



CPKC

Dedicated to Grain

Grain Service Outlook Report for the 2024-2025 Crop Year

July 31, 2024



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Message from the President and Chief Executive Officer

On behalf of Canadian Pacific Kansas City (“CPKC”), I am pleased to present our 2024–2025 Grain Service Outlook Report. This is our seventh annual grain report, and our second since the historic combination of Canadian Pacific (“CP”) and Kansas City Southern (“KCS”) on April 14, 2023, to create CPKC, the first and only Class 1 railway network uniting North America by seamlessly connecting Canada, the U.S., and Mexico. The report outlines our plan to continue delivering industry-leading safe and reliable service to our grain customers.

Our newly combined North American rail network has unrivalled geographic reach across 20,000-miles with access from Vancouver to Saint John in Canada, and south to 12 Gulf and Pacific ports in the U.S. and Mexico. Canadian grain customers now have access to our single line service from the Canadian prairies to outlets in the U.S. and Mexico. This powerful rail network is delivering enhanced safety, competition, resiliency, and expanded route options and market access for Canada’s grain shippers.

CPKC is dedicated to, and excels at, safely transporting Canadian agricultural products for export to global markets. Safely moving Canada’s grain has been part of our DNA since 1881, and it remains a key part of our franchise today.

Throughout the 2023–2024 crop year, CPKC delivered strong service to our grain customers. While supply chain performance was healthy, demand for grain transportation throughout the fall and January generally remained well below the typical demand pattern and expectations, even though there was grain on the prairies to move. In fact, approximately one quarter of our planned capacity for Canadian grain and grain products went unused by grain customers. Canada’s goal of maximizing agricultural exports requires shippers to use available supply chain capacity ratably throughout the entire crop year.

As we look towards the upcoming 2024–2025 crop year, CPKC is once again well positioned to transport Canada’s grain crop to market. Precise and accurate customer forecasts are critical to CPKC’s resource planning. We are working with our grain customers to obtain a firm understanding of their specific demand forecasts for the upcoming crop year. Based on current forecasts, we expect a return to more typical demand for grain transportation this year.

Regrettably, despite our best efforts, the timing of a potential work stoppage involving the Teamsters Canada Rail Conference (“TCRC”) could impact the performance of the grain supply chain this upcoming crop year. While supply chain stakeholders were anticipating the possibility of a work stoppage in May 2024, the federal Minister of Labour referred a question regarding the maintenance of activities during a railway strike or lockout to the Canada Industrial Relations Board (“CIRB”). The consequence of this referral is that a work stoppage cannot legally occur until the CIRB issues its decision. The CIRB has advised CPKC that it expects to issue its decision by Friday, August 9, 2024. Therefore, a work stoppage could occur early in the crop year, subject to any extension to the “cooling off” period the CIRB may order, and the required 72 hours’ notice the parties must provide under the *Canada Labour Code*.

CPKC remains committed to negotiating renewed agreements with the TCRC and avoiding a completely unnecessary work stoppage that would be damaging for Canadians, Canada’s international reputation as a reliable trading partner, and all those who rely on our transportation service, including our agriculture customers. We proposed to the TCRC that we agree to resolve this matter through binding arbitration should negotiated outcomes be unachievable in order to avoid a work stoppage. To date, the TCRC has rejected this offer.

Should a work stoppage occur when this year’s grain crop is ready for harvest and transportation, supply chain performance will be impacted, damaging the interests of all stakeholders. We will remain focused on doing our part to avoid such an outcome so that CPKC can continue delivering for our customers and the Canadian economy.

CPKC is strongly committed to our Canadian agriculture customers. We look forward to safely transporting Canada’s grain crop for export to global markets during the upcoming 2024–2025 crop year.



Keith Creel

President and Chief Executive Officer

Executive summary

This report outlines CPKC's commitment to delivering for our grain customers, every single day. With dedicated trains and dedicated people, we offer the safest, most competitive, resilient, and cost-effective transportation service in the industry. We will continue driving further safety and efficiency improvements in the upcoming crop year. Key highlights of the 2024–2025 report:

- CPKC continues to lead the North American railway industry in safety performance. In 2023, CPKC had the lowest Federal Railroad Administration ("FRA") reportable train accident frequency of any Class 1 railway in North America. This result builds upon CP's legacy of leading the industry for 17 consecutive years.
- On June 20, 2024, Agriculture and Agri-Food Canada ("AAFC") estimated the total size of the upcoming crop to be 94.4 million metric tonnes ("MMT"), with a crop in Western Canada of approximately 71 MMT. Our grain customers currently estimate Western Canadian crop yields at a higher level than AAFC, with most customer estimates now in the high 70 MMT range.
- Precise and accurate demand forecasts are critical to CPKC's resource planning. CPKC is working with our grain customers to obtain a firm understanding of their specific demand forecasts for the upcoming crop year so that we can effectively plan capacity on the railway across all lines of business. Creating or shifting railway capacity takes time and cannot be done in a short period of time in response to dramatic shifts in customer demand. Large variability in grain transportation impacts the supply chains of other commodities.
- A potential work stoppage on CPKC's Canadian rail network involving the TCRC threatens the performance of Canada's grain supply chain this upcoming crop year, particularly if it occurs in the lead up to or during the fall grain harvest. On July 12, 2024, the CIRB advised CPKC that it intends to issue its decision on the federal Minister of Labour's referral regarding maintenance of activities by August 9, 2024. This development helps provide some predictability regarding the timelines for a potential work stoppage because the parties cannot legally strike or lockout prior to the CIRB issuing its decision. In any event, a legal strike or lockout would require a minimum of 72 hours' notice, subject to any extension of the "cooling off" period ordered by the CIRB.
- Based on our understanding of current customer forecasts, and subject to market demand, CPKC plans to supply the capacity required to move up to 685,000 metric tonnes ("MT") of Canadian agricultural products on average each week when the Port of Thunder Bay is open (generally from August through early January, and from April to July). During the winter months when the Port of Thunder Bay is closed, CPKC plans to supply the capacity required to move up to 525,000 MT of Canadian grain and grain products on average each week, subject to market demand.
- If the grain supply chain uses this available weekly capacity effectively, then CPKC expects to supply the capacity required to transport nearly 34 MMT of Canadian grain and grain products throughout the crop year, subject to market demand. This performance





target is contingent on all elements of the supply chain, including grain customer terminals, ports, and vessels, operating with maximum efficiency, reliability, predictability, and balance throughout the duration of the crop year. The railway is only one part of a complex, integrated grain supply chain. The supply chain is only as strong as its weakest link.

- Unused rail capacity for grain transportation was a key feature of the 2023–2024 crop year. In fact, more than 8.8 MMT of capacity for Canadian grain transportation on the CPKC rail network went unused during this past crop year. This equates to approximately one quarter of the capacity CPKC had available relative to the supply targets outlined in last year’s grain report. Capacity cannot be saved up and used later; capacity unused in the week it is available is lost capacity that cannot be recovered.
- CPKC leads the North American rail industry in safety and continues to invest in the people, equipment, and infrastructure needed to move Canadian grain and grain products. We have completed our more than \$500 million purchase of 5,900 Canadian made, high-capacity hopper cars. Approximately 90 percent of CPKC’s network-wide fleet of grain hopper cars is now high-capacity. Combined with robust hiring, efficient operational solutions, and investments across our network, this powerful fleet is delivering significant capacity gains for Canada’s grain supply chain.
- There are several factors negatively affecting Canada’s ability to maximize the export of Canadian grain and grain products. These include labour instability, the resurrection of extended interswitching, and the decision by many terminal operators to suspend grain loading onto vessels in inclement weather at the Port of Vancouver. The federal government can show leadership by addressing these key, avoidable constraints on the overall performance and export capacity of Canada’s grain supply chain.

Introduction

CPKC is pleased to submit its 2024–2025 Grain Service Outlook Report to the Minister of Transport, as required by section 151.01(1) of the *Canada Transportation Act*. This annual report provides an assessment of CPKC’s ability to move grain during the upcoming 2024–2025 crop year, considering the total volume of grain expected to be moved.

Part 1 looks forward to the 2024–2025 crop year. It reviews the expectations of our customers and AAFC for the size of the upcoming grain crop, and CPKC’s plans to supply the rail capacity required to transport the crop throughout the duration of the crop year.

Part 2 reviews the past 2023–2024 crop year, including CPKC’s strong performance transporting Canada’s grain and grain products to ports for export, and the significant capacity that was unused by our grain customers.

Part 3 outlines CPKC’s industry-leading safety record. It also provides an overview of our hiring and capital investments, which are driving substantial capacity gains for Canadian grain exports.

Part 4 highlights factors negatively impacting grain supply chain capacity and reliability.



Forecasting the crop size

On June 20, 2024, AAFC projected a Canada-wide crop of 94.4 MMT.¹ This equates to a crop of approximately 71 MMT for Western Canada. As recently as April 30, 2024, AAFC was reporting a risk of a potential drought crop due to widespread dry conditions across most of Western Canada.² Precipitation earlier this summer assisted with crop development, but July heat is conversely putting pressure on some areas which may reduce yields. Our grain customers currently estimate Western Canadian crop yields at a higher level than AAFC, with most customer estimates now in the high 70 MMT range. AAFC projects carry-out volume to be down about 9 percent year-over-year. This would assume a 2023–2024 Canada-wide carry-out volume of approximately 9.4 MMT with approximately 7 to 8 MMT from Western Canada. Excluding the drought of 2021, the five-year historical average for Western Canada’s crop is 74 MMT.

Obtaining an accurate demand forecast at the start of the crop year is often challenging, particularly when the harvest occurs later in the fall. This makes resource planning for the supply of rail capacity required for grain transportation difficult. Precise customer forecasts are critical to effective resource planning for all supply chain participants. When forecasting the crop size, CPKC works closely with grain customers to obtain a firm understanding of their specific demand forecasts and expectations for the upcoming crop year. In an effort to refine and validate customer forecasts, we review the five-year historical averages and the latest AAFC predictions on production and carry-in volume for the upcoming crop year.



¹ Agriculture and Agri-Food Canada, *Outlook for Principal Field Crops, 2024-06-20*, available online at <https://agriculture.canada.ca/en/sector/crops/reports-statistics/canada-outlook-principal-field-crops-2024-06-20>.

² Agriculture and Agri-Food Canada, *Outlook for Principal Field Crops, 2024-05-21*, available online at <https://agriculture.canada.ca/en/sector/crops/reports-statistics/canada-outlook-principal-field-crops-2024-05-21>.

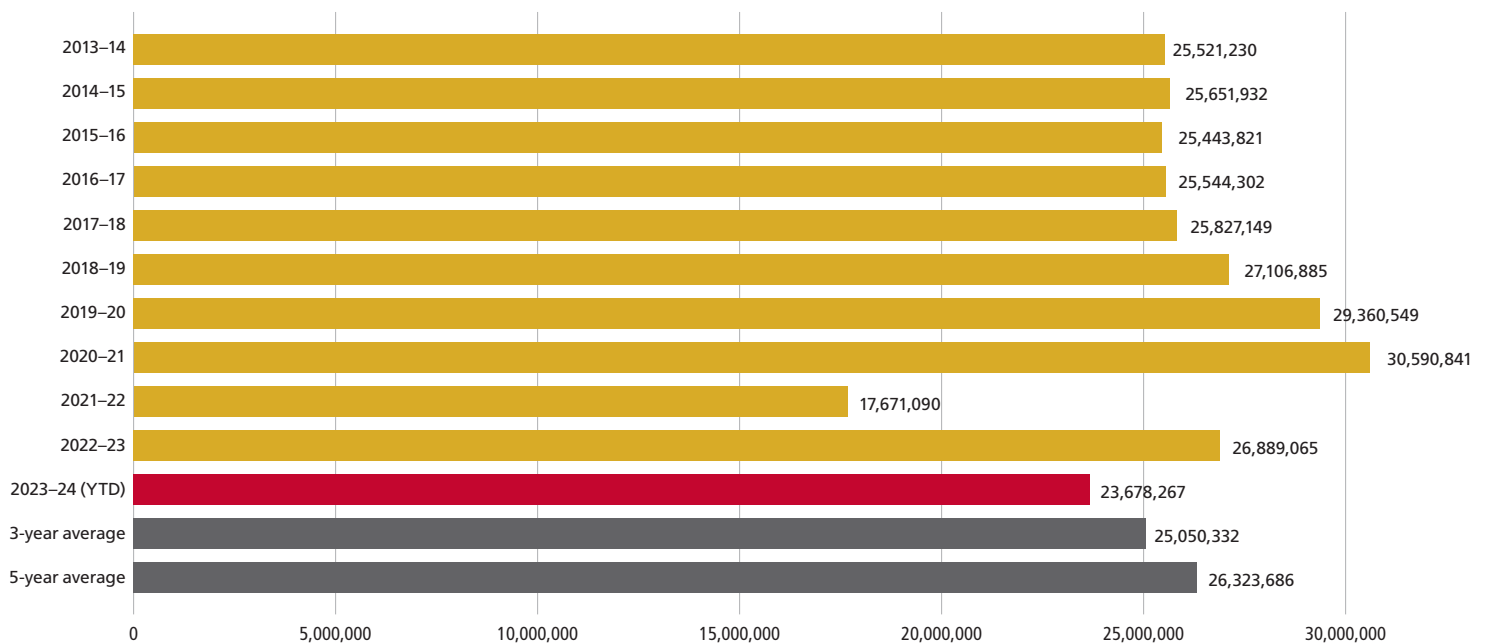
Capacity supply targets for the 2024–2025 crop year

Two of the last three crop years have seen relatively low grain demand. For the 2024–2025 crop year, based on current customer forecasts, CPKC expects a return to more typical demand for the transportation of Canadian grain and grain products. The high variability in grain demand makes resource planning challenging. Variability in grain

transportation also impacts the supply chains for other commodities that use railway transportation.

CPKC is resourcing the railway to provide the capacity to transport Canada’s grain crop throughout the duration of the 2024–2025 crop year. Considering current customer forecasts, and subject to market demand, CPKC is planning

FIGURE 1: CPKC CANADIAN GRAIN AND GRAIN PRODUCTS VOLUME TRANSPORTED



Note: Crop year 2023–2024 shows volumes Year-to-Date (“YTD”) up to and including Week 50.

to supply the capacity required to move up to 685,000 MT of grain and grain products each week on average during Grain Service Weeks 1-22 (August 4 to January 4) and Grain Service Weeks 35-52 (March 30 to July 31), when the Port of Thunder Bay is expected to be open. CPKC is planning to supply the capacity required to move up to 525,000 MT of grain and grain products each week on average during the winter period through Grain Service Weeks 23-34 (January 5 to March 29) when the Port of Thunder Bay is closed, subject to market demand. If the grain supply chain uses this available weekly capacity effectively, then CPKC expects to supply the capacity to move nearly 34 MMT of Canadian

grain and grain products during the 2024–2025 crop year, subject to market demand.

The Port of Thunder Bay is a major outlet for Canadian export grain moving by vessel on the St. Lawrence Seaway. The five-year historical average closing of seaway navigation due to winter weather is January 12, while the average opening is March 27.³

CPKC’s operational plan and supply targets are calibrated to the available capacity throughout the entire supply chain. This includes the capacity available at in-country elevators and port terminals and other facilities (i.e., canola crush and

³ Port of Thunder Bay website, Port Cargo Statistics 1952-Present, available online at <https://www.porthunderbay.ca/administration/cargo-statistics/>.

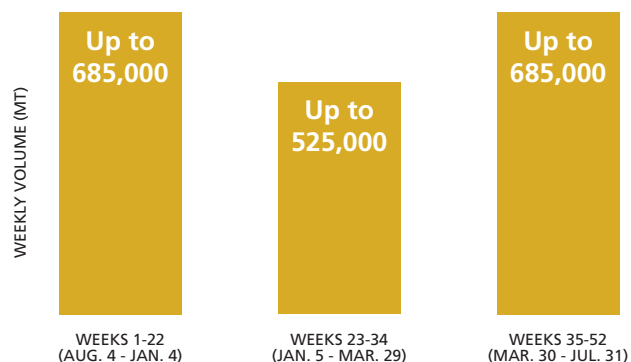


container stuffing facilities). The operational plan assumes that the entire supply chain, including the critical portion through Vancouver, will run at or near capacity throughout the entirety of the crop year.

The most accurate and meaningful supply metric is volume (which is measured by the Canadian grain industry in MT), rather than carloads, because the volume and weight transported in each car has increased significantly over the last decade with the new high-capacity cars coming into service, largely through investment by CPKC. A CPKC hopper car now carries on average 98.1 MT compared to 93.2 MT in 2018, the year we started the acquisition of new high-

capacity hopper cars. This represents a capacity increase of about 5 MT, or 5 percent, per car.

FIGURE 2: CPKC 2024–2025 CROP YEAR SUPPLY TARGETS FOR CANADIAN GRAIN AND GRAIN PRODUCTS TRANSPORTATION



Potential TCRC work stoppage

Despite our continued best efforts to avoid such an outcome, a potential work stoppage on CPKC’s Canadian rail network involving the TCRC could impact grain transportation during the upcoming crop year. The TCRC represents our locomotive engineers, conductors, and yard personnel in Canada under its Train & Engine bargaining division, and our Canadian rail traffic controllers under a separate bargaining division.

The exact timing of a potential work stoppage remains unknown since the federal Minister of Labour referred a question on the maintenance of activities during a railway strike or lockout to the CIRB on May 9, 2024. A legal work stoppage is not possible until the CIRB renders its decision, and a minimum of 72 hours’ notice is provided by the parties, as required by the *Canada Labour Code*. The CIRB has advised CPKC that it intends to issue its decision by August 9, 2024. In its decision, the CIRB may extend the “cooling off” period, which would provide some time for our customers and supply chain stakeholders to plan for a potential work stoppage.

The timing of a potential TCRC work stoppage could have a significant impact on grain transportation in Canada during this upcoming crop year, particularly if it occurs in the lead up to or during the fall grain harvest, or during the winter months when demand for grain transportation is typically

strong. A prolonged work stoppage during this period of the grain shipping calendar would cause an extended recovery period for the railway network and other elements of the grain supply chain.

CPKC remains firmly committed to negotiating renewed agreements to avoid a work stoppage that would be detrimental to the interests of all stakeholders, including our employees, their families, our customers, and supply chains across North America and beyond. Unfortunately, it is clear the TCRC leadership does not share that commitment. Instead, the TCRC leadership appears determined to go down the path of a reckless, economically damaging work stoppage that can and should be avoided.

CPKC has made two distinct offers to the TCRC, both of which provide significant benefits for our employees and fully comply with new regulatory requirements for rest. They do not in any way compromise safety.

We are doing everything we can to restore certainty and predictability for all our employees, their families, and our supply chains. We proposed to the TCRC that we both agree to resolve this labour dispute through binding arbitration. Our offer was refused. The current uncertainty could be resolved immediately if the TCRC would simply agree to binding arbitration.

Evolving agricultural landscape

The agricultural landscape is evolving in Canada: mandates for renewable fuels in North America are driving demand for Canadian canola oil in conjunction with Canada's clean fuel regulation. The agricultural industry is anticipating and adapting to these changes with multiple new crush facility projects and expansions that are either announced, underway, or in production. The impact to grain trade flows is expected

to evolve as well. We can anticipate a lower volume of export canola seed as the crush industry requires more inputs to produce additional canola oil and meal. While the trade flows will likely fluctuate from historical patterns, CPKC is in regular contact with its customers to understand and anticipate these changing trade flows so that the railway can adjust to shifting market needs.

Customer and industry collaboration and communication

CPKC is focused on delivering world-class service and results to our customers. Our grain Sales and Marketing team is in regular contact with customers to understand their forecasted demand. CPKC also meets with agriculture industry organizations and participates at industry events across Canada, often through presentations and sponsorships. We use multiple tools to facilitate direct communications and provide access to up-to-date shipment and network information.

Customer Station: A web-based self-service option for shipment tracking and information, pipeline visibility, equipment status, bulletins, and customer alerts.

Customer Service: Customers can reach CPKC representatives at our Network Service Centre, day or night, via toll-free telephone (1-888-333-8111), email, or online messaging ("log an issue" feature).

Specialized Teams: CPKC's specialized service teams assist our customers with a full range of matters, including asset management, customs reporting, and waybills.

Customer Advisory Council: Provides important annual feedback on a range of customer service initiatives to enhance service and supply chain integration.

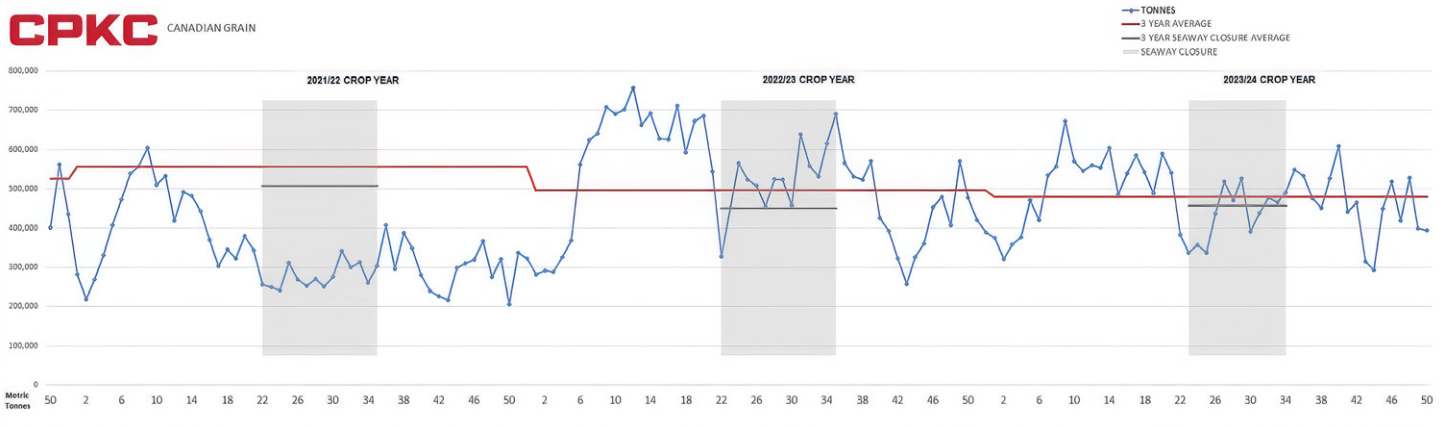
Carbon Emissions Calculator: This innovative web-based tool is designed to give customers greater insight into the carbon footprint of CPKC's transportation services by allowing users to estimate the potential GHG emissions reductions they may achieve using CPKC's rail services compared to long-haul trucking alternatives. Our calculator incorporates customer-specific shipping details to calculate routes across CPKC's North American rail network and commodity-specific GHG emissions. The calculator also provides information on highway safety and other public benefits of shipping with CPKC's freight rail services.



CPKC's Grain Performance Scorecard

CPKC publishes a weekly grain supply chain scorecard on its website at cpkcr.com. The scorecard outlines CPKC's performance for the previous week and critical information on any internal or external factors affecting grain transportation.

FIGURE 3: CPKC WEEKLY GRAIN SUPPLY CHAIN SCORECARD



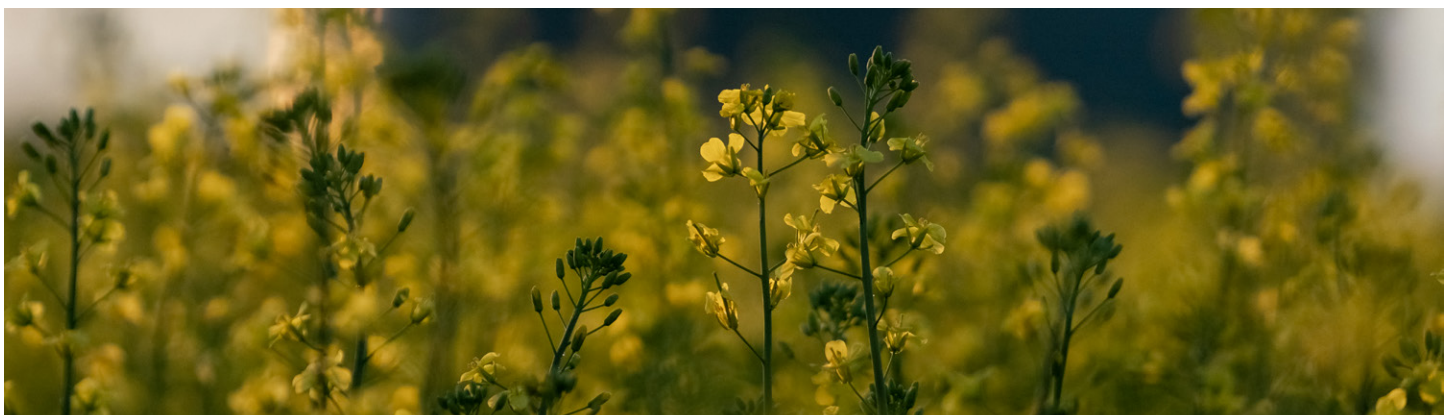
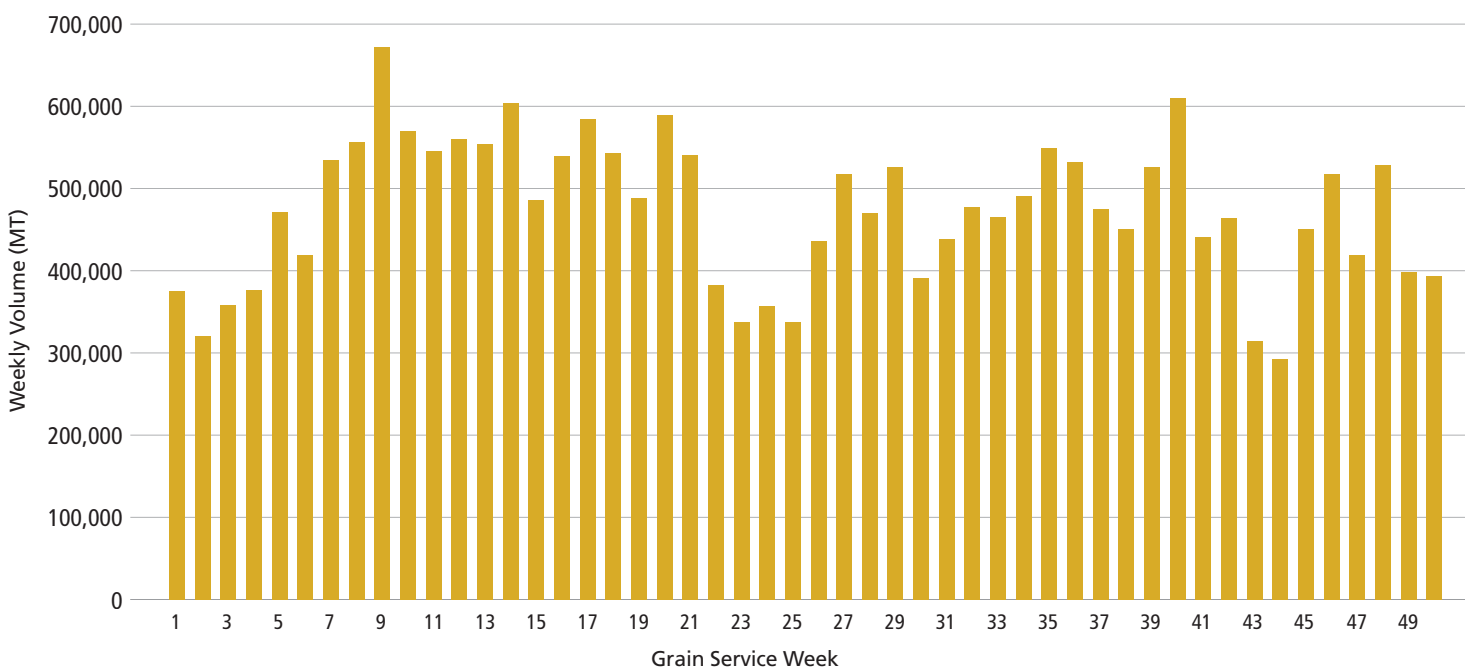
Part 2: 2023–2024 grain supply chain performance

Crop year in review

A key takeaway from the 2023–2024 crop year, much like the previous crop year, is the considerable unused capacity for the transportation of Canadian grain and grain products. Demand generally remained below the typical pattern during the fall and through January. Depending on customer demand for the balance of the crop year, we expect to finish the 2023–2024 crop year having transported between 24 MMT and 25 MMT of grain and grain products. This is approximately 25 percent less volume than the capacity that CPKC had available, relative to the supply targets outlined

in our 2023–2024 Grain Service Outlook Report. With a healthy carry-out volume from the previous crop year, and a near average crop yield, CPKC anticipated and planned for strong demand over the course of the crop year. While there were ebbs and flows in demand for grain transportation like any crop year, strong demand in the fall and January period did not materialize. CPKC managed demand variability throughout the year to provide strong service to our customers.

FIGURE 4: GRAIN VOLUME TRANSPORTED BY WEEK (CROP YEAR 2023–2024)

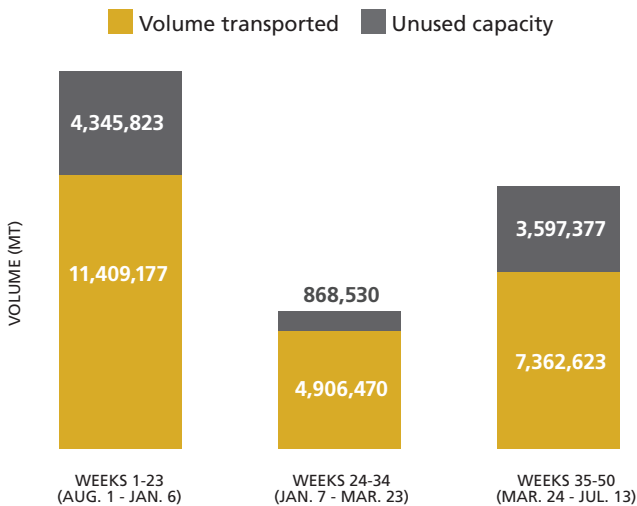


Unused capacity

As outlined in our 2023–2024 Grain Service Outlook Report, CPKC had set capacity targets to transport more than 33 MMT of Canada’s grain and grain products for export during the crop year. Demand was often well below the available capacity throughout the crop year. In fact, through this current crop year to date (up to Week 50), more than 8.8 MMT of available capacity went unused by grain customers on the CPKC Canadian rail network for grain transportation.⁴



FIGURE 5: GRAIN & GRAIN PRODUCTS VOLUME TRANSPORTED VS UNUSED CAPACITY (2023–2024)



⁴ Current to July 13, 2024.

FIGURE 6: GRAIN SERVICE WEEKS 1 - 23 (AUG. 1 - JAN. 6) CROP YEAR 2023–2024

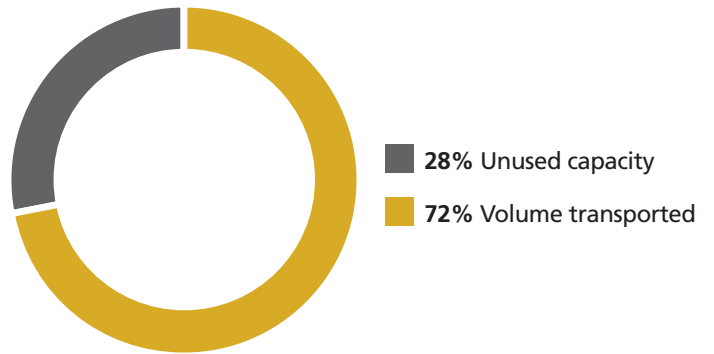


FIGURE 7: GRAIN SERVICE WEEKS 24 - 34 (JAN. 7 - MAR. 23) CROP YEAR 2023–2024

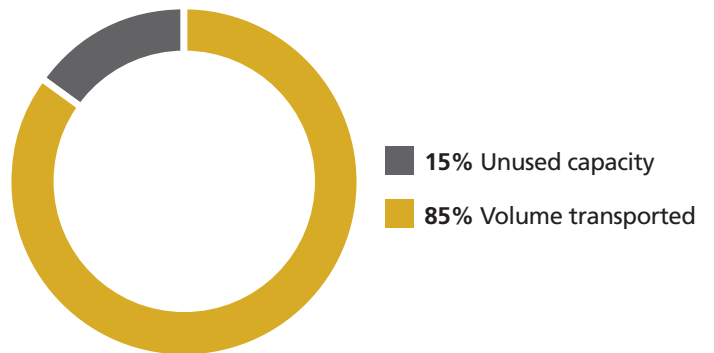


FIGURE 8: GRAIN SERVICE WEEKS 35-50 (MAR. 24 - JUL. 13) CROP YEAR 2023–2024

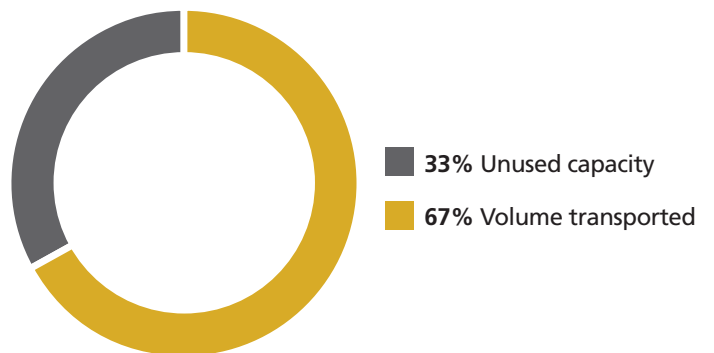
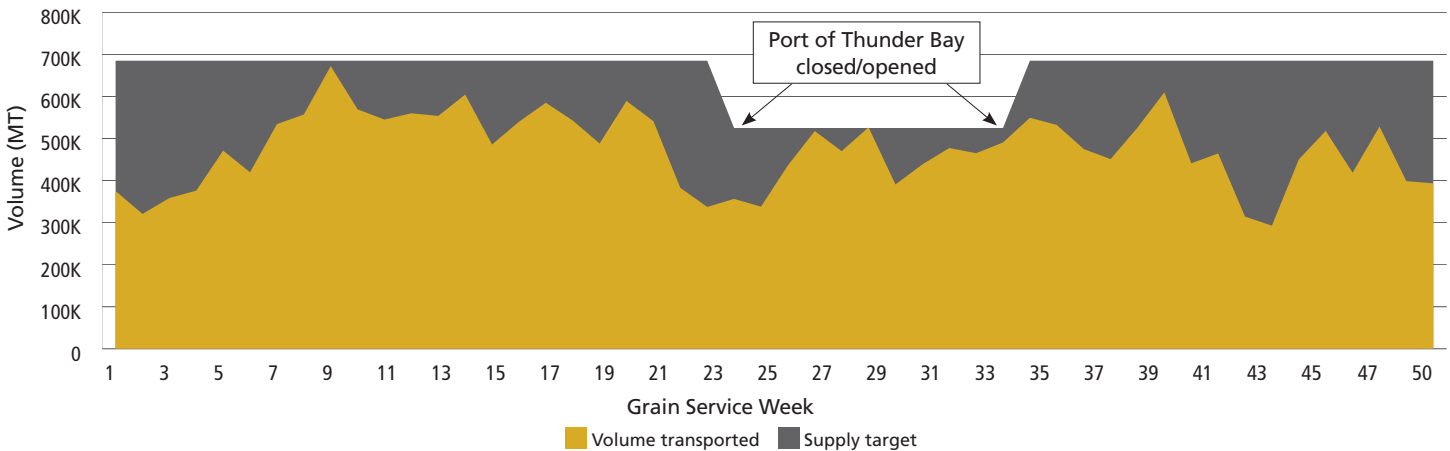




FIGURE 9: CPKC GRAIN & GRAIN PRODUCTS TRANSPORTED VS SUPPLY TARGET (2023–2024)



All grain cannot move at once

The grain supply chain simply cannot move an entire crop at once if market participants decide to wait for a specific price to sell. No efficient supply chain in the world can transport all the grain at once in a short, price-maximizing window. Rather, the only way to maximize supply chain throughput is to have continuous, efficient, and balanced movements from in-country grain elevators to port terminal facilities throughout the duration of the crop year. Significant demand variability and uncertainty creates challenges that undermine supply chain throughput and capacity for the movement of agricultural products and other commodities. Importantly,

grain transportation must be balanced with other commodities that use rail transportation in their supply chains.

CPKC believes strongly in the market. Our grain customers and Canadian farmers are all players in the marketplace, as is CPKC. They rightly make their own business decisions regarding when, where, and how to ship their products, based on their own market dynamics and considerations. We respect that. However, farmers and grain customers must make fully informed business decisions with respect to supply chain functions and risks in order for Canada to maximize the export potential of its agricultural and other export products.

CPKC’s combined network benefits Canadian grain shippers

The combined CPKC rail network has expanded routing and market optionality across North America for our grain customers. A little more than one year after our historic combination, we have seen increased rail shipments of Canadian grain to Mexico and the southern U.S. The increased destination optionality afforded to Canadian grain shippers allows them to further penetrate markets and realize opportunities beyond the traditional Vancouver and Thunder Bay export programs.



Operational performance data reporting

CPKC publicly reports performance data on a weekly basis, including revenue-ton-miles and carloads by line of business, average train speed, and average terminal dwell. These metrics are available at [cpkcr.com](https://www.cpkcr.com). CPKC also reports

a wide range of weekly performance data to Transport Canada and to the U.S. Surface Transportation Board. The data can be used to monitor current service conditions in the rail industry.

Measuring supply chain performance

Railway data is not a proxy for overall supply chain performance. Weekly Empty Order Fulfillment carload data reported by many agricultural political associations, for example, does not consider supply chain interruptions, delays, and shipments into longer-cycle pipelines and

destinations that affect the number of cars available to load each week. It does not account for the performance of the customer loading at origin and unloading at destination terminals, which is a critical factor in assessing overall supply chain performance.

Railway service performance metrics

There have been calls from some shipper lobby associations for railways to publish more service performance metrics. The service a railway provides is always unique for each individual customer, depending on the customer's particular transportation needs, traffic forecasts and volume commitments, and their desired rate.

The customer's own management and control of their supply chain and operational performance also

affects their rail service. For example, if a customer is not unloading cars at destination (such as during periods of rain or snow in Vancouver, which interrupts vessel loading, or if a terminal is not staffed 24/7), they will be constrained with car supply at origin.

There is no one set standard of service. Pursuant to the common carrier obligation under the *Canada Transportation Act*, a railway is required to supply an adequate and suitable



accommodation of a shipper's traffic, but each customer's service requirement is fundamentally different and a railway's service offering is particular to that customer.

More than 85 percent of the Canadian whole grains that CPKC transports is through the Canadian Dedicated Train program, which has been in place since the 2014–2015 crop year.

The level of service that the railway plans to supply a customer will typically be negotiated commercially and defined in a confidential contract that outlines the commitments of both parties and the consequences in the event of non-performance. This is how both parties are held accountable for their commitments. In general, where a customer can provide the railway with a volume forecast or commitment, the railway is in a better position to offer a more specific service commitment because it will be able to plan the resources (i.e., operating crews, which take time to hire and train, and locomotive power) required to provide that level of service on the railway network. Without commitments from the customer, the railway does not have the ability to plan for, and dedicate resources to, servicing that particular customer. With a specific volume commitment from a customer, the railway can and does supply the resources required to provide a level of service that is commensurate with the customer's commitment.

More than 85 percent of the Canadian whole grains that CPKC transports is through the Canadian Dedicated Train program, which has been in place since the 2014–2015 crop year. Under this program, CPKC's grain customers have the flexibility to choose the origins and destinations for their shipments and the number of grain unit trains they require to fulfill their shipping needs. The customer will choose and direct where trains are to be loaded at origin and the order and frequency of train placements. In other words, the grain company will determine which origins on CPKC's network it wants served and in what order. The grain company will make these determinations based on the volume, type, and location of grain it has purchased from the farmer; the total

amount of transportation capacity it has purchased from CPKC; and the type of grain required for a particular vessel expected at port.

The strength of the Canadian Dedicated Train program is that it is reciprocal: it commits CPKC to provide capacity to a customer, and, in return, the customer commits to use that capacity. If CPKC fails to provide the agreed capacity to a customer or the customer fails to use the allocated capacity, there are reciprocal penalties.

Customers that choose not to participate in the Dedicated Train program can order hopper cars through the open distribution program, which allows customers to request railcars from CPKC with two weeks' notice.

Our Dedicated Train program continues to support consistent grain volumes over the full 12 months of the crop year and promote commitment to the full utilization of CPKC's new extended network with year-round product offering to Mexico.

Elevator of the Year award

Viterra Weyburn is the winner of CPKC's Canadian Elevator of the Year award for 2022–2023. Viterra is a valued customer and its elevator in Weyburn, Saskatchewan is a first-time winner of the CPKC Elevator of the Year award. This customer has shown efficient and safe practices with each unit train loaded at the site while moving an impressive amount of grain. CPKC will announce the Elevator of the Year award for the 2023–2024 crop year in fall 2024.



Part 3: Enhancing safety and capacity

Industry-leading safety performance

Safety is foundational to everything that we do at CPKC. In 2023, CPKC led the industry with the lowest FRA reportable train accident frequency in North America, building on CP's legacy of leading the industry for 17 straight years.⁵ Our train accident frequency in 2023 was 70 percent lower than the Class 1 industry average, a gap that has widened considerably over the past decade since CP adopted our precision scheduled railroading operating model.

Safety is a journey, not a destination. We are committed to continuous safety improvements. Through initiatives like CPKC's Home Safe program, which promotes safety engagement and feedback, we are striving to further enhance the safety culture across our company. By expanding the implementation of technology and using data and analytics, we are predicting and detecting more track and equipment failures. We also regularly modify training for employees, including by utilizing new, engaging methods.

FIGURE 10: FRA-REPORTABLE TRAIN ACCIDENT FREQUENCY (PER MILLION TRAIN MILES)

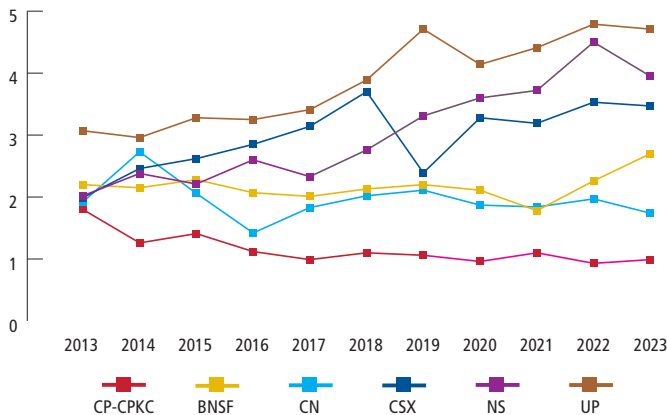
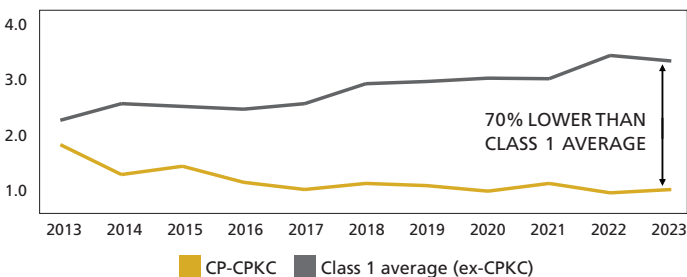
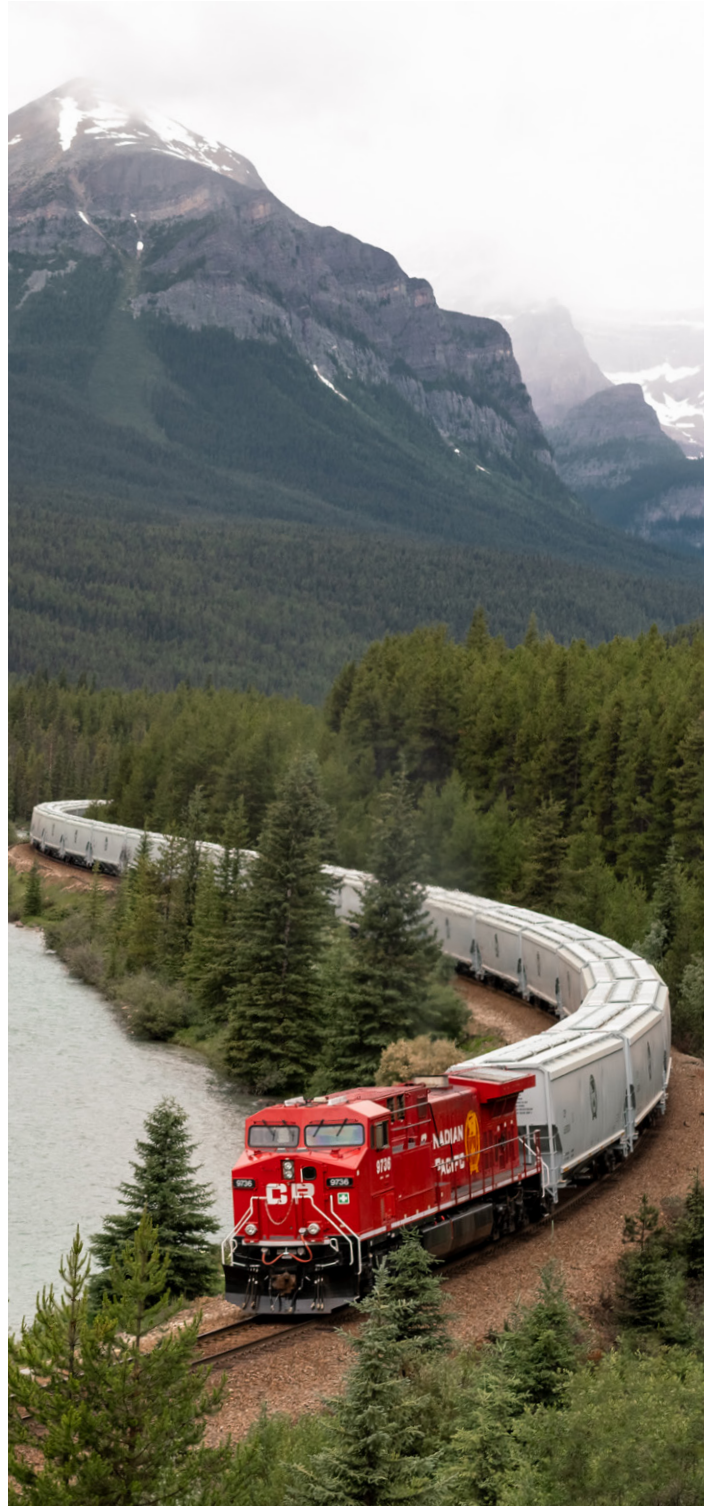


FIGURE 11: CPKC VS. CLASS 1 AVERAGE FRA TRAIN ACCIDENT FREQUENCY (PER MILLION TRAIN MILES)



⁵ FRA statistics for 2023 reflect CP and KCS results on a combined basis.



Building capacity in Canada's grain supply chain

CPKC is investing in the assets and crews needed to supply the rail capacity to meet the demand of our grain customers throughout the duration of the crop year.



Robust hiring

CPKC has approximately 20,000 employees across its North American network, with more than half located in Canada. In 2023, we hired almost 3,000 new employees. We achieved significant hiring targets over the past year despite tight labour markets in many key locations on the network.

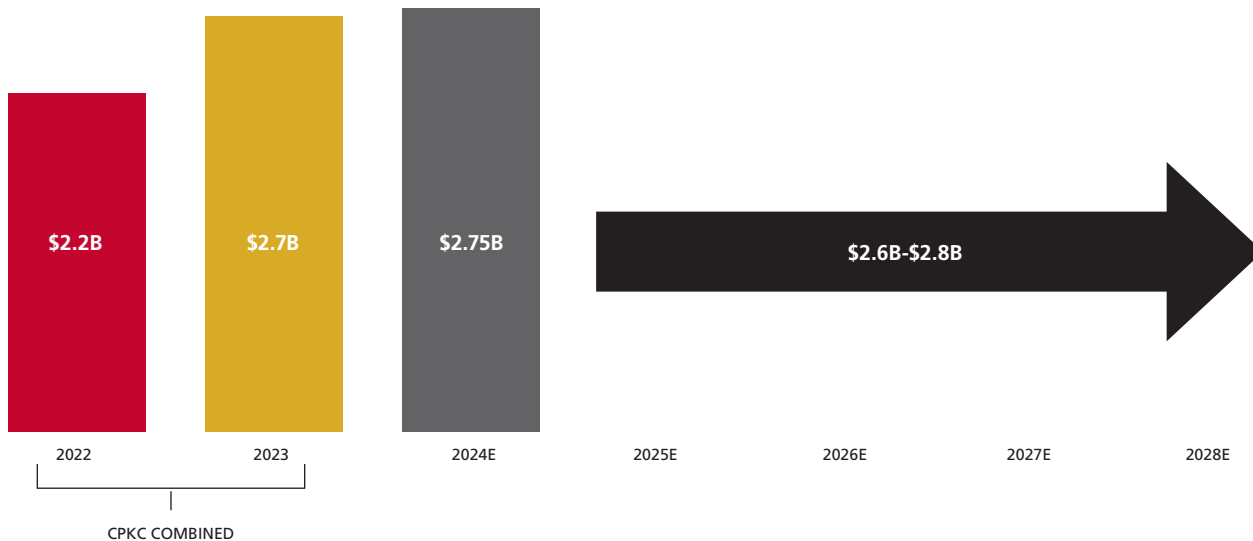


Capital investment

We invested nearly \$2.7 billion in 2023 to enhance the safety, fluidity, capacity, and resiliency of the combined CPKC rail network.⁶ CPKC is executing planned capital investments of approximately \$2.75 billion in 2024. Our current guidance

targets capital expenditures of approximately \$2.6 billion to \$2.8 billion per year across the combined network for the 2024–2028 period.

FIGURE 12: CPKC CAPITAL EXPENDITURES (IN BILLIONS CDN\$)



⁶ This figure is reported on a combined basis to illustrate the total network-wide capital investment as if CP's acquisition of KCS occurred on January 1, 2023. CP and KCS officially combined on April 14, 2023.

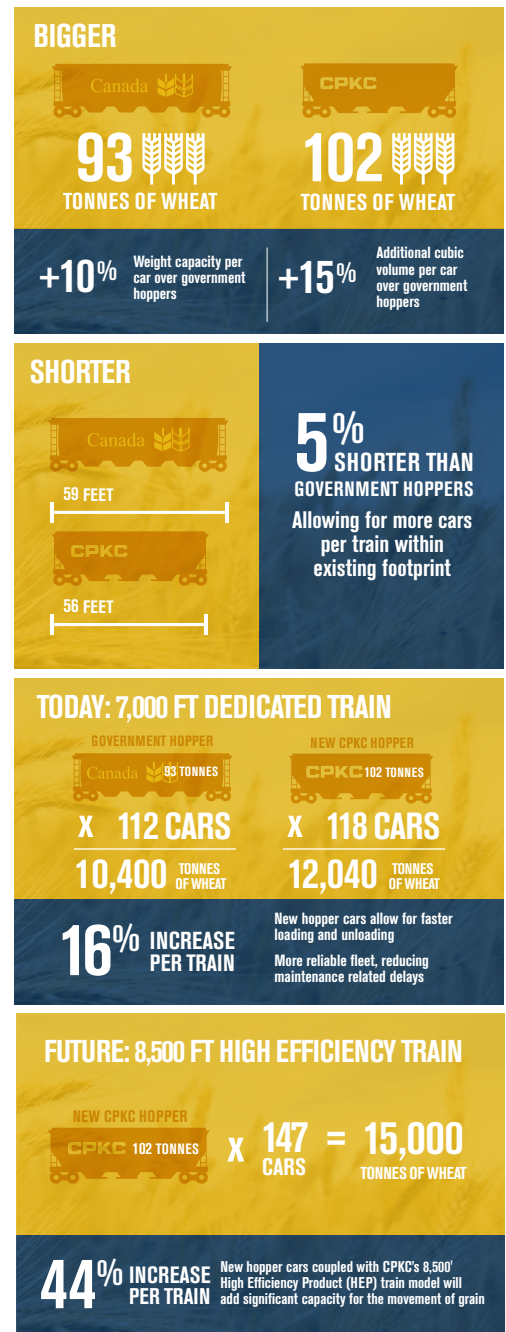
Grain hopper car investment

CPKC's fleet of grain hopper cars has grown substantially in recent years. Our more than \$500 million investment to purchase 5,900 Canadian-made, high-capacity grain hopper cars is complete. Approximately 90 percent of CPKC's expanded grain hopper fleet is now high capacity. This investment has significantly increased CPKC's capacity to transport Canadian grain.

Our made-in-Canada high-capacity hopper cars are shorter, wider, and lighter than legacy Government of Canada hoppers. When combined with CPKC's 8,500-foot High Efficiency Product ("HEP") train model, these high-capacity hopper cars are delivering more than 44 percent more volume capacity in each grain unit train. With newer, more reliable components, maintenance delays are reduced. The three-pocket design means more efficient loading and unloading. In fact, these cars handle more than 15 percent greater volume and 10 percent greater load weight than traditional cars, while featuring a shorter frame that enables more cars to be used on a train of the same length.



FIGURE 13: BENEFITS OF CPKC'S HOPPER CAR INVESTMENT



High Efficiency Product train model

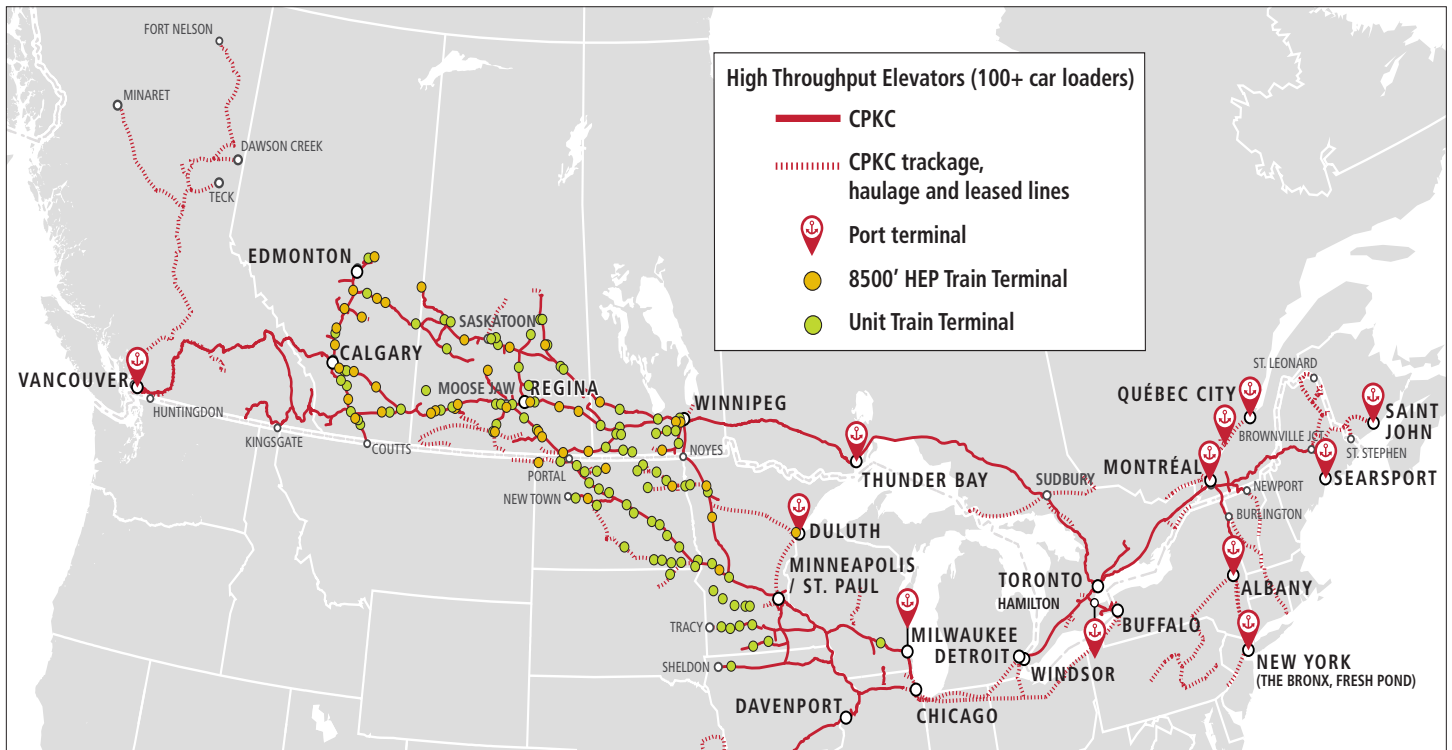
In collaboration with our customers, CPKC’s 8,500-foot HEP train model is helping to transform the Canadian grain landscape. By keeping the train intact at an elevator, there is smooth and efficient loading of the cars at origin. There are incentives in place for elevators to load 8,500’ trains clear of the main track in 16 hours or less. All new greenfield 8,500-foot-capable origin high-throughput elevators built on CPKC’s network will incorporate a loop track design, and the 8500’ HEP-qualified ladder-track style elevators incorporate a long lead capable of handling this train.

CPKC’s HEP model generates significant efficiencies for the grain supply chain and drives sustainability, including reduced

dwell time (locomotive remains with the hopper cars) and increased reliability (locomotives maintain train air brake pressure during loading). By speeding up the loading process, grain customers expand their capacity and therefore their ability to buy more grain from producers. To visualize these efficiency benefits: a Panamax vessel is filled by four 8,500’ HEP trains compared to six with the historical train model.

The expansions of the 8500’ model continue across CPKC’s network, with additional growth expected through 2026. We expect 49 percent of our origin facilities to be HEP loaders by the end of calendar year 2024, with 61 percent expected to be upgraded by the end of 2027.

FIGURE 14: CPKC’S GRAIN ELEVATOR NETWORK



Part 4: Factors negatively impacting Canada's grain supply chain

There remain avoidable challenges that constrain the maximum potential of Canada's grain supply chain. Three key examples are labour instability, the resurrection of extended interswitching, and the decision by terminal operators at the Port of Vancouver to suspend loading grain onto vessels during periods of inclement weather.

Labour instability

A work stoppage of any duration or even the threat of a work stoppage at a major freight railway or port causes serious harm to Canada's supply chains and therefore the entire Canadian economy. Prolonged strike activity at B.C. ports in July 2023, for example, disrupted billions of dollars' worth of trade. It resulted in several weeks of lost shipping capacity and recovery time. The St. Lawrence Seaway strike in October 2023 is another recent example of a labour dispute causing considerable disruption for North American supply chains. As discussed earlier in this report, there is also the potential for a work stoppage on CPKC's Canadian rail network in the coming weeks or months.

The Government of Canada should implement a statutory authority in the *Canada Labour Code* for the federal cabinet to impose binding arbitration and prevent or terminate a work stoppage if a negotiated agreement cannot be reached in sectors that are essential to Canada's supply chains, such as railways and ports. An embedded statutory authority would allow the government to impose binding arbitration

and prevent or terminate a work stoppage quickly to avoid economic harm to Canadians. The collective bargaining process would still be respected and preferred, as the best agreement is one that is negotiated between the parties.

In the event a negotiated outcome is unachievable, the government should have the authority to step in and protect Canada's essential supply chains from avoidable disruption and harm by compelling binding arbitration as the final resolution to a labour dispute without going through the lengthy process of "back-to-work" legislation. The proposed authority would also enable swift intervention to protect critical supply chains in the event Parliament is not in session.

The *Canada Labour Code* already recognizes the loading and movement of grain vessels as an exempted function that must continue at Canada's ports during what would otherwise be a legally permissible strike or lockout. Providing the government with the legal authority to prevent a work stoppage at a railway that transports grain to a port is consistent with the *Canada Labour Code*.

Extended interswitching

Unfortunately, but predictably, the same harmful pattern observed from 2014–2017 is emerging in the data under this second trial of extended interswitching: traffic is diverting to a U.S. carrier since they have a 160-kilometre ("KM") reach into Canada to solicit traffic at a cost-based rate, while the same is not true for Canadian carriers in the U.S.

Each carload interchanged to a U.S. railway under extended interswitching means less work for Canadian railroaders and possibly others in Canadian supply chains, and less ability to invest in capacity-enhancing infrastructure in Canada.

Extended interswitching does not create a single new competitive option for grain or any other shippers since

they already have regulated access to a competing carrier up to 1,200 KM away through Long-Haul Interswitching. Ultimately, extended interswitching is a policy that harms Canadian shippers, workers, and consumers. Montreal Economic Institute President Daniel Dufort calls extended interswitching a "sad spectacle of self-sabotage."⁷

CPKC joins other railways, rail unions, transportation experts, think tanks, industry leaders, and others in calling on the federal government to repeal extended interswitching immediately, or certainly no later than March 2025, when it is currently scheduled to sunset.

⁷ Dufort, D., *Ottawa's extension of forced interswitching is no way to run the railways*, available online at <https://financialpost.com/opinion/ottawa-extension-forced-interswitching-no-way-run-railway>.

Loading grain in the rain in Vancouver

Grain export facilities at the Port of Vancouver rarely load grain in periods of inclement weather. This limits Canada's grain export capacity. The impacts of this problem regularly stretch from the Vancouver gateway all the way back to elevators and farm gates on the prairies, particularly during the winter months that tend to see the highest demand for grain transportation.

Unlike Vancouver facilities, other Canadian export terminals and U.S. Pacific Northwest ("PNW") terminals safely load grain onto vessels during periods of rain, avoiding capacity losses. The same vessels, with the same ship captains, load grain safely in the rain at PNW terminals, but not in Vancouver, despite similar climates and weather conditions.

This issue has been a persistent and major bottleneck in Canada's grain supply chain for several years. Options are available to solve the problem safely. The federal government, along with the grain terminal operators, unions, and other stakeholders, must work together to finally remove this significant constraint on Canada's grain export capacity. According to the Port of Vancouver, resolving this bottleneck could increase capacity by about 7 percent.⁸



⁸ Standing Committee on Transport, Infrastructure and Communities, Evidence, October 25, 2023. Available online at <https://www.ourcommons.ca/DocumentViewer/en/44-1/TRAN/meeting-84/evidence>.

Conclusion

CPKC is well-positioned to supply the transportation capacity to move Canada's grain and grain products throughout the duration of the 2024–2025 crop year. However, the threat of a TCRC work stoppage in the coming weeks or months could negatively impact grain supply chain performance during the upcoming crop year.

We are proud of our history of placing the transportation of Canadian agricultural products at the core of our franchise. Today, we are as firmly dedicated to transporting Canadian grain as we have been at any time in our history. It is in our DNA. We will continue to support the Canadian agriculture sector by offering the safest and most competitive, cost-effective transportation service for our customers.

CPKC will continue working with our grain customers to understand their transportation demand forecasts and to promote alignment and open communications throughout the supply chain. It is through strong collaboration with customers and other supply chain players in a commercial context that our grain supply chain succeeds.

We encourage our customers and other interested stakeholders to monitor the grain supply chain's performance during the 2024–2025 crop year by consulting our Grain Supply Chain Scorecard at cpkcr.com.



Forward-looking statements

This report contains certain forward-looking information within the meaning of applicable securities laws in both the U.S. and Canada relating, among other things, to Canadian Pacific Kansas City's operations, priorities and plans, anticipated financial and operational performance, including business prospects, market drivers and outlook, planned capital expenditures, anticipated revenues and the source thereof, programs and strategies (including financing strategies). This forward-looking information also includes, but is not limited to, statements concerning expectations, beliefs, plans, goals, objectives, assumptions and statements about possible future events, conditions, and results of operations or performance.

Forward-looking information may contain statements with words such as "anticipate," "believe," "expect," "plan," "financial expectations," "key assumptions," "outlook," "guidance," or similar words suggesting future outcomes.

Undue reliance should not be placed on forward-looking information as actual results may differ materially from the forward-looking information. Forward-looking information is not a guarantee of future performance.

By its nature, CPKC's forward-looking information involves numerous assumptions, inherent risks and uncertainties that could cause actual results to differ materially from the forward-looking information, including but not limited to the following factors: changes in business strategies; general North American and global economic, credit and business conditions; risks in 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; 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, including long-term floating rate notes and investments;

trade restrictions or other changes to international trade arrangements; climate change; various events that could disrupt operations, including severe weather, droughts, floods, avalanches and earthquakes, and cybersecurity attacks, as well as security threats and governmental response to them, and technological changes, and the outbreak of a pandemic or contagious disease and 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. These and other factors are detailed from time to time in reports filed by CPKC with securities regulators in Canada and the United States. Reference should be made to "Item 1A – Risk Factors" and "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" in CPKC's annual and quarterly reports filed on Form 10-K and 10-Q, respectively.

Forward-looking information is based on current expectations, estimates and projections and it is possible that predictions, forecasts, projections, and other forms of forward-looking information will not be achieved by CPKC. Except as required by law, CPKC undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.



