interest rates on the Company's floating rate debt obligations outstanding is not material. In addition, the present value of the Company's assets and liabilities will also vary with interest rate changes. To manage interest rate exposure, CP may enter into forward rate agreements such as treasury rate locks or bond locks that lock in rates for a future date, thereby protecting against interest rate increases. CP may also enter into swap agreements whereby one party agrees to pay a fixed rate of interest while the other party pays a floating rate. Contingent on the direction of interest rates, the Company may incur higher costs depending on the contracted rate.

The fair value of the Company's fixed rate debt may fluctuate with changes in market interest rates. A hypothetical one percentage point decrease in interest rates as of March 31, 2022 would result in an increase of approximately \$1.9 billion to the fair value of the Company's debt as at March 31, 2022 (December 31, 2021 - approximately \$2.3 billion). Fair values of CP's fixed rate debt are estimated by considering the impact of the hypothetical interest rates on quoted market prices and current borrowing rates, but do not consider other factors that could impact actual results.

Information concerning market risks is supplemented in Item 1. Financial Statements, Note 13 Financial instruments.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of March 31, 2022, an evaluation was carried out under the supervision of and with the participation of CP'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 of March 31, 2022, 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 first quarter of 2022, 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 17 Contingencies.

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

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors from the information provided in Item 1A. Risk Factors of CP's 2021 Annual Report on Form 10-K.

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

Issuer Purchase of Equity Securities

CP established a share repurchase program which is further described in Item 1. Financial Statements, Note 14 Shareholders' equity. This program expired on January 28, 2022 and upon expiry of this NCIB, the Company had not purchased any Common Shares under this NCIB.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit	Description
3.1	Restated Certificate and Articles of Incorporation of Canadian Pacific Railway Limited (incorporated by reference to Exhibit 99.2 to Canadian Pacific Railway Limited's Form 6-K filed with the Securities and Exchange Commission on October 22, 2015, File No. 001-01342).
3.2	Articles of Amendment to Restated Certificate and Articles of Incorporation of Canadian Pacific Railway Limited (incorporated by reference to Exhibit 3.1 to Canadian Pacific Railway Limited's Form 8-K filed with the Securities and Exchange Commission on May 5, 2021, File No. 001-01342).
3.3	By-law No. 1, as amended, of Canadian Pacific Railway Limited (incorporated by reference to Exhibit 1 to Canadian Pacific Railway Limited's Form 6-K filed with the Securities and Exchange Commission on May 22, 2009, File No. 001-01342).
3.4	By-law No. 2 of Canadian Pacific Railway Limited (incorporated by reference to Exhibit 99.1 to Canadian Pacific Railway Limited's Form 6-K filed with the Securities and Exchange Commission on March 13, 2015, File No. 001-01342).
3.5	General By-law, as amended, of Canadian Pacific Railway Company, a wholly owned subsidiary of Canadian Pacific Railway Limited (incorporated by reference to Exhibit 2 to Canadian Pacific Railway Limited's Form 6-K filed with the Securities and Exchange Commission on May 22, 2009, File No. 001-01342).
10.1* **	Form of Regular Stock Option Agreement for CEO (2022).
10.2* **	Form of Regular Stock Option Agreement for United States Executive Officers (2022).
10.3* **	Form of Regular Stock Option Agreement for Canadian Executive Officers (2022).
10.4* **	Form of Canadian Pacific Railway Limited Performance Share Units Notice of Grant and Grant Agreement for CEO (2022).
10.5* **	Form of Canadian Pacific Railway Limited Performance Share Units Notice of Grant and Grant Agreement for United States Executive Officers (2022).
10.6* **	Form of Canadian Pacific Railway Limited Performance Share Units Notice of Grant and Grant Agreement for Canadian Executive Officers (2022).
10.7*	First Amending Agreement, dated as of March 14, 2022, among Canadian Pacific Railway Company, as Borrower, Canadian Pacific Railway Limited, as Covenantor, Bank of Montreal, as Administrative Agent, and the various Lenders party thereto.
22.1*	List of Issuers and Guarantor Subsidiaries
31.1*	CEO Rule 13a-14(a) Certifications
31.2*	CFO Rule 13a-14(a) Certifications
32.1*	CEO Section 1350 Certifications
32.2*	CFO Section 1350 Certifications
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
	The following financial information from Canadian Pacific Railway Limited's Quarterly Report on Form 10-Q for the first quarter ended March 31, 2022, formatted in Extensible Business Reporting Language (XBRL) includes: (i) the Interim Consolidated Statements of Income for the first three months ended March 31, 2022 and 2021; (ii) the Interim Consolidated Statements of Comprehensive Income for the first three months ended March 31, 2022 and 2021; (iii) the Interim Consolidated Balance Sheets at March 31, 2022, and December 31, 2021; (iv) the Interim Consolidated Statements of Cash Flows for the first three months ended March 31, 2022 and 2021; (v) the Interim Consolidated Statements of Changes in Shareholders' Equity for the first three months ended March 31, 2022 and 2021; and (vi) the Notes to Interim Consolidated Financial Statements.
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed with this Quarterly Report on Form 10-Q

** Management contract or compensatory arrangement

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CANADIAN PACIFIC RAILWAY LIMITED

(Registrant)

By: /s/ NADEEM VELANI

Nadeem Velani

Executive Vice-President and Chief Financial
Officer
(Principal Financial Officer)

Date: April 27, 2022

STOCK OPTION AGREEMENT

This Stock Option Agreement is entered into between Canadian Pacific Railway Limited (the "Corporation") and the Participant named below (the "Optionholder") pursuant to the Canadian Pacific Railway Limited Management Stock Option Incentive Plan as amended from time to time (the "Plan") and confirms that:

1. on [] (the "Grant Date");
2. the Optionholder;
3. was granted an option (the "Option") to purchase xxx,xxx Common Shares (the "Optioned Shares") of the Corporation, exercisable from time to time as to:
 - (a) []% on and after the [] anniversary of the [Grant Date]; and
 - (b) []% on and after the [] anniversary of the [Grant Date]; and
 - (c) []% on and after the [] anniversary of the [Grant Date]; and
 - (d) the remaining []% on and after the [] anniversary of the [Grant Date];
4. at a price (the "Exercise Price") of \$[] (USD) per Common Share, being the market price of the Common Shares on the Grant Date on the New York Stock Exchange; and
5. for a term expiring at 5:00 p.m., Calgary time, on [] (the "Expiry Date");

on the terms and subject to the conditions set out in the Plan (including without limitation the Early Expiry provisions in Section 4.7 of the Plan) and in this Option Agreement.

Notwithstanding any other provisions in this Option Agreement, all Options granted (vested or unvested) shall be subject to the terms and conditions in the Non-Competition and Non-Solicitation Agreement set out at Schedule A, and the Optionholder agrees to reconfirm the obligations outlined in Schedule A upon request by the Corporation at any time throughout the term of the Optionholder's employment or engagement with the Corporation or upon termination thereof for any reason. Failure to comply with the terms and conditions in the Non-Competition and Non-Solicitation Agreement set out at Schedule A or to provide such confirmation as requested by the Corporation shall result in the immediate cancellation of all Options granted herein (without any further notice, compensation in lieu of notice or damages of any kind), among other remedies available to the Corporation (including the remedies in Section 6 of the Non-Competition and Non-Solicitation Agreement set out at Schedule A).

By electronically "accepting" this agreement, the Optionholder acknowledges that he or she has read and understands the terms of the Plan and this Option Agreement, and voluntarily accepts the Option in accordance with the terms of the Plan and this Option Agreement, including the Non-Competition and Non-Solicitation Agreement set out at Schedule A. The Optionholder also authorizes the Corporation to provide home address information to the Plan Administrator.

IN WITNESS WHEREOF the Corporation and the Optionholder have entered into this Option Agreement as of [].

Canadian Pacific Railway Limited

Vice-President, Human Resources & Chief Culture Officer

President and Chief Executive Officer

SCHEDULE A – NON-COMPETITION AND NON-SOLICITATION AGREEMENT

THIS AGREEMENT made and effective as of the [] day of [].

BETWEEN:

CANADIAN PACIFIC RAILWAY COMPANY,
a corporation organized under the laws of Canada,
(the “**Company**”)

- and -

###PARTICIPANT_NAME###,
(the “**Employee**”)

RECITALS

WHEREAS, the Company has offered the Employee the opportunity to participate in one or more of its long term incentive programs which include the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, and the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as each such plan may be amended from time to time (collectively, the “**LTIPs**”);

AND WHEREAS, during the course of the Employee’s employment, the Employee has access to proprietary and confidential Company information, thereby making the Company uniquely vulnerable to misuse of such information to the detriment of the Company’s business and interests;

AND WHEREAS, any LTIP granting agreement made on or after the effective date of this Agreement and any grant thereunder is subject to the terms of this Agreement, and such terms are required to protect the proprietary interests and value of the Company and the CP Group (as defined below);

AND WHEREAS, the Employee wishes to participate in one or more of the LTIPs and be eligible to receive grants under these LTIPs by accepting this Agreement either by signature below or by electronic acceptance through Solium Capital ULC (“Shareworks”).

WHEREFORE, the parties agree as follows:

1. **Consideration**. In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee’s acceptance of the covenants set out in this Agreement.
 2. **Protected Rights**. The Parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee’s ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator (“Government Agencies”) relating to potential violations of law or regulations; or (ii) the
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Employee's ability to communicate with Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by Government Agencies, including providing documents or other information, without notice to the Company.

3. **Non-Competition/ Non-Solicitation.**

a. In this Agreement:

- i. **"Covenant Period"** means the period of the Employee's employment with the Company and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and
- ii. **"CP Group"** means and includes all parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company, including Canadian Pacific Railway Ltd., Delaware and Hudson Railroad Company, Inc., the Soo Line Railroad Company and the Dakota, Minnesota and Eastern Railroad Corporation, and Central Maine & Quebec Railway, which, during the Employee's employment with the Company, the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

b. **Non-Competition.** During the Covenant Period, the Employee shall not, directly or indirectly, anywhere in Canada or the United States, (i) maintain any interest (proprietary, financial or otherwise) in the business of a Class 1 Railroad or (ii) in any manner, accept employment with, become engaged in the business of, or provide services to, a Class 1 Railroad in any position, role, or area of responsibility similar to or greater than those the Employee held with the Company in his or her last five (5) years of employment with the Company. This restriction shall still permit the Employee to acquire, directly or indirectly, less than 2% of the outstanding capital stock of any publicly traded company in the business of a Class 1 Railroad.

c. **Non-Solicitation of Customers, Suppliers and Licensors.** During the Covenant Period, the Employee shall not, directly or indirectly, solicit any person that:

- i. is a customer, supplier or licensor of the Company or the CP Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;
- ii. was a customer, supplier or licensor of the Company or the CP Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or
- iii. to the knowledge of the Employee by virtue of the Employee's employment, has been pursued as a prospective customer, supplier or licensor by or on behalf of the Company or the CP Group through the submission of a proposal in writing to perform services for that prospective customer, supplier or licensor at any time within twelve (12) months before the cessation of the Employee's employment and regarding whom the Company and the CP Group has not determined to cease pursuing,

for the purposes of: (A) terminating or modifying any actual or prospective relationship the customer or prospective customer has with the Company or the CP Group or for the purposes of selling any services to, or soliciting services from, that customer or prospective customer where those services are substantially similar to or

competitive with the services sold by the Company or the CP Group at the cessation of the Employees' employment, or (B) terminating or modifying any actual or prospective relationship the supplier or licensor or prospective supplier or licensor has with the Company or the CP Group.

- d. Non-Solicitation of Employees and Consultants. During the Covenant Period, the Employee shall not directly or indirectly solicit any employee or consultant of the Company or CP Group to leave their employment or engagement. For this Paragraph 3(d), general newspaper and other media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CP Group.
- e. Notwithstanding Paragraphs 3(a)(i) and 5, the Company agrees that Paragraph 3(b) of this Agreement does not apply at the cessation of the Employee's employment if the Company or the CP Group terminates the Employee's employment as a result of a layoff due to lack of work or elimination of position unrelated to the Employee's performance or conduct.

4. Acknowledgements.

- a. Reasonableness of Covenants. The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CP Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defences to the strict enforcement of those obligations and restrictions.
 - b. Annual Confirmation Process. The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish. However, such confirmation is not necessary to enforce Employee's obligations under this Agreement, which continue in full force and effect regardless of any subsequent failure to confirm.
 - c. Continuing Confidentiality Obligations. The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the Company and following the cessation of the Employee's employment for any reason.
5. Survival. All obligations and restrictions imposed on the Employee under this Agreement shall survive and continue in full force and effect (i) regardless of any changes to the Employee's terms of employment with the Company, including changes to the Employee's duties and location of employment; and (ii) following the cessation of the Employee's employment with the Company for any reason.
6. Relief/Remedies. In the event of a breach of this Agreement, the Company may seek and shall be entitled to the following remedies, which are non-exhaustive and non-exclusive and are in addition to any further remedies available to the Company in contract, law or equity:
- a. Injunction. The Employee agrees that any breach of this Agreement would cause irreparable harm to the Company and the CP Group and this harm may not be compensable entirely with monetary damages. If the Employee breaches this Agreement, the Company and the CP Group shall be entitled to injunctive relief. Any injunctive relief sought by the Company and the CP Group shall be in addition to and not in limitation of any monetary relief or other remedies or rights to which the
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Company and CP Group are or may be entitled at law, in equity, or under this Agreement.

- b. Repayment or Return of Benefit. If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after the effective date of this Agreement (the "**Repayment Period**"), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:
- i. with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and
 - ii. with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.

For further clarity, the obligation set out above in this Paragraph 6(b) regarding the Repayment Period shall not be interpreted to extend the Employee's Covenant Period.

- c. Forfeiture. The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.
 - d. Accounting. The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.
 - e. Legal Costs. The Company shall be awarded its reasonable solicitor and own client expenses, including legal fees and costs, incurred in enforcing this Agreement.
7. Severability. Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.
8. Non-Waiver. The Company's decision to not enforce a breach of any part of this Agreement (or the Company's settlement of any claims for breach) will not prevent the Company from enforcing the Agreement regarding any other breach of this Agreement that the Company discovers, and shall not operate as a waiver against any future enforcement of any part of this Agreement, any other agreement with the Employee or any other agreement with any other employee of the Company.
9. No Breach of Obligations to Others. The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or
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conflicts with the Employee's obligations under this Agreement or the Employee's employment with the Company. The Employee agrees to indemnify the Company and the CP Group in respect of any violation of this representation.

10. **Disclosure**. The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.
11. **Governing Law and Attornment**. This Agreement shall be construed and determined under the laws of Alberta and the laws of Canada applicable in that province. For all legal proceedings, this Agreement will be deemed to have been performed in Alberta and the courts of Alberta will have the exclusive jurisdiction to entertain any action arising under this Agreement. The Employee and the Company each attorns to the jurisdiction of the courts of Alberta, provided that nothing in this Agreement will prevent the Company from proceeding at its election against the Employee in the courts of any other province or country.
12. **Successor and Assigns**. This Agreement binds and inures to the benefit of the Company's successors and assigns.
13. **Amendments**. No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.
14. **Independent Advice**. The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.
15. **Entire Agreement**. This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CP Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered no oral or written promises, inducements, or representations, and the Employee accepts this Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.
16. **Recitals**. The recitals set forth above form part of this Agreement.

The Employee may enter into this Agreement by electronic acceptance via Shareworks, and acknowledges that such electronic signature is intended to authenticate Employee's acceptance and shall have the same force and effect as a manual signature. This Agreement shall be effective and binding upon acceptance by Employee; Employee acknowledges that the Company is not required to execute this Agreement for it to be binding.

Dated: ###ACCEPTANCE_DATE### ###PARTICIPANT_NAME###

STOCK OPTION AGREEMENT**[US Form of Agreement]**

This Stock Option Agreement is entered into between Canadian Pacific Railway Limited (the "Corporation") and the Participant named above (the "Optionholder") pursuant to the Canadian Pacific Railway Limited Management Stock Option Incentive Plan as amended from time to time (the "Plan") [a sub-plan under the Canadian Pacific Railway Limited Section 162(m) Incentive Plan (the "162(m) Plan")], and confirms that:

1. on [] (the "Grant Date");
2. the Optionholder, in such individual's capacity as an officer or employee of the Corporation or any Subsidiary;
3. was granted an option (the "Option") to purchase [] Common Shares (the "Optioned Shares") of the Corporation set out above, exercisable from time to time as to:
 - a. []% on and after the [] anniversary of the [Grant Date]; and
 - b. []% on and after the [] anniversary of the [Grant Date]; and
 - c. []% on and after the [] anniversary of the [Grant Date]; and
 - d. the remaining []% on and after the [] anniversary of the [Grant Date];
4. at a price (the "Exercise Price") of \$[] (USD) per Common Share, being the market price of the Common Shares on the Grant Date on the New York Stock Exchange; and
5. for a term expiring at 5:00 p.m., Calgary time, on [] (the "Expiry Date");

on the terms and subject to the conditions set out in the Plan [and the 162(m) Plan] (including without limitation the Early Expiry provisions in Section 4.7 of the Plan) and in this Option Agreement.

Notwithstanding any other provisions in this Option Agreement, all Options granted (vested or unvested) shall be subject to the terms and conditions in the Non-Competition and Non-Solicitation Agreement in Schedule A (without any further notice, compensation in lieu of notice or damages of any kind) if the Optionholder fails to comply with the terms and conditions set out in Schedule A. In addition, the Optionholder agrees to reconfirm the obligations outlined in Schedule A upon request by the Corporation at any time throughout the term of the Optionholder's engagement with the Corporation or upon termination thereof, and failure to provide such confirmation as requested by the Company shall result in the immediate cancellation of all Options granted herein (without any further notice, compensation in lieu of notice or damages of any kind).

By electronically "accepting" this agreement, the Optionholder acknowledges that he or she has read and understands the terms of the Plan [and the 162(m) Plan] and this Option Agreement, and accepts the Option in accordance with the terms of the Plan [and the 162(m) Plan] and this Option Agreement. The Optionholder also authorizes the Corporation to provide home address information to the Plan Administrator.

IN WITNESS WHEREOF the Corporation and the Optionholder have entered into this Option Agreement as of [].

Canadian Pacific Railway Limited

President and Chief Executive Officer

SCHEDULE A – NON-COMPETITION AND NON-SOLICITATION AGREEMENT

NON-COMPETITION AND NON-SOLICITATION AGREEMENT

THIS AGREEMENT made and effective as of the [] day of [].

BETWEEN:

SOO LINE RAILROAD COMPANY d/b/a CANADIAN PACIFIC,
a corporation organized under the laws of Minnesota,
(the “**Company**”)

- and -

###PARTICIPANT_NAME###,
(the “**Employee**”)

RECITALS

WHEREAS, the Company has offered the Employee the opportunity to participate in one or more of its long term incentive programs which include the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, and the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as each such plan may be amended from time to time (collectively, the “**LTIPs**”);

AND WHEREAS, during the course of the Employee’s employment, the Employee has access to proprietary and confidential Company information, thereby making the Company uniquely vulnerable to misuse of such information to the detriment of the Company’s business and interests;

AND WHEREAS, any LTIP granting agreement made on or after the effective date of this Agreement and any grant thereunder is subject to the terms of this Agreement, and such terms are required to protect the proprietary interests and value of the Company and the CP Group (as defined below);

AND WHEREAS, the Employee wishes to participate in one or more of the LTIPs and be eligible to receive grants under these LTIPs by accepting this Agreement either by signature below or by electronic acceptance through Solium Capital ULC (“Shareworks”).

WHEREFORE, the parties agree as follows:

1. **Consideration**. In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee’s acceptance of the covenants set out in this Agreement.
 2. **Protected Rights**. The Parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee’s ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator (“**Government Agencies**”) relating to potential violations of law or regulations; or (ii) the Employee’s ability to communicate with Government Agencies or otherwise participate in any
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investigation or proceeding that may be conducted by Government Agencies, including providing documents or other information, without notice to the Company.

3. **Non-Competition/ Non-Solicitation.**

a. In this Agreement:

- i. **"Covenant Period"** means the period of the Employee's employment with the Company and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and
- ii. **"CP Group"** means and includes all parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company, including Canadian Pacific Railway Ltd., Canadian Pacific Railway Company, Delaware and Hudson Railroad Company, Inc., the Soo Line Railroad Company, the Dakota, Minnesota and Eastern Railroad Corporation, and Central Maine & Quebec Railway, which, during the Employee's employment with the Company, the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

b. **Non-Competition.** During the Covenant Period, the Employee shall not, directly or indirectly, anywhere in Canada or the United States, (i) maintain any interest (proprietary, financial or otherwise) in the business of a Class 1 Railroad or (ii) in any manner, accept employment with, become engaged in the business of, or provide services to, a Class 1 Railroad in any position, role, or area of responsibility similar to or greater than those the Employee held with the Company in his or her last five (5) years of employment with the Company. This restriction shall still permit the Employee to acquire, directly or indirectly, less than 2% of the outstanding capital stock of any publicly traded company in the business of a Class 1 Railroad.

c. **Non-Solicitation of Customers, Suppliers and Licensors.** During the Covenant Period, the Employee shall not, directly or indirectly, solicit any person that:

- i. is a customer, supplier or licensor of the Company or the CP Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;
- ii. was a customer, supplier or licensor of the Company or the CP Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or
- iii. to the knowledge of the Employee by virtue of the Employee's employment, has been pursued as a prospective customer, supplier or licensor by or on behalf of the Company or the CP Group through the submission of a proposal in writing to perform services for that prospective customer, supplier or licensor at any time within twelve (12) months before the cessation of the Employee's employment and regarding whom the Company and the CP Group has not determined to cease pursuing,

for the purposes of: (A) terminating or modifying any actual or prospective relationship the customer or prospective customer has with the Company or the CP

Group or for the purposes of selling any services to, or soliciting services from, that customer or prospective customer where those services are substantially similar to or competitive with the services sold by the Company or the CP Group at the cessation of the Employees' employment, or (B) terminating or modifying any actual or prospective relationship the supplier or licensor or prospective supplier or licensor has with the Company or the CP Group.

- d. Non-Solicitation of Employees and Consultants. During the Covenant Period, the Employee shall not directly or indirectly solicit any employee or consultant of the Company or CP Group to leave their employment or engagement. For this Paragraph 3(d), general newspaper and other media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CP Group.
- e. Notwithstanding Paragraphs 3(a)(i) and 5, the Company agrees that Paragraph 3(b) of this Agreement does not apply at the cessation of the Employee's employment if the Company or the CP Group terminates the Employee's employment as a result of a layoff due to lack of work or elimination of position unrelated to the Employee's performance or conduct.

4. **Acknowledgements.**

- a. Reasonableness of Covenants, Right to Counsel, and Time for Review. The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CP Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defenses to the strict enforcement of those obligations and restrictions. Employee acknowledges that they are advised to consult with counsel prior to signing this Agreement, and further acknowledges and understands that they have fourteen (14) days to review this Agreement prior to signing.
 - b. Annual Confirmation Process. The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish. However, such confirmation is not necessary to enforce Employee's obligations under this Agreement, which continue in full force and effect regardless of any subsequent failure to confirm.
 - c. Blue Pencil Doctrine. In the event any of the terms of this Agreement are determined by a court of competent jurisdiction to be unreasonable or overbroad under circumstances then existing, the parties hereto authorize and request the court to apply the "blue pencil doctrine" to modify the unreasonable or overly broad term to make it enforceable against Employee. This Agreement shall not be construed against any party regardless of who was more responsible for its preparation.
 - d. Continuing Confidentiality Obligations. The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the Company and following the cessation of the Employee's employment for any reason. Both Employee and Company understand and acknowledge that Employee will not be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that is: (1) made in confidence to a federal, state, or local government official, or to an attorney, solely for the purpose of reporting or investigating a suspected
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violation of the law; or (2) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding.

5. **Survival.** All obligations and restrictions imposed on the Employee under this Agreement shall survive and continue in full force and effect (i) regardless of any changes to the Employee's terms of employment with the Company, including changes to the Employee's duties and location of employment; and (ii) following the cessation of the Employee's employment with the Company for any reason.
 6. **Relief/Remedies.** In the event of a breach of this Agreement, the Company may seek and shall be entitled to the following remedies, which are non-exhaustive and non-exclusive and are in addition to any further remedies available to the Company in contract, law or equity:
 - a. **Injunction.** The Employee agrees that any breach of this Agreement would cause irreparable harm to the Company and the CP Group and this harm may not be compensable entirely with monetary damages. If the Employee breaches this Agreement, the Company and the CP Group shall be entitled to injunctive relief. Any injunctive relief sought by the Company and the CP Group shall be in addition to and not in limitation of any monetary relief or other remedies or rights to which the Company and CP Group are or may be entitled at law, in equity, or under this Agreement.
 - b. **Repayment or Return of Benefit.** If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after the effective date of this Agreement (the "**Repayment Period**"), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:
 - i. with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and
 - ii. with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.

For further clarity, the obligation set out above in this Paragraph 6(b) regarding the Repayment Period shall not be interpreted to extend the Employee's Covenant Period.

 - c. **Forfeiture.** The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.
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- d. Accounting. The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.
 - e. Legal Costs. The Company shall be awarded its reasonable expenses, including attorneys' fees and costs, incurred in enforcing this Agreement.
7. **Severability.** Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.
8. **Non-Waiver.** The Company's decision to not enforce a breach of any part of this Agreement (or the Company's settlement of any claims for breach) will not prevent the Company from enforcing the Agreement regarding any other breach of this Agreement that the Company discovers, and shall not operate as a waiver against any future enforcement of any part of this Agreement, any other agreement with the Employee or any other agreement with any other employee of the Company.
9. **No Breach of Obligations to Others.** The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or conflicts with the Employee's obligations under this Agreement or the Employee's employment with the Company. The Employee agrees to indemnify the Company and the CP Group in respect of any violation of this representation.
10. **Disclosure.** The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.
11. **Governing Law and Forum.** This Agreement shall be construed and determined according to the laws of the State of Minnesota, and any disputes arising out of this Agreement shall be determined in a court of appropriate jurisdiction in the state of Minnesota, and the Employee expressly consents to the exclusive jurisdiction of the state and federal courts in Minnesota for any dispute arising under this Agreement. The employee waives the right to claim any other jurisdiction is more convenient or to challenge the jurisdiction of the courts of Minnesota over the Employee.
12. **Successor and Assigns.** This Agreement binds and inures to the benefit of the Company's successors and assigns.
13. **Amendments.** No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.
14. **Independent Advice.** The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.
15. **At-Will Employment.** Nothing in this Agreement is intended to provide nor shall this Agreement provide the Employee with any contractual rights to employment for any period of time. The Employee acknowledges that his/her employment relationship with the Company is one of at-will employment. This means that either the Employee or the Company may terminate the employment relationship at any time and for any reason, with or without cause
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or notice. The Employee understands he/she is an at-will employee of the Company and that this Agreement does not modify the Employee's at-will status in any manner.

16. **Practice of Law.** As it relates to the practice of law after the Employee's employment with the Company has ceased (for any reason), the restrictions described in this Agreement shall be interpreted consistent with the applicable rules of professional responsibility, including but not limited to rules on confidentiality of information, duties to former clients and restrictions on the right to practice.]
17. **Entire Agreement.** This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CP Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered no oral or written promises, inducements, or representations, and the Employee accepts this Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.
18. **Recitals.** The recitals set forth above form part of this Agreement.

The Employee may enter into this Agreement by electronic acceptance via Shareworks, and acknowledges that such electronic signature is intended to authenticate Employee's acceptance and shall have the same force and effect as a manual signature. This Agreement shall be effective and binding upon acceptance by Employee; Employee acknowledges that the Company is not required to execute this Agreement for it to be binding.

Dated: ###ACCEPTANCE_DATE### ###PARTICIPANT_NAME###

OPTION AGREEMENT

[Canadian Form of Agreement]

This Option Agreement is entered into between Canadian Pacific Railway Limited (the "Corporation") and the Participant named above (the "Optionholder") pursuant to the Canadian Pacific Railway Limited Management Stock Option Incentive Plan as amended from time to time (the "Plan") and confirms that:

1. on ☐ (the "Grant Date");
2. the Optionholder, in such individual's capacity as an officer or employee of the Corporation or any Subsidiary;
3. was granted an option (the "Option") to purchase ☐ (the "Optioned Shares") of the Corporation set out above, exercisable from time to time as to:
 - a. ☐% on and after the ☐ anniversary of the [Grant Date] ("Tranche1"); and
 - b. ☐% on and after the ☐ anniversary of the [Grant Date] ("Tranche2"); and
 - c. ☐% on and after the ☐ anniversary of the [Grant Date] ("Tranche3"); and
 - d. the remaining ☐% on and after the ☐ anniversary of the [Grant Date] ("Tranche4");
4. at a price (the "Exercise Price") of \$ (CDN) per Common Share, being the market price of the Common Shares on the Grant Date on the Toronto Stock Exchange; and
5. for a term expiring at 5:00 p.m., Calgary time, on ☐ (the "Expiry Date");

on the terms and subject to the conditions set out in the Plan (including without limitation the Early Expiry provisions in Section 4.7 of the Plan) and in this Option Agreement.

If noted below, certain of the Optioned Shares which are issuable on the exercise of the Option granted hereunder may be "non-qualified securities" within the meaning of the *Income Tax Act* (Canada):

☐

By electronically "accepting" this agreement, the Optionholder acknowledges that this agreement constitutes notification in writing from [employer entity], the employer of the Optionholder, that the Option for the number of Optioned Shares, as set out above, if any, is in respect of non-qualified securities.

This paragraph is applicable only if, on the Grant Date, the Optionholder was granted, in addition to the Option granted hereunder, another option to purchase Common Shares pursuant to a separate stock option agreement. In such a case, the Corporation hereby designates, pursuant to subsection 110(1.42) of the *Income Tax Act* (Canada), that any stock option agreement with the Optionholder dated as of the Grant Date which is for an Option in respect of non-qualified securities is entered into after the time of any stock option agreement with the Optionholder dated as of the Grant Date which is for an Option in respect of qualified securities.

The Optionholder is encouraged to seek out the advice of his or her financial, tax or legal advisor to understand the tax implications of the Option, including the portion of the Option, if any, that is in respect of non-qualified securities. As a general matter, and although neither the Corporation nor any Subsidiary is providing tax advice to you, the Optionholder should be aware that the 50% tax deduction traditionally associated with the exercise of employee stock options is not available in respect of the portion of the Option that is in respect of non-qualified securities. As a consequence, the Optionholder should consider exercising any options, other than options in respect of non-qualified securities, prior to the exercise of any options for non-qualified securities.

Notwithstanding any other provisions in this Option Agreement, all Options granted (vested or unvested) shall be subject to the terms and conditions in the Non-Competition and Non-Solicitation Agreement in Schedule A (without any further notice, compensation in lieu of notice or damages of any kind) if the Optionholder fails to comply with the terms and conditions set out in Schedule A. In addition, the Optionholder agrees to reconfirm the obligations outlined in Schedule A upon request by the Corporation at any time throughout the term of the Optionholder's engagement with the Corporation or upon termination thereof, and failure to provide such confirmation as requested by the Company shall result in the immediate cancellation of all Options granted herein (without any further notice, compensation in lieu of notice or damages of any kind).

By electronically "accepting" this agreement, the Optionholder acknowledges that he or she has read and understands the terms of the Plan and this Option Agreement, and accepts the Option in accordance with the terms of the Plan and this Option Agreement, including without limitation that the Plan contains provisions which limit the Optionholder's rights to the Optioned Shares following the Date of Termination and that the Optionholder waives any and all right to compensation or damages in consequence of the termination of employment (whether lawfully or unlawfully) or otherwise for any reason whatsoever insofar as those rights arise or may arise from the Optionholder ceasing to have rights or be entitled to receive any Optioned Shares or cash payment under the Plan. The Optionholder also authorizes the Corporation to provide home address information to the Plan Administrator.

IN WITNESS WHEREOF the Corporation and the Optionholder have entered into this Option Agreement as of [].

Canadian Pacific Railway Limited

President and Chief Executive Officer

Schedule A – NON-COMPETITION AND NON-SOLICITATION AGREEMENT

NON-COMPETITION AND NON-SOLICITATION AGREEMENT

THIS AGREEMENT made and effective as of the [] day of [].

BETWEEN:

CANADIAN PACIFIC RAILWAY COMPANY,
a corporation organized under the laws of Canada,
(the "**Company**")

- and -

###PARTICIPANT NAME###,
(the "**Employee**")

RECITALS

WHEREAS, the Company has offered the Employee the opportunity to participate in one or more of its long term incentive programs which include the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, and the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as each such plan may be amended from time to time (collectively, the "**LTIPs**");

AND WHEREAS, during the course of the Employee's employment, the Employee has access to proprietary and confidential Company information, thereby making the Company uniquely vulnerable to misuse of such information to the detriment of the Company's business and interests;

AND WHEREAS, any LTIP granting agreement made on or after the effective date of this Agreement and any grant thereunder is subject to the terms of this Agreement, and such terms are required to protect the proprietary interests and value of the Company and the CP Group (as defined below);

AND WHEREAS, the Employee wishes to participate in one or more of the LTIPs and be eligible to receive grants under these LTIPs by accepting this Agreement either by signature below or by electronic acceptance through Solium Capital ULC ("Shareworks").

WHEREFORE, the parties agree as follows:

1. **Consideration**. In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee's acceptance of the covenants set out in this Agreement.
 2. **Protected Rights**. The Parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee's ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator ("**Government Agencies**") relating to potential violations of law or regulations; or (ii) the Employee's ability to communicate with Government Agencies or otherwise participate in any
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investigation or proceeding that may be conducted by Government Agencies, including providing documents or other information, without notice to the Company.

3. **Non-Competition/ Non-Solicitation.**

a. In this Agreement:

- i. **"Covenant Period"** means the period of the Employee's employment with the Company and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and
- ii. **"CP Group"** means and includes all past and present parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company, including Canadian Pacific Railway Ltd., Delaware and Hudson Railroad Company, Inc., the Soo Line Railroad Company and the Dakota, Minnesota and Eastern Railroad Corporation, and Central Maine & Quebec Railway, which, during the Employee's employment with the Company, the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

b. **Non-Competition.** During the Covenant Period, the Employee shall not, directly or indirectly, anywhere in Canada or the United States, (i) maintain any interest (proprietary, financial or otherwise) in the business of a Class 1 Railroad or (ii) in any manner, accept employment with, become engaged in the business of, or provide services to, a Class 1 Railroad in any position, role, or area of responsibility similar to or greater than those the Employee held with the Company in his or her last five (5) years of employment with the Company. This restriction shall still permit the Employee to acquire, directly or indirectly, less than 2% of the outstanding capital stock of any publicly traded company in the business of a Class 1 Railroad.

c. **Non-Solicitation of Customers, Suppliers and Licensors.** During the Covenant Period, the Employee shall not, directly or indirectly, solicit any person that:

- i. is a customer, supplier or licensor of the Company or the CP Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;
- ii. was a customer, supplier or licensor of the Company or the CP Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or
- iii. to the knowledge of the Employee by virtue of the Employee's employment, has been pursued as a prospective customer, supplier or licensor by or on behalf of the Company or the CP Group through the submission of a proposal in writing to perform services for that prospective customer, supplier or licensor at any time within twelve (12) months before the cessation of the Employee's employment and regarding whom the Company and the CP Group has not determined to cease pursuing,

for the purposes of: (A) terminating or modifying any actual or prospective relationship the customer or prospective customer has with the Company or the CP

Group or for the purposes of selling any services to, or soliciting services from, that customer or prospective customer where those services are substantially similar to or competitive with the services sold by the Company or the CP Group at the cessation of the Employees' employment, or (B) terminating or modifying any actual or prospective relationship the supplier or licensor or prospective supplier or licensor has with the Company or the CP Group.

- d. Non-Solicitation of Employees and Consultants. During the Covenant Period, the Employee shall not directly or indirectly solicit any employee or consultant of the Company or CP Group to leave their employment or engagement. For this Paragraph 3(d), general newspaper and other media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CP Group.
- e. Notwithstanding Paragraphs 3(a)(i) and 5, the Company agrees that Paragraph 3(b) of this Agreement does not apply at the cessation of the Employee's employment if the Company or the CP Group terminates the Employee's employment as a result of a layoff due to lack of work or elimination of position unrelated to the Employee's performance or conduct.

4. **Acknowledgements.**

- a. Reasonableness of Covenants. The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CP Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defences to the strict enforcement of those obligations and restrictions.
 - b. Annual Confirmation Process. The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish. However, such confirmation is not necessary to enforce Employee's obligations under this Agreement, which continue in full force and effect regardless of any subsequent failure to confirm.
 - c. Continuing Confidentiality Obligations. The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the Company and following the cessation of the Employee's employment for any reason.
5. **Survival.** All obligations and restrictions imposed on the Employee under this Agreement shall survive and continue in full force and effect (i) regardless of any changes to the Employee's terms of employment with the Company, including changes to the Employee's duties and location of employment; and (ii) following the cessation of the Employee's employment with the Company for any reason.
6. **Relief/Remedies.** In the event of a breach of this Agreement, the Company may seek and shall be entitled to the following remedies, which are non-exhaustive and non-exclusive and are in addition to any further remedies available to the Company in contract, law or equity:
- a. Injunction. The Employee agrees that any breach of this Agreement would cause irreparable harm to the Company and the CP Group and this harm may not be compensable entirely with monetary damages. If the Employee breaches this
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Agreement, the Company and the CP Group shall be entitled to injunctive relief. Any injunctive relief sought by the Company and the CP Group shall be in addition to and not in limitation of any monetary relief or other remedies or rights to which the Company and CP Group are or may be entitled at law, in equity, or under this Agreement.

- b. Repayment or Return of Benefit. If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after the effective date of this Agreement (the “**Repayment Period**”), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:
- i. with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and
 - ii. with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.

For further clarity, the obligation set out above in this Paragraph 6(b) regarding the Repayment Period shall not be interpreted to extend the Employee's Covenant Period.

- c. Forfeiture. The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.
- d. Accounting. The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.
- e. Legal Costs. The Company shall be awarded its reasonable solicitor and own client expenses, including legal fees and costs, incurred in enforcing this Agreement.
7. Severability. Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.
8. Non-Waiver. The Company's decision to not enforce a breach of any part of this Agreement (or the Company's settlement of any claims for breach) will not prevent the Company from enforcing the Agreement regarding any other breach of this Agreement that the Company discovers, and shall not operate as a waiver against any future enforcement of any part of
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this Agreement, any other agreement with the Employee or any other agreement with any other employee of the Company.

9. **No Breach of Obligations to Others.** The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or conflicts with the Employee's obligations under this Agreement or the Employee's employment with the Company. The Employee agrees to indemnify the Company and the CP Group in respect of any violation of this representation.
10. **Disclosure.** The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.
11. **Governing Law and Attornment.** This Agreement shall be construed and determined under the laws of Alberta and the laws of Canada applicable in that province. For all legal proceedings, this Agreement will be deemed to have been performed in Alberta and the courts of Alberta will have the exclusive jurisdiction to entertain any action arising under this Agreement. The Employee and the Company each attorns to the jurisdiction of the courts of Alberta, provided that nothing in this Agreement will prevent the Company from proceeding at its election against the Employee in the courts of any other province or country.
12. **Successor and Assigns.** This Agreement binds and inures to the benefit of the Company's successors and assigns.
13. **Amendments.** No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.
14. **Independent Advice.** The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.
15. **Practice of Law.** As it relates to the practice of law after the Employee's employment with the Company has ceased (for any reason), the restrictions described in this Agreement shall be interpreted consistent with the applicable rules of professional responsibility, including but not limited to rules on confidentiality of information, duties to former clients and restrictions on the right to practice.]
16. **Entire Agreement.** This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CP Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered no oral or written promises, inducements, or representations, and the Employee accepts this Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.
17. **Recitals.** The recitals set forth above form part of this Agreement.

The Employee may enter into this Agreement by electronic acceptance via Shareworks, and acknowledges that such electronic signature is intended to authenticate Employee's acceptance and shall have the same force and effect as a manual signature. This Agreement shall be effective and binding upon acceptance by Employee; Employee acknowledges that the Company is not required to execute this Agreement for it to be binding.

Dated: ###ACCEPTANCE_DATE### ###PARTICIPANT_NAME###

CANADIAN PACIFIC RAILWAY LIMITED**Performance Share Units
Notice of Grant and Grant Agreement (“Agreement”)****[CEO Form of Agreement]**

Canadian Pacific Railway Limited (the “Corporation”) has granted the target number of [] PSUs^[1] to the employee named above (the “Eligible Employee”), in accordance with this Agreement and the provisions of the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited as amended from time to time (the “Plan”).

Grant Date	[]
PSU Service Year	[]
Below Threshold	[]% of Target
Threshold	[]% of Target
Maximum	[]% of Target
Performance Period	[] – []
Payment in respect of PSUs covered by this Agreement will be based on the extent to which the Performance Criteria set out in Schedule A are satisfied at the end of the Performance Period.	

By signing this Agreement, the Eligible Employee hereby acknowledges and agrees to the following:

1. Grant of PSUs

1.1 Pursuant to the Plan and in respect of services to be provided to the Corporation by the Eligible Employee during the Performance Period, the Corporation has granted the number of PSUs set out in Solium Capital ULC (“Shareworks”) to the Eligible Employee for the Performance Period set out above.

2. Vesting

2.1 Subject to the terms and conditions of the Plan (including without limitation the conditions related to remaining actively Employed and not ceasing employment) and satisfaction of the conditions set out in Schedule A (the “Performance Criteria”), the PSUs granted to the Eligible Employee pursuant to Section 1.1 will become Vested PSUs at the end of the Performance Period in such proportion as may be specified in this Agreement and in Schedule A.

3. Non-Competition and Non-Solicitation Conditions

3.1 Notwithstanding any other provisions in this Agreement, all PSUs awarded (vested or unvested) and payment of any amount in respect of such PSUs shall be subject to the terms and conditions set out in the Non-Competition and Non-Solicitation Agreement set out at Schedule B, and the Eligible Employee agrees to reconfirm the obligations outlined in Schedule B upon request by the Corporation at any time throughout the term of the Eligible Employee’s employment or engagement with the Corporation or upon termination thereof for any reason. Failure to comply with the terms and conditions set out in the Non-Competition and Non-Solicitation Agreement set out at Schedule B shall result in the immediate cancellation of all PSUs granted herein (without any further notice, compensation in lieu of notice or

^[1] Capitalized terms not defined herein shall have the meanings given to those terms in the Plan.

damages of any kind), among other remedies available to the Corporation (including the remedies in Section 6 of the Non-Competition and Non-Solicitation Agreement set out at Schedule B).

4. Settlement

4.1 Subject to the provisions of the Plan and the provisions of this Agreement, the Eligible Employee shall be entitled to an amount equal to the Market Value on the last day of the Performance Period multiplied by the number of PSUs (which may be whole or fractional) that Vest in respect of the Performance Period, less such amount as is required to be withheld on account of taxes and other required deductions in accordance with Section 5.1. For participants paid in United States dollars at the time of the grant of PSUs, the Market Value is based on the average closing price per Share on the New York Stock Exchange over the same period.

4.2 For greater certainty, no cash or other compensation shall be paid or payable to any person in respect of any PSUs that are forfeited by the Eligible Employee or otherwise cease to be payable to the Eligible Employee or his or her estate, on account of damages or otherwise.

5. Withholdings

5.1 The Corporation or a Subsidiary may withhold, or cause to be withheld, from any amount payable to the Eligible Employee, either under the Plan or otherwise, such amount as may be necessary to ensure that the Corporation or the Subsidiary will be able to comply with any federal, provincial, or other law relating to the withholding of tax or other required deductions.

5.2 The CEO has discretion to determine whether the after tax value be delivered in CP common shares purchased on the open market or cash.

6. Personal Information

6.1 The Eligible Employee consents to the holding and processing of personal data provided by the Eligible Employee to the Corporation or any Subsidiary or to any third party service provider for all purposes relating to the operation of the Plan, including (i) administering and maintaining records of the Eligible Employee; (ii) providing information to the Corporation, any Subsidiary, their agents, and any third party administrators of the Plan; (iii) transferring information about the Eligible Employee to a country or territory outside his or her home country that may not provide the same statutory protection for the information as the Eligible Employee's home country.

7. Binding Agreement and Amendment

7.1 This Agreement shall constitute an agreement between the Eligible Employee and the Corporation and will be binding upon the Eligible Employee and the legal representatives of his or her estate and any other person who acquires the Eligible Employee's rights in respect of the PSUs granted hereunder by inheritance or otherwise, provided that in the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. This Agreement shall be governed and constituted in accordance with the laws of the Province of Alberta.

7.2 The Corporation reserves the right to amend or terminate this Grant or the Plan at any time, in which case PSUs that have not previously vested in accordance with Section 2 of this Agreement will not vest unless otherwise determined by the Committee.

By electronically "accepting" this agreement, the Eligible Employee acknowledges that he or she has read and understands the terms of the Plan and this Agreement, and voluntarily accepts the grant of PSUs in accordance with the terms of the Plan and this Agreement, including the Non-Competition and Non-Solicitation Agreement set out at Schedule B.

IN WITNESS WHEREOF the Corporation and the eligible employee have entered into this Agreement as of [].

Canadian Pacific Railway Limited

President and Chief Executive Officer

Vice-President, Human Resources & Chief Culture Officer

Signature of Witness

SCHEDULE A – PERFORMANCE MEASURES

SCHEDULE B – NON-COMPETITION AND NON-SOLICITATION AGREEMENT

THIS AGREEMENT made and effective as of the []st day of [].

BETWEEN:

CANADIAN PACIFIC RAILWAY COMPANY,
a corporation organized under the laws of Canada,
(the “**Company**”)

- and -

###PARTICIPANT_NAME###,
(the “**Employee**”)

RECITALS

WHEREAS, the Company has offered the Employee the opportunity to participate in one or more of its long term incentive programs which include the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, and the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as each such plan may be amended from time to time (collectively, the “**LTIPs**”);

AND WHEREAS, during the course of the Employee’s employment, the Employee has access to proprietary and confidential Company information, thereby making the Company uniquely vulnerable to misuse of such information to the detriment of the Company’s business and interests;

AND WHEREAS, any LTIP granting agreement made on or after the effective date of this Agreement and any grant thereunder is subject to the terms of this Agreement, and such terms are required to protect the proprietary interests and value of the Company and the CP Group (as defined below);

AND WHEREAS, the Employee wishes to participate in one or more of the LTIPs and be eligible to receive grants under these LTIPs by accepting this Agreement either by signature below or by electronic acceptance through Solium Capital ULC (“Shareworks”).

WHEREFORE, the parties agree as follows:

1. **Consideration.** In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee’s acceptance of the covenants set out in this Agreement.
 2. **Protected Rights.** The Parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee’s ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator (“**Government Agencies**”) relating to potential violations of law or regulations; or (ii) the Employee’s ability to communicate with Government Agencies or otherwise participate in any
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investigation or proceeding that may be conducted by Government Agencies, including providing documents or other information, without notice to the Company.

3. **Non-Competition/ Non-Solicitation.**

a. In this Agreement:

- i. **"Covenant Period"** means the period of the Employee's employment with the Company and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and
- ii. **"CP Group"** means and includes all parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company, including Canadian Pacific Railway Ltd., Delaware and Hudson Railroad Company, Inc., the Soo Line Railroad Company, the Dakota, Minnesota and Eastern Railroad Corporation, and Central Maine & Quebec Railway, which, during the Employee's employment with the Company, the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

b. **Non-Competition.** During the Covenant Period, the Employee shall not, directly or indirectly, anywhere in Canada or the United States, (i) maintain any interest (proprietary, financial or otherwise) in the business of a Class 1 Railroad or (ii) in any manner, accept employment with, become engaged in the business of, or provide services to, a Class 1 Railroad in any position, role, or area of responsibility similar to or greater than those the Employee held with the Company in his or her last five (5) years of employment with the Company. This restriction shall still permit the Employee to acquire, directly or indirectly, less than 2% of the outstanding capital stock of any publicly traded company in the business of a Class 1 Railroad.

c. **Non-Solicitation of Customers, Suppliers and Licensors.** During the Covenant Period, the Employee shall not, directly or indirectly, solicit any person that:

- i. is a customer, supplier or licensor of the Company or the CP Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;
- ii. was a customer, supplier or licensor of the Company or the CP Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or
- iii. to the knowledge of the Employee by virtue of the Employee's employment, has been pursued as a prospective customer, supplier or licensor by or on behalf of the Company or the CP Group through the submission of a proposal in writing to perform services for that prospective customer, supplier or licensor at any time within twelve (12) months before the cessation of the Employee's employment and regarding whom the Company and the CP Group has not determined to cease pursuing,

for the purposes of: (A) terminating or modifying any actual or prospective relationship the customer or prospective customer has with the Company or the CP Group or for the purposes of selling any services to, or soliciting services from, that

customer or prospective customer where those services are substantially similar to or competitive with the services sold by the Company or the CP Group at the cessation of the Employees' employment, or (B) terminating or modifying any actual or prospective relationship the supplier or licensor or prospective supplier or licensor has with the Company or the CP Group.

- d. **Non-Solicitation of Employees and Consultants.** During the Covenant Period, the Employee shall not directly or indirectly solicit any employee or consultant of the Company or CP Group to leave their employment or engagement. For this Paragraph 3(d), general newspaper and other media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CP Group.
- e. Notwithstanding Paragraphs 3(a)(i) and 5, the Company agrees that Paragraph 3(b) of this Agreement does not apply to the cessation of the Employee's employment if the Company or the CP Group terminates the Employee's employment as a result of a layoff due to lack of work or elimination of position unrelated to the Employee's performance or conduct.

4. **Acknowledgements.**

- a. **Reasonableness of Covenants.** The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CP Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defences to the strict enforcement of those obligations and restrictions.
 - b. **Annual Confirmation Process.** The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish. However, such confirmation is not necessary to enforce Employee's obligations under this Agreement, which continue in full force and effect regardless of any subsequent failure to confirm.
 - c. **Continuing Confidentiality Obligations.** The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the Company and following the cessation of the Employee's employment for any reason.
5. **Survival.** All obligations and restrictions imposed on the Employee under this Agreement shall survive and continue in full force and effect (i) regardless of any changes to the Employee's terms of employment with the Company, including changes to the Employee's duties and location of employment; and (ii) following the cessation of the Employee's employment with the Company for any reason.
6. **Relief/Remedies.** In the event of a breach of this Agreement, the Company may seek and shall be entitled to the following remedies, which are non-exhaustive and non-exclusive and are in addition to any further remedies available to the Company in contract, law or equity:
- a. **Injunction.** The Employee agrees that any breach of this Agreement would cause irreparable harm to the Company and the CP Group and this harm may not be compensable entirely with monetary damages. If the Employee breaches this Agreement, the Company and the CP Group shall be entitled to injunctive relief. Any
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injunctive relief sought by the Company and the CP Group shall be in addition to and not in limitation of any monetary relief or other remedies or rights to which the Company and CP Group are or may be entitled at law, in equity, or under this Agreement.

- b. Repayment or Return of Benefit. If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after the effective date of this Agreement (the "**Repayment Period**"), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:
- i. with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and
 - ii. with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.

For further clarity, the obligation set out above in this Paragraph 6(b) regarding the Repayment Period shall not be interpreted to extend the Employee's Covenant Period.

- c. Forfeiture. The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.
- d. Accounting. The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.
- e. Legal Costs. The Company shall be awarded its reasonable solicitor and own client expenses, including legal fees and costs, incurred in enforcing this Agreement.
7. **Severability.** Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.
8. **Non-Waiver.** The Company's decision to not enforce a breach of any part of this Agreement (or the Company's settlement of any claims for breach) will not prevent the Company from enforcing the Agreement regarding any other breach of this Agreement that the Company discovers, and shall not operate as a waiver against any future enforcement of any part of
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this Agreement, any other agreement with the Employee or any other agreement with any other employee of the Company.

9. **No Breach of Obligations to Others.** The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or conflicts with the Employee's obligations under this Agreement or the Employee's employment with the Company. The Employee agrees to indemnify the Company and the CP Group in respect of any violation of this representation.
10. **Disclosure.** The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.
11. **Governing Law and Attornment.** This Agreement shall be construed and determined under the laws of Alberta and the laws of Canada applicable in that province. For all legal proceedings, this Agreement will be deemed to have been performed in Alberta and the courts of Alberta will have the exclusive jurisdiction to entertain any action arising under this Agreement. The Employee and the Company each attorns to the jurisdiction of the courts of Alberta, provided that nothing in this Agreement will prevent the Company from proceeding at its election against the Employee in the courts of any other province or country.
12. **Successor and Assigns.** This Agreement binds and inures to the benefit of the Company's successors and assigns.
13. **Amendments.** No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.
14. **Independent Advice.** The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.
15. **Entire Agreement.** This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CP Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered no oral or written promises, inducements, or representations, and the Employee accepts this Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.
16. **Recitals.** The recitals set forth above form part of this Agreement.

The Employee may enter into this Agreement by electronic acceptance via Shareworks, and acknowledges that such electronic signature is intended to authenticate Employee's acceptance and shall have the same force and effect as a manual signature. This Agreement shall be effective and binding upon acceptance by Employee; Employee acknowledges that the Company is not required to execute this Agreement for it to be binding.

Dated: ###ACCEPTANCE_DATE### ###PARTICIPANT_NAME###

CANADIAN PACIFIC RAILWAY LIMITED**Performance Share Units
Notice of Grant and Grant Agreement (“Agreement”)****[US Form of Agreement]**

Canadian Pacific Railway Limited (“the Corporation”) has granted the target number of [] PSUs^[1] set out in Shareworks to the employee named above (the “Eligible Employee”), in accordance with this Agreement and the provisions of the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited as amended from time to time (the “Plan”) [a sub-plan under the Canadian Pacific Railway Limited Section 162(m) Incentive Plan (the “162(m) Plan”).]

Grant Date	[]
PSU Service Year	[]
Below Threshold	[]% of Target
Threshold	[]% of Target
Maximum	[]% of Target
Performance Period	[] – []
Payment in respect of PSUs covered by this Agreement will be based on the extent to which the Performance Criteria set out in Schedule A are satisfied at the end of the Performance Period.	

By signing this Agreement, the Eligible Employee hereby acknowledges and agrees to the following:

1. Grant of PSUs

1.1 Pursuant to the Plan and in respect of services to be provided to the Corporation by the Eligible Employee during the Performance Period, the Corporation has granted the number of PSUs set out in Solium Captial ULC (“Shareworks”) to the Eligible Employee for the Performance Period set out above and subject to the terms and conditions set out in this Agreement and the Plan.

1.2 The grant of PSUs and payment of any amount in respect of any such PSUs are subject to the terms and conditions of the Plan and the Schedules appended to this Agreement, all of which are incorporated into and form an integral part of this Agreement.

2. Vesting

2.1 Subject to the terms and conditions of the Plan (including without limitation the conditions related to remaining actively Employed and not ceasing employment), the PSUs granted to the Eligible Employee pursuant to Section 1.1 will become Vested PSUs at the end of the Performance Period in such proportion as may be specified in this Agreement and in Schedule A attached hereto and subject to satisfaction of the conditions set out in Schedule A (the “Performance Criteria”) as provided therein.

2.2 Notwithstanding any other provisions in this Agreement, all PSUs awarded (vested or unvested) shall be subject to the terms and conditions in the Non-Competition and Non-Solicitation Agreement in Schedule B (without any further notice, compensation in lieu of notice or damages of any kind). In addition, the Eligible Employee agrees to reconfirm the obligations outlined in Schedule B upon request

^[1] Capitalized terms not defined herein shall have the meanings given to those terms in the Plan.

by the Corporation at any time throughout the term of the Eligible Employee's employment or upon termination thereof, and failure to provide such confirmation as requested by the Company shall result in the immediate cancellation of all PSUs granted herein (without any further notice, compensation in lieu of notice or damages of any kind).

3. Settlement

3.1 Subject to the provisions of the Plan and the provisions of this Agreement, the Eligible Employee shall be entitled to an amount equal to the Market Value on the last day of the Performance Period multiplied by the number of PSUs (which may be whole or fractional) that Vest in respect of the Performance Period, less such amount as is required to be withheld on account of taxes and other required deductions in accordance with Section 4.1. For participants paid in United States dollars at the time of the grant of PSUs, the Market Value is based on the average closing price per Share on the New York Stock Exchange over the same period.

3.2 For greater certainty, no cash or other compensation shall be paid or payable to any person in respect of any PSUs that are forfeited by the Eligible Employee or otherwise cease to be payable to the Eligible Employee or his or her estate, on account of damages, or otherwise.

4. Withholdings

4.1 the Corporation or a Subsidiary may withhold, or cause to be withheld, from any amount payable to the Eligible Employee, either under the Plan or otherwise, such amount as may be necessary so as to ensure that the Corporation or the Subsidiary will be able to comply with the applicable provisions of any federal, provincial, or other law relating to the withholding of tax or other required deductions.

4.2 The CEO has discretion to determine whether the after tax value be delivered in CP common shares purchased on the open market or cash.

5. Personal Information

5.1 The Eligible Employee consents to the holding and processing of personal data provided by the Eligible Employee to the Corporation or any Subsidiary or to any third party service provider for all purposes relating to the operation of the Plan, including (i) administering and maintaining records of the Eligible Employee; (ii) providing information to the Corporation, any Subsidiary, their agents, and any third party administrators of the Plan; (iii) transferring information about the Eligible Employee to a country or territory outside his or her home country that may not provide the same statutory protection for the information as the Eligible Employee's home country.

6. Binding Agreement and Amendment

6.1 This Agreement shall constitute an agreement between the Eligible Employee and the Corporation and will be binding upon the Eligible Employee and the legal representatives of his or her estate and any other person who acquires the Eligible Employee's rights in respect of the PSUs granted hereunder by inheritance or otherwise, provided that in the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. This Agreement shall be governed and constituted in accordance with the laws of the State of Minnesota.

6.2 The Corporation reserves the right to amend or terminate this Grant or the Plan at any time, in which case PSUs that have not previously vested in accordance with Section 2 of this Agreement will not Vest unless otherwise determined by the Committee.

By electronically "accepting" this agreement I hereby confirm and acknowledge the terms of the grant of PSUs as set out above and confirm and acknowledge that I have received, read and understood the terms of the Plan. I also confirm and acknowledge that I have not been induced to enter into this Grant Agreement by expectation of employment or continued employment with the Corporation or any Subsidiary.

IN WITNESS WHEREOF the Corporation and the eligible employee have entered into this Agreement as of [].

Canadian Pacific Railway Limited

President and Chief Executive Officer

SCHEDULE A – PERFORMANCE MEASURES

SCHEDULE B – NON-COMPETITION AND NON-SOLICITATION AGREEMENT

NON-COMPETITION AND NON-SOLICITATION AGREEMENT

THIS AGREEMENT made and effective as of the [] day of [].

BETWEEN:

SOO LINE RAILROAD COMPANY d/b/a CANADIAN PACIFIC,
a corporation organized under the laws of Minnesota,
(the “**Company**”)

- and -

###PARTICIPANT_NAME###,
(the “**Employee**”)

RECITALS

WHEREAS, the Company has offered the Employee the opportunity to participate in one or more of its long term incentive programs which include the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, and the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as each such plan may be amended from time to time (collectively, the “**LTIPs**”);

AND WHEREAS, during the course of the Employee’s employment, the Employee has access to proprietary and confidential Company information, thereby making the Company uniquely vulnerable to misuse of such information to the detriment of the Company’s business and interests;

AND WHEREAS, any LTIP granting agreement made on or after the effective date of this Agreement and any grant thereunder is subject to the terms of this Agreement, and such terms are required to protect the proprietary interests and value of the Company and the CP Group (as defined below);

AND WHEREAS, the Employee wishes to participate in one or more of the LTIPs and be eligible to receive grants under these LTIPs by accepting this Agreement either by signature below or by electronic acceptance through Solium Capital ULC (“Shareworks”).

WHEREFORE, the parties agree as follows:

1. **Consideration**. In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee’s acceptance of the covenants set out in this Agreement.
 2. **Protected Rights**. The Parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee’s ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator (“**Government Agencies**”) relating to potential violations of law or regulations; or (ii) the Employee’s ability to communicate with Government Agencies or otherwise participate in any
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investigation or proceeding that may be conducted by Government Agencies, including providing documents or other information, without notice to the Company.

3. **Non-Competition/ Non-Solicitation.**

a. In this Agreement:

- i. **"Covenant Period"** means the period of the Employee's employment with the Company and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and
- ii. **"CP Group"** means and includes all parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company, including Canadian Pacific Railway Ltd., Canadian Pacific Railway Company, Delaware and Hudson Railroad Company, Inc., the Soo Line Railroad Company, the Dakota, Minnesota and Eastern Railroad Corporation, and Central Maine & Quebec Railway, which, during the Employee's employment with the Company, the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

b. **Non-Competition.** During the Covenant Period, the Employee shall not, directly or indirectly, anywhere in Canada or the United States, (i) maintain any interest (proprietary, financial or otherwise) in the business of a Class 1 Railroad or (ii) in any manner, accept employment with, become engaged in the business of, or provide services to, a Class 1 Railroad in any position, role, or area of responsibility similar to or greater than those the Employee held with the Company in his or her last five (5) years of employment with the Company. This restriction shall still permit the Employee to acquire, directly or indirectly, less than 2% of the outstanding capital stock of any publicly traded company in the business of a Class 1 Railroad.

c. **Non-Solicitation of Customers, Suppliers and Licensors.** During the Covenant Period, the Employee shall not, directly or indirectly, solicit any person that:

- i. is a customer, supplier or licensor of the Company or the CP Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;
- ii. was a customer, supplier or licensor of the Company or the CP Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or
- iii. to the knowledge of the Employee by virtue of the Employee's employment, has been pursued as a prospective customer, supplier or licensor by or on behalf of the Company or the CP Group through the submission of a proposal in writing to perform services for that prospective customer, supplier or licensor at any time within twelve (12) months before the cessation of the Employee's employment and regarding whom the Company and the CP Group has not determined to cease pursuing,

for the purposes of: (A) terminating or modifying any actual or prospective relationship the customer or prospective customer has with the Company or the CP

Group or for the purposes of selling any services to, or soliciting services from, that customer or prospective customer where those services are substantially similar to or competitive with the services sold by the Company or the CP Group at the cessation of the Employees' employment, or (B) terminating or modifying any actual or prospective relationship the supplier or licensor or prospective supplier or licensor has with the Company or the CP Group.

- d. Non-Solicitation of Employees and Consultants. During the Covenant Period, the Employee shall not directly or indirectly solicit any employee or consultant of the Company or CP Group to leave their employment or engagement. For this Paragraph 3(d), general newspaper and other media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CP Group.
- e. Notwithstanding Paragraphs 3(a)(i) and 5, the Company agrees that Paragraph 3(b) of this Agreement does not apply at the cessation of the Employee's employment if the Company or the CP Group terminates the Employee's employment as a result of a layoff due to lack of work or elimination of position unrelated to the Employee's performance or conduct.

4. **Acknowledgements.**

- a. Reasonableness of Covenants, Right to Counsel, and Time for Review. The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CP Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defenses to the strict enforcement of those obligations and restrictions. Employee acknowledges that they are advised to consult with counsel prior to signing this Agreement, and further acknowledges and understands that they have fourteen (14) days to review this Agreement prior to signing.
 - b. Annual Confirmation Process. The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish. However, such confirmation is not necessary to enforce Employee's obligations under this Agreement, which continue in full force and effect regardless of any subsequent failure to confirm.
 - c. Blue Pencil Doctrine. In the event any of the terms of this Agreement are determined by a court of competent jurisdiction to be unreasonable or overbroad under circumstances then existing, the parties hereto authorize and request the court to apply the "blue pencil doctrine" to modify the unreasonable or overly broad term to make it enforceable against Employee. This Agreement shall not be construed against any party regardless of who was more responsible for its preparation.
 - d. Continuing Confidentiality Obligations. The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the Company and following the cessation of the Employee's employment for any reason. Both Employee and Company understand and acknowledge that Employee will not be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that is: (1) made in confidence to a federal, state, or local government official, or to an attorney, solely for the purpose of reporting or investigating a suspected
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violation of the law; or (2) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding.

5. **Survival.** All obligations and restrictions imposed on the Employee under this Agreement shall survive and continue in full force and effect (i) regardless of any changes to the Employee's terms of employment with the Company, including changes to the Employee's duties and location of employment; and (ii) following the cessation of the Employee's employment with the Company for any reason.
6. **Relief/Remedies.** In the event of a breach of this Agreement, the Company may seek and shall be entitled to the following remedies, which are non-exhaustive and non-exclusive and are in addition to any further remedies available to the Company in contract, law or equity:
 - a. **Injunction.** The Employee agrees that any breach of this Agreement would cause irreparable harm to the Company and the CP Group and this harm may not be compensable entirely with monetary damages. If the Employee breaches this Agreement, the Company and the CP Group shall be entitled to injunctive relief. Any injunctive relief sought by the Company and the CP Group shall be in addition to and not in limitation of any monetary relief or other remedies or rights to which the Company and CP Group are or may be entitled at law, in equity, or under this Agreement.
 - b. **Repayment or Return of Benefit.** If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after the effective date of this Agreement (the "**Repayment Period**"), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:
 - i. with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and
 - ii. with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.

For further clarity, the obligation set out above in this Paragraph 6(b) regarding the Repayment Period shall not be interpreted to extend the Employee's Covenant Period.

- c. **Forfeiture.** The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.
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- d. Accounting. The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.
 - e. Legal Costs. The Company shall be awarded its reasonable expenses, including attorneys' fees and costs, incurred in enforcing this Agreement.
7. **Severability.** Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.
8. **Non-Waiver.** The Company's decision to not enforce a breach of any part of this Agreement (or the Company's settlement of any claims for breach) will not prevent the Company from enforcing the Agreement regarding any other breach of this Agreement that the Company discovers, and shall not operate as a waiver against any future enforcement of any part of this Agreement, any other agreement with the Employee or any other agreement with any other employee of the Company.
9. **No Breach of Obligations to Others.** The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or conflicts with the Employee's obligations under this Agreement or the Employee's employment with the Company. The Employee agrees to indemnify the Company and the CP Group in respect of any violation of this representation.
10. **Disclosure.** The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.
11. **Governing Law and Forum.** This Agreement shall be construed and determined according to the laws of the State of Minnesota, and any disputes arising out of this Agreement shall be determined in a court of appropriate jurisdiction in the state of Minnesota, and the Employee expressly consents to the exclusive jurisdiction of the state and federal courts in Minnesota for any dispute arising under this Agreement. The employee waives the right to claim any other jurisdiction is more convenient or to challenge the jurisdiction of the courts of Minnesota over the Employee.
12. **Successor and Assigns.** This Agreement binds and inures to the benefit of the Company's successors and assigns.
13. **Amendments.** No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.
14. **Independent Advice.** The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.
15. **At-Will Employment.** Nothing in this Agreement is intended to provide nor shall this Agreement provide the Employee with any contractual rights to employment for any period of time. The Employee acknowledges that his/her employment relationship with the Company is one of at-will employment. This means that either the Employee or the Company may terminate the employment relationship at any time and for any reason, with or without cause
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or notice. The Employee understands he/she is an at-will employee of the Company and that this Agreement does not modify the Employee's at-will status in any manner.

16. **Practice of Law.** As it relates to the practice of law after the Employee's employment with the Company has ceased (for any reason), the restrictions described in this Agreement shall be interpreted consistent with the applicable rules of professional responsibility, including but not limited to rules on confidentiality of information, duties to former clients and restrictions on the right to practice.]
17. **Entire Agreement.** This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CP Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered no oral or written promises, inducements, or representations, and the Employee accepts this Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.
18. **Recitals.** The recitals set forth above form part of this Agreement.

The Employee may enter into this Agreement by electronic acceptance via Shareworks, and acknowledges that such electronic signature is intended to authenticate Employee's acceptance and shall have the same force and effect as a manual signature. This Agreement shall be effective and binding upon acceptance by Employee; Employee acknowledges that the Company is not required to execute this Agreement for it to be binding.

Dated: ###ACCEPTANCE_DATE### ###PARTICIPANT_NAME###

CANADIAN PACIFIC RAILWAY LIMITED**Performance Share Units
Notice of Grant and Grant Agreement (“Agreement”)****[Canadian Form of Agreement]**

Canadian Pacific Railway Limited (“the Corporation”) has granted the target number of [] PSUs^[1] to the employee named above (the “Eligible Employee”), in accordance with this Agreement and the provisions of the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited as amended from time to time (the “Plan”).

Grant Date	[]
PSU Service Year	[]
Below Threshold	[]% of Target
Threshold	[]% of Target
Maximum	[] % of Target
Performance Period	[] – []
Payment in respect of PSUs covered by this Agreement will be based on the extent to which the Performance Criteria set out in Schedule A are satisfied at the end of the Performance Period.	

By signing this Agreement, the Eligible Employee hereby acknowledges and agrees to the following:

1. Grant of PSUs

1.1 Pursuant to the Plan and as a bonus for services provided to the Corporation or a Subsidiary by the Eligible Employee the Corporation has granted the number of PSUs set out in Shareworks (the “Target Number of PSUs”) to the Eligible Employee for the Performance Period set out above and subject to the terms and conditions set out in this Agreement and the Plan.

1.2 The grant of PSUs and payment of any amount in respect of any such PSUs are subject to the terms and conditions of the Plan and the Schedules appended to this Agreement, all of which are incorporated into and form an integral part of this Agreement.

2. Vesting

2.1 Subject to the terms and conditions of the Plan (including without limitation the conditions related to remaining actively Employed and not ceasing employment), the PSUs granted to the Eligible Employee pursuant to Section 1.1 will become Vested PSUs at the end of the Performance Period in such proportion as may be specified in this Agreement and in Schedule A attached hereto and subject to satisfaction of the conditions set out in Schedule A (the “Performance Criteria”) as provided therein.

2.2 Notwithstanding any other provisions in this Agreement, all PSUs awarded (vested or unvested) shall be subject to the terms and conditions set out in the Non-Competition and Non-Solicitation Agreement in Schedule B (without any further notice, compensation in lieu of notice or damages of any kind). In addition, the Eligible Employee agrees to reconfirm the obligations outlined in Schedule B upon request by the Corporation at any time throughout the term of the Eligible Employee’s employment or upon

^[1] Capitalized terms not defined herein shall have the meanings given to those terms in the Plan.

termination thereof, and failure to provide such confirmation as requested by the Company shall result in the immediate cancellation of all PSUs granted herein (without any further notice, compensation in lieu of notice or damages of any kind).

3. Settlement

3.1 Subject to the provisions of the Plan and the provisions of this Agreement, the Eligible Employee shall be entitled to an amount equal to the Market Value on the last day of the Performance Period multiplied by the number of PSUs (which may be whole or fractional) that Vest in respect of the Performance Period, less such amount as is required to be withheld on account of taxes and other required deductions in accordance with Section 4.1.

3.2 For greater certainty, no cash or other compensation shall be paid or payable to any person in respect of any PSUs that are forfeited by the Eligible Employee or otherwise cease to be payable to the Eligible Employee or his or her estate, on account of damages, or otherwise, including without limitation in respect of those PSUs that as a result of the termination of the Eligible Employee's employment without cause have not become Vested PSUs as of the Date of Termination of such Eligible Employee.

4. Withholdings

4.1 The Corporation or a Subsidiary may withhold, or cause to be withheld, from any amount payable to the Eligible Employee, either under the Plan or otherwise, such amount as may be necessary so as to ensure that the Corporation or the Subsidiary will be able to comply with the applicable provisions of any federal, provincial, or other law relating to the withholding of tax or other required deductions.

4.2 The CEO has discretion to determine whether the after tax value be delivered in CP common shares purchased on the open market or cash.

5. Personal Information

5.1 The Eligible Employee consents to the holding and processing of personal data provided by the Eligible Employee to the Corporation or any Subsidiary or to any third party service provider for all purposes relating to the operation of the Plan, including (i) administering and maintaining records of the Eligible Employee; (ii) providing information to the Corporation, any Subsidiary, their agents, and any third party administrators of the Plan; (iii) transferring information about the Eligible Employee to a country or territory outside his or her home country that may not provide the same statutory protection for the information as the Eligible Employee's home country.

6. Binding Agreement and Amendment

6.1 This Agreement shall constitute an agreement between the Eligible Employee and the Corporation and will be binding upon the Eligible Employee and the legal representatives of his or her estate and any other person who acquires the Eligible Employee's rights in respect of the PSUs granted hereunder by inheritance or otherwise, provided that in the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan will govern. This Agreement shall be governed and constituted in accordance with the laws of the Province of Alberta.

6.2 The Corporation reserves the right to amend or terminate this Grant or the Plan at any time, in which case PSUs that have not previously vested in accordance with Section 2 of this Agreement will not vest unless otherwise determined by the Committee.

By electronically "accepting" this agreement I hereby confirm and acknowledge the terms of the grant of PSUs as set out above and confirm and acknowledge that I have received, read and understood the terms of the Plan. I also confirm and acknowledge that I have not been induced to enter into this Grant Agreement by expectation of employment or continued employment with the Corporation or any Subsidiary.

IN WITNESS WHEREOF the Corporation and the eligible employee have entered into this Agreement as of [].

Canadian Pacific Railway Limited

President and Chief Executive Officer

SCHEDULE A – PERFORMANCE MEASURES

SCHEDULE B – NON-COMPETITION AND NON-SOLICITATION AGREEMENT

NON-COMPETITION AND NON-SOLICITATION AGREEMENT

THIS AGREEMENT made and effective as of the [] day of [].

BETWEEN:

CANADIAN PACIFIC RAILWAY COMPANY,
a corporation organized under the laws of Canada,
(the “**Company**”)

- and -

###PARTICIPANT_NAME###,
(the “**Employee**”)

RECITALS

WHEREAS, the Company has offered the Employee the opportunity to participate in one or more of its long term incentive programs which include the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, and the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as each such plan may be amended from time to time (collectively, the “**LTIPs**”);

AND WHEREAS, during the course of the Employee’s employment, the Employee has access to proprietary and confidential Company information, thereby making the Company uniquely vulnerable to misuse of such information to the detriment of the Company’s business and interests;

AND WHEREAS, any LTIP granting agreement made on or after the effective date of this Agreement and any grant thereunder is subject to the terms of this Agreement, and such terms are required to protect the proprietary interests and value of the Company and the CP Group (as defined below);

AND WHEREAS, the Employee wishes to participate in one or more of the LTIPs and be eligible to receive grants under these LTIPs by accepting this Agreement either by signature below or by electronic acceptance through Solium Capital ULC (“Shareworks”).

WHEREFORE, the parties agree as follows:

1. **Consideration**. In exchange for accepting this Agreement, the Employee shall be eligible to participate in one or more of the LTIPs, subject to the governing terms of those plans, and acknowledges that this eligibility and any grants thereunder shall constitute good and sufficient consideration for the Employee’s acceptance of the covenants set out in this Agreement.
 2. **Protected Rights**. The Parties acknowledge and agree that nothing contained in this Agreement limits: (i) the Employee’s ability to report or file a charge or complaint with any federal, state, provincial or local governmental agency or commission, including the United States Securities and Exchange Commission or any Canadian securities regulator (“**Government Agencies**”) relating to potential violations of law or regulations; or (ii) the
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Employee's ability to communicate with Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by Government Agencies, including providing documents or other information, without notice to the Company.

3. **Non-Competition/ Non-Solicitation.**

a. In this Agreement:

- i. **"Covenant Period"** means the period of the Employee's employment with the Company and additionally the period of twenty-four (24) months following the cessation of the Employee's employment for any reason; and
- ii. **"CP Group"** means and includes all parent companies, subsidiary companies, and affiliated or related companies or entities of the Company, successors and assigns of the Company, including Canadian Pacific Railway Ltd., Delaware and Hudson Railroad Company, Inc., the Soo Line Railroad Company and the Dakota, Minnesota and Eastern Railroad Corporation, and Central Maine & Quebec Railway, which, during the Employee's employment with the Company, the Employee provides services to, has responsibilities for and/or obtains confidential information from or about.

b. Non-Competition. During the Covenant Period, the Employee shall not, directly or indirectly, anywhere in Canada or the United States, (i) maintain any interest (proprietary, financial or otherwise) in the business of a Class 1 Railroad or (ii) in any manner, accept employment with, become engaged in the business of, or provide services to, a Class 1 Railroad in any position, role, or area of responsibility similar to or greater than those the Employee held with the Company in his or her last five (5) years of employment with the Company. This restriction shall still permit the Employee to acquire, directly or indirectly, less than 2% of the outstanding capital stock of any publicly traded company in the business of a Class 1 Railroad.

c. Non-Solicitation of Customers, Suppliers and Licensors. During the Covenant Period, the Employee shall not, directly or indirectly, solicit any person that:

- i. is a customer, supplier or licensor of the Company or the CP Group at the cessation of the Employee's employment that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment any time within twelve (12) months before the cessation of the Employee's employment;
- ii. was a customer, supplier or licensor of the Company or the CP Group that the Employee dealt with, or had confidential information of, by virtue of the Employee's employment at any time within twelve (12) months before the cessation of the Employee's employment; or
- iii. to the knowledge of the Employee by virtue of the Employee's employment, has been pursued as a prospective customer, supplier or licensor by or on behalf of the Company or the CP Group through the submission of a proposal in writing to perform services for that prospective customer, supplier or licensor at any time within twelve (12) months before the cessation of the Employee's employment and regarding whom the Company and the CP Group has not determined to cease pursuing,

for the purposes of: (A) terminating or modifying any actual or prospective relationship the customer or prospective customer has with the Company or the CP

Group or for the purposes of selling any services to, or soliciting services from, that customer or prospective customer where those services are substantially similar to or competitive with the services sold by the Company or the CP Group at the cessation of the Employees' employment, or (B) terminating or modifying any actual or prospective relationship the supplier or licensor or prospective supplier or licensor has with the Company or the CP Group.

- d. Non-Solicitation of Employees and Consultants. During the Covenant Period, the Employee shall not directly or indirectly solicit any employee or consultant of the Company or CP Group to leave their employment or engagement. For this Paragraph 3(d), general newspaper and other media advertisements shall not be a solicitation of employees or consultants or former employees or former consultants of the Company or the CP Group.
- e. Notwithstanding Paragraphs 3(a)(i) and 5, the Company agrees that Paragraph 3(b) of this Agreement does not apply to the cessation of the Employee's employment if the Company or the CP Group terminates the Employee's employment as a result of a layoff due to lack of work or elimination of position unrelated to the Employee's performance or conduct.

4. **Acknowledgements.**

- a. Reasonableness of Covenants. The Employee agrees that it is fair, reasonable and necessary to protect the proprietary interests and value of the Company and the CP Group that the Employee agrees to the obligations and restrictions in this Agreement. Accordingly, the Employee confirms all obligations and restrictions in this Agreement are reasonable and valid and the Employee waives all defences to the strict enforcement of those obligations and restrictions.
 - b. Annual Confirmation Process. The Employee agrees to confirm the Employee's obligations in this Agreement on an annual basis through the Employee's Shareworks account or any other process that the Company may establish. However, such confirmation is not necessary to enforce Employee's obligations under this Agreement, which continue in full force and effect regardless of any subsequent failure to confirm.
 - c. Continuing Confidentiality Obligations. The Employee acknowledges and agrees to be bound by the confidentiality obligations outlined in the Company's Code of Business Ethics, as may be amended, and any further confidentiality agreements entered into during the Employee's employment with the Company and following the cessation of the Employee's employment for any reason.
5. **Survival.** All obligations and restrictions imposed on the Employee under this Agreement shall survive and continue in full force and effect (i) regardless of any changes to the Employee's terms of employment with the Company, including changes to the Employee's duties and location of employment; and (ii) following the cessation of the Employee's employment with the Company for any reason.
6. **Relief/Remedies.** In the event of a breach of this Agreement, the Company may seek and shall be entitled to the following remedies, which are non-exhaustive and non-exclusive and are in addition to any further remedies available to the Company in contract, law or equity:
- a. Injunction. The Employee agrees that any breach of this Agreement would cause irreparable harm to the Company and the CP Group and this harm may not be compensable entirely with monetary damages. If the Employee breaches this
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Agreement, the Company and the CP Group shall be entitled to injunctive relief. Any injunctive relief sought by the Company and the CP Group shall be in addition to and not in limitation of any monetary relief or other remedies or rights to which the Company and CP Group are or may be entitled at law, in equity, or under this Agreement.

- b. Repayment or Return of Benefit. If the Employee breaches the Agreement within twenty-four (24) months after receiving any payment or benefit under any LTIP grant made on or after the effective date of this Agreement (the “**Repayment Period**”), the Company shall be entitled to repayment or return of such payment or benefit. For clarity:
- i. with respect to the Restricted Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited and the Performance Share Unit Plan for Eligible Employees of Canadian Pacific Railway Limited, as may be amended, the Company may require, at its sole discretion, that the Employee immediately repay any cash settlement or payment received during the Repayment Period pursuant to any LTIP grant subject to this Agreement; and
 - ii. with respect to the Canadian Pacific Railway Limited Amended and Restated Management Stock Option Incentive Plan, as may be amended, the Company may require, at its sole discretion, that the Employee immediately pay the Company an amount equal to the difference between the exercise price of any options and the market value of any corresponding shares which have been purchased during the Repayment Period through the exercise of any vested option granted subject to this Agreement. For the purposes of this paragraph, the term market value shall mean the closing price of the shares on the date that the Employee exercises the vested option.

For further clarity, the obligation set out above in this Paragraph 6(b) regarding the Repayment Period shall not be interpreted to extend the Employee's Covenant Period.

- c. Forfeiture. The Employee agrees that any LTIP grants made which are subject to the terms of this Agreement (whether vested or unvested) shall be forfeited in their entirety and the Employee shall have no further right, entitlement or interest in such grants.
- d. Accounting. The Company shall be entitled to an accounting, and to the repayment of all profits, compensation, commissions, fees, or other remuneration which the Employee or any other person or entity has either directly or indirectly realized on its behalf or on behalf of another and/or may realize, because of, growing out of, or in connection with litigation relating to any breach of this Agreement.
- e. Legal Costs. The Company shall be awarded its reasonable solicitor and own client expenses, including legal fees and costs, incurred in enforcing this Agreement.
7. Severability. Each provision in this Agreement is separate and distinct, and if any provision, whether in whole or in part, is unenforceable, it shall be severed from this Agreement and all other provisions of this Agreement shall continue to apply in full force and effect.
8. Non-Waiver. The Company's decision to not enforce a breach of any part of this Agreement (or the Company's settlement of any claims for breach) will not prevent the Company from enforcing the Agreement regarding any other breach of this Agreement that the Company discovers, and shall not operate as a waiver against any future enforcement of any part of
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this Agreement, any other agreement with the Employee or any other agreement with any other employee of the Company.

9. **No Breach of Obligations to Others.** The Employee represents that the Employee is not bound by or a party to any agreement or obligation with any other party that restrains or conflicts with the Employee's obligations under this Agreement or the Employee's employment with the Company. The Employee agrees to indemnify the Company and the CP Group in respect of any violation of this representation.
10. **Disclosure.** The Employee agrees to disclose his or her commitments under this Agreement to any future employer or potential employer of the Employee, and authorizes the Company, at its election, to make this disclosure.
11. **Governing Law and Attornment.** This Agreement shall be construed and determined under the laws of Alberta and the laws of Canada applicable in that province. For all legal proceedings, this Agreement will be deemed to have been performed in Alberta and the courts of Alberta will have the exclusive jurisdiction to entertain any action arising under this Agreement. The Employee and the Company each attorns to the jurisdiction of the courts of Alberta, provided that nothing in this Agreement will prevent the Company from proceeding at its election against the Employee in the courts of any other province or country.
12. **Successor and Assigns.** This Agreement binds and inures to the benefit of the Company's successors and assigns.
13. **Amendments.** No amendment or modification to this Agreement will be valid or binding unless set out in writing and signed by both the Employee and the Company.
14. **Independent Advice.** The Employee confirms that the Employee has had a reasonable and adequate opportunity to obtain independent advice about this Agreement, the sufficiency of the consideration for this Agreement and the reasonableness of the obligations and restrictions in this Agreement, and that the Employee is accepting this Agreement freely and voluntarily with full understanding of its contents.
15. **Practice of Law.** As it relates to the practice of law after the Employee's employment with the Company has ceased (for any reason), the restrictions described in this Agreement shall be interpreted consistent with the applicable rules of professional responsibility, including but not limited to rules on confidentiality of information, duties to former clients and restrictions on the right to practice.]
16. **Entire Agreement.** This Agreement does not supersede and does not replace or extinguish any other written agreements between Employee and the Company or any member of CP Group regarding its subject matter including but not limited to non-competition, non-solicitation, or confidentiality obligations. Other than stated in this Agreement, the Employee has been offered no oral or written promises, inducements, or representations, and the Employee accepts this Agreement without reliance on any oral or written promises, inducements, or representations other than those set out in this Agreement.
17. **Recitals.** The recitals set forth above form part of this Agreement.

The Employee may enter into this Agreement by electronic acceptance via Shareworks, and acknowledges that such electronic signature is intended to authenticate Employee's acceptance and shall have the same force and effect as a manual signature. This Agreement shall be effective and binding upon acceptance by Employee; Employee acknowledges that the Company is not required to execute this Agreement for it to be binding.

Dated: ###ACCEPTANCE_DATE### ###PARTICIPANT_NAME###

FIRST AMENDING AGREEMENT

THIS AGREEMENT dated as of March 14, 2022.

AMONG:

CANADIAN PACIFIC RAILWAY COMPANY (the "**Borrower**") as Borrower,

and

CANADIAN PACIFIC RAILWAY LIMITED (the "**Covenantor**"), as Covenantor

OF THE FIRST PART

and

BANK OF MONTREAL, a Canadian chartered bank, as administrative agent of the Lenders (hereinafter referred to as the "**Agent**"),

OF THE SECOND PART

and

EACH PERSON NAMED ON THE SIGNATURE PAGES HEREOF in their capacity as a Lender (hereinafter collectively referred to as the "**Lenders**" and individually, a "**Lender**"),

OF THE THIRD PART

WHEREAS the parties hereto entered into the Credit Agreement;

AND WHEREAS the parties hereto have agreed to amend and supplement certain provisions of the Credit Agreement as set out herein;

NOW THEREFORE THIS AGREEMENT WITNESSES that in consideration of the covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby conclusively acknowledged by each of the parties hereto, the parties hereto covenant and agree as follows:

1. INTERPRETATION

1.1 In this Agreement and the recitals hereto, unless something in the subject matter or context is inconsistent therewith:

"**Agreement**" means this first amending agreement, as amended, modified, supplemented or restated from time to time;

"**Amended Credit Agreement**" means the Credit Agreement as amended and supplemented by this Agreement, and as the same may be further amended, modified, supplemented or restated from time to time;

"Credit Agreement" means the credit agreement dated as of September 15, 2021, between the Borrower, the Covenantor, the Agent and the Lenders; and

"Effective Date" means the date on which all of the conditions precedent in Section 4.1 of this Agreement have been satisfied or waived by the Lenders.

1.2 Capitalized terms used herein without express definition shall have the same meanings herein as are ascribed thereto in the Credit Agreement.

1.3 The division of this Agreement into Sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "hereunder" and similar expressions refer to this Agreement and not to any particular Section or other portion hereof and include any agreements supplemental hereto. Unless expressly indicated otherwise, all references to "Section" or "Sections" are intended to refer to a Section or Sections of the Credit Agreement.

2. AMENDMENTS TO CREDIT AGREEMENT

2.1 Effective as of the Effective Date:

(a) the definition of "Business Day" in Section 1.1 of the Credit Agreement is amended by replacing paragraph (b) with the following:

"(b) a SOFR Loan, or any other calculation or determination involving SOFR, is also a U.S. Government Securities Business Day and a day on which banks are not required or authorized to close in New York, New York";

(b) (i) the definition of "Eurodollar Reference Lenders" in Section 1.1 of the Credit Agreement is deleted, (ii) each reference to "or Eurodollar Reference Lender" and "and Eurodollar Reference Lender" in Section 9.12 and 9.13 of the Credit Agreement, as applicable, is deleted, (iii) each reference to ", as the case may be" or ", as the case may be," in Section 9.12 and in Section 9.13 of the Credit Agreement is deleted, (iv) each reference to "or Eurodollar Rate" in Section 9.13 of the Credit Agreement is deleted and (v) the reference to "or, the applicable Eurodollar Rate furnished by each applicable Eurodollar Reference Lender for determining such Eurodollar Rate" at the end of Section 9.13 of the Credit Agreement is deleted;

(c) the definitions of "Eurodollar Rate Advance", "Eurodollar Rate", "Lender Eurodollar Suspension Notice" and "London Business Day" in Section 1.1 of the Credit Agreement are deleted;

(d) the definition of "Interest Period" in Section 1.1 of the Credit Agreement is amended by replacing the reference to "1, 2 or 3 months" in the second paragraph thereof with "1, 3 or 6 months" and by adding the following to the end of such definition:

"No tenor that has been removed from this definition pursuant to Section 3.3 shall be available for specification in any Borrowing Notice or Interest Rate Election.";

(e) the definition of "Maturity Date" in Section 1.1 of the Credit Agreement is amended by replacing the reference therein to "March 15, 2022" with "September 15, 2022";

(f) the following new definitions are added to Section 1.1 of the Credit Agreement in alphabetical order:

""Adjusted Term SOFR" means, for purposes of any calculation, the rate per annum equal to (a) Term SOFR for such calculation plus (b) the Term SOFR Adjustment; provided that, if the Adjusted Term SOFR as so determined shall ever be less than the Floor, then the Adjusted Term SOFR shall be deemed to be the Floor.

"Available Tenor" means, as of any date of determination and with respect to the then-current Benchmark, as applicable, (a) if the then-current Benchmark is a term rate, any tenor for such Benchmark that is or may be used for determining the length of an Interest Period or (b) otherwise, any payment period for interest calculated with reference to such Benchmark, as applicable, pursuant to this Agreement as of such date.

"Benchmark" means, initially, Term SOFR Reference Rate; provided that if a Benchmark Transition Event has occurred with respect to Term SOFR Reference Rate or the then-current Benchmark, then "Benchmark" means the applicable Benchmark Replacement to the extent that such Benchmark Replacement has replaced such prior benchmark rate pursuant to Section 3.3(b).

"Benchmark Replacement" means with respect to any Benchmark Transition Event, for any Available Tenor, the sum of: (a) the alternate benchmark rate that has been selected by the Administrative Agent and the Borrower giving due consideration to (i) any selection or recommendation of a replacement benchmark rate or the mechanism for determining such a rate by the Relevant Governmental Body or (ii) any evolving or then-prevailing market convention for determining a benchmark rate as a replacement to the then-current Benchmark for U.S. Dollar-denominated syndicated credit facilities and (b) the related Benchmark Replacement Adjustment.

If the Benchmark Replacement as determined pursuant to the clause above would be less than the Floor, the Benchmark Replacement will be deemed to be the Floor for the purposes of this Agreement and the other Credit Documents.

"Benchmark Replacement Adjustment" means, with respect to any replacement of the then-current Benchmark with an Unadjusted Benchmark Replacement, the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected by the Administrative Agent and the Borrower giving due consideration to (i) any selection or recommendation of a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of such Benchmark with the applicable Unadjusted Benchmark Replacement by the Relevant Governmental Body and/or (ii) any evolving or then-prevailing market convention for determining a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of such Benchmark with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated syndicated credit facilities at such time.

"Benchmark Replacement Date" means, with respect to any Benchmark, the earliest to occur of the following events with respect to the then-current Benchmark:

- (a) in the case of clause (a) or (b) of the definition of "Benchmark Transition Event," the later of (i) the date of the public statement or publication of information referenced therein and (ii) the date on which the administrator of such Benchmark (or the published component used in the calculation thereof) permanently or indefinitely ceases to provide all Available Tenors of such Benchmark (or such component thereof); or
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- (b) in the case of clause (c) of the definition of "Benchmark Transition Event," the first date on which such Benchmark (or the published component used in the calculation thereof) has been determined and announced by or on behalf of the administrator of such Benchmark (or such component thereof) or the regulatory supervisor for the administrator of such Benchmark (or such component thereof) to be non-representative or non-compliant with or non-aligned with the International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks; provided, that such non-representativeness, non-compliance or non-alignment will be determined by reference to the most recent statement or publication referenced in such clause (c) and even if any Available Tenor of such Benchmark (or such component thereof) continues to be provided on such date.

For the avoidance of doubt, the "Benchmark Replacement Date" will be deemed to have occurred in the case of clause (a) or (b) with respect to any Benchmark upon the occurrence of the applicable event or events set forth therein with respect to all then-current Available Tenors of such Benchmark (or the published component used in the calculation thereof).

"Benchmark Transition Event" means, with respect to any Benchmark, the occurrence of one or more of the following events with respect to such then-current Benchmark:

- (a) a public statement or publication of information by or on behalf of the administrator of such Benchmark (or the published component used in the calculation thereof) announcing that such administrator has ceased or will cease to provide all Available Tenors of such Benchmark (or such component thereof), permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide any Available Tenor of such Benchmark (or such component thereof);
 - (b) a public statement or publication of information by the regulatory supervisor for the administrator of such Benchmark (or the published component used in the calculation thereof), the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, the Term SOFR Administrator, an insolvency official with jurisdiction over the administrator for such Benchmark (or such component), a resolution authority with jurisdiction over the administrator for such Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for such Benchmark (or such component), in each case, which states that the administrator of such Benchmark (or such component) has ceased or will cease to provide all Available Tenors of such Benchmark (or such component thereof) permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide any Available Tenor of such Benchmark (or such component thereof); or
 - (c) a public statement or publication of information by or on behalf of the administrator of such Benchmark (or the published component used in the calculation thereof) or the regulatory supervisor for the administrator of such Benchmark (or the published component used in the calculation thereof) announcing that all Available Tenors of such Benchmark (or such component thereof) are no longer, or as of a specified future date will no longer be, representative or in compliance with or aligned with the International
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Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks.

For the avoidance of doubt, a "Benchmark Transition Event" will be deemed to have occurred with respect to any Benchmark if a public statement or publication of information set forth above has occurred with respect to each then-current Available Tenor of such Benchmark (or the published component used in the calculation thereof).

"Benchmark Unavailability Period" means, with respect to any Benchmark, the period (if any) (x) beginning at the time that a Benchmark Replacement Date has occurred if, at such time, no Benchmark Replacement has replaced the then-current Benchmark for all purposes hereunder and under any Credit Document in accordance with Section 3.3 and (y) ending at the time that a Benchmark Replacement has replaced such then-current Benchmark for all purposes hereunder and under any Credit Document in accordance with Section 3.3.

"Conforming Changes" means, with respect to either the use or administration of Term SOFR or the use, administration, adoption or implementation of any Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of "Base Rate (Canada) Advance," the definition of "Business Day," the definition of "U.S. Government Securities Business Day," the definition of "Interest Period" or any similar or analogous definition (or the addition of a concept of "interest period"), timing and frequency of determining rates and making payments of interest, timing of borrowing requests or prepayment, conversion or continuation notices, the applicability and length of lookback periods, the applicability of Section 3.3 and other technical, administrative or operational matters) that the Administrative Agent decides, acting reasonably, may be appropriate to reflect the adoption and implementation of any such rate or to permit the use and administration thereof by the Administrative Agent in a manner substantially consistent with market practice (or, if the Administrative Agent decides that adoption of any portion of such market practice is not administratively feasible or if the Administrative Agent determines that no market practice for the administration of any such rate exists, in such other manner of administration as the Administrative Agent decides, acting reasonably, is necessary in connection with the administration of this Agreement and the other Credit Documents).

"Federal Reserve Board" means the Board of Governors of the Federal Reserve System of the United States.

"Floor" means a rate of interest equal to 0.00% per annum.

"Relevant Governmental Body" means the Federal Reserve Board or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board or the Federal Reserve Bank of New York, or any successor thereto.

"SOFR" means a rate per annum equal to the secured overnight financing rate as administered by the SOFR Administrator.

"SOFR Administrator" means the Federal Reserve Bank of New York (or a successor administrator of the secured overnight financing rate).

"SOFR Administrator's Website" means the website of the Federal Reserve Bank of New York, currently at <http://www.newyorkfed.org>, or any successor source for the secured overnight financing rate identified as such by the SOFR Administrator from time to time.

"SOFR Loan" means a U.S. Dollar Advance that bears interest at a rate based on Adjusted Term SOFR.

"Term SOFR" means, for any Interest Period for a SOFR Loan, the Term SOFR Reference Rate (rounded upward to the nearest fifth decimal place, if necessary) for a tenor comparable to the applicable Interest Period on the day (the **"Term SOFR Determination Day"**) that is two U.S. Government Securities Business Days prior to the first day of such Interest Period, as such rate is published by the Term SOFR Administrator; provided, however, that if as of 5:00 p.m. (New York City time) on any Term SOFR Determination Day the Term SOFR Reference Rate for the applicable tenor has not been published by the Term SOFR Administrator and a Benchmark Replacement Date with respect to the Term SOFR Reference Rate has not occurred, then Term SOFR will be the Term SOFR Reference Rate for such tenor as published by the Term SOFR Administrator on the first preceding U.S. Government Securities Business Day for which such Term SOFR Reference Rate for such tenor was published by the Term SOFR Administrator so long as such first preceding U.S. Government Securities Business Day is not more than three (3) U.S. Government Securities Business Days prior to such Term SOFR Determination Day.

"Term SOFR Adjustment" means, with respect to Term SOFR, 0.10% (10 basis points) for an Interest Period of one-month duration, 0.15% (15 basis points) for an Interest Period of three-month duration, and 0.25% (25 basis points) for an Interest Period of six-month duration.

"Term SOFR Administrator" means CME Group Benchmark Administration Limited (CBA) (or a successor administrator of the Term SOFR Reference Rate selected by the Administrative Agent in its discretion, acting reasonably, in consultation with the Borrower).

"Term SOFR Determination Day" has the meaning assigned to it under the definition of Term SOFR.

"Term SOFR Reference Rate" means the forward-looking term rate based on SOFR.

"Unadjusted Benchmark Replacement" shall mean the applicable Benchmark Replacement excluding the related Benchmark Replacement Adjustment.

"U.S. Government Securities Business Day" means any day except for (a) a Saturday, (b) a Sunday or (c) a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in United States government securities.";

(g) each reference to "Eurodollar Rate Advance" or "Eurodollar Rate Advances" in the Credit Agreement is replaced with "SOFR Loan" or "SOFR Loans", as applicable, and each reference to "Eurodollar Rate" in the Credit Agreement is replaced with "Adjusted Term SOFR";

(h) the following Section is added as Section 1.9:

"1.9. Interest Rates; Benchmark Notification.

The interest rate on U.S. Dollar Advances may be derived from an interest rate benchmark that may be discontinued or is, or may in the future become, the subject of regulatory reform. Upon the occurrence of a Benchmark Transition Event, Section 3.3 provides a mechanism for determining an alternative rate of interest. The Administrative Agent does not warrant or accept any responsibility for, and shall not have any liability with respect to the continuation of, the administration of, submission of, calculation of, performance of or any other matter related to any

interest rate used in this Agreement (including, without limitation, the Base Rate (Canada) Advance, SOFR, the Term SOFR Reference Rate, Adjusted Term SOFR or Term SOFR) or any component definition thereof or rates referred to in the definition thereof, or with respect to any alternative or successor rate thereto, or replacement rate thereof (including any Benchmark Replacement), including without limitation, whether the composition or characteristics of any such alternative, successor or replacement reference rate will be similar to, or produce the same value or economic equivalence of, or have the same value or economic equivalence of as the existing interest rate (or any component thereof) being replaced or have the same volume or liquidity as did any existing interest rate (or any component thereof) prior to its discontinuance or unavailability. The Administrative Agent and its affiliates and/or other related entities may engage in transactions that affect the calculation of any interest rate (or component thereof) used in this Agreement or any alternative, successor or alternative rate (including any Benchmark Replacement) and/or any relevant adjustments thereto, in each case, in a manner adverse to the Borrower. The Administrative Agent may select information sources or services in its reasonable discretion to ascertain any interest rate used in this Agreement, any component thereof, or rates referred to in the definition thereof, in each case pursuant to the terms of this Agreement, and shall have no liability to the Borrower, any Lender or any other person or entity for damages of any kind, including direct or indirect, special, punitive, incidental or consequential damages, costs, losses or expenses (whether in tort, contract or otherwise and whether at law or in equity), for any error or calculation of any such rate (or component thereof) provided by any such information source or service.";

- (i) Section 3.3 is replaced with the following:

"3.3 Market Disruption Respecting SOFR Loans

- (a) If at any time subsequent to the Borrower giving the Borrowing Notice or an Interest Rate Election to the Administrative Agent with regard to any requested SOFR Loan:

- (i) the Administrative Agent (acting reasonably) determines that adequate and fair means do not exist for ascertaining the rate of interest with respect to, or deposits are not available in sufficient amounts in the ordinary course of business at the rate determined hereunder to fund, a requested SOFR Loan during the ensuing Interest Period selected;
- (ii) the Administrative Agent is advised by written notice from the Majority Lenders (each, a "SOFR Suspension Notice"), such notice to be received by the Administrative Agent no later than 12:00 noon (Calgary time) on the third Business Day prior to the date of the requested change or conversion of an Advance, as applicable, that such Lenders have determined (acting reasonably) that Adjusted Term SOFR will not or does not adequately reflect the effective cost of funds to such Lenders of U.S. Dollar deposits in such market for the relevant Interest Period,

then the Administrative Agent shall give notice thereof to the Lenders under the Credit Facility and the Borrower as soon as possible after such determination or receipt of such SOFR Suspension Notice, as applicable, and the Borrower shall, within one (1) Business Day after receipt of such notice and in replacement of the Interest Rate Election previously given by the Borrower, give the Administrative Agent a Interest Rate Election which specifies the conversion of the relevant SOFR Loan on the last day of the applicable Interest Period into any other Accommodation under the Credit Facility which would not be affected by the notice from the Administrative Agent pursuant to this Section 3.3. In the event the Borrower fails to give, if

applicable, a valid replacement Interest Rate Election with respect to the maturing SOFR Loan which were the subject of an Interest Rate Election, such maturing SOFR Loan shall be converted on the last day of the applicable Interest Period into a Base Rate (Canada) Advance under the Credit Facility as if a valid replacement Interest Rate Election had been given to the Administrative Agent by the Borrower pursuant to the provisions hereof.

- (b) **Benchmark Replacement:** Notwithstanding anything to the contrary herein or in any other Credit Document, if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred prior to any setting of the then-current Benchmark, then such Benchmark Replacement will replace such Benchmark for all purposes hereunder and under any Credit Document in respect of any Benchmark setting at or after 5:00 p.m. (New York City time) on the fifth (5th) Business Day after the date notice of such Benchmark Replacement is provided to the Lenders and the Borrower without any amendment to, or further action or consent of any other party to, this Agreement or any other Credit Document so long as the Administrative Agent has not received, by such time, written notice of objection to such Benchmark Replacement from Lenders comprising the Majority Lenders.
 - (c) **Benchmark Replacement Conforming Changes:** In connection with the use, administration, adoption or implementation of a Benchmark Replacement, the Administrative Agent will have the right to make Conforming Changes from time to time in consultation with the Borrower and, notwithstanding anything to the contrary herein or in any other Credit Document, any amendments implementing such Conforming Changes will become effective without any further action or consent of any other party to this Agreement or any other Credit Document.
 - (d) **Notices; Standards for Decisions and Determinations:** The Administrative Agent will promptly notify the Borrower and the Lenders of (i) the implementation of any Benchmark Replacement and (ii) the effectiveness of any Conforming Changes in connection with the use, administration, adoption or implementation of a Benchmark Replacement. The Administrative Agent will promptly notify the Borrower of the removal or reinstatement of any tenor of a Benchmark pursuant to Section 3.3(e). Any determination, decision or election that may be made by the Administrative Agent or, if applicable, any Lender (or group of Lenders) pursuant to this Section 3.3, including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error and may be made in its or their sole discretion and without consent from any other party to this Agreement or any other Credit Document, except, in each case, as expressly required pursuant to this Section 3.3.
 - (e) **Unavailability of Tenor of Benchmark:** Notwithstanding anything to the contrary herein or in any other Credit Document, at any time (including in connection with the implementation of a Benchmark Replacement), (i) if the then-current Benchmark is a term rate (including the Term SOFR Reference Rate) and either (A) any tenor for such Benchmark is not displayed on a screen or other information service that publishes such rate from time to time as selected by the Administrative Agent in its discretion, acting reasonably, or (B) the administrator of such Benchmark or the regulatory supervisor for the administrator of such Benchmark has provided a public statement or publication of information announcing that any tenor for such Benchmark is not or will not be representative or in compliance with or aligned with the International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks, then the
-

Administrative Agent may modify the definition of "Interest Period" (or any similar or analogous definition) for any Benchmark settings at or after such time to remove such unavailable, non-representative, non-compliant or non-aligned tenor and (ii) if a tenor that was removed pursuant to clause (i) above either (A) is subsequently displayed on a screen or information service for a Benchmark (including a Benchmark Replacement) or (B) is not, or is no longer, subject to an announcement that it is not or will not be representative or in compliance with or aligned with the International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks for a Benchmark (including a Benchmark Replacement), then the Administrative Agent may modify the definition of "Interest Period" (or any similar or analogous definition) for all Benchmark settings at or after such time to reinstate such previously removed tenor.

(f) **Benchmark Unavailability Period:** Upon the Borrower's receipt of notice of the commencement of a Benchmark Unavailability Period, the Borrower may revoke any request for a SOFR Loan of, conversion to or continuation of SOFR Loans to be made, converted or continued during any Benchmark Unavailability Period and, failing that, the Borrower will be deemed to have converted any such request into a request for a Borrowing of or conversion to Base Rate (Canada) Advances. During any Benchmark Unavailability Period or at any time that a tenor for the then-current Benchmark is not an Available Tenor, the component of Base Rate (Canada) Advance based upon the then-current Benchmark or such tenor for such Benchmark, as applicable, will not be used in any determination of Base Rate (Canada) Advance.";

(j) the following Section is added as Section 3.6:

"3.6 Conforming

In connection with the use or administration of SOFR or Term SOFR, the Administrative Agent will have the right to make Conforming Changes from time to time in consultation with the Borrower and, notwithstanding anything to the contrary herein or in any other Credit Document, any amendments implementing such Conforming Changes will become effective without any further action or consent of any other party to this Agreement or any other Credit Document. The Administrative Agent will promptly notify the Borrower and the Lenders of the effectiveness of any Conforming Changes in connection with the use or administration of SOFR or Term SOFR, as applicable."; and

(k) the following Section is added as Section 11.1(f):

"(f) Any provision of any of the Credit Documents may be amended by an agreement in writing entered into by the Covenantor, the Borrower and the Administrative Agent to (i) cure any ambiguity, omission, mistake, defect or inconsistency (as determined by the Administrative Agent and the Borrower, each acting reasonably) or (ii) effect administrative changes of a technical or immaterial nature, and such amendment shall be deemed approved by the Lenders if the Lenders shall have received at least five (5) Business Days' prior written notice of such change and the Administrative Agent shall not have received, within five (5) Business Days of the date of such notice to the Lenders, a written notice from the Majority Lenders stating that the Majority Lenders object to such amendment."

3. REPRESENTATIONS AND WARRANTIES

3.1 The Covenantor hereby represents and warrants to and in favour of the Agent and the Lenders that as of the Effective Date:

- (a) there exists no Default or Event of Default; and
- (b) the representations and warranties contained in Section 6.1 of the Credit Agreement (other than any representations and warranties which expressly speak of an earlier date, and with this Agreement being a Credit Document and references to the Credit Agreement being deemed to be references to the Amended Credit Agreement) are true and correct in all material respects.

4. CONDITIONS PRECEDENT TO EFFECTIVENESS

4.1 This Agreement shall be effective on the date each of the following conditions precedent are satisfied (or waived by the Lenders hereunder):

- a. the Borrower shall deliver or cause to be delivered to the Agent an executed copy of this Agreement for each Lender; and
- b. each Lender shall have been paid all fees as have been agreed to with the Borrower in respect of this Agreement.

5. OUTSTANDING LIBOR BASED LOANS.

Notwithstanding the amendments to the Credit Agreement pursuant to this Agreement, any Advances made by way of Eurodollar Rate Advances which are outstanding immediately before giving effect hereto (the "**Continuing Loans**") will remain unchanged until the maturity date thereof and shall be, and are hereby deemed to be, governed by the provisions governing Eurodollar Rate Advances as set forth in the Credit Agreement (for certainty, unamended by this Agreement). From and after the Effective Date, any rollover of any Continuing Loan shall be deemed to be a conversion into a SOFR Loan under the terms of the Amended Credit Agreement.

6. CONFIRMATION OF CREDIT AGREEMENT AND OTHER DOCUMENTS

The Credit Agreement and the other Credit Documents to which the Covenantor and the Borrower are parties and all covenants, terms and provisions thereof, except as expressly amended and supplemented by this Agreement, shall be and continue to be in full force and effect. The Credit Agreement as amended hereby is hereby ratified and confirmed and shall from and after the date hereof continue in full force and effect. This Agreement shall, for all purposes, be considered to be a Credit Document. The execution, delivery and effectiveness of this Agreement shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Lender or the Agent under any of the Credit Documents, nor constitute a waiver of any provision of any of the Credit Documents.

7. FURTHER ASSURANCES

The parties hereto shall from time to time do all such further acts and things and execute and deliver all such documents as are required in order to effect the full intent of and fully perform and carry out the terms of this Agreement.

8. COUNTERPARTS

This Agreement may be executed in one or more counterparts (and by different parties hereto in different counterparts), each of which shall be deemed an original, but all of which together shall

constitute one and the same instrument. Delivery by fax or other electronic transmission of an executed counterpart of a signature page to this Agreement shall be effective as delivery of an original executed counterpart of this Agreement. The words "execution," "execute", "signed," "signature," and words of like import in or related to any document to be signed in connection with this Agreement shall be deemed to include electronic signatures, or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, as in provided Parts 2 and 3 of the *Personal Information Protection and Electronic Documents Act* (Canada), the *Electronic Transactions Act* (Alberta), or any other similar laws based on the Uniform Electronic Commerce Act of the Uniform Law Conference of Canada. The Administrative Agent may, in its discretion, require that any such documents and signatures executed electronically or delivered by fax or other electronic transmission be confirmed by a manually-signed original thereof; provided that the failure to request or deliver the same shall not limit the effectiveness of any document or signature executed electronically or delivered by fax or other electronic transmission.

9. GOVERNING LAW

The parties agree that this Agreement shall be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein, without prejudice to or limitation of any other rights or remedies available under the laws of any jurisdiction where property or assets of the Borrower or the Covenantor may be found.

[signature pages follow]

IN WITNESS WHEREOF the parties hereto have executed this Agreement.

CANADIAN PACIFIC RAILWAY COMPANY, as Borrower

Per: /s/ Nadeem Velani
Name: Nadeem Velani
Title: Executive Vice-President & Chief Financial Officer

CANADIAN PACIFIC RAILWAY LIMITED, as Covenantor

Per: /s/ Nadeem Velani
Name: Nadeem Velani
Title: Executive Vice-President & Chief Financial Officer

THE ADMINISTRATIVE AGENT
BANK OF MONTREAL

Per: /s/ Jeff Cowan
Jeff Cowan, Director

THE LENDERS

BANK OF MONTREAL

Per: /s/ Jeff Cowan
Jeff Cowan, Director

CANADIAN IMPERIAL BANK OF COMMERCE

Per: /s/ Stephen Redding
Stephen Redding
Managing Director

Per: /s/ Danielle Bentley
Danielle Bentley
Director

THE BANK OF NOVA SCOTIA

Per: /s/ Michael Linder
Michael Linder
Director

Per: /s/ Conor Jefferies
Conor Jefferies
Associate Director

WELLS FARGO BANK N.A., CANADIAN BRANCH, as a Lender

Per: /s/ Marc-Philippe Piché
Marc-Philippe Piché
Managing Director

Per: /s/ Sean Buchan
Sean Buchan
Director

Signature page to First Amending Agreement

List of Issuers and Guarantor Subsidiaries

As of the date of the filing of the Form 10-Q of which this exhibit is a part, Canadian Pacific Railway Limited, a corporation incorporated under the laws of Canada (the "Registrant") has guaranteed each of the following securities issued by Canadian Pacific Railway Company, a corporation incorporated under the laws of Canada and a direct, wholly owned subsidiary of the Registrant (the "Issuer") subject to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended:

- The Issuer's 4.450% notes due March 2023;
- The Issuer's 1.350% notes due December 2024;
- The Issuer's 2.900% notes due February 2025;
- The Issuer's 3.700% notes due February 2026;
- The Issuer's 1.750% notes due December 2026;
- The Issuer's 4.000% notes due June 2028;
- The Issuer's 2.050% notes due March 2030;
- The Issuer's 7.125% notes due October 2031;
- The Issuer's 2.450% notes due December 2031;
- The Issuer's 5.750% notes due March 2033;
- The Issuer's 4.800% notes due September 2035;
- The Issuer's 5.950% notes due May 2037;
- The Issuer's 3.000% notes due December 2041;
- The Issuer's 5.750% notes due January 2042;
- The Issuer's 4.800% notes due August 2045;
- The Issuer's 3.100% notes due December 2051;
- The Issuer's 6.125% notes due September 2115;
- The Issuer's Perpetual 4% Consolidated Debenture Stock denominated in U.S. dollars; and
- The Issuer's Perpetual 4% Consolidated Debenture Stock denominated in British Pounds Sterling.

The above list does not include the following guaranteed securities issued under Canadian securities laws, as the following guaranteed securities are not subject to Section 13(a) or 15(d) of the Exchange Act:

- The Issuer's 1.589% notes due November 2023;
- The Issuer's 2.540% notes due February 2028.
- The Issuer's 3.150% notes due March 2029;
- The Issuer's 6.450% notes due November 2039; and
- The Issuer's 3.050% notes due March 2050.

**Certification by the Chief Executive Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
Canadian Pacific Railway Limited**

I, Keith Creel, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Canadian Pacific Railway Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **April 27, 2022**

/s/ KEITH CREEL

Keith Creel

President and Chief Executive Officer

**Certification by the Chief Financial Officer of the Registrants filed pursuant to Rule 13a-14(a) of the Exchange Act.
Canadian Pacific Railway Limited**

I, Nadeem Velani, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Canadian Pacific Railway Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **April 27, 2022**

/s/ NADEEM VELANI

Nadeem Velani

Executive Vice-President and Chief Financial Officer

**Certifications Furnished Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

Canadian Pacific Railway Limited

In connection with the Quarterly Report of Canadian Pacific Railway Limited (the "Company") on Form 10-Q for the period ended March 31, 2022 (the "Report") to which this certificate is an exhibit, I, Keith Creel, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **April 27, 2022**

/s/ KEITH CREEL

Keith Creel

President and Chief Executive Officer

**Certifications Furnished Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

Canadian Pacific Railway Limited

In connection with the Quarterly Report of Canadian Pacific Railway Limited (the "Company") on Form 10-Q for the period ended March 31, 2022 (the "Report") to which this certificate is an exhibit, I, Nadeem Velani, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **April 27, 2022**

/s/ NADEEM VELANI

Nadeem Velani

Executive Vice-President and Chief Financial Officer

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2022

or

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

For the transition period from _____ to _____

Commission File Number 1-4717

KANSAS CITY SOUTHERN

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

427 West 12th Street

Kansas City, Missouri

(Address of principal executive offices)



87-3883291

*(I.R.S. Employer
Identification No.)*

64105

(Zip Code)

816.983.1303

(Registrant's telephone number, including area code)

No Change

(Former name, former address and former fiscal year, if changed since last report.)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒ (The registrant is a voluntary filer and is not subject to the filing requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934. However, the registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months.)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class
Common Stock, \$0.01 per share par value

April 25, 2022
100 Shares

Kansas City Southern and Subsidiaries**Form 10-Q
March 31, 2022****Index**

	Page
PART I — FINANCIAL INFORMATION	
Item 1.	Financial Statements (unaudited)
	Consolidated Statements of Income — Three months ended March 31, 2022 and 2021
	Consolidated Statements of Comprehensive Income — Three months ended March 31, 2022 and 2021
	Consolidated Balance Sheets — March 31, 2022 and December 31, 2021
	Consolidated Statements of Cash Flows — Three months ended March 31, 2022 and 2021
	Consolidated Statements of Changes in Equity — Three months ended March 31, 2022, December 31, 2021, September 30, 2021, June 30, 2021 and March 31, 2021
	Notes to the Unaudited Consolidated Financial Statements
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations
Item 3.	Quantitative and Qualitative Disclosures About Market Risk
Item 4.	Controls and Procedures
PART II — OTHER INFORMATION	
Item 1.	Legal Proceedings
Item 1A.	Risk Factors
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds
Item 3.	Defaults Upon Senior Securities
Item 4.	Mine Safety Disclosures
Item 5.	Other Information
Item 6.	Exhibits
	SIGNATURES

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

Kansas City Southern and Subsidiaries Consolidated Statements of Income

	Three Months Ended March 31,	
	2022	2021
	(In millions) (Unaudited)	
Revenues	\$ 778.2	\$ 706.0
Operating expenses:		
Compensation and benefits	133.0	129.5
Purchased services	51.3	53.8
Fuel	97.1	70.9
Equipment costs	18.6	21.1
Depreciation and amortization	96.2	92.0
Materials and other	78.1	66.4
Merger costs	12.8	19.3
Total operating expenses	487.1	453.0
Operating income	291.1	253.0
Equity in net earnings of affiliates	8.8	6.0
Interest expense	(38.9)	(39.0)
Foreign exchange loss	(1.4)	(7.3)
Other income (expense), net	0.9	(0.8)
Income before income taxes	260.5	211.9
Income tax expense	72.5	58.5
Net income	188.0	153.4
Less: Net income attributable to noncontrolling interest	0.6	0.4
Net income available to common stockholder(s)	\$ 187.4	\$ 153.0

See accompanying notes to the unaudited consolidated financial statements.

Kansas City Southern and Subsidiaries
Consolidated Statements of Comprehensive Income

	Three Months Ended	
	March 31,	
	2022	2021
	(In millions) (Unaudited)	
Net income	\$ 188.0	\$ 153.4
Other comprehensive income:		
Unrealized gain on interest rate derivative instruments, net of tax of \$12.6 million and \$21.0 million, respectively	47.3	79.1
Reclassification adjustment from cash flow hedges included in net income, net of tax of \$0.1 million for both periods	0.5	0.5
Foreign currency translation adjustments	0.3	(0.2)
Other comprehensive income	48.1	79.4
Comprehensive income	236.1	232.8
Less: Comprehensive income attributable to noncontrolling interest	0.6	0.4
Comprehensive income attributable to Kansas City Southern and subsidiaries	\$ 235.5	\$ 232.4

See accompanying notes to the unaudited consolidated financial statements.

Kansas City Southern and Subsidiaries
Consolidated Balance Sheets

	March 31, 2022	December 31, 2021
	(In millions, except share and per share amounts) (Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 104.6	\$ 339.3
Accounts receivable, net	403.4	271.0
Materials and supplies	146.6	131.0
Other current assets	121.5	142.1
Total current assets	776.1	883.4
Operating lease right-of-use assets	64.5	69.6
Investments	59.3	48.3
Property and equipment (including concession assets), net	9,236.1	9,209.3
Other assets	273.2	217.5
Total assets	\$ 10,409.2	\$ 10,428.1
LIABILITIES AND EQUITY		
Current liabilities:		
Long-term debt due within one year	\$ 10.1	\$ 8.8
Accounts payable and accrued liabilities	481.7	479.7
Total current liabilities	491.8	488.5
Long-term operating lease liabilities	43.2	46.4
Long-term debt	3,772.2	3,768.8
Deferred income taxes	1,242.4	1,213.7
Other noncurrent liabilities and deferred credits	155.9	178.1
Total liabilities	5,705.5	5,695.5
Stockholder equity:		
\$.01 par, common stock, 100 shares authorized; 100 shares issued; 100 shares outstanding at March 31, 2022 and December 31, 2021	—	—
Additional paid-in capital	860.6	860.6
Retained earnings	3,446.8	3,524.4
Accumulated other comprehensive income	67.5	19.4
Total stockholder equity	4,374.9	4,404.4
Noncontrolling interest	328.8	328.2
Total equity	4,703.7	4,732.6
Total liabilities and equity	\$ 10,409.2	\$ 10,428.1

See accompanying notes to the unaudited consolidated financial statements.

Kansas City Southern and Subsidiaries
Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2022	2021
	(In millions) (Unaudited)	
Operating activities:		
Net income	\$ 188.0	\$ 153.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	96.2	92.0
Deferred income taxes	16.0	6.2
Equity in net earnings of affiliates	(8.8)	(6.0)
Share-based compensation	—	8.2
Loss on foreign currency derivative instruments	8.1	2.4
Foreign exchange (gain) loss	(6.7)	4.9
Merger costs	12.8	19.3
Settlement of foreign currency derivative instruments	(2.2)	(1.9)
Cash payments for merger costs	(27.5)	(1.2)
Refundable Mexican value added tax	10.5	(15.5)
Changes in working capital items:		
Accounts receivable	(130.6)	(27.5)
Materials and supplies	(13.7)	(4.0)
Other current assets	21.3	1.1
Accounts payable and accrued liabilities	(9.3)	(9.6)
Other, net	(4.9)	4.4
Net cash provided by operating activities	149.2	226.2
Investing activities:		
Capital expenditures	(95.7)	(106.0)
Property investments in MSLLC	(16.4)	(1.1)
Investments in and advances to affiliates	(5.3)	(5.7)
Proceeds from disposal of property	1.7	1.5
Other, net	(0.1)	(2.7)
Net cash used for investing activities	(115.8)	(114.0)
Financing activities:		
Repayment of long-term debt	(2.5)	(1.6)
Dividends paid	(265.0)	(40.2)
Proceeds from employee stock plans	—	2.3
Net cash used for financing activities	(267.5)	(39.5)
Effect of exchange rate changes on cash	(0.6)	(1.0)
Cash and cash equivalents:		
Net increase (decrease) during each period	(234.7)	71.7
At beginning of year	339.3	188.2
At end of period	\$ 104.6	\$ 259.9

See accompanying notes to the unaudited consolidated financial statements.

Kansas City Southern and Subsidiaries
Consolidated Statements of Changes in Equity
(in millions, except per share amounts)
(Unaudited)

	\$25 Par Preferred Stock	\$.01 Par Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non- controlling Interest	Total
Balance at December 31, 2020	\$ 5.4	\$ 0.9	\$ 830.9	\$ 3,219.6	\$ 0.4	\$ 326.4	\$ 4,383.6
Net income				153.0		0.4	153.4
Other comprehensive income					79.4		79.4
Dividends on common stock (\$0.54/share)			—	(49.1)			(49.1)
Dividends on \$25 par preferred stock (\$0.25/share)				—			—
Share repurchases	—	—	(2.1)	(72.9)			(75.0)
Settlement of forward contract for accelerated share repurchases			75.0				75.0
Options exercised and stock subscribed, net of shares withheld for employee taxes		—	(3.0)				(3.0)
Share-based compensation			8.2				8.2
Balance at March 31, 2021	5.4	0.9	909.0	3,250.6	79.8	326.8	4,572.5
Net income (loss)				(378.5)		0.5	(378.0)
Other comprehensive loss					(33.1)		(33.1)
Dividends on common stock (\$0.54/share)			—	(49.1)			(49.1)
Dividends on \$25 par preferred stock (\$0.25/share)				(0.1)			(0.1)
Options exercised and stock subscribed, net of shares withheld for employee taxes		—	(2.0)				(2.0)
Share-based compensation			6.2				6.2
Balance at June 30, 2021	5.4	0.9	913.2	2,822.9	46.7	327.3	4,116.4
Net income				156.2		0.3	156.5
Other comprehensive loss					(1.4)		(1.4)
Dividends on common stock (\$0.54/share)			—	(49.1)			(49.1)
Dividends on \$25 par preferred stock (\$0.25/share)				(0.1)			(0.1)
Options exercised and stock subscribed, net of shares withheld for employee taxes		—	4.4				4.4
Share-based compensation			6.1				6.1
Balance at September 30, 2021	5.4	0.9	923.7	2,929.9	45.3	327.6	4,232.8
Net income				594.5		0.6	595.1
Other comprehensive loss					(25.9)		(25.9)
Options exercised and stock subscribed, net of shares withheld for employee taxes		—	0.4				0.4
Share-based compensation			59.9				59.9
Replacement of equity share awards with liability awards			(54.5)				(54.5)
Cash settlement of stock options			(75.2)				(75.2)
Recapitalization of stock	(5.4)	(0.9)	6.3				—
Balance at December 31, 2021	—	—	860.6	3,524.4	19.4	328.2	4,732.6
Net income				187.4		0.6	188.0
Other comprehensive income					48.1		48.1
Dividend to Canadian Pacific				(265.0)			(265.0)
Balance at March 31, 2022	—	—	\$ 860.6	\$ 3,446.8	\$ 67.5	\$ 328.8	\$ 4,703.7

See accompanying notes to the unaudited consolidated financial statements.

Kansas City Southern and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements

For purposes of this Quarterly Report on Form 10-Q, “KCS” or the “Company” may refer to Kansas City Southern or, as the context requires, to one or more subsidiaries of Kansas City Southern.

1. Basis of Presentation

In the opinion of the management of KCS, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal and recurring adjustments) necessary to reflect a fair statement of the results for interim periods in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). Pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021. The results of operations for the three months ended March 31, 2022, are not necessarily indicative of the results to be expected for the full year ending December 31, 2022.

On September 15, 2021, KCS and Canadian Pacific Railway Limited (“CP”), a Canadian corporation, entered into a merger agreement (the “Merger Agreement”) and on December 14, 2021, CP acquired the outstanding common and preferred stock of KCS. Therefore, earnings per share data is not presented because the Company does not have any outstanding or issued publicly traded stock. The merger is further discussed in Note 2, Merger Agreement.

In November 2021, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2021-10, Government Assistance (Topic 832), Disclosures by Business Entities about Government Assistance. The standard is intended to increase transparency of government assistance including the disclosures of the following: (1) the types of assistance, (2) an entity’s accounting for the assistance, and (3) the effect of the assistance on the entity’s financial statements. This ASU was effective for the Company on January 1, 2022 and the Company adopted the ASU prospectively. See Note 4, Property and Equipment for the newly required disclosure.

2. Merger Agreement

On December 14, 2021, CP acquired the outstanding common and preferred stock of KCS. Each share of common stock, par value \$0.01 per share, of KCS that was outstanding immediately prior to the merger was converted into the right to receive (1) 2.884 common shares of CP and (2) \$90 in cash (together, the “Merger Consideration”), and each share of preferred stock, par value \$25 per share, that was outstanding immediately prior to the merger was converted into the right to receive \$37.50 in cash. The Merger Consideration value received by KCS stockholders was \$301.20 per KCS common share.

The merger transaction was completed through a series of mergers as outlined in the Merger Agreement. These mergers ultimately resulted in KCS being merged with and into Cygnus Merger Sub 1 Corporation (“Surviving Merger Sub”), a wholly owned subsidiary of CP, with Surviving Merger Sub continuing as the surviving entity. Pursuant to the Merger Agreement, Surviving Merger Sub was renamed “Kansas City Southern” and as successor company of KCS, continued to own the assets of KCS. Immediately following the consummation of the mergers, CP caused the contribution, directly and indirectly, of all of the outstanding shares of capital stock of Surviving Merger Sub, as successor to KCS, to be deposited into an independent, irrevocable voting trust (the “Voting Trust”) under a voting trust agreement (the “Voting Trust Agreement”) approved by the U.S. Surface Transportation Board (“STB”), pending receipt of the final and non-appealable approval or exemption by the STB pursuant to 49 U.S.C. § 11323 et seq., of the transactions contemplated by the Merger Agreement (“STB Final Approval”). The Voting Trust prevents CP, or any affiliate of CP, from controlling or having the power to control KCS prior to STB Final Approval. Following receipt of STB Final Approval and approval from other applicable regulatory authorities, the Voting Trust will be terminated and CP will acquire control over KCS’s railroad operations.

On December 14, 2021, the merger of KCS and Surviving Merger Sub was accounted for as a recapitalization of KCS’s equity. Upon STB Final Approval, the transaction will be accounted for as a business combination using the acquisition method of accounting.

In the first quarter of 2022, pursuant to the Merger Agreement, KCS paid a cash dividend of \$265.0 million to a wholly-owned subsidiary of CP. Periodic cash distributions may be made to a wholly-owned subsidiary of CP based upon cash generated, the timing of capital expenditures and working capital needs of the Company.

For the three months ended March 31, 2022 and 2021, KCS reported \$12.8 million and \$19.3 million, respectively, of merger-related costs. These merger costs primarily related to incentive compensation costs in 2022 and bankers’ and legal fees in 2021, and were recognized in merger costs within the consolidated statements of income.

Kansas City Southern and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements—(Continued)

3. Revenue

Disaggregation of Revenue

The following table presents revenues disaggregated by the major commodity groups as well as the product types included within the major commodity groups (*in millions*). The Company believes disaggregation by product type best depicts how cash flows are affected by economic factors. See Note 10 for revenues by geographical area.

	Three Months Ended March 31,	
	2022	2021
<i>Chemical & Petroleum</i>		
Chemicals	\$ 69.9	\$ 60.6
Petroleum	79.0	135.2
Plastics	38.5	35.5
Total	187.4	231.3
<i>Industrial & Consumer Products</i>		
Forest Products	69.1	57.7
Metals & Scrap	56.5	46.3
Other	35.1	30.0
Total	160.7	134.0
<i>Agriculture & Minerals</i>		
Grain	105.7	74.7
Food Products	40.2	37.0
Ores & Minerals	8.3	5.2
Stone, Clay & Glass	9.2	7.5
Total	163.4	124.4
<i>Energy</i>		
Utility Coal	40.2	31.7
Coal & Petroleum Coke	12.4	10.4
Frac Sand	4.9	3.4
Crude Oil	14.1	12.0
Total	71.6	57.5
<i>Intermodal</i>	95.9	81.3
<i>Automotive</i>	54.3	44.1
Total Freight Revenues	733.3	672.6
<i>Other Revenue</i>	44.9	33.4
Total Revenues	\$ 778.2	\$ 706.0

Contract Balances

The amount of revenue recognized in the first quarter of 2022 from performance obligations partially satisfied in previous periods was \$17.9 million. The performance obligations that were unsatisfied or partially satisfied as of March 31, 2022, were \$23.2 million, which represents in-transit shipments that are fully satisfied the following month.

A receivable is any unconditional right to consideration, and is recognized as shipments have been completed and the relating performance obligation has been fully satisfied. At March 31, 2022 and December 31, 2021, the accounts receivable, net balance was \$403.4 million and \$271.0 million, respectively. Contract assets represent a conditional right to consideration in exchange for goods or services. The Company did not have any contract assets at March 31, 2022 and December 31, 2021.

Contract liabilities represent consideration received in advance from customers, and are recognized as revenue over time as the relating performance obligation is satisfied. The amount of revenue recognized in the first quarter of 2022 that was included in the

Kansas City Southern and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements—(Continued)

opening contract liability balance was \$11.2 million. The Company has recognized contract liabilities within the accounts payable and accrued liabilities and other long-term liabilities financial statement captions on the consolidated balance sheets.

The following tables summarize the changes in contract liabilities (*in millions*):

Contract liabilities

	Three Months Ended March 31,	
	2022	2021
Beginning balance	\$ 68.4	\$ 29.9
Revenue recognized that was included in the contract liability balance at the beginning of the period	(11.2)	(12.6)
Increases due to consideration received, excluding amounts recognized as revenue during the period	3.9	1.5
Ending balance	<u>\$ 61.1</u>	<u>\$ 18.8</u>

4. Property and Equipment (including Concession Assets)

Property and equipment, including concession assets, and related accumulated depreciation and amortization are summarized below (*in millions*):

	March 31, 2022	December 31, 2021
Land	\$ 244.7	\$ 243.0
Concession land rights	141.1	141.1
Road property	8,503.9	8,430.6
Equipment	2,863.3	2,842.4
Technology and other	377.1	372.6
Construction in progress	338.7	335.8
Total property	<u>12,468.8</u>	<u>12,365.5</u>
Accumulated depreciation and amortization	<u>3,232.7</u>	<u>3,156.2</u>
Property and equipment (including concession assets), net	<u>\$ 9,236.1</u>	<u>\$ 9,209.3</u>

Concession assets, net of accumulated amortization of \$744.7 million and \$744.8 million, totaled \$2,456.6 million and \$2,459.3 million at March 31, 2022 and December 31, 2021, respectively.

The Company has historically received assistance from governmental entities, typically in the form of cash, for purposes of making improvements to its rail network as part of public safety and/or economic revitalization initiatives. The governmental entity generally specifies how the monetary assistance is to be spent, and may include limited conditions requiring the Company to return the assistance. The Company accounts for this assistance received as reductions to property and equipment in the period in which the improvement is made, with the assistance being amortized as an offset to depreciation expense over the life of the improvement. As of March 31, 2022 and December 31, 2021, the total governmental assistance received, net of accumulated amortization, was \$36.7 million and \$37.3 million, respectively. For the three months ended, March 31, 2022, governmental assistance amortization was \$0.6 million.

5. Fair Value Measurements

The Company's derivative financial instruments are measured at fair value on a recurring basis and consist of foreign currency forward contracts and treasury lock agreements, which are classified as Level 2 valuations. The Company determines the fair value of its derivative financial instrument positions based upon pricing models using inputs observed from actively quoted markets and also takes into consideration the contract terms as well as other inputs, including market currency exchange rates and in the case of option contracts, volatility, the risk-free interest rate and the time to expiration.

The Company's short-term financial instruments include cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings. The carrying value of the short-term financial instruments approximates their fair value.

Kansas City Southern and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements—(Continued)

The fair value of the Company's debt is estimated using quoted market prices when available. When quoted market prices are not available, fair value is estimated based on current market interest rates for debt with similar maturities and credit quality. The carrying value of the Company's debt was \$3,782.3 million and \$3,777.6 million at March 31, 2022 and December 31, 2021, respectively. If the Company's debt were measured at fair value, the fair value measurements of the individual debt instruments would have been classified as Level 2 in the fair value hierarchy.

The fair value of the Company's financial instruments is presented in the following table (*in millions*):

	March 31, 2022	December 31, 2021
	Level 2	Level 2
Assets		
Treasury lock agreements	\$ 117.3	\$ 57.4
Liabilities		
Debt instruments	3,886.0	4,311.1
Foreign currency derivative instruments	7.7	1.8

6. Derivative Instruments

The Company enters into derivative transactions in certain situations based on management's assessment of current market conditions and perceived risks. Management intends to respond to evolving business and market conditions and in doing so, may enter into such transactions as deemed appropriate.

Credit Risk. As a result of the use of derivative instruments, the Company is exposed to counterparty credit risk. The Company manages this risk by limiting its counterparties to large financial institutions which meet the Company's credit rating standards and have an established banking relationship with the Company. As of March 31, 2022, the Company did not expect any losses as a result of default of its counterparties.

Interest Rate Derivative Instruments. In 2020, the Company executed six 30-year treasury lock agreements with an aggregate notional value of \$650.0 million and a weighted average interest rate of 1.58%. The purpose of the treasury locks is to hedge the U.S. Treasury benchmark interest rate associated with future interest payments related to the anticipated refinancing of the \$444.7 million principal amount of 3.00% senior notes due May 15, 2023 (the "3.00% Senior Notes") and the \$200.0 million principal amount of 3.85% senior notes due November 15, 2023 (the "3.85% Senior Notes"). The Company has designated the treasury locks as cash flow hedges and recorded unrealized gains and losses in accumulated other comprehensive income (loss). For the three months ended March 31, 2022, the total unrealized gain of \$117.3 million recognized in accumulated other comprehensive income increased by \$59.9 million compared to December 31, 2021, reflecting a change in the value of the treasury locks as U.S. treasury rates rose. Upon settlement, the unrealized gain or loss in accumulated other comprehensive income (loss) will be amortized to interest expense over the life of the future underlying debt issuance.

Foreign Currency Derivative Instruments. The Company's Mexican subsidiaries have net U.S. dollar-denominated monetary liabilities which, for Mexican income tax purposes, are subject to periodic revaluation based on changes in the value of the Mexican peso against the U.S. dollar. This revaluation creates fluctuations in the Company's Mexican income tax expense in the consolidated statements of income and the amount of income taxes paid in Mexico. The Company also has net monetary assets denominated in Mexican pesos that are subject to periodic re-measurement and settlement that create fluctuations in foreign currency gains and losses in the consolidated statements of income. The Company hedges its net exposure to foreign currency fluctuations in earnings by entering into foreign currency forward contracts. The foreign currency forward contracts involve the Company's agreement to buy or sell pesos at an agreed-upon exchange rate on a future date.

Kansas City Southern and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements—(Continued)

Below is a summary of the Company's 2022 and 2021 foreign currency derivative contracts (*amounts in millions, except Ps./USD*):

Foreign currency forward contracts

	Contracts to sell Ps./receive USD			Offsetting contracts to purchase Ps./pay USD			Cash received/(paid) on settlement
	Notional amount	Notional amount	Weighted-average exchange rate (in Ps./USD)	Notional amount	Notional amount	Weighted-average exchange rate (in Ps./USD)	
Contracts executed in 2022 and outstanding	\$ 195.0	Ps. 4,244.5	Ps. 21.8	—	—	—	—
Contracts executed in 2022 and settled in 2022	\$ 50.0	Ps. 1,105.3	Ps. 22.1	\$ 50.5	Ps. 1,105.3	Ps. 21.9	\$ (0.5)
Contracts executed in 2021 and settled in 2022	\$ 270.0	Ps. 5,583.3	Ps. 20.7	\$ 271.7	Ps. 5,583.3	Ps. 20.6	\$ (1.7)
	Contracts to purchase Ps./pay USD			Offsetting contracts to sell Ps./receive USD			Cash received/(paid) on settlement
	Notional amount	Notional amount	Weighted-average exchange rate (in Ps./USD)	Notional amount	Notional amount	Weighted-average exchange rate (in Ps./USD)	
Contracts executed in 2021 and settled in 2021 (i)	\$ 100.0	Ps. 1,993.5	Ps. 19.9	\$ 98.1	Ps. 1,993.5	Ps. 20.3	\$ (1.9)

(i) During the first quarter of 2021, the Company settled \$100.0 million of these forward contracts, resulting in cash paid of \$1.9 million.

The Company has not designated any of the foreign currency derivative contracts as hedging instruments for accounting purposes. The Company measures the foreign currency derivative contracts at fair value each period and recognizes any change in fair value in foreign exchange gain (loss) within the consolidated statements of income. The cash flows associated with these instruments is classified as an operating activity within the consolidated statements of cash flows.

Offsetting. The Company's treasury lock agreements and foreign currency forward contracts are executed with counterparties in the U.S. and are governed by International Swaps and Derivatives Association agreements that include standard netting arrangements. Asset and liability positions from contracts with the same counterparty are net settled upon maturity/expiration and presented on a net basis in the consolidated balance sheets prior to settlement.

The following tables present the fair value of derivative instruments included in the Consolidated Balance Sheets (*in millions*):

Derivative Assets			
	Balance Sheet Location	March 31, 2022	December 31, 2021
Derivatives designated as hedging instruments:			
Treasury lock agreements	Other assets	\$ 117.3	\$ 57.4
Total derivatives designated as hedging instruments		117.3	57.4
Total derivative assets		\$ 117.3	\$ 57.4
Derivative Liabilities			
	Balance Sheet Location	March 31, 2022	December 31, 2021
Derivatives not designated as hedging instruments:			
Foreign currency forward contracts	Accounts payable and accrued liabilities	\$ 7.7	\$ 1.8
Total derivatives not designated as hedging instruments		7.7	1.8
Total derivative liabilities		\$ 7.7	\$ 1.8

Kansas City Southern and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements—(Continued)

The following table summarizes the gross and net fair value of derivative liabilities (*in millions*):

	Gross Liabilities	Gross Assets	Net Amounts Presented in the Consolidated Balance Sheets
As of March 31, 2022			
Derivatives subject to a master netting arrangement or similar agreement	\$ 7.7	\$ —	\$ 7.7
As of December 31, 2021			
Derivatives subject to a master netting arrangement or similar agreement	\$ 2.8	\$ (1.0)	\$ 1.8

The following table presents the effects of derivative instruments on the Consolidated Statements of Income and Consolidated Statements of Comprehensive Income for the three months ended March 31 (*in millions*):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in OCI on Derivative		Location of Gain/(Loss) Reclassified from AOCI into Income	Amount of Gain/(Loss) Reclassified from AOCI into Income	
	2022	2021		2022	2021
Treasury lock agreements	\$ 59.9	\$ 100.1	Interest expense	\$ (0.6)	\$ (0.6)
Total	\$ 59.9	\$ 100.1		\$ (0.6)	\$ (0.6)

Derivatives Not Designated as Hedging Instruments	Location of Gain/(Loss) Recognized in Income on Derivative		Amount of Gain/(Loss) Recognized in Income on Derivative	
	2022	2021	2022	2021
Foreign currency forward contracts	Foreign exchange loss		\$ (8.1)	\$ (2.4)
Total			\$ (8.1)	\$ (2.4)

See Note 5, Fair Value Measurements, for the determination of the fair values of derivatives.

7. Short-Term Borrowings

Commercial Paper. The Company's commercial paper program generally serves as the primary means of short-term funding. As of March 31, 2022 and December 31, 2021, KCS had no commercial paper outstanding. For the three months ended March 31, 2022 and 2021, any commercial paper borrowings were outstanding for less than 90 days and the related activity is presented on a net basis in the consolidated statements of cash flows.

8. Refundable Mexican Value Added Tax

Kansas City Southern de México, S.A. de C.V. ("KCSM") is not required to charge its customers value added tax ("VAT") on international import or export transportation services, resulting in KCSM paying more VAT on its expenses than it collects from customers. These excess VAT payments are refundable by the Mexican government. Prior to 2019, Mexican companies could offset their monthly refundable VAT balance with other tax obligations. In January 2019, Mexico tax reform eliminated the ability to offset other tax obligations with refundable VAT. Since January 2019, KCSM has generated a refundable VAT balance and filed refund claims with the Servicio de Administración Tributaria (the "SAT") which have not been refunded.

In November 2021, changes to the VAT law were announced and became effective beginning January 1, 2022. These changes reduced the recoverability of VAT paid by KCSM on its expenditures that support international import transportation service revenues that are not subject to a VAT charge. VAT that is unrecoverable from the Mexican government results in incremental VAT expense for KCSM. Beginning in 2022, KCSM changed certain service offerings to either require VAT to be charged to customers on revenue, or impose a rate increase to offset the incremental VAT expense. These measures implemented by KCSM increase the VAT to be collected from customers and payable to the Mexican government.

Kansas City Southern and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements—(Continued)

As of March 31, 2022 and December 31, 2021, the KCSM refundable VAT balance was \$141.2 million and \$152.2 million, respectively. As of March 31, 2022 and December 31, 2021, \$73.0 million and \$78.0 million, respectively, of the refundable VAT balance was classified as a short-term asset, which represents the estimated amount of VAT to be collected from customers and payable to the Mexican government in 2022 that will reduce the VAT receivable balance from the Mexican government. KCSM has prior favorable Mexican court decisions and a legal opinion supporting its right under Mexican law to recover the refundable VAT balance from the Mexican government and believes the VAT to be fully recoverable.

9. Commitments and Contingencies

Concession Duty. Under KCSM's 50-year railroad concession from the Mexican government (the "Concession"), which could expire in 2047 unless extended, KCSM pays annual concession duty expense of 1.25% of gross revenues. For the three months ended March 31, 2022, the concession duty expense, which is recorded within materials and other in operating expenses, was \$4.9 million, compared to \$4.5 million, for the same period in 2021.

Litigation. Occasionally, the Company is a party to various legal proceedings, regulatory examinations, investigations, administrative actions, and other legal matters, arising for the most part in the ordinary course of business, incidental to its operations. Included in these proceedings are various tort claims brought by current and former employees for job-related injuries and by third parties for injuries related to railroad operations. KCS aggressively defends these matters and has established liability provisions that management believes are adequate to cover expected costs. The outcome of litigation and other legal matters is always uncertain. KCS believes it has valid defenses to the legal matters currently pending against it, is defending itself vigorously, and has recorded accruals determined in accordance with U.S. GAAP, where appropriate. In making a determination regarding accruals, using available information, KCS evaluates the likelihood of an unfavorable outcome in legal or regulatory proceedings to which it is a party to and records a loss contingency when it is probable a liability has been incurred and the amount of the loss can be reasonably estimated. These subjective determinations are based on the status of such legal or regulatory proceedings, the merits of KCS's defenses and consultation with legal counsel. Actual outcomes of these legal and regulatory proceedings may materially differ from the current estimates. It is possible that resolution of one or more of the legal matters currently pending or threatened could result in losses material to KCS's consolidated results of operations, liquidity or financial condition.

Environmental Liabilities. The Company's U.S. operations are subject to extensive federal, state and local environmental laws and regulations. The major U.S. environmental laws to which the Company is subject include, among others, the federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA," also known as the Superfund law), the Toxic Substances Control Act, the Clean Water Act, and the Hazardous Materials Transportation Act. CERCLA can impose joint and several liabilities for cleanup and investigation costs, without regard to fault or legality of the original conduct, on current and predecessor owners and operators of a site, as well as those who generate, or arrange for the disposal of hazardous substances. The Company does not believe that compliance with the requirements imposed by the environmental legislation will impair its competitive capability or result in any material additional capital expenditures, operating or maintenance costs. The Company is, however, subject to environmental remediation costs as described in the following paragraphs.

The Company's Mexico operations are subject to Mexican federal and state laws and regulations relating to the protection of the environment through the establishment of standards for water discharge, water supply, emissions, noise pollution, hazardous substances and transportation and handling of hazardous and solid waste. The Mexican government may bring administrative and criminal proceedings, impose economic sanctions against companies that violate environmental laws, and temporarily or even permanently close non-complying facilities.

The risk of incurring environmental liability is inherent in the railroad industry. As part of serving the petroleum and chemicals industry, the Company transports hazardous materials and has a professional team available to respond to and handle environmental issues that might occur in the transport of such materials.

The Company performs ongoing reviews and evaluations of the various environmental programs and issues within the Company's operations, and, as necessary, takes actions intended to limit the Company's exposure to potential liability. Although these costs cannot be predicted with certainty, management believes that the ultimate outcome of identified matters will not have a material adverse effect on the Company's consolidated financial statements.

Personal Injury. The Company's personal injury liability is based on semi-annual actuarial studies performed on an undiscounted basis by an independent third party actuarial firm and reviewed by management. This liability is based on personal injury claims filed and an estimate of claims incurred but not yet reported. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation. Adjustments to the liability are reflected within operating expenses in the period in which changes to estimates are known. Personal injury claims in excess of self-insurance

Kansas City Southern and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements—(Continued)

levels are insured up to certain coverage amounts, depending on the type of claim and year of occurrence. The personal injury liability as of March 31, 2022, is based on an updated actuarial study of personal injury claims through October 31, 2021, and review of the last five months' experience. Although these estimates cannot be predicted with certainty, management believes that the ultimate outcome will not have a material adverse effect on the Company's consolidated financial statements.

Tax Contingencies. Tax returns filed in the U.S. for periods after 2015 and in Mexico for periods after 2012 remain open to examination by the taxing authority. The Internal Revenue Service ("IRS") has completed its examination of the 2017 deemed mandatory repatriation tax included in the 2017 U.S. federal tax return and the 2016 U.S. federal tax return with no material impact to the consolidated financial statements. The SAT, the Mexican equivalent of the IRS, has initiated examinations of the KCSM 2013 through 2020 Mexico tax returns and the Financiera Inspira, S.A. de C.V. SOFOM, E.N.R. 2016 and 2017 Mexico tax returns. The Company does not expect that these examinations will have a material impact on the consolidated financial statements. During 2017, the Company received audit assessments from the SAT for the KCSM 2009 and 2010 Mexico tax returns. The Company commenced administrative actions with the SAT and the audit assessments were subsequently nullified. In the third quarter of 2018, the SAT issued new assessments and the Company filed administrative appeals with the SAT. During the first quarter of 2022, the Company received an audit assessment from the SAT for the KCSM 2013 Mexico tax return. The Company intends to file an administrative appeal of the assessment. The Company believes that it has strong legal arguments in its favor and it is more likely than not that it will prevail in any challenge of the assessments.

Contractual Agreements. In the normal course of business, the Company enters into various contractual agreements related to commercial arrangements and the use of other railroads' or governmental entities' infrastructure needed for the operations of the business. The Company is involved or may become involved in certain disputes involving transportation rates, product loss or damage, charges, and interpretations related to these agreements. While the outcome of these matters cannot be predicted with certainty, the Company believes that, when resolved, these disputes will not have a material effect on its consolidated financial statements.

Credit Risk. The Company continually monitors risks related to economic changes and certain customer receivables concentrations. Significant changes in customer concentration or payment terms, deterioration of customer creditworthiness, bankruptcy, insolvency or liquidation of a customer, or weakening in economic trends could have a significant impact on the collectability of the Company's receivables and its operating results. If the financial condition of the Company's customers were to deteriorate and result in an impairment of their ability to make payments, additional allowances may be required. The Company has recorded provisions for credit losses based on its best estimate at March 31, 2022.

Panama Canal Railway Company ("PCRC") Guarantees and Indemnities. At March 31, 2022, the Company had issued and outstanding \$5.7 million under a standby letter of credit to fulfill its obligation to fund fifty percent of the debt service reserve and liquidity reserve established by PCRC in connection with the issuance of the 7.0% Senior Secured Notes due November 1, 2026 (the "PCRC Notes"). Additionally, KCS has pledged its shares of PCRC as security for the PCRC Notes.

Kansas City Southern and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements—(Continued)

10. Geographic Information

The Company strategically manages its rail operations as one reportable business segment over a single coordinated rail network that extends from the midwest and southeast portions of the United States south into Mexico and connects with other Class I railroads. Financial information reported at this level, such as revenues, operating income and cash flows from operations, is used by corporate management, including the Company's chief operating decision-maker, in evaluating overall financial and operational performance, market strategies, as well as the decisions to allocate capital resources. The Company's chief operating decision-maker is the chief executive officer.

The following tables provide information by geographic area (*in millions*):

	Three Months Ended March 31,	
	2022	2021
Revenues		
U.S.	\$ 425.7	\$ 366.9
Mexico	352.5	339.1
Total revenues	\$ 778.2	\$ 706.0
	March 31, 2022	December 31, 2021
Property and equipment (including concession assets), net		
U.S.	\$ 5,774.9	\$ 5,744.4
Mexico	3,461.2	3,464.9
Total property and equipment (including concession assets), net	\$ 9,236.1	\$ 9,209.3

11. Subsequent Event

Foreign Currency Hedging. During April 2022, the Company entered into foreign currency forward contracts with an aggregate notional amount of \$35.0 million, which mature in January 2023. These contracts obligate the Company to sell a total of Ps.733.5 million at a weighted-average exchange rate of Ps.21.0 to each U.S. dollar.

The Company has not designated these foreign currency derivative instrument as hedging instruments for accounting purposes. The Company will measure the foreign currency derivative instruments at fair value each period and will recognize any change in fair value in foreign exchange gain (loss) within the consolidated statements of income.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion below, as well as other portions of this Form 10-Q, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended and the Private Securities Litigation Reform Act of 1995. In addition, management may make forward-looking statements orally or in other writing, including, but not limited to, in press releases, quarterly earnings calls, executive presentations, in the annual report to stockholders and in other filings with the Securities and Exchange Commission. Readers can usually identify these forward-looking statements by the use of such words as "may," "will," "should," "likely," "plans," "projects," "expects," "anticipates," "believes" or similar words. These statements involve a number of risks and uncertainties. Actual results could materially differ from those anticipated by such forward-looking statements. Such differences could be caused by a number of factors or combination of factors including, but not limited to, the factors identified below and those discussed under the captions "Part II - Item 1A - Risk Factors" herein and Item 1A, "Risk Factors", of the Company's Annual Report on Form 10-K for the year ended December 31, 2021 (the "Annual Report"). Readers are strongly encouraged to consider these factors and the following factors when evaluating any forward-looking statements concerning the Company: public health threats or outbreaks of communicable diseases, such as the ongoing COVID-19 pandemic (including its variants) and its impact on KCS's business, suppliers, consumers, customers, employees and supply chains; rail accidents or other incidents or accidents on KCS's rail network or at KCS's facilities or customer facilities involving the release of hazardous materials, including toxic inhalation hazards; legislative and regulatory developments and disputes, including environmental regulations; loss of the rail concession of Kansas City Southern's subsidiary, Kansas City Southern de México, S.A. de C.V.; North American and global economic, political and social conditions; disruptions to the Company's technology infrastructure, including its computer systems; increased demand and traffic congestion; the level of trade between the United States and Asia or Mexico; fluctuations in the peso-dollar exchange rate; natural events such as severe weather, hurricanes and floods; the outcome of claims and litigation involving the Company or its subsidiaries; changes in business strategy and strategic opportunities; competition and consolidation within the transportation industry; the business environment in industries that produce and use items shipped by rail; the termination of, or failure to renew, agreements with customers, other railroads and third parties; the satisfaction of by third parties of their obligations; fluctuation in prices or availability of key materials, fluctuations in commodity demand; in particular diesel fuel; insurance coverage limitations; access to capital; sufficiency of budgeted capital expenditures in carrying out business plans; services infrastructure; climate change and the market and regulatory responses to climate change; dependency on certain key suppliers of core rail equipment; changes in securities and capital markets; unavailability of qualified personnel; difficulty attracting, motivating, and retaining executives and other key employees due to the uncertainty of the merger transaction with Canadian Pacific Railway Limited ("CP"); significant demands placed on the Company as a result of the merger of the Company with CP; labor difficulties, including strikes and work stoppages; acts of terrorism or risk of terrorist activities, war or other acts of violence; and other factors affecting the operation of the business. For more discussion about each risk factor, see "Part II - Item 1A - Risk Factors" herein and Part I, Item 1A - "Risk Factors" in the Company's Annual Report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein and in the Company's Annual Report, in each case as updated by the Company's periodic filings with the Securities and Exchange Commission (the "SEC").

Forward-looking statements reflect the information only as of the date on which they are made. The Company does not undertake any obligation to update any forward-looking statements to reflect future events, developments, or other information. If KCS does update one or more forward-looking statements, no inference should be drawn that additional updates will be made regarding that statement or any other forward-looking statements.

This discussion is intended to clarify and focus on KCS's results of operations, certain changes in its financial position, liquidity, capital structure and business developments for the periods covered by the consolidated financial statements included under Item 1 of this Quarterly Report on Form 10-Q for the quarter ended March 31, 2022. This discussion should be read in conjunction with those consolidated financial statements and the related notes and is qualified by reference to them.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial position and results of operations is based upon its consolidated financial statements. The preparation of these consolidated financial statements requires estimation and judgment that affect the reported amounts of revenue, expenses, assets and liabilities. The Company bases its estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the accounting for assets and liabilities that are not readily apparent from other sources. If the estimates differ materially from actual results, the impact on the consolidated financial statements may be material. The Company's critical accounting policies are disclosed in its 2021 Annual Report.

Overview

The Company is engaged primarily in the freight rail transportation business, operating a single coordinated rail network under one reportable business segment. The primary operating subsidiaries of the Company consist of the following: The Kansas City Southern Railway Company (“KCSR”), Kansas City Southern de México, S.A. de C.V. (“KCSM”), Meridian Speedway, LLC (“MSLLC”), and The Texas Mexican Railway Company (“TexMex”). The Company generates revenues and cash flows by providing customers with freight delivery services both within its regions and throughout North America through connections with other Class I rail carriers. KCS’s customers conduct business in a number of different industries, including chemical and petroleum, industrial and consumer products, agriculture and minerals, energy, automotive, and intermodal transportation. Appropriate eliminations and reclassifications have been recorded in preparing the consolidated financial statements.

Merger Agreement

On September 15, 2021, KCS and CP entered into a merger agreement (the “Merger Agreement”) and on December 14, 2021, CP acquired the outstanding common and preferred stock of KCS. Each share of common stock, par value \$0.01 per share, of KCS that was outstanding immediately prior to the merger was converted into the right to receive (1) 2.884 common shares of CP and (2) \$90 in cash (together, the “Merger Consideration”), and each share of preferred stock, par value \$25 per share, that was outstanding immediately prior to the merger was converted into the right to receive \$37.50 in cash. The Merger Consideration value received by KCS stockholders was \$301.20 per KCS common share.

The merger transaction was completed through a series of mergers as outlined in the Merger Agreement. These mergers ultimately resulted in KCS being merged with and into Cygnus Merger Sub 1 Corporation (“Surviving Merger Sub”), a wholly owned subsidiary of CP, with Surviving Merger Sub continuing as the surviving entity. Pursuant to the Merger Agreement, Surviving Merger Sub was renamed “Kansas City Southern” and as successor company of KCS, continued to own the assets of KCS. Immediately following the consummation of the mergers, CP caused the contribution, directly and indirectly, of all of the outstanding shares of capital stock of Surviving Merger Sub, as successor to KCS, to be deposited into an independent, irrevocable voting trust (the “Voting Trust”) under a voting trust agreement (the “Voting Trust Agreement”) approved by the U.S. Surface Transportation Board (“STB”), pending receipt of the final and non-appealable approval or exemption by the STB pursuant to 49 U.S.C. § 11323 et seq., of the transactions contemplated by the Merger Agreement (“STB Final Approval”). The Voting Trust prevents CP, or any affiliate of CP, from controlling or having the power to control KCS prior to STB Final Approval. Following receipt of STB Final Approval and approval from other applicable regulatory authorities, the Voting Trust will be terminated and CP will acquire control over KCS’s railroad operations. STB Final Approval is expected to be granted in the first quarter of 2023, subject to the regulatory review process.

On December 14, 2021, the merger of KCS and Surviving Merger Sub was accounted for as a recapitalization of KCS’s equity. Upon STB Final Approval, the transaction will be accounted for as a business combination using the acquisition method of accounting.

In the first quarter of 2022, pursuant to the Merger Agreement, KCS paid a cash dividend of \$265.0 million to a wholly-owned subsidiary of CP. Periodic cash distributions may be made to a wholly-owned subsidiary of CP based upon cash generated, the timing of capital expenditures and working capital needs of the Company.

For the three months ended March 31, 2022 and 2021, KCS reported \$12.8 million and \$19.3 million, respectively, of merger-related costs. These merger costs primarily related to incentive compensation costs in 2022 and bankers’ and legal fees in 2021, and were recognized in merger costs within the consolidated statements of income.

Ukraine Crisis

The invasion of Ukraine by Russia in February 2022 has led to disruption, instability, and volatility in global markets and industries. The U.S. government and other foreign governments have imposed severe economic sanctions and export controls against Russia, certain regions of Ukraine and particular entities and individuals, removed Russia from the Society for Worldwide Interbank Financial Telecommunication (“SWIFT”) system, and may impose additional sanctions and controls. The full impact of these sanctions and controls, as well as responses to them by Russia has and could in the future result in, among other things, severe or complete restrictions on exports to and other commerce and business dealings involving Russia, certain regions of Ukraine, and/or particular entities and individuals. In addition, this ongoing invasion has caused energy prices to rise, leading to increased inflationary impacts. To date, the Company has not experienced a material impact to operations or the consolidated financial statements as a result of the invasion of Ukraine; however, KCS will continue to monitor for events that could materially impact the Company.

Inflation

U.S. consumer price inflation rose at its fastest pace in over 40 years and Mexico inflation reached levels not seen for 20 years. Consumer price annual inflation rates as of March 31, 2022 were 8.5% and 7.5% in the U.S. and Mexico, respectively. KCS is closely monitoring the impact of rapidly increasing inflation on the Company’s financial results and procurement supply chain. As of March

31, 2022, higher inflation has not had a material impact on the Company's financial results. Additionally, supply chain disruptions have not materially impacted the Company's ability to procure essential materials and services on a timely basis.

First Quarter Highlights

For the three months ended March 31, 2022, revenues increased 10% compared to the same period in 2021, primarily due to a 5% increase in revenue per carload/unit, and an increase of 4% in carload/unit volumes. Revenue per carload/unit increased due to higher fuel surcharge and positive pricing impacts, partially offset by mix. Volumes increased due to favorable comparable volumes as a result of network congestion driven by weather impacts in 2021, improved cycle times, strong demand, and partial recovery of the global microchip shortage. These increases were partially offset by decreased volumes in chemicals and petroleum refined fuel products due to regulatory impacts.

Operating expenses increased 8% during the three months ended March 31, 2022, as compared to the same period in 2021, primarily due to higher diesel fuel prices, non-creditable value-added tax ("VAT") due to VAT law changes, and increased materials and supplies expense, partially offset by decreased merger costs. Operating expenses as a percentage of revenues was 62.6% for the three months ended March 31, 2022, compared to 64.2% for the same period in 2021.

Results of Operations

The following summarizes KCS's consolidated statement of income components (*in millions*):

	Three Months Ended		
	March 31,		
	2022	2021	Change
Revenues	\$ 778.2	\$ 706.0	\$ 72.2
Operating expenses	487.1	453.0	34.1
Operating income	291.1	253.0	38.1
Equity in net earnings of affiliates	8.8	6.0	2.8
Interest expense	(38.9)	(39.0)	0.1
Foreign exchange loss	(1.4)	(7.3)	5.9
Other income (expense), net	0.9	(0.8)	1.7
Income before income taxes	260.5	211.9	48.6
Income tax expense	72.5	58.5	14.0
Net income	188.0	153.4	34.6
Less: Net income attributable to noncontrolling interest	0.6	0.4	0.2
Net income available to common stockholder(s)	\$ 187.4	\$ 153.0	\$ 34.4

Operating Metrics

The Company has established the following key metrics to measure precision scheduled railroading (“PSR”) progress and performance:

	Three Months Ended March 31,		Improvement/ (Deterioration)
	2022	2021	
Gross velocity (mph) (i)	15.6	12.9	21%
Terminal dwell (hours) (ii)	19.7	26.8	26%
Train length (feet) (iii)	6,467	6,824	(5)%
Fuel efficiency (gallons per 1,000 GTM's) (iv)	1.24	1.26	2%

(i) Gross velocity is the average train speed between origin and destination in miles per hour calculated as the sum of the miles traveled divided by the sum of total transit hours. Transit hours are measured as the difference between a train’s origin departure and destination arrival date and times broken down by segment across the train route (includes all time spent including crew changes, terminal dwell, delays, and incidents).

(ii) Terminal dwell is the average amount of time in hours between car arrival to and departure from the yard (excludes cars that move through a terminal on a run-through train, stored, bad ordered, and maintenance-of-way cars). Calculated by dividing the total number of hours cars spent in terminals by the total count of car dwell events.

(iii) Train length is the average length of a train across its reporting stations, including the origin and intermediate stations. Length of a train is the sum of car and locomotive lengths measured in feet.

(iv) Fuel efficiency is calculated by taking locomotive fuel consumed in gallons divided by thousand gross ton miles (“GTM’s”) net of detours with no associated fuel gallons. GTM’s are the movement of one ton of train weight over one mile calculated by multiplying total train weight by distance the train moved. GTM’s exclude locomotive gross ton miles.

For the three months ended March 31, 2022, the increase in velocity and decrease in dwell, as compared to the same period in 2021, were due to efforts to improve network fluidity including reductions in train length, along with other operating initiatives and new capacity projects.

Revenues

The following summarizes revenues (*in millions*), carload/unit statistics (*in thousands*) and revenue per carload/unit:

	Revenues			Carloads and Units			Revenue per Carload/Unit		
	Three Months Ended March 31,			Three Months Ended March 31,			Three Months Ended March 31,		
	2022	2021	% Change	2022	2021	% Change	2022	2021	% Change
Chemical and petroleum	\$ 187.4	\$ 231.3	(19 %)	80.4	101.6	(21 %)	\$ 2,331	\$ 2,277	2 %
Industrial and consumer products	160.7	134.0	20 %	78.3	72.3	8 %	2,052	1,853	11 %
Agriculture and minerals	163.4	124.4	31 %	73.0	60.7	20 %	2,238	2,049	9 %
Energy	71.6	57.5	25 %	67.2	61.6	9 %	1,065	933	14 %
Intermodal	95.9	81.3	18 %	245.3	232.8	5 %	391	349	12 %
Automotive	54.3	44.1	23 %	31.0	26.4	17 %	1,752	1,670	5 %
Carload revenues, carloads and units	733.3	672.6	9 %	575.2	555.4	4 %	\$ 1,275	\$ 1,211	5 %
Other revenue	44.9	33.4	34 %						
Total revenues (i)	\$ 778.2	\$ 706.0	10 %						

(i) Included in revenues:

Fuel surcharge	\$ 87.9	\$ 50.9
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For the three months ended March 31, 2022, revenues increased 10% compared to the same period in 2021. Revenues increased due to a 5% increase in revenue per carload/unit and an increase of 4% in carload/unit volumes. Revenue per carload/unit increased due to higher fuel surcharge and positive pricing impacts, partially offset by mix. Volumes increased due to favorable comparable volumes as a result of network congestion driven by weather impacts in 2021, improved cycle times, strong demand, and partial

recovery of the global microchip shortage. These increases were partially offset by decreased volumes in chemicals and petroleum refined fuel products due to regulatory impacts. The average exchange rate of Mexican pesos per U.S. dollar was Ps.20.5 for the three months ended March 31, 2022, compared to Ps.20.3 for the same period in 2021, which resulted in a decrease in revenues of approximately \$1.6 million.

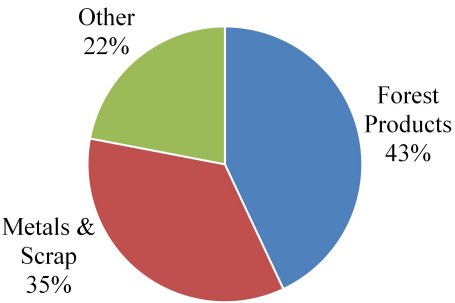
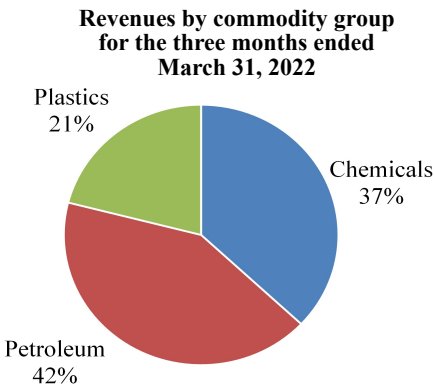
KCS's fuel surcharges are a mechanism to adjust revenue based upon changes in fuel prices above fuel price thresholds set in KCS's tariffs or contracts. Fuel surcharge revenue is calculated using a fuel price from a prior time period that can be up to 60 days earlier. In a period of volatile fuel prices or changing customer business mix, changes in fuel expense and fuel surcharge revenue may differ.

For the three months ended March 31, 2022, fuel surcharge revenue increased \$37.0 million, compared to the same period in 2021, primarily due to higher fuel prices.

The following discussion provides an analysis of revenues by commodity group:

Chemical and petroleum. Revenues decreased \$43.9 million for the three months ended March 31, 2022, compared to the same period in 2021, due to a 21% decrease in carload/unit volumes, partially offset by a 2% increase in revenue per carload/unit. Volumes decreased due to refined fuel product shipments into Mexico being negatively impacted by supply chain disruptions as a result of increased regulation. Refer to Mexico Regulatory and Legal Updates for further discussion. Revenue per carload/unit increased due to higher fuel surcharge and positive pricing impacts, partially offset by shorter average length of haul and mix.

Industrial and consumer products. Revenues increased \$26.7 million for the three months ended March 31, 2022, compared to the same period in 2021, due to an 11% increase in revenue per carload/unit and an 8% increase in carload/unit volumes. Revenue per carload/unit increased due to longer average length of haul, higher fuel surcharge, and positive pricing impacts, partially offset by mix. Metal volumes increased due to higher demand and new steel plants that opened on the KCSM network in 2021. Forest product volumes increased due to improved cycle times, demand, and favorable comparable volumes as a result of network congestion driven by weather impacts in 2021.

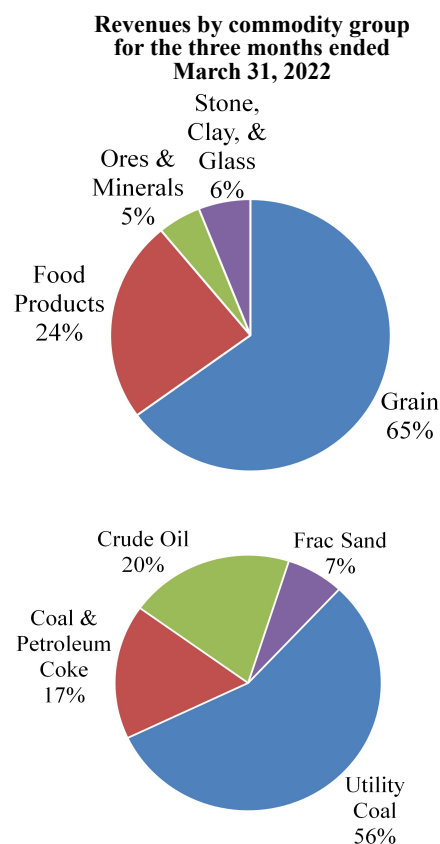


Agriculture and minerals. Revenues increased \$39.0 million for the three months ended March 31, 2022, compared to the same period in 2021, due to a 20% increase in carload/unit volumes and a 9% increase in revenue per carload/unit. Volumes increased due to improved cycle times and favorable comparable volumes as a result of network congestion driven by weather impacts in 2021. Revenue per carload/unit increased due to higher fuel surcharge and positive pricing impacts, partially offset by mix.

Energy. Revenues increased \$14.1 million for the three months ended March 31, 2022, compared to the same period in 2021, due to a 14% increase in revenue per carload/unit and a 9% increase in carload/unit volumes. Revenue per carload/unit increased due to higher fuel surcharge, positive pricing impacts, and longer average length of haul, partially offset by mix. Volumes increased in utility coal as a result of higher natural gas prices and improved cycle times. Volumes increased in crude oil due to new business. Additionally, volumes increased in pet coke due to higher demand.

Intermodal. Revenues increased \$14.6 million for the three months ended March 31, 2022, compared to the same period in 2021, due to a 12% increase in revenue per carload/unit and a 5% increase in carload/unit volumes. Revenue per carload/unit increased due to higher fuel surcharge and positive pricing impacts, partially offset by mix. Volumes increased due to favorable comparable volumes as a result of network congestion driven by weather impacts in 2021, improved cycle times, and partial recovery of the global microchip shortage affecting auto parts shipments.

Automotive. Revenues increased \$10.2 million for the three months ended March 31, 2022, compared to the same period in 2021, due to a 17% increase in carload/unit volumes and a 5% increase in revenue per carload/unit. Volumes increased due to partial recovery of the global microchip shortage. Revenue per carload/unit increased due to higher fuel surcharge, positive pricing impacts, and longer average length of haul, partially offset by mix.



Operating Expenses

Operating expenses, as shown below (*in millions*), increased \$34.1 million for the three months ended March 31, 2022, compared to the same period in 2021, primarily due to higher diesel fuel price, non-creditable VAT due to VAT law changes, and higher materials and supplies expense, partially offset by decreased merger costs. The strengthening of the Mexican peso against the U.S. dollar during the three months ended March 31, 2022, resulted in increased expense of approximately \$1.0 million, compared to the same period in 2021, for expense transactions denominated in Mexican pesos. The average exchange rate of Mexican pesos per U.S. dollar was Ps.20.5 for the three months ended March 31, 2022, compared to Ps.20.3 for the same period in 2021.

	Three Months Ended March 31,		Change	
	2022	2021	Dollars	Percent
Compensation and benefits	\$ 133.0	\$ 129.5	\$ 3.5	3 %
Purchased services	51.3	53.8	(2.5)	(5 %)
Fuel	97.1	70.9	26.2	37 %
Equipment costs	18.6	21.1	(2.5)	(12 %)
Depreciation and amortization	96.2	92.0	4.2	5 %
Materials and other	78.1	66.4	11.7	18 %
Merger costs	12.8	19.3	(6.5)	(34 %)
Total operating expenses	<u>\$ 487.1</u>	<u>\$ 453.0</u>	<u>\$ 34.1</u>	<u>8 %</u>

Compensation and benefits. Compensation and benefits increased \$3.5 million for the three months ended March 31, 2022, compared to the same period in 2021, due to wage and benefit inflation of approximately \$6.0 million, an increase in headcount and hours worked of approximately \$4.0 million, and costs relating to Mexican outsourcing reform of approximately \$2.0 million, partially offset by decreased incentive compensation of approximately \$8.0 million.

Purchased services. Purchased services expense decreased \$2.5 million for the three months ended March 31, 2022, compared to the same period in 2021, due to cost reductions of approximately \$5.0 million as a result of Mexico outsourcing reform and lower corporate services of approximately \$2.0 million, partially offset by an increase in software and programming expense of approximately \$3.0 million.

Fuel. Fuel increased \$26.2 million for the three months ended March 31, 2022, compared to the same period in 2021, due to higher diesel fuel prices in the U.S. and Mexico of approximately \$18.0 million and \$7.0 million, respectively, and increased consumption of approximately \$1.0 million. The average price per gallon was \$3.01 for the three months ended March 31, 2022, compared to \$2.25 for the same period in 2021.

Equipment costs. Equipment costs decreased \$2.5 million for the three months ended March 31, 2022, compared to the same period in 2021, due to decreased car hire expense of approximately \$3.0 million due to decreased cycle times and rate. This decrease was partially offset by higher lease expense of approximately \$1.0 million.

Depreciation and amortization. Depreciation and amortization expense increased \$4.2 million for the three months ended March 31, 2022, compared to the same period in 2021, due to an increase in depreciation rates on equipment as a result of a depreciation study and a larger asset base.

Materials and other. Materials and other expense increased \$11.7 million for the three months ended March 31, 2022, compared to the same period in 2021, due to increased expense of approximately \$5.0 million related to the non-creditable VAT due to VAT law changes in Mexico; increased materials and supplies expense of approximately \$4.0 million; and increased material purchases resulting from Mexico outsourcing reform of approximately \$3.0 million.

Merger costs. During the three months ended March 31, 2022, the Company recognized merger costs of \$12.8 million, primarily related to incentive compensation. During the three months ended March 31, 2021, the Company recognized merger costs of \$19.3 million, primarily related to bankers' and legal fees. See Note 2, Merger Agreement for more information.

Non-Operating Income and Expenses

Equity in net earnings of affiliates. For the three months ended March 31, 2022, equity in net earnings of affiliates increased \$2.8 million, compared to the same period in 2021, primarily due to increased net earnings from unrealized appreciation of

investments held in a fifteen percent-owned equity investment, partially offset by a decrease in net earnings from the operations of TFCM, S. de R.L de C.V. (“TCM”) due to decreased interest and tax expense in 2021.

Interest expense. For the three months ended March 31, 2022, interest expense remained flat compared to the same period in 2021. During the three months ended March 31, 2022, the average debt balance (including commercial paper) was \$3,812.6 million, compared to \$3,804.5 million for the same period in 2021. The average interest rate during the three months ended March 31, 2022 and 2021 was 4.1% for both periods.

Foreign exchange loss. For the three months ended March 31, 2022 and 2021, the Company incurred a foreign exchange loss of \$1.4 million and \$7.3 million, respectively. Foreign exchange gain (loss) includes the re-measurement and settlement of net monetary assets denominated in Mexican pesos and the gain (loss) on foreign currency derivative contracts.

For the three months ended March 31, 2022, the re-measurement and settlement of monetary assets and liabilities denominated in Mexican pesos resulted in a foreign exchange gain of \$6.7 million, compared to a loss of \$4.9 million for the same period in 2021.

The Company enters into foreign currency derivative contracts to hedge its net exposure to fluctuations in foreign currency caused by fluctuations in the value of the Mexican peso against the U.S. dollar. For the three months ended March 31, 2022 and 2021, the Company incurred a foreign exchange loss on foreign currency derivative contracts of \$8.1 million and \$2.4 million, respectively.

Other income (expense), net. Other income (expense), net increased \$1.7 million for the three months ended March 31, 2022, compared to the same period in 2021, due to an increase in miscellaneous income.

Income tax expense. Income tax expense increased \$14.0 million for the three months ended March 31, 2022, compared to the same period in 2021, primarily due to higher pre-tax income.

The components of the effective tax rates for the three months ended March 31, 2022, compared to the same period in 2021, are as follows:

	Three Months Ended March 31,	
	2022	2021
Statutory rate in effect	21.0 %	21.0 %
Tax effect of:		
Difference between U.S. and foreign tax rate	5.5 %	6.0 %
Inflation	(1.5 %)	(0.5 %)
State and local income tax provision, net	1.3 %	1.2 %
Foreign exchange (i)	1.1 %	0.4 %
Other, net	0.4 %	(0.5 %)
Effective tax rate	27.8 %	27.6 %

- (i) The Company’s Mexican subsidiaries have net U.S. dollar-denominated monetary liabilities which, for Mexican income tax purposes, are subject to periodic revaluation based on changes in the value of the Mexican peso against the U.S. dollar. This revaluation creates fluctuations in the Company’s Mexican income tax expense in the consolidated income statements and the amount of income taxes paid in Mexico. The Company also has net monetary assets denominated in Mexican pesos, that are subject to periodic re-measurement and settlement that creates fluctuations in foreign currency gains and losses in the consolidated income statements. The Company hedges its net exposure to variations in earnings by entering into foreign currency forward contracts. The foreign currency forward contracts involve the Company’s agreement to buy or sell pesos at an agreed-upon exchange rate on a future date. Refer to Note 6, Derivative Instruments for more information.

Mexico Regulatory and Legal Updates

Hydrocarbons Law. On May 5, 2021, new legislation pertaining to the transport and handling of hydrocarbons in Mexico became effective. This legislation addresses a wide array of issues related to the storage, transportation and handling of petroleum products, as well as the illegal import of hydrocarbons. The legislation is being challenged in the court system by a number of stakeholders and is currently subject to a court-ordered injunction, resulting in a suspension of the implementation and enforcement of this new law. To date, this law has not had a material effect on the Company or its operations. However, the Company is continuing to monitor this law and is evaluating the effect on the Company and its business operations.

Inspections Related to Imports and Terminals. During 2021, the Ministry of Infrastructure, Communications, and Transportation (“SICT”) and other relevant Mexican authorities increased inspections of imports and enforcement of various regulations and permit

requirements related to terminal operations, with specific focus on imports of refined products and refined fuel transloading terminals and freight terminals, in order to prevent the illegal importation of refined fuel products. These inspections resulted in delays related to the import of shipments into Mexico as well as the shutdown of several refined fuel terminals in the second half of 2021. The SICT has instructed KCSM to provide railway service only to those terminals that have the applicable permits. If KCSM were to fail to comply with the SICT requirements, the Company could be subject to fines and potential revocation of the Concession. As a result, KCS's freight revenue from refined products decreased in 2021 and continued to decrease in the first quarter of 2022. See further discussion in the Revenues section.

Value-Added Tax Law. KCSM is not required to charge its customers VAT on international import or export transportation services, resulting in KCSM paying more VAT on its expenses than it collects from customers. These excess VAT payments are refundable by the Mexican government. Prior to 2019, Mexican companies could offset their monthly refundable VAT balance with other tax obligations. In January 2019, Mexico tax reform eliminated the ability to offset other tax obligations with refundable VAT. Since January 2019, KCSM has generated a refundable VAT balance and filed refund claims with the Servicio de Administración Tributaria (the "SAT") which have not been refunded.

In November 2021, changes to the VAT law were announced and became effective beginning January 1, 2022. These changes reduced the recoverability of VAT paid by KCSM on its expenditures that support international import transportation service revenues that are not subject to a VAT charge. VAT that is unrecoverable from the Mexican government results in incremental VAT expense for KCSM. Beginning in 2022, KCSM changed certain service offerings to either require VAT to be charged to customers on revenue, or impose a rate increase to offset the incremental VAT expense. These measures implemented by KCSM increase the VAT to be collected from customers and payable to the Mexican government.

As of March 31, 2022 and December 31, 2021, the KCSM refundable VAT balance was \$141.2 million and \$152.2 million, respectively. As of March 31, 2022 and December 31, 2021, \$73.0 million and \$78.0 million, respectively, of the refundable VAT balance was classified as a short-term asset, which represents the estimated amount of VAT to be collected from customers and payable to the Mexican government in 2022 that will reduce the VAT receivable balance from the Mexican government. KCSM has prior favorable Mexican court decisions and a legal opinion supporting its right under Mexican law to recover the refundable VAT balance from the Mexican government and believes the VAT to be fully recoverable.

Carta Porte. In the second quarter of 2021, KCSM was notified by the SAT that shipping companies (cargo airlines, trucks, maritime, railroads, and other similar companies) must include additional bill of lading information (referred to in Mexico as "Carta Porte") with the invoice for all merchandise shipped in Mexico, including cross-border, international and Mexico domestic shipments. The Carta Porte requirements and deadline were modified several times throughout 2021. The effective date of January 1, 2022 included a three month grace period during which penalties and fines for inaccurate information would not be imposed. In the first quarter of 2022, the grace period was extended to September 30, 2022. KCSM adapted its systems to comply with the Carta Porte requirements, which delayed KCSM's invoicing and cash collections by approximately 30 days in the first quarter of 2022.

Failure to comply with Carta Porte requirements subsequent to the grace period could result in penalties and fines imposed by the SAT, shipping delays causing network congestion and delayed invoicing and cash collections. In addition, in the event of repeated noncompliance with Carta Porte requirements, the SAT has the power to preventively shut down operations of a company.

Liquidity and Capital Resources

Overview

The Company focuses its cash and capital resources on investing in the business, shareholder returns and optimizing its capital structure.

The Company believes, based on current expectations, that cash and other liquid assets, operating cash flows, and other available financing resources will be sufficient to fund anticipated operating expenses, capital expenditures, debt service costs, dividends, and other commitments for the foreseeable future.

During the three months ended March 31, 2022, the Company invested \$98.7 million in capital expenditures. See the Capital Expenditures section for further details.

In the first quarter of 2022, pursuant to the Merger Agreement, KCS paid a cash dividend of \$265.0 million to a wholly-owned subsidiary of CP. KCS plans to make further periodic cash distributions based upon cash generated, the timing of capital expenditures and working capital needs of the Company.

The Company's current financing instruments contain restrictive covenants that limit or preclude certain actions; however, the covenants are structured such that the Company expects to have sufficient flexibility to conduct its operations. The Company has been, and expects to continue to be, in compliance with all of its debt covenants. For additional discussion of the agreements representing

the indebtedness of KCS, see Note 11, Short-Term Borrowings and Note 12, Long-Term Debt in the “Notes to the Consolidated Financial Statements” section of the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

KCS believes it has a strong liquidity position to continue business operations and service its debt obligations. The Company has total available liquidity of \$704.6 million as of March 31, 2022, consisting of cash on hand and a revolving credit facility, compared to available liquidity at December 31, 2021 of \$939.3 million.

As of March 31, 2022, the total cash and cash equivalents held outside of the U.S. in foreign subsidiaries was \$36.7 million, after repatriating \$19.4 million during 2022. The Company expects that this cash will be available to fund operations without incurring significant additional income taxes.

On January 1, 2022, KCSM complied with Carta Porte requirements, providing customers with additional bill of lading information with the invoice for all merchandise shipped in Mexico. KCSM adapted its systems to comply with the Carta Porte requirements, which delayed KCSM’s invoicing and cash collections by approximately 30 days in the first quarter of 2022. The Company believes cash collections will normalize in the second and third quarters of 2022.

Cash Flow Information

Summary cash flow data follows (*in millions*):

	Three Months Ended March 31,	
	2022	2021
Cash flows provided by (used for):		
Operating activities	\$ 149.2	\$ 226.2
Investing activities	(115.8)	(114.0)
Financing activities	(267.5)	(39.5)
Effect of exchange rate changes on cash	(0.6)	(1.0)
Net increase (decrease) in cash and cash equivalents	(234.7)	71.7
Cash and cash equivalents beginning of year	339.3	188.2
Cash and cash equivalents end of period	<u>\$ 104.6</u>	<u>\$ 259.9</u>

Cash flows from operating activities decreased \$77.0 million for the three months ended March 31, 2022, compared to the same period in 2021, primarily due to a decrease in cash collections from a delay in invoicing and cash collections resulting from implementation of Carta Porte regulations, partially offset by increased operating income.

Net cash used for investing activities increased \$1.8 million for the three months ended March 31, 2022, compared to the same period in 2021, primarily due to increased property investments in MSLLC of \$15.3 million, partially offset by a decrease in capital expenditures of \$10.3 million.

Net cash used for financing activities increased \$228.0 million for the three months ended March 31, 2022, compared to the same period in 2021, primarily due to the cash dividend payment of \$265.0 million to a wholly-owned subsidiary of CP.

Capital Expenditures

KCS has funded, and expects to continue to fund capital expenditures with operating cash flows and short and long-term debt.

The following table summarizes capital expenditures by type (*in millions*):

	Three Months Ended March 31,	
	2022	2021
Roadway capital program	\$ 60.0	\$ 55.7
Locomotives and freight cars	10.3	10.8
Capacity	14.6	18.3
Information technology	12.1	9.7
Positive train control	1.3	4.2
Other	0.4	0.8
Total capital expenditures (accrual basis)	98.7	99.5
Change in capital accruals	(3.0)	6.5
Total cash capital expenditures	\$ 95.7	\$ 106.0

Generally, the Company's capital program consists of capital replacement and equipment. For 2022, internally generated cash flows are expected to fund cash capital expenditures, which are currently estimated to be approximately 16.5% of revenue in 2022, assuming constant currency and fuel price.

Supplemental Guarantor Financial Information

The following is a description of the terms and conditions of the guarantees with respect to senior notes for which KCS is an issuer or provides full and unconditional guarantee.

Note Guarantees

As of March 31, 2022, KCS had outstanding \$3,736.2 million principal amount of senior notes due through 2069. KCSR had outstanding \$2.7 million principal amount of senior notes due through 2045 (together, the "Senior Notes"). The senior notes for which KCS is the issuer are unconditionally guaranteed, jointly and severally, on an unsecured senior basis, by each of KCS's current and future domestic consolidated subsidiaries that from time to time guarantees certain of KCS's credit agreements, or any other debt of KCS, or any of KCS's significant subsidiaries that is a guarantor (each, a "Guarantor Subsidiary," and collectively, the "Guarantor Subsidiaries"). In addition, the senior notes for which KCSR is the issuer are unconditionally guaranteed, jointly and severally, on an unsecured senior basis, by KCS and each of its current and future domestic consolidated subsidiaries that from time to time guarantees KCSR's credit agreement, or any other debt of KCSR or any of KCSR's significant subsidiaries that is a Guarantor Subsidiary. The obligations of each Guarantor Subsidiary under its note guarantee are limited as necessary to prevent such note guarantee from constituting a fraudulent conveyance under applicable law. A guarantee of the Senior Notes by KCS or a Guarantor Subsidiary is subject to release in the following circumstances: (i) the sale, disposition, exchange or other transfer (including through merger, consolidation, amalgamation or otherwise) of the capital stock of the Guarantor Subsidiary made in a manner not in violation of the indenture; (ii) the designation of the subsidiary as an "Unrestricted Subsidiary" under the indenture; (iii) the legal defeasance or covenant defeasance of the Senior Notes in accordance with the terms of the indenture; or (iv) the Guarantor Subsidiary ceasing to be KCS's subsidiary as a result of any foreclosure of any pledge or security interest securing KCS's Revolving Credit Facility or other exercise of remedies in respect thereof.

KCSM and any other foreign subsidiaries of KCS do not and will not guarantee the Senior Notes ("Non-Guarantor Subsidiaries").

The following tables present summarized financial information for KCS and the Guarantor Subsidiaries on a combined basis after intercompany transactions have been eliminated, including adjustments to remove the receivable and payable balances, investment in, and equity in earnings from the Non-Guarantor Subsidiaries.

Summarized Financial Information

Income Statements

	KCS and Guarantor Subsidiaries	
	Three Months Ended March 31, 2022	Twelve Months Ended December 31, 2021
Revenues	\$ 420.5	\$ 1,561.3
Operating expenses	271.9	1,200.8
Operating income	148.6	360.5
Income before income taxes	116.7	207.7
Net income	92.4	182.7

Balance Sheets

	KCS and Guarantor Subsidiaries	
	March 31, 2022	December 31, 2021
Assets:		
Current assets	\$ 281.9	\$ 524.6
Property and equipment (including concession assets), net	4,868.4	4,876.5
Other non-current assets	189.9	125.8
Liabilities and equity:		
Current liabilities	\$ 313.6	\$ 316.5
Non-current liabilities	4,945.5	4,942.7
Noncontrolling interest	328.8	328.2

Excluded from current assets in the table above are \$271.8 million and \$199.8 million of current intercompany receivables due to KCS and the Guarantor Subsidiaries from the Non-Guarantor Subsidiaries as of March 31, 2022 and December 31, 2021, respectively. Excluded from current liabilities in the table above are \$227.3 million and \$267.5 million of current intercompany payables due to the Non-Guarantor Subsidiaries from KCS and the Guarantor Subsidiaries as of March 31, 2022 and December 31, 2021, respectively.

The Senior Notes are structurally subordinated to the indebtedness and other liabilities of the Non-Guarantor Subsidiaries. The Non-Guarantor Subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Senior Notes or the indentures, or to make any funds available therefor, whether by dividends, loans, distributions or other payments. Any right that KCS or the Guarantor Subsidiaries have to receive any assets of any of the Non-Guarantor Subsidiaries upon the liquidation or reorganization of any Non-Guarantor Subsidiary, and the consequent rights of holders of Senior Notes to realize proceeds from the sale of any of a Non-Guarantor Subsidiary's assets, would be effectively subordinated to the claims of such Non-Guarantor Subsidiary's creditors, including trade creditors and holders of preferred equity interests, if any, of such Non-Guarantor Subsidiary. Accordingly, in the event of a bankruptcy, liquidation or reorganization of any of the Non-Guarantor Subsidiaries, the Non-Guarantor Subsidiaries will pay the holders of their debts, holders of preferred equity interests, if any, and their trade creditors before they will be able to distribute any of their assets to KCS or any Guarantor Subsidiary.

If a Guarantor Subsidiary were to become a debtor in a case under the U.S. Bankruptcy Code or encounter other financial difficulty, under federal or state fraudulent transfer or conveyance law, a court may avoid, subordinate or otherwise decline to enforce its guarantee of the Senior Notes. A court might do so if it is found that when such Guarantor Subsidiary entered into its guarantee of the Senior Notes, or in some states when payments became due under the Senior Notes, such Guarantor Subsidiary received less than reasonably equivalent value or fair consideration and either:

- was insolvent or rendered insolvent by reason of such incurrence;
- was left with unreasonably small or otherwise inadequate capital to conduct its business; or
- believed or reasonably should have believed that it would incur debts beyond its ability to pay.

The court might also avoid the guarantee of the Senior Notes without regard to the above factors, if the court found that a Guarantor Subsidiary entered into its guarantee with actual intent to hinder, delay or defraud its creditors.

A court would likely find that a Guarantor Subsidiary did not receive reasonably equivalent value or fair consideration for its guarantee of the Senior Notes, if such Guarantor Subsidiary did not substantially benefit directly or indirectly from the funding made available by the issuance of the Senior Notes. If a court were to avoid a guarantee of the Senior Notes provided by a Guarantor Subsidiary, holders of the Senior Notes would no longer have any claim against such Guarantor Subsidiary. The measures of

insolvency for purposes of these fraudulent transfer or conveyance laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer or conveyance has occurred, such that the Company cannot predict what standards a court would use to determine whether or not a Guarantor Subsidiary was solvent at the relevant time or, regardless of the standard that a court uses, that the guarantee of a Guarantor Subsidiary would not be subordinated to such Guarantor Subsidiary's other debt. As noted above, each guarantee provided by a Guarantor Subsidiary includes a provision intended to limit the Guarantor Subsidiary's liability to the maximum amount that it could incur without causing the incurrence of obligations under its guarantee to be a fraudulent transfer or conveyance. This provision may not be effective to protect those guarantees from being avoided under fraudulent transfer or conveyance law, or it may reduce that Guarantor Subsidiary's obligation to an amount that effectively makes its guarantee worthless, and the Company cannot predict whether a court will ultimately find it to be effective.

On the basis of historical financial information, operating history and other factors, the Company believes that each of the Guarantor Subsidiaries, after giving effect to the issuance of its guarantee of the Senior Notes when such guarantee was issued, was not insolvent, did not have unreasonably small capital for the business in which it engaged and did not and has not incurred debts beyond its ability to pay such debts as they mature. The Company cannot predict, however, as to what standard a court would apply in making these determinations or that a court would agree with the Company's conclusions in this regard.

Other Matters

Collective Bargaining

KCSR participates in industry-wide multi-employer bargaining as a member of the National Carriers' Conference Committee ("NCCC"), as well as local bargaining for agreements that are limited to KCSR's property. Approximately 72% of KCSR employees are covered by collective bargaining agreements. Long-term agreements were reached voluntarily or through the arbitration process during 2017 and 2018 covering all of the participating unions. The terms of these agreements will remain in effect until new agreements are reached in the current national bargaining round. In November 2019, KCSR and its unions commenced negotiations in connection with the 2020 bargaining round.

KCSM union employees are covered by one labor agreement, which was signed on April 16, 2012, between KCSM Servicios, a previously wholly-owned subsidiary of KCS that was merged into KCSM in 2021, and the Sindicato de Trabajadores Ferrocarrileros de la República Mexicana ("Mexican Railroad Union"). This labor agreement remains in effect during the period of the Concession for the purpose of regulating the relationship between the parties. Approximately 77% of KCSM employees are covered by this labor agreement. The compensation terms under this labor agreement are subject to renegotiation on an annual basis and all other benefits are subject to negotiation every two years. The parties finalized negotiations over compensation terms and benefits that applied until June 30, 2021, along with other terms, and will remain in effect until new terms have been negotiated.

Union labor negotiations have not historically resulted in any strike, boycott, or other disruption in the Company's business operations.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

There was no material change during the quarter from the information set forth in Part II, Item 7A. "Quantitative and Qualitative Disclosure about Market Risk" in the Annual Report on Form 10-K for the year ended December 31, 2021.

Item 4. *Controls and Procedures*

(a) Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the fiscal quarter ended March 31, 2022, the design and operation of the Company's disclosure controls and procedures were effective to accomplish their objectives at a reasonable assurance level.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

For information related to the Company’s legal proceedings, see Note 9, Commitments and Contingencies, under Part I, Item 1 of this quarterly report on Form 10-Q.

Item 1A. *Risk Factors*

There were no material changes during the quarter to the Risk Factors disclosed in Item 1A - “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

None.

Item 3. *Defaults upon Senior Securities*

None.

Item 4. *Mine Safety Disclosures*

Not applicable.

Item 5. *Other Information*

None.

Item 6. Exhibits

Exhibit No.	Exhibits
22.1	List of Issuers and Guarantor Subsidiaries, filed as Exhibit 22.1 to the Company's Form 10-Q for the quarter ended March 31, 2020, filed on April 17, 2020 (File No. 1-4717), is incorporated herein by reference as Exhibit 22.1.
31.1*	Principal Executive Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 is attached to this Form 10-Q as Exhibit 31.1.
31.2*	Principal Financial Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 is attached to this Form 10-Q as Exhibit 31.2.
32.1**	Principal Executive Officer's Certification furnished Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is attached to this Form 10-Q as Exhibit 32.1.
32.2**	Principal Financial Officer's Certification furnished Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is attached to this Form 10-Q as Exhibit 32.2.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as an Inline XBRL document and included in Exhibit 101).

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized and in the capacities indicated on April 27, 2022.

Kansas City Southern

/s/ MICHAEL W. UPCHURCH

Michael W. Upchurch
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ SUZANNE M. GRAFTON

Suzanne M. Grafton
Vice President and Chief Accounting Officer
(Principal Accounting Officer)

**PRINCIPAL EXECUTIVE OFFICER'S CERTIFICATION
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Patrick J. Ottensmeyer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kansas City Southern (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ PATRICK J. OTTENSMEYER

Patrick J. Ottensmeyer

President and Chief Executive Officer

Date: April 27, 2022

**PRINCIPAL FINANCIAL OFFICER'S CERTIFICATION
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael W. Upchurch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kansas City Southern (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ MICHAEL W. UPCHURCH

Michael W. Upchurch

Executive Vice President and Chief Financial Officer

Date: April 27, 2022

**PRINCIPAL EXECUTIVE OFFICER'S CERTIFICATION
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Kansas City Southern (the "Company") on Form 10-Q for the period ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Patrick J. Ottensmeyer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PATRICK J. OTTENSMEYER

Patrick J. Ottensmeyer

President and Chief Executive Officer

Date: April 27, 2022

A signed original of this written statement required by Section 906 has been provided to Kansas City Southern and will be retained by Kansas City Southern and furnished to the Securities and Exchange Commission or its staff upon request.

**PRINCIPAL FINANCIAL OFFICER'S CERTIFICATION
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Kansas City Southern (the "Company") on Form 10-Q for the period ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael W. Upchurch, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MICHAEL W. UPCHURCH

Michael W. Upchurch

Executive Vice President and Chief Financial Officer

Date: April 27, 2022

A signed original of this written statement required by Section 906 has been provided to Kansas City Southern and will be retained by Kansas City Southern and furnished to the Securities and Exchange Commission or its staff upon request.